

Query No. 13

Subject: Accounting treatment of Grants under Accounting Standard (AS) 12, 'Accounting for Government Grants'.¹

A. Facts of the Case

1. A company (hereinafter referred to as 'the Company') was incorporated on 31st January 2022, as a 'Section 8 Company' under the Companies Act, 2013 under the administrative control of Department of Personnel and Training (DoPT), Government of India (GoI) with 100% equity share holding by GoI. The paid-up capital of the Company is Rs. 40 crores by way of 4 crore equity shares of Rs. 10 each, held by the President of India.

2. The Company has been setup for the capacity building of government officials under the Cabinet Note dated 01st September 2020 as part of the Mission Karmayogi (a National Programme for Civil Services Capacity Building (NPCSCB)). Under this programme, the Company will be responsible for owning, maintaining and improving the digital assets, i.e., iGOT - Karmayogi (Integrated Government online Training) the digital/e-learning platform, including the IPR of all software, content, process, etc. on behalf of Government with an annual subscription-based revenue model.

3. The statutory auditors of the Company are appointed by the Comptroller and Officer General (CAG) of India, and the CAG's team reviews the financial statements. The Company has closed the books for financial year (F.Y). 2022-23 and F.Y. 2023-24 after CAG review. There were no comments from the CAG for either F.Y. 2022-23 or F.Y. 2023-24.

Funding

4. Since its inception, the Company is receiving grants from DoPT to cover the operational expenses of running the digital/e-learning platform. Although the Cabinet Note with regard to the Mission Karmayogi dated September 01, 2024 provides for the fees from subscription, the same is yet to be operationalised by DoPT (A copy of extract of Cabinet Note has been separately supplied by the querist for the perusal of the Committee).

5. As already stated, the Company is funded partly through grants. The Mission Karmayogi also has World Bank (WB) funding, which is through DoPT and Capacity Building Commission. The WB funding is at ratio of 80:20 or 90:10. The Company receives grant in form of Grant in Aid (Salaries), Grant in Aid for creation of capital assets, Grant in Aid (General) and Grant in Aid (World Bank funds). The DoPT's share of 20% or 10% is through Grant in Aid (GIA)-General.

6. It may also be noted that the Company is notified under Section 10(46) of the Income-tax Act, 1961.

7. As stated above, it is reiterated that since inception till date, for the purpose of operational expenditure of the Company, following four types of grants (GIA) have been provided by DoPT:

¹ Opinion finalised by the Committee on 25.9.2025.

- (i) GIA General
- (ii) GIA Salaries
- (iii) Grant for creation of capital assets
- (iv) World Bank GIA General

(The copies of Grant Sanction Orders for F.Y. 2024-25 have been separately supplied by the querist for the perusal of the Committee).

Accounting treatment since F.Y. 2022-23 onwards

8. The Company follows accrual basis of accounting under Indian Generally Accepted Accounting Principles (GAAP) as per Schedule III to the Companies Act, 2013. The accounts for F.Y. 2022-23 and F.Y. 2023-24 have been approved by the Board and adopted in the Annual General Meeting (AGM).

9. The Company is now in the midst of preparation of financial statements for F.Y. 2024-25. There was a point of view expressed on Accounting Standard (AS) 12 and accounting for the grants for which capital assets or capital work in progress have been created. Hence, guidance is being sought as below in view of paragraph 5.5 and other related paragraphs of the AS 12, 'Accounting for Government Grants'.

Accounting of Grants received from DoPT

10. The Company received grants for various purposes like salaries, general, out of WB funds and creation of capital assets.

Out of the GIA (WB funds) and GIA (General) DoPT share, the Company meets the expenditure for the Managed Service Provider (MSP) which provides resources for operation and development of the Integrated Government Online Training (i-GOT) platform. The MSP expense is paid out of World Bank GIA General - 80% and GIA General - 20%.

The expenditure pertaining to operations is charged to the Income and Expenditure Account and the expenditure on development is considered as Capital Work-in-Progress (CWIP) and later on, is capitalised as 'Intangible assets' on achievement of the stipulated milestones. The intangible assets are amortised over a period of 4 years.

11. The querist has also clarified as follows:

(i) World Bank funds are expended as per the WB procurement guidelines and applicable regulations whereas the GIA general grants are expended based on the Company's policy and other guidelines prescribed by DoPT/ GoI.

(ii) The Company has control over the digital asset ('i-GOT Platform') and any future economic benefits arising out of such asset would belong to the Company. The Company also has right to sell/ pledge the digital asset and any other related aspects related to ownership or control over the digital asset, subject to administrative approval of the concerned Ministry.

(iii) The Company is receiving grants as ‘Government Grants’ from DoPT and the Government is not providing the funds in its capacity as owner/equity participant of the Company.

(iv) The World Bank funds are in the form of loan and the responsibility of interest payments/ loan repayments lies on DoPT. The GIA General for 20/10% share that is to be funded by Government of India is also as per Loan Agreement. (A copy of World Bank Loan Agreement has been separately supplied by the querist for the perusal of the Committee). There is no requirement to repay the WB funds or GIA (General) funds by the Company. The repayment, servicing etc. of the loan will be done by Government of India. Further, the World Bank pre-approves all the procurement on the Systematic Tracking of Exchanges in Procurement (STEP) portal including Request for Proposal (RFP), evaluation and award of contract.

(v) DoPT is providing grants to the Company including WB funds. The operationalisation of revenue model is pending and the grants from DoPT are expected to continue to meet the operational and other expenditures.

B. Query

12. The querist has sought the opinion of Expert Advisory Committee on the accounting treatment while recognising the grants as income for CWIP and intangible assets (software) created out of GIA (World Bank funds) and GIA (General). In case, the grant income recognition would be in line with depreciation/amortisation, would this be required to be given a prospective effect, i.e. from F.Y. 2024-25 or a retrospective effect for F.Y. 2022-23 and F.Y. 2023-24 too in F.Y. 2024-25 as there were certain assets created out of GIA (General)?

C. Points considered by the Committee

13. The Committee notes that the basic issue raised by the querist relates to accounting treatment of two types of grants or funds received (out of four different types), viz., GIA (World Bank funds) and GIA (General) for development and operation of intangible asset (viz., i-GOT platform/software/portal) since its inception. The Committee has, therefore, considered only this issue and has not examined any other issue that may arise from the Facts of the Case, such as, timing of recognition of the grants in question, accounting treatment of other grants, viz., grant for GIA (Salaries) and GIA (Creation of capital assets), accounting for various expenditures incurred on creation of platform/software/portal and other capital assets, payment to the Managed Service Provider for development and operation of the Company’s portal, detailed aspects of change in accounting treatment as per Accounting Standard (AS) 5, ‘Profit or Losses for the Period, Prior Period Items and Changes in Accounting Policies’, etc. The Committee has answered the issue only from accounting perspective and not from legal or Income-tax perspective, such as, legal interpretation of Cabinet Approval, loan agreement between India and World Bank, MoA and AoA of the Company, various sanction orders of Government, tax status of the Company, etc. The opinion expressed hereinafter is in the context of Accounting Standards (AS), notified under the Companies (Accounting Standards) Rules, 2021 as amended or revised from time to time. The Committee presumes from the Facts of the Case that the Company is not acting as an agent of the DoPT/GoI. This is so because, as informed by the querist, the Company owns and controls the resources acquired out of the funds provided by the GoI and is also entitled to the future economic benefits arising from such resources.

14. With regard to accounting treatment as government grant, the Committee notes the following requirements of Accounting Standard (AS) 12, 'Accounting for Government Grants':

“2 This Standard does not deal with:

(i) ...

...

(iii) government participation in the ownership of the enterprise.

...”

“3.2 Government grants are assistance by government in cash or kind to an enterprise for past or future compliance with certain conditions. They exclude those forms of government assistance which cannot reasonably have a value placed upon them and transactions with government which cannot be distinguished from the normal trading transactions of the enterprise.”

The Committee notes from the above that government grants are assistance by government in return for past or future compliance with certain conditions relating to the operating activities of the entity. Paragraph 2(iii) of AS 12 excludes from the scope of the Standard, government participation in the ownership of the enterprise, or in other words, the transactions with the Government acting in the capacity as owner/shareholder. Thus, if any assistance is provided to an entity by the Government acting in its capacity as an owner, such assistance will not be within the scope of AS 12.

In this context, the Committee notes that since in the extant case, the Government of India (GoI) through DoPT is providing financial assistance to the Company and is also 100% equity shareholder/owner of the Company, an assessment needs to be made as to whether the GoI while providing financial assistance is acting in its capacity as shareholder/owner. However, in this context, the Committee notes that the querist has clarified that the Company is receiving grants as 'Government Grants' from DoPT and the Government is not providing the funds in its capacity as owner/equity participant of the Company.

Further, the Committee notes from one of the sanction letters of DoPT, GoI during F.Y. 2024-25, provided by the querist, as follows:

“Sanction of the President is hereby accorded for the payment of Rs. XXX to the Company...to meet its operational expenditure and *for meeting the expenditure for its various World Bank approved projects under the World Bank funding package for Mission Karmayogi – PSCEP* (Loan No. IBRD-9365-IN).

...

3. The expenditure is debit to the Major Head 2070-Other Administrative Services, 00.003-Training, (i) 18-National Programme for Civil Services and Capacity Building; and (ii) 03-Other-Training Schemes under *Grant No....*for the financial year 2024-25 as per following details:

Sub-Head/Detailed Head		Object Head		Amount to be released	Remarks
18.03	Special Purpose Vehicle	18.03.31	GIA General	Rs. XXX/-	To meet the SPV-KB's operational expenditure (other than salary) including GoI share for its various WB funded projects.
...
03.09	World Bank Assistance for NPCSCB	03.09.31	World Bank GIA General	Rs. XXX/-	To meet the SPV-KB's expenditure related to WB share (80%, 90%) for its various World Bank approved projects.*
				Rs. XXX/-	

*The 20%, 10%, Government of India share of expenditure for SPV's ongoing WB approved projects will be met by the SPV-the Company from the funds released under the Head (18.03.31 – GIA General).

...”

From the above, the Committee notes that the DoPT, GoI is sanctioning the funds or grant-in-aid under the head ‘grant’ and not as equity contribution in its capacity as owner/equity participant. Further, the Committee notes that the Company is receiving these grants from DoPT in respect of National Programme for Civil Services Capacity Building (NPCSCB) — Mission Karmayogi which involve development and operations of the digital platform, i.e., iGOT - Karmayogi.

Thus, both the assistance provided by the Government are in the nature of government grant for meeting the expenditure on Mission Karmayogi involving development and operational expenses of i-GOT platform and therefore, the same are not of the nature of owners’ contribution and accordingly the principles of AS 12 pertaining to government grants are applied in the extant case.

15. Now, for understanding the nature of grant, the Committee notes the following extracts from the Cabinet Note dated 1st September, 2020 in respect of National Programme for Civil Services Capacity Building (NPCSCB) — Mission Karmayogj and the Loan Agreement between the World Bank and India (as borrower):

Cabinet Note:

“III. Proposal

3.1 The National Programme for Civil Services Capacity Building has six key pillars i.e. (A) ...

(D) Digital Learning Framework (iGOT-Karmayogi i.e. Integrated Government Online Training **Karmayogi Platform** hereinafter referred to as the iGOT-Karmayogi),

...

3.5 Digital Learning Framework (iGOT-Karmayogi Platform)

3.5.1 It is proposed to build iGOT-Karmayogi as an integral part of the Digital India stack as a social good for capacity building of all government employees. It will provide anytime-anywhere learning to train about 2.0 crores users which was hitherto not achievable through traditional measures.

...

3.5.3 A *mandatory Subscription Based Revenue Model* enabling the participation of all Ministries, departments, entities of the Government of India and willing state governments *has been designed to partly fund the program*. DoPT will fix and convey the annual subscription fee to all the Ministries and Organisations. ...

...

3.7 Institutional Framework for implementation and monitoring the performance of NPCSCB

3.7.1 ...

(i) ...

...

(iv) **Special Purpose Vehicle** under Section 8 of the Companies Act, 2013 (hereinafter referred to as 'SPV')—with details as given in para 3.7.3, will be set up for owning and operating all the digital assets created for the NPCSCB on behalf of the Government of India.

...

3.7.3 Special Purpose Vehicle (SPV) for NPCSCB under Section 8 of the Companies Act, 2013

A not-for-profit company, under the administrative control of DoP&T, is proposed to be incorporated as a 100% government owned entity for owning, managing, maintaining and improving the digital assets, i.e., iGOT- Karmayogi...the digital/e-learning platform, including the IPR of all software, content, process etc on behalf of Government....

...

IV. Financial Implications

4.1 *An amount of Rs. 510.86 crores is proposed to be spent over a period of 5 years from 2020-21 to 2024-25*. This includes the World Bank Group assistance to the tune of 50 million dollars (amounting to Rs. 350.00 crores approx.) - **Annexure-III (Page 25- 26)**. The Expenditure Finance Committee (hereinafter referred to as 'EFC') and Committee on Establishment Expenditure (hereinafter referred to as 'CEE') have appraised the same in its meeting held on 17.06.2020. Minutes of the meeting of EFC and CEE are enclosed as **Annexure IV...**

...

7.1 Appraisal by EFC and CEE

...

7.1.7 The CEE has recommended the creation of the SPV as proposed with an annual subscription-based revenue model. ...

...

7.1.10 The EFC/CEE has also recommended that DOP&T may also reconsider the need for having Rs.50 crores equity for the SPV. Considering the financial model for the SPV, the nominal equity has been reworked and is now proposed at Rs. 40 crores. This equity contribution will be required to help manage the initial cash flows in the operation and management of the digital assets.”

...

“9.1 Approval of the Cabinet is sought for:

- (i) National Programme for Civil Services Capacity Building with financial implications of Rs. 510.86 crores as detailed in item III (**Pages ...**), of the Cabinet Note,
- (ii) Setting up of a Capacity Building Commission ... as mentioned in Para 3.7.2 (**Pages ...**) of the Cabinet Note.
- (iii) Setting up of a Special Purpose Vehicle (under Section 8 of the Companies Act, 2013) with 100% government ownership and an annual subscription-based revenue model for SPV ...”

“...

Annexure-I

Annual Subscription Fees Calculation:

SPV will operate on a revenue model of annual subscription, where all ministries will pay an annual subscription for all its employees to be provided training on iGOT-Karmayogi platform. ...”

...

“Annexure IV

Minutes of Meeting of EFC and CEE held on 17.6.2020 ... to consider the Scheme “National Programme for Civil Services Capacity Building” and Creation of a Special Purpose Vehicle for managing iGOT 2.0 ...

A meeting of the...(EFC) and(CEE)... was held on... to consider the following proposals of ...(DoP&T):-

- (i) *Initiating an Umbrella Scheme titled “National Programme for Civil Services Capacity Building” amounting to Rs. 569.96* crore to be spent over a period of five years i.e. 2020-21 to 2024-25. The expenditure is proposed to be met by utilizing Technical Assistance Loan from World Bank amounting to Rs. 350 crore and by utilizing funds allocated under the existing Budget for Training.*

- (ii) ...

(*reduced to Rs. 510 crore subsequently)

...

14. The meeting with the above deliberations, made the following recommendations:

(i) The proposed New Scheme of DoP&T namely “National Programme for Civil Services Capacity Building” has been appraised by EFC and recommended with a *financial outlay* of Rs. 510 cr over 5 years, with following broad components:

...

(ii) *The expenditure is proposed to be met by utilizing the Technical Assistance loan of Rs.350/- crores from the World Bank Group (WBG) (for which in-principle approval has been communicated by Department of Economic Affairs) and by utilizing funds allocated under the existing budget for training.*

(iii) Creation of an SPV to be incorporated as a Section 8 company with an equity of Rs. 50 crore and a subscription based revenue model was recommended by the CEE”

Loan Agreement

“AGREEMENT dated as of the Signature Date between INDIA (“Borrower”) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”). The Borrower and the Bank hereby agree as follows:

...”

“ARTICLE II-LOAN

2.01. The Bank agrees to lend to the Borrower the amount of forty-seven million United States Dollars (US\$ 47,000,000), as such amount may be converted from time to time through a Currency Conversion (“Loan”), to assist in financing the project described in Schedule 1 to this Agreement (“Project”).”

“ARTICLE III-PROJECT

3.01. The Borrower declares its commitment to the objectives of the Project. To this end, the Borrower shall carry out the Project through its DoPT, and cause the Project to be carried out by the Project Implementing Entities, in accordance with the provisions of Article V of the General Conditions and Schedule 2 to this Agreement.”

The Committee notes from the above that the Company is an SPV of GoI, formed specially for implementation of one of the national programme of GoI, namely NPCSCB-Mission Karmayogi for catering to training requirements of civil services/Government officials and a loan has been taken by the GoI from World Bank Group for partly financing the implementation of this programme, which inter alia involves not only developing or creating a digital platform, iGOT Karmayogi, but also day-to-day operational and management expenses of the same. Both the grants i.e. GIA (General) and GIA (World Bank Funds) are provided not only for development of digital assets but for day-to-day operation and maintenance of such assets.

The Committee further notes from the extracts of Cabinet Note that for implementation of NPCSCB, *initially*, a financial outlay of Rs. 510.86 crores was proposed and approved to be spent over a period of 5 years from 2020-21 to 2024-25, which was to be financed through the World Bank Group assistance to the tune of 50 million dollars (amounting to Rs. 350.00 crores approx.) and as discussed above, was to be used inter alia for development and operational

expenses of iGOT platform through creation of SPV, viz., the Company. Apart from the World bank financing, DoPT also contributed towards these activities as stated above. Further, it is noted from the Cabinet Note and facts provided that such platform was envisaged to be on subscription based revenue model, which is yet to be operationalised by DoPT. From this, it appears that the grant was provided by the DoPT/GoI to the Company for meeting the initial cost of capital outlay in the iGOT platform and its operational expenses till the platform or the Company starts earning revenue from the subscription fees.

16. In this regard, the Committee notes the following requirements of AS 12:

“8.1 Grants related to specific fixed assets are government grants whose primary condition is that an enterprise qualifying for them should purchase, construct or otherwise acquire such assets. Other conditions may also be attached restricting the type or location of the assets or the periods during which they are to be acquired or held.”

“9.1 Grants related to revenue are sometimes presented as a credit in the profit and loss statement, either separately or under a general heading such as ‘Other Income’. Alternatively, they are deducted in reporting the related expense.”

“10.1 Where the government grants are of the nature of promoters’ contribution, i.e., they are given with reference to the total investment in an undertaking or by way of contribution towards its total capital outlay (for example, central investment subsidy scheme) and no repayment is ordinarily expected in respect thereof, the grants are treated as capital reserve which can be neither distributed as dividend nor considered as deferred income.”

“5.1 Two broad approaches may be followed for the accounting treatment of government grants: the ‘capital approach’, under which a grant is treated as part of shareholders’ funds, and the ‘income approach’, under which a grant is taken to income over one or more periods.

5.2 Those in support of the ‘capital approach’ argue as follows:

- (i) Many government grants are in the nature of promoters’ contribution, i.e., they are given with reference to the total investment in an undertaking or by way of contribution towards its total capital outlay and no repayment is ordinarily expected in the case of such grants. These should, therefore, be credited directly to shareholders’ funds.
- (ii) It is inappropriate to recognise government grants in the profit and loss statement, since they are not earned but represent an incentive provided by government without related costs.”

“5.4 It is generally considered appropriate that accounting for government grant should be based on the nature of the relevant grant. Grants which have the characteristics similar to those of promoters’ contribution should be treated as part of shareholders’ funds. Income approach may be more appropriate in the case of other grants.”

“10. Presentation of Grants of the nature of Promoters’ contribution

10.1 Where the government grants are of the nature of promoters’ contribution, i.e., they are given with reference to the total investment in an undertaking or by way of

contribution towards its total capital outlay (for example, central investment subsidy scheme) and no repayment is ordinarily expected in respect thereof, the grants are treated as capital reserve which can be neither distributed as dividend nor considered as deferred income.”

“16 Government grants of the nature of promoters’ contribution should be credited to capital reserve and treated as a part of shareholders’ funds.”

From the above, the Committee notes that the government grant which is given with reference to the total investment in an undertaking or by way of contribution towards its total capital outlay and no repayment is ordinarily expected in respect thereof is in the nature of promoters’ contribution.

In the extant case, the Committee notes that both the grants, viz., GIA (World Bank funds) and GIA (General) are not received with primary condition of acquisition/construction of a specific fixed asset or for meeting any specific revenue expenditure; rather these are provided by the DoPT/GoI (which is also the 100% owner) as a support to the Company towards its initial capital (including its working capital) outlay, which inter-alia involves operational expenses of digital platform – iGOT, till the platform or the Company starts earning revenue from the subscription fee (as discussed in paragraph 15 above). Accordingly, the Committee is of the view that these grants received in form of GIA (World Bank funds) and GIA (General) are in the nature of promoters’ contribution as per AS 12, and therefore, should be credited to capital reserve; and cannot be considered as income in the Statement of Profit and Loss.

17. The Committee is further of the view that since the Company in the extant case, did not follow the above-mentioned requirements of AS 12 for the financial years 2022-23 and 2023-24, the same should be considered as an error of prior periods and accounted for as prior period item, as per the following requirements of AS 5, ‘Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies’:

“4.3 Prior period items are income or expenses which arise in the current period as a result of errors or omissions in the preparation of the financial statements of one or more prior periods.”

“Prior Period Items

15. The nature and amount of prior period items should be separately disclosed in the statement of profit and loss in a manner that their impact on the current profit or loss can be perceived.

16. The term ‘prior period items’, as defined in this Standard, refers only to income or expenses which arise in the current period as a result of errors or omissions in the preparation of the financial statements of one or more prior periods. The term does not include other adjustments necessitated by circumstances, which though related to prior periods, are determined in the current period, e.g., arrears payable to workers as a result of revision of wages with retrospective effect during the current period.

17. Errors in the preparation of the financial statements of one or more prior periods may be discovered in the current period. Errors may occur as a result of mathematical

mistakes, mistakes in applying accounting policies, misinterpretation of facts, or oversight.”

D. Opinion

18. On the basis of the above, the Committee is of the opinion that the grants received in form of GIA (World Bank funds) and GIA (General) are in the nature of promoters’ contribution as per AS 12. Therefore, these grants should be credited to capital reserve and cannot be considered as income in the Statement of Profit and Loss, as discussed in paragraphs 15 and 16 above. Further, since the Company in the extant case, did not follow the requirements of AS 12 for the financial years 2022-23 and 2023-24, the same should be considered as an error of prior periods and should be accounted for as a prior period item, as per the requirements of AS 5, as discussed in paragraph 17 above.
