Query No. 21

Subject: Accounting treatment towards Offset credit benefits received from foreign suppliers, under Ind AS framework.[1]

A. Facts of the Case

1. A company (hereinafter referred to as 'the Company') is a public limited company incorporated under the provisions of the Companies Act. The Company is a public sector enterprise (PSE) and is under the administrative control of the Ministry of Defence, Department of Defence Production. The Company is engaged in the design, development, manufacture, repair, overhaul, upgrade and servicing of a wide range of products including aircrafts, helicopters, aero engines, avionics, accessories and aerospace structures.

2. The financial statements are prepared complying with all material aspects with Indian Accounting Standards (Ind AS) as prescribed under section 133 of the Companies Act, 2013 read with relevant rules of the Companies (Indian Accounting Standards) Rules, 2015 as amended.

3. The financial statements have been prepared under the historical cost convention, on accrual basis of accounting except for certain financial instruments that are qualified to be measured at fair value.

Offsets and Offset Credit

4. The querist has stated that in general terms, 'Offset' means "a consideration or amount that diminishes or balances the effect of an opposite one". The Offset in commercial terms, is a flow-back contractual agreement, between supplier and buyer, in the form of a certain percentage of the contract value. The Offset clauses are used in Defence contracts, where offset obligations or conditions are imposed on foreign suppliers to invest in or benefit in the local industry of the purchasing Country through technology transfer, direct purchase of goods from local companies or invest in research and development in the purchasing country.

5. The querist has further stated that in some of the Purchase Orders (POs) / contracts with foreign suppliers, the Offset clauses have been included, which require to comply with Offset obligations by foreign suppliers. The ongoing offset orders / methods are detailed below:

(a) **Model 1**: Offset obligations against the Master/Main contract fulfilling by the foreign supplier by way of "providing deliveries / services" in the other PO/Orders of the Company without any payment. (Details have been supplied separately by the querist for the perusal of the Committee.)

<u>Existing Accounting method adopted by the Company</u>

Purchase order by one of the Divisions of the Company (X) on foreign supplier for supply of goods containing offset clause. The offset obligation was liquidated by the foreign supplier to another Division of the Company (Y) through transfer of technology

[1] Opinion finalised by the Committee on 16.12.2025.

for production (PToT) of a system for Advance Light Helicopter (ALH) program without any payment to be made by the Company (Y).

The foreign supplier upgraded the maintenance transfer of technology (MToT) to PToT by modifying the software and other tools. The transfer of PToT was in the form of:

- Training of Manufactured parts
- 3D model of parts and details of Manufacturing
- Process and steps to be followed for manufacturing
- Training on vibration profiling, plating, painting and special processes
- Enabling usage of testers for production processes
- Supplied special tools
- Impart training to regulatory personnel

With this, the system is being manufactured by the Company instead of direct import. Raw material and other items for production are imported and final part is made in the Company (Y) Division. The customer is being charged only for the system supplied by the Company without any additional cost for transfer of technology.

Since the Transfer of technology (ToT) to the Company was on no cost basis and the Company has not made any payment for this ToT, no accounting entry was passed.

(b) **Model 2**: Offset obligations against the Master/Main contract fulfilling by the foreign supplier by way of giving "Value added orders to the Company" and making payments to the Company. (Details have been supplied separately by the querist for the perusal of the Committee.)

Existing Accounting method adopted by the Company

The value added orders on the Company were fulfilled and accounted for as revenue in accordance with Ind AS 115, 'Revenue from Contracts with Customers'. The revenue has been shown as exports to the extent of supplies / services rendered; and as the performance obligation is fulfilled, revenue is recognised. Also, foreign vendor has paid the amount in Foreign Exchange (FE) to the Company (Y) division.

(c) **Model 3**: Offset obligations against the Master/Main contract fulfilling by the foreign supplier by way of giving "discount in other orders of the Company". (Details have been supplied separately by the querist for the perusal of the Committee.) In this case, the off-set credit may be equal (or) in multiples of the discount given to the Company.

Existing Accounting method adopted by the Company

While considering the valuation of goods/services received from foreign supplier, the Company accounted for the same at the discounted value.

(d) **Model 4**: Offset obligations against the Master/Main contract fulfilling by the foreign supplier by way of "doing the Company's share of work". (Details have been supplied separately by the querist for the perusal of the Committee.) In this case, the off-set credit may be equal (or) in multiples of the work done by the Vendor.

Existing Accounting method adopted by the Company

The purchase order on the foreign supplier indicates both work contents of foreign supplier and work share of the Company. To fulfil the offset obligation, foreign supplier has agreed to execute the Company's share of work, without making any payments to it. No accounting entry is passed by the Company as foreign supplier has done the work without any payment.

Issue raised by the Auditors:

6. During the audit of the financial statements for the year ended 31st March 2025, the C&AG has raised an issue over the accounting treatment followed by the Company in the case of Offset credits for Model 1 and Model 2.

(a) **C&AG Audit Observation 1:** In one of the Divisions of the Company, a contract for Production ToT (PToT) was signed in September 2022 with Foreign vendor (SGB) at 'No charge' but against liquidation of offset credit by Foreign vendor. The total value of the PToT aggregated to USD 30,00,000 with scheduled timeline of completion. The contract was valid for a period of 25 years with no limit for the number of Units to be manufactured under the PToT. The PToT contract was signed based on approval of the offset credit obligation by the Company. The activities relating to PToT and all the Contract Milestones and Offset Recognition Plan were completed and the Certificate of Offset Recognition Plan was signed by the Company and SGB in March 2025. However, towards this no amount has been recognised in the Books of Account.

C&AG stated that, intangible benefit accrued under technology transfer should be accounted through fair valuation as Intangible Assets. Paragraph 21 of Ind AS 38 stipulates that an intangible asset shall be recognised if, and only if: (a) it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and (b) the cost of the asset can be measured reliably. Accordingly, the offset credit liquidated against PToT for production of LRU is to be accounted as 'Intangible Asset'. Non-accounting of the liquidated offset credit obligation of USD 3,000,000 against PToT as intangible asset has resulted in understatement of 'Other Intangible Assets' - Gross Block – Documentation and others.

(b) **C&AG Audit Observation 2**: The Value Added Orders were placed on the Company by Foreign OEM in November 2023 with scheduled completion. Respective Milestones relating to Value Added Orders were completed by the Company in February 2025. Upon completion of the subject Milestone, the Division accounted Export Revenue / Sales to the extent of USD 5,05,714 against the Value Added Orders given by Foreign Vendor and full payment also received from the Foreign Vendor.

Audit noted that the 'Value Added Orders' aggregating to USD 5,05,714 were part of the offset credit obligation liquidated against PToT contract and envisaged learning through value addition by the Company for the PToT by way of acquisition of training and input of labour for manufacturing of LRU from the training kits (provided free) to be returned to Foreign Vendor as per contractual provisions. Hence, the amount of Rs. 435 lakh (USD 5,05,714) received against the 'Value Added Orders' should not be recognised as 'Export Revenue'.

Thus, the above has resulted into overstatement of ‘Revenue from Operations’ – Export Sales – Spares’ by Rs. 435 lakh and profit thereon and understatement of ‘Other Intangible Assets’ by Rs. 435 lakh.

7. In response to the C&AG observations relating to ToT, the Company replied that since the Transfer of Technology (ToT) to the Company was on free of charge / no cost basis and the Company has not made any payment for this ToT to the vendor, no accounting entry was passed. Further, the Company assured the audit that the Company will seek opinion from the Expert Advisory Committee of the Institute of Chartered Accountants of India (ICAI) on the accounting treatment of the transaction of Offsets.

Proposed Accounting by the Company:

8. In view of the above and considering the audit points also, as the Company is receiving tangible and intangible benefits from the foreign supplier though Offset credit, the Offset credit is proposed to be recognised, when the Offset credit letter is issued to the Vendor.

As per Ind AS 38, in respect of intangible assets acquisition by way of a government grant, “In some cases, an intangible asset may be acquired free of charge, or for nominal consideration, by way of a Government grant. … In accordance with Ind AS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, an entity may choose to recognise both the intangible asset and the grant initially at fair value. If an entity chooses not to recognise the asset initially at fair value, the entity recognises the asset initially at a nominal amount (the other treatment permitted by Ind AS 20) plus any expenditure that is directly attributable to preparing the asset for its intended use”.

In the subject Offset credit also, the benefit is allowing by foreign supplier by way of Offset credit providing free of charge. Hence, the following are proposed:

I. Proposed Accounting Policy:

(a) Offset credits from foreign suppliers are measured at fair value (i.e. offset credit value) and initially recognised as Deferred Income – Offset credit under Non-current liability.

(b) Offset credit towards acquisition of Intangible Assets, is initially recognised at fair value (i.e. offset credit value) and is amortised over the useful life or volume of economic benefits of the respective item of Intangible Assets. To that extent, amortisation and deferred income will be recognised in the Statement of Profit and Loss.

(c) Offset credit towards revenue items (like materials / services) is expensed as per offset credit value and to that extent, income will be recognised in the Statement of Profit and Loss in the same year.

II. Proposed Accounting Methodology:

(a) Offset credit is towards acquisition of Intangible Assets (Model 1, 2 and 4):

Eg: The Company has received an Intangible Asset ToT for production worth of Rs. 80 Lakh on 01.4.22 at free of charge from foreign supplier as part of their Offset credit obligations. The estimated economic benefits are 100 units production. In 1st year, 20 units produced and 2nd year, 40 units produced.

Proposed Entries:

Rs. in lakhs

Period	DR/CR	FS	Group	Nature / Note	Amount	Remarks
01.4.22	Debit	BS	Asset	Intangible Assets	80	Offset credits recognised at fair value
	Credit	BS	Liability	Deferred Income – Offset	80	
31.3.23	Debit	PL	Expenses	Amortisation	16	1st year amortisation as per units produced
	Credit	BS	Asset	Intangible Assets	16	
	Debit	BS	Liability	Deferred Income – Offset	16	
	Credit	PL	Income	Misc Income -Offset	16	
31.3.24	Debit	PL	Expenses	Amortisation	32	2nd year amortisation as per units produced
	Credit	BS	Asset	Intangible Assets	32	
	Debit	BS	Liability	Deferred Income – Offset	32	
	Credit	PL	Income	Misc Income -Offset	32	

Proposed presentation in Balance Sheet:

Rs. in lakhs

Sl. No.	Head	31.3.24	31.3.23	31.3.22
A	**Assets :**			
	Intangible Assets :			
	Gross	80	80	80
	Less : Amortisation	48	16	0
	Net Block	32	64	80
	Sub Total A	**32**	**64**	**80**
B	**Liabilities** :			
	Deferred Income – Offset	32	64	80
	Sub Total B	**32**	**64**	**80**

Proposed presentation in Profit and Loss Account:

Rs. in lakhs

Sl. No.	Head	23-24	22-23	21-22
A	**Revenue :**			
	Misc income	32	16	0
	Sub Total A	**32**	**16**	**0**
B	**Expenses :**			
	Amortisation	32	16	0
	Sub Total B	**32**	**16**	**0**
C	**Profit / Loss (A-B)**	**0**	**0**	**0**

(b) Offset credit is towards revenue items (like materials / services) (Model 3):

Eg: The Company has received materials worth Rs. 50 lakh on 31.3.23 at free of charge / discount from foreign supplier as part of their Offset credit obligations and consumed in 31.3.24. It is a revenue nature of item and not nature of asset.

Proposed Entries:

Rs. in lakhs

Period	DR/CR	FS	Group	Nature / Note	Amount	Remarks
31.3.23	Debit	BS	Asset	Inventory	50	Accounting for value of material / services / discount received.
	Credit	BS	Liability	Deferred Income – Offset	50	
31.3.24	Debit	PL	Expenses	Material Consumption	50	On consumption of offset received
	Credit	BS	Asset	Inventory	50	
	Debit	BS	Liability	Deferred Income – Offset	50	
	Credit	PL	Income	Misc Income - Offset	50	

Proposed presentation in Balance Sheet

Rs. in lakhs

Sl. No.	Head	31.3.24	31.3.23
A	**Assets :**		
	Inventory	0	50
	Sub Total A	**0**	**50**
B	**Liabilities** :		
	Deferred Income – Offset	0	50
	Sub Total B	**0**	**50**

Proposed presentation in Profit and Loss Account:

Rs. in lakhs

Sl.No.	Head	23-24
A	**Revenue :**	
	Misc income	50
	Sub Total A	**50**
B	**Expenses :**	
	Material Consumption	50
	Sub Total B	**50**
C	**Profit / Loss (A-B)**	**50**

B. Query

9. In view of the above facts explained, the opinion of the Expert Advisory Committee (EAC) is sought on the following issues:

(i) Whether the proposed accounting policy given at paragraph 8 above is in line with the provisions of Ind AS.

(ii) Whether the proposed accounting methodology given at paragraph 8 above is in line with the provisions of Ind AS.

C. Points considered by the Committee

10. The Committee notes that the basic issue raised by the querist relates to accounting treatment of 'Offset credit benefits received from foreign suppliers'. 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, accounting by foreign supplier, detailed application of principles of Ind AS 38, application of Ind AS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors', etc. The opinion expressed hereinafter is in the context of Indian Accounting Standards (Ind AS), notified under the Companies (Indian Accounting Standards) Rules, 2015 as amended or revised from time to time. Further, the opinion has been expressed in the context of the specific offsets, as explained hereinabove.

11. At the outset, the Committee notes that the issues relate to offset obligations included in contract terms with foreign suppliers, which obligate the foreign supplier to reinvest or provide benefits in terms of a certain percentage of the contract value in India.

12. The Committee further notes that the querist has shared information relating to two contracts. As per one contract, the foreign supplier (M/s SGB, which is also mentioned under C&AG Observation in paragraph 6 above) has accepted a minimum offset obligation which represents 5% of the total value of orders placed by the Company for production equipment. The measures being taken by the foreign supplier to meet the obligation include:

- Transfer of technology for nil consideration
- Value added order
- Discount in other orders
- Fulfilling the Company's performance obligation

As per the second order, the foreign supplier has accepted offset obligation of 30% of the net sale value of the goods purchased by the Company to be met through:

- Discount in other orders
- Fulfilling the Company's performance obligation

Thus, it is understood that the mode of utilisation of offset credits is agreed as part of the main contract and the Company (as the customer) is aware of model(s) and credit(s) that will be available.

13. The Committee notes that while Ind AS 115, 'Revenue from Contracts with Customers' provides requirements for consideration paid/ payable to a customer from the supplier's perspective, there is no specific standard to be applied by customers for consideration/payments

received/ receivable from a supplier, other than some standards (for example, Ind AS 2, Ind AS 16, etc.) requiring that discounts, rebates and similar items received from supplier be deducted from the cost. The Committee also notes that consideration received from a supplier can take many different forms and therefore, each consideration/transaction needs to be evaluated separately to determine the appropriate treatment of such consideration received from supplier. Further, for determining the appropriate accounting for consideration from suppliers, it is important to understand the overall context (facts and circumstances) of the consideration and any related contract(s) (including contracts entered into at, or near, the same time with the same party (or its related parties) and relevant rights and obligations in agreements that are oral or implied by the entity's customary business practice) so as to evaluate the economic substance of the consideration received. For example, consideration, like free goods and services can be a discount/rebate or under barter/exchange of non-monetary assets. Alternatively, it may be part of a multiple-element arrangement/bundled contract, viz., where a consolidated price is agreed for multiple items in a transaction. While evaluating the substance of the consideration, it also needs to be determined as to whether, inter-alia, the consideration is received in exchange for distinct goods or services provided by the Company to the supplier or the consideration received is a reimbursement of a specific cost incurred on behalf of the supplier or whether the consideration received related to the purchase of a specific good(s) or service(s) from the supplier.

Accordingly, the Committee has examined the different offset credits or considerations received from supplier separately in the following paragraphs.

14. *Transfer of production technology (intangible asset) or inventory items free of cost*

As per paragraph 16 of Ind AS 16, "The cost of an item of property, plant and equipment comprises:

(a) its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates. …"

Further, Ind AS 38, 'Intangible Assets' provides as follows:

"An *intangible asset* is an identifiable non-monetary asset without physical substance."

"An *asset* is a resource:

(a) controlled by an entity as a result of past events; and

(b) from which future economic benefits are expected to flow to the entity."

"*Cost* is the amount of cash or cash equivalents paid or the fair value of other consideration given to acquire an asset at the time of its acquisition or construction, or, when applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Indian Accounting Standards, eg Ind AS 102, *Share-based Payment*."

"21 An intangible asset shall be recognised if, and only if:

(a) it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and

(b) the cost of the asset can be measured reliably.”

“24 An intangible asset shall be measured initially at cost.”

“27 The cost of a separately acquired intangible asset comprises:

(a) its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates; and

…”

For the purpose of its analysis, the Committee has presumed that the production technology received by the Company from the foreign supplier meets the definition of intangible asset. Thus, the Company has received technology (intangible asset) from the foreign supplier as part of the contract for purchase of defence equipment (property, plant and equipment) by the Company. Therefore, as required by Ind AS 38, the technology should be recognised as such in the financial statements of the Company. Further, the Company should amortise the technology acquired as per the requirements of Ind AS 38.

15. The next issue is the amount at which the technology (intangible asset) should be recognised. In this regard, the Committee notes that it is mentioned in the facts supplied that no separate consideration has been paid by the Company. However, the Committee is of the view that this does not necessarily imply that the cost of acquisition is nil. An asset like technology usually would not be transferred for free on its own i.e. without any related transactions. Based on the limited facts available, the Committee is of the view that the said transfer does not seem to represent an in-kind contribution (like government grant) or barter transaction. It seems to be either a form of non-cash incentive/discount given to the Company for purchase of equipment under main contract or a multiple-element arrangement/bundled contract. While the value of technology being only 5% of the total purchases is indicative that it may have been given as a discount, the final assessment should be made by the Company based on consideration of facts and circumstances, for example, does the foreign supplier usually provide such incentives to its customers, was technology intended to be only an incentive to facilitate the purchase of defence equipment, would technology have been purchased or required to be purchased on a standalone basis, would the price of defence equipment and/or technology vary absent such offsets, were the components of offset determined or decided by the Company or the supplier, etc. The Committee is of the view that considering above factors, if technology is considered as a discount or incentive, the same should be recognised at its fair value (which may be represented by the stand-alone selling price of the same by the foreign supplier) and such amount be reduced (as a discount) from the cost of acquisition of the defence equipment under main contract. However, in a multiple element arrangement, the total contract consideration will be allocated to the defence equipment and technology (intangible asset) in proportion to their fair values. In this regard, the Committee, considering the requirements of paragraphs 10 and 11 of Ind AS 8, has drawn analogy from the scope paragraph, paragraph 2(b) of Ind AS 103, ‘Business Combinations’, which states as follows:

“2 … This Ind AS does not apply to:

(a) …

(b) the acquisition of an asset or a group of assets that does not constitute a business. In such cases the acquirer shall identify and recognise the individual identifiable assets acquired (including those assets that meet the definition of, and recognition criteria for, *intangible assets* in Ind AS 38, *Intangible Assets*) and liabilities assumed. The cost of the group shall be allocated to the individual identifiable assets and liabilities on the basis of their relative *fair values* at the date of purchase. Such a transaction or event does not give rise to goodwill.

…"

In this context, the Committee also wishes to mention that the above accounting considerations in respect of intangible assets should also apply to inventory items (as mentioned in paragraph 8 above) received free of cost.

16. *Value Added Order*

The Committee understands from the facts supplied that under this model, the Company is purchasing defence equipment from a foreign supplier. However, as part of the overall arrangement, the foreign supplier will also purchase certain goods from the Company. While fair value will be paid by the foreign supplier for the items so purchased, the value that is counted towards the offset credit is the value added by the Company in India (or a multiple thereof). As mentioned in paragraphs above, there is no specific standard to be applied by customers for consideration received/ receivable from a supplier (other than some standards, for example, Ind AS 2, Ind AS 16 etc., requiring that discounts, rebates and similar items be deducted from the cost). Therefore, it is important to understand the context of the consideration and any related contract(s) to determine the appropriate accounting for consideration from suppliers.

17. Based on the Committee's understanding of the facts supplied, the 'value added order' is not a direct discount or return on the equipment's purchase price under the main contract. The Company is not receiving a discount or direct return of value in the form of money, rather a commitment from the foreign supplier to purchase goods and services from the Company. The objective seems to be to ensure economic activity within the buying country (India). The credit offset is based on the terms of the agreement. For example, in one of the contracts shared by the querist, the value added and the offset credit is equal to the amount of the export revenue earned by the Company. The Committee also notes that the foreign supplier has remitted consideration to the Company in respect of the goods purchased. Further, it is assumed that the transaction price of the 'value added order' represents stand-alone selling price of the Company's products sold to the foreign supplier.

Thus, in the context of value added orders of the nature included in example, as discussed above, the consideration has been received in exchange for distinct goods or services provided to the foreign supplier and should be recognised as revenue in accordance with the relevant accounting standard, i.e. Ind AS 115 in this case.

18. *Discount in other orders*

The Committee understands from the facts supplied that under this model, offset mechanism includes discounts being provided by the foreign supplier in other orders placed by the Company. For example, the contract for purchase of helicopter engines by the Company from a foreign supplier entitles it to receive discount on other specified orders placed with the foreign supplier. The offset credit may be equal to or a multiple of the discount. Thus, for example, while the discount may be USD 10,00,000, the foreign supplier may claim offset credit of USD 10,00,000 or a multiple thereof (say USD 25,00,000). Referring to the discussion in paragraph 13 above, this seems to be a consideration received/receivable related to the purchase of a specific good(s) or service(s) from the foreign supplier (being in this case the main contract to purchase helicopter engines). In the absence of the purchase of helicopter engines, the Company would not have received discount on other orders. The discount is determined as a percentage of the total value of the helicopter engines purchased and is applied to other orders. As per the Committee's understanding, based on limited facts, discount provided does not appear to represent a situation where a consolidated price is agreed for multiple items (bundled contract). Therefore, the value of discount (and not the offset credit) should be recognised as a reduction of the cost of the helicopter engines purchased.

19. *Fulfilling buyer company's performance obligation*

Under this model, the Committee understands from paragraph 5 (d) that the Company and the foreign supplier have entered into a contract (Purchase Order) wherein the work is required to be executed jointly by the two parties (viz., the Company and the foreign supplier) and each party is the primary obligor for its share of work. The offset mechanism under this contract requires that the foreign supplier performs the work which is otherwise the obligation of the Company and incurs the related costs. Even though the work is performed by the foreign supplier, the Company continues to be responsible and liable for that share of work. The offset credit may be equal to or a multiple of the cost incurred by the foreign supplier. The benefit is provided by the foreign supplier as an incentive for the main contract, e.g. purchase of helicopter engines. In the absence of the purchase of helicopter engines, the Company would not have received this benefit. The total cost to be incurred by the foreign supplier is determined as a percentage of the total value of the helicopter engines purchased. Therefore, referring to the discussion in paragraph 13 above and based on limited facts available, this also seems to be a consideration received/receivable related to the purchase of a specific good(s) or service(s) from the foreign supplier (being in this case the main contract to purchase helicopter engines). Therefore, presuming that the Company is a principal for its share of work in the contract or purchase order as per the principles of Ind AS 115, it should recognise the related revenue. The cost to be incurred by the foreign supplier on behalf of the Company should be recognised as a reduction from the purchase of helicopter engines under the main contract.

20. The Committee also notes from the facts supplied that the settlement or utilisation of offset credit (viz., through receipt of intangible asset or value-added order or discount or services rendered by the foreign supplier) may take place in a subsequent accounting period from the period when main contract is accounted for. Therefore, till the time the offset credit is settled/utilised, as aforementioned, the Company should recognise the same as an 'asset' with a corresponding adjustment to the cost of goods/equipment purchased under the main contract which gives rise to the offset credit, considering the model agreed under the main contract, as it meets the definition of 'asset' as per the following requirements of the Conceptual Framework for Financial Reporting under Indian Accounting Standards (Ind AS):

> "4.3 An asset is a present economic resource controlled by the entity as a result of past events.

4.4 An economic resource is a right that has the potential to produce economic benefits."

"4.16 An economic resource could produce economic benefits for an entity by entitling or enabling it to do, for example, one or more of the following:

(a) receive contractual cash flows or another economic resource:

(b) exchange economic resources with another party on favourable terms;

(c) produce cash inflows or avoid cash outflows by, for example:

(i) using the economic resource either individually or in combination with other economic resources to produce goods or provide services:

(ii) using the economic resource to enhance the value of other economic resources; or

(iii) leasing the economic resource to another party;

(d) receive cash or other economic resources by selling the economic resource: or

(e) extinguish liabilities by transferring the economic resource."

"**Recognition criteria**

5.6 Only items that meet the definition of an asset, a liability or equity are recognised in the balance sheet. Similarly, only items that meet the definition of income or expenses are recognised in the statement of profit and loss. However, not all items that meet the definition of one of those elements are recognised."

"Low probability of an inflow or outflow of economic benefits

5.15 An asset or liability can exist even if the probability of an inflow or outflow of economic benefits is low (see paragraphs 4.15 and 4.38).

"5.16 If the probability of an inflow or outflow of economic benefits is low, the most relevant information about the asset or liability may be information about the magnitude of the possible inflows or outflows, their possible timing and the factors affecting the probability of their occurrence. The typical location for such information is in the notes."

"5.19 For an asset or liability to be recognised, it must be measured. In many cases, such measures must be estimated and are therefore subject to measurement uncertainty. As noted in paragraph 2.19, the use of reasonable estimates is an essential part of the preparation of financial information and does not undermine the usefulness of the information if the estimates are clearly and accurately described and explained. Even a high level of measurement uncertainty does not necessarily prevent such an estimate from providing useful information.

From the above, the Committee is of the view that the Company should make a reliable estimate of the economic benefits to be received from the offset credits that will be availed and will result in reduced future outflow of cash for purchase of goods/equipments or for work to be performed by the foreign supplier, considering the model agreed under the main contract; and recognise the same as 'asset' till the time the Offset credit is utilised/settled. In case of offset credit or consideration received through value added orders from the foreign suppliers (viz., offset credit is expected to be settled in exchange for distinct goods or services provided to the foreign supplier), and where the consideration received for the goods or services supplied by the Company to the foreign supplier is at the stand-alone selling price(s), then the value of benefit that the Company expects to receive through offset credit shall be nil and therefore, the asset recognised as discussed above under the main contract may be recognised at nominal value, say, Re 1.

D. Opinion

21. On the basis of the above, the Committee is of the opinion that the accounting policy and accounting methodology as proposed by the Company in paragraph 8 above are not in compliance with Ind AS; rather the Company should follow the following accounting treatment in respect of offset credit benefits received from foreign suppliers:

- Intangible assets received as settlement of offset credit should be recognised by the Company assuming Ind AS 38 recognition criteria is met. Based on the considerations stated in paragraph 15 above, if technology is considered as a discount from supplier, the same shall be recognised at its fair value and such amount be reduced from the cost of acquisition of the defence equipment under main contract. However, if it is considered as an item in a multiple element arrangement, the total contract consideration under the main/master contract will be allocated to the defence equipment and technology (intangible asset) in proportion to their relative fair values.

  Further, the above accounting considerations in respect of intangible assets should also apply to inventory items (as mentioned in paragraph 8 above) received free of cost.

- In value added orders, the consideration is received in exchange for distinct goods or services provided to the foreign supplier and should be recognised as revenue in accordance with Ind AS 115, as discussed in paragraph 17 above.

- The discount offered by the foreign supplier for future purchases should be recognised as a reduction of the cost of the goods purchased, which entitle the Company to such discount, as discussed in paragraph 18 above.

- The cost to be incurred by the foreign supplier on behalf of the Company should be recognised as a reduction from the cost of the goods purchased, which entitle the Company to benefits and when it is concluded that the Company is acting as a principal in the arrangement, as discussed in paragraph 19 above.

  Further, till the time offset credit is utilised/settled (viz., through receipt of intangible asset or discount or services rendered by the foreign supplier) as aforementioned, the Company should recognise the same as 'asset' by making a reliable estimate of the economic benefit to be received from the offset credits that will be availed and will result in reduced future outflow of cash for purchase of goods/equipment or for work to be performed by the foreign supplier, considering the model agreed under the main contract. In case of offset credit or consideration received through value added orders from the foreign suppliers (viz., offset credit is expected to be settled in exchange for distinct goods or services provided to the foreign supplier), if the consideration received for the goods or services supplied by the Company to the foreign supplier is at the stand-alone selling price(s), then the value of benefit that the Company expects to receive through offset credit shall be nil and therefore, the asset recognised as discussed above under the main contract may be recognised at nominal value, say, Re 1.

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