THE STANDARD STANCE

Key Accounting And Other Considerations Around The PLI Scheme Under Ind AS 20

Volume 37
August 2026

INTRODUCTION

The Production Linked Incentive (PLI) Scheme is a Government of India initiative launched in 2020 - a flagship initiative under the Make in India programme. The scheme is designed to strengthen India's manufacturing capabilities, increase exports, attract foreign investment, and create employment opportunities. It provides eligible companies with financial incentives based on incremental sales of goods manufactured in India.

While the PLI Scheme offers significant financial benefits, it also introduces important accounting, financial reporting, taxation, and compliance considerations. Organisations participating in the scheme must carefully evaluate how incentives should be recognised, measured, presented, and disclosed in their financial statements.

UNDERSTANDING THE PLI SCHEME

The PLI Scheme rewards eligible manufacturers for achieving prescribed production and sales targets. Depending on the sector, incentives are generally computed as a percentage of incremental sales over a specified base year. To avail benefits of the scheme, the company is required to make prescribed minimum investments, meet incremental production or sales targets and satisfy all other scheme conditions.

Currently, the scheme covers several sectors, including Electronics, Pharmaceuticals, Automotive and Auto Components, Telecom, Textiles, Specialty Steel, Food Processing, White Goods, Solar PV Modules, Drones and related industries.

The scheme works in the following manner:

1) **Base year defined:** A specific financial year is set as the base year for calculating incremental sales. For instance, for many initial schemes, the base year is 2019–20.
2) **Incremental sales calculated:** The incentive is calculated based on the increase in sales of manufactured goods (produced in India) over the base year's sales figure. Companies must meet minimum incremental sales thresholds to qualify for the incentive each year.
3) **Incentive rate:** A predetermined percentage (e.g., 4% to 6%, or varying over the scheme period) is applied to the calculated incremental sales. This rate is specific to the sector and sometimes linked to the level of localisation or value addition achieved.
4) **Eligibility thresholds:** Companies usually need to meet certain criteria regarding investment commitments or existing revenue size to be eligible to apply for a specific PLI scheme.
5) **Scheme duration:** The incentives are typically disbursed annually for a period of four to six years, following the initial investment and commencement of increased production.
6) **Application and approval:** Companies apply through a dedicated portal when a scheme for their sector is announced. Applications are evaluated based on the defined criteria, and approvals are granted by the relevant government ministry or department managing that sector's scheme.
7) **Disbursement:** Incentives are disbursed after verification of sales data and compliance with scheme guidelines for the relevant year.

NATURE OF PLI INCENTIVES

From an accounting perspective, PLI incentives are generally considered **government grants** because they represent financial assistance provided by the Government in return for compliance with specified conditions.

The accounting treatment depends on:

- The nature of the grant
- The conditions attached
- Whether there is reasonable assurance that the conditions will be met
- The applicable accounting framework

ACCOUNTING UNDER IND AS

Entities preparing financial statements under Indian Accounting Standards apply **Ind AS 20 – Accounting for Government Grants and Disclosure of Government Assistance** for accounting such schemes.

Ind AS 20 requires that government grants should not be recognised until there is **reasonable assurance** that:

- The entity will comply with the conditions attached to them; and
- The grant will be received.

Recognition of government grants merely because an application has been submitted is generally inappropriate.

RECOGNITION OF PLI INCENTIVES

A key accounting judgment relates to the timing of recognition of PLI incentives. As per Ind AS 20, government grants, including non-monetary grants at fair value, shall not be recognised until there is reasonable assurance that the entity will comply with the conditions attaching to them and the grants will be received.

Companies should evaluate whether there is sufficient evidence that:

- Production milestones have been achieved
- Incremental sales qualify under the scheme
- Required investments have been completed
- Compliance requirements have been satisfied
- No significant uncertainty remains regarding approval

Once reasonable assurance exists, the incentive may be recognised even if cash has not yet been received. If substantial uncertainty exists regarding eligibility or verification, recognition should generally be deferred.

Another issue to be addressed is whether the grants received under PLI Scheme should be treated as an asset-related grant or income-related grant. As per Ind AS 20, grants related to assets are government grants whose primary condition is that an entity qualifying for them should purchase, construct or otherwise acquire long-term assets and grants which are not asset-related grants are considered as income-related grants.

Since the PLI scheme requires entities to make incremental investment or acquire an asset, it can be argued that the acquisition of the asset is the primary eligibility condition; because without making incremental investment, the grant would not be received. The incremental sales are only an incidental condition. Hence, one view is that grants received under the PLI scheme are asset-related grants.

Another view is that although the PLI scheme requires investment/ acquisition of an asset, the eligibility criteria will only be completed after the entity is able to achieve incremental sales. Also, the amount of grant is determined as a percentage of incremental sales. Thus, an incremental sale is a primary condition, and hence it is an income-related grant.

While we believe both the views can be argued, companies will have to exercise judgement and carefully examine the facts, objectives, and conditions attached to the scheme to classify the grant as asset-related or income-related. The purpose of the grant and the costs for which the grant is intended to compensate also need to be carefully evaluated.

Asset-related grants are presented in the balance sheet either as deferred income that is recognised in profit and loss on a systematic basis over the useful life of the asset or deducted from the carrying amount of the asset that is recognised in profit and loss over the life of the depreciable asset as a reduced depreciation expense. Grants related to income are presented as part of profit or loss either separately or under a general heading such as 'Other income'; alternatively, they are deducted in reporting the related expense.

In case of the PLI scheme, cash receipt often occurs several months after the incentive has been earned. Accordingly, revenue recognition and cash receipt may occur in different reporting periods. A receivable may be recognised once entitlement exists. Companies should assess recoverability of such receivables.

MEASUREMENT CONSIDERATIONS

The incentive should be measured based on the amount expected to be received under the approved scheme.

Entities should carefully assess:

- Eligible sales
- Applicable incentive percentage
- Adjustments arising from audits or verification
- Subsequent revisions to incentive computations

Where estimates are involved, management should apply robust documentation and internal controls.

PRESENTATION IN FINANCIAL STATEMENTS

One of the issues is whether PLI incentives should be presented as:

1. Other Operating revenue;
2. Other Income; or
3. Reduction of related costs (where appropriate)

As per Ind AS 20, grants related to income are presented as a credit in the statement of profit and loss, either separately or under a general heading such as 'Other income'; alternatively, they are deducted in reporting the related expense.

The appropriate presentation depends on the economic substance of the grant and the company's accounting policy.

Manufacturing entities may argue presenting PLI incentives as **Other Operating revenue** because they arise directly from manufacturing operations and are linked to production performance.

However, companies should ensure consistency with their accounting policies and applicable accounting standards.

KEY JUDGMENTS

Management typically exercises judgment in evaluating:

- Whether reasonable assurance exists
- Probability of approval
- Compliance with investment obligations
- Future clawback risks
- Impact of regulatory clarifications

These judgments should be supported through detailed documentation.

DISCLOSURE REQUIREMENTS

Ind AS 20 requires disclosure of:

- Accounting policy adopted for government grants, including the methods of presentation adopted in the financial statements
- Nature of government grants recognised in the financial statements
- Amount recognised during the year
- Unfulfilled conditions
- Contingencies relating to grants

Transparent disclosures help users understand the impact of government incentives on financial performance.

INTERNAL CONTROL CONSIDERATIONS

Given the complexity of the PLI Scheme, organisations should establish strong internal controls covering:

- Tracking eligible production
- Monitoring incremental sales
- Investment compliance
- Documentation supporting claims
- Review of incentive calculations
- Regulatory reporting
- Audit trail for government inspections

A robust control environment reduces the risk of claim rejection or subsequent adjustments.

CONCLUSION

The Production Linked Incentive Scheme has become a cornerstone of India's manufacturing strategy under the Make in India initiative. While the incentives provide meaningful financial support, they also require careful application of accounting standards, particularly **Ind AS 20**, to ensure appropriate recognition, measurement, presentation, and disclosure.

Organisations should adopt a principles-based approach supported by sound documentation, robust governance, and transparent financial reporting. Proper accounting for PLI incentives not only enhances compliance but also improves the reliability and comparability of financial statements, enabling stakeholders to better assess the financial impact of government support on manufacturing operations.

To ensure robust accounting and compliance, companies should:

- Develop a formal accounting policy for PLI incentives
- Maintain comprehensive supporting documentation
- Periodically reassess eligibility
- Monitor changes in government notifications
- Strengthen internal controls over incentive calculations
- Align finance, tax, and compliance functions
- Engage auditors early for significant accounting judgments

ABOUT BDO GLOBAL

BDO is an international network of independent public accounting, tax and advisory firms. We support organisations with an unwavering focus on quality, industry expertise, and the innovative use of technology to deliver impactful solutions. Our commitment to people, clients, and communities is at the core of everything we do. With our people-first culture, we foster an environment where diversity thrives, growth is nurtured, and continuous learning drives lasting progress for a sustainable future.

ABOUT BDO INDIA

BDO India offers Assurance, Tax, Advisory, Technology Products & Solutions, Digital Transformation, and Managed Services & Outsourcing to domestic and international clients across various industries. Bringing together expertise, innovatively driven and delivered through technology, we empower businesses to navigate their unique challenges with transformative, impactful, client-centric solutions. Helping people thrive is at our core, underpinning our commitment to building a sustainable future for our clients, people and communities. The team in India comprises over 12,500* professionals, led by more than 350 Partners and Directors, operating out of 20 offices across 14 key cities.

*Includes employees from BDO RISE and BDO EDGE

CONTACT US

For any content related queries, you may please write to the service line experts at accountingadvisory@bdo.in

For any other queries or feedback, kindly write to us at marketing@bdo.in

BDO INDIA OFFICES

Ahmedabad
BDO India LLP
Westgate Business Bay, Block - A,
Level-6, Opp. Nirvana Party Plot,
S.G. Highway, Ahmedabad – 380051, INDIA

Bengaluru - Office 1
Prestige Nebula, Floor 3
Infantry Road
Bengaluru 560001, INDIA

Bengaluru - Office 2
SV Tower, No. 27, Floor 3 & 4
80 Feet Road, 6th Block, Koramangala
Bengaluru 560095, INDIA

Bhopal
Floor 3, Pradhan Business Center
Ansal Pradhan Enclave, E 8 Arera
Colony Near Dana Pani Square,
Bhopal 462026, INDIA

Chandigarh
Plot no. 55, Floor 5
Industrial & Business Park
Phase 1, Chandigarh 160002, INDIA

Chennai
Olympia Cyberspace, Floor 10, Module 4
No: 4/22 Arulayiammanpet, SIDCO Industrial
Estate Guindy, Chennai 600032, INDIA

Coimbatore
Pacom Square, Floor 3, 104/1, Sakthi
Main Road, Bharathi Nagar, Ganapathy
Coimbatore 641006, INDIA

Delhi NCR - Office 1
Magnum Global Park, Floor 21, Archview
Drive, Sector 58, Golf Course Extn Road
Gurugram 122011, INDIA

Delhi NCR - Office 2
Windsor IT Park, Plot No: A-1
Floor 2, Tower B, Sector 125
Noida 201301, INDIA

Goa
BIZ – Nest, Floor 7
A Wing, Sunteck Corporate Park
Opp. Shram Shakti Bhavan, Patto
Panaji, Goa 403001, INDIA

Hyderabad
1101/B, Manjeera Trinity Corporate
JNTU-Hitech City Road, Kukatpally
Hyderabad 500072, INDIA

Kochi
XL/215 A, Krishna Kripa
Layam Road, Ernakulam
Kochi 682011, INDIA

Kolkata
Floor 4, Duckback House
41, Shakespeare Sarani
Kolkata 700017, INDIA

Mumbai - Office 1
The Ruby, Level 9, North West &
South East Wings, Senapati Bapat Marg
Dadar (W), Mumbai 400028, INDIA

Mumbai - Office 2
601, Floor 6, Raheja Titanium, Western
Express Highway, Geetanjali Railway
Colony, Ram Nagar Goregaon (E),
Mumbai 400063, INDIA

Mumbai - Office 3
Floor 20, 2001 & 2002 - A Wing, 2001-
F Wing Lotus Corporate Park, Western
Express Highway, Ram Mandir Fatak Road,
Goregaon (E) Mumbai 400063, INDIA

Mumbai - Office 4
2nd floor, Empire Complex
414 , Senapati Bapat Marg
Lower Parel West,
Mumbai 400013, INDIA

Pune - Office 1
Floor 6, Building No. 1
Cerebrum IT Park, Kalyani Nagar
Pune 411014, INDIA

Pune - Office 2
Floor 2 & 4, Mantri Sterling, Deep Bunglow
Chowk, Model Colony, Shivaji Nagar
Pune 411016, INDIA

Vadodara
1008, Floor 10, "OCEAN", Sarabhai
Compound, Nr. Centre Square Mall,
Dr. Vikram Sarabhai Marg Vadodara
390023, INDIA