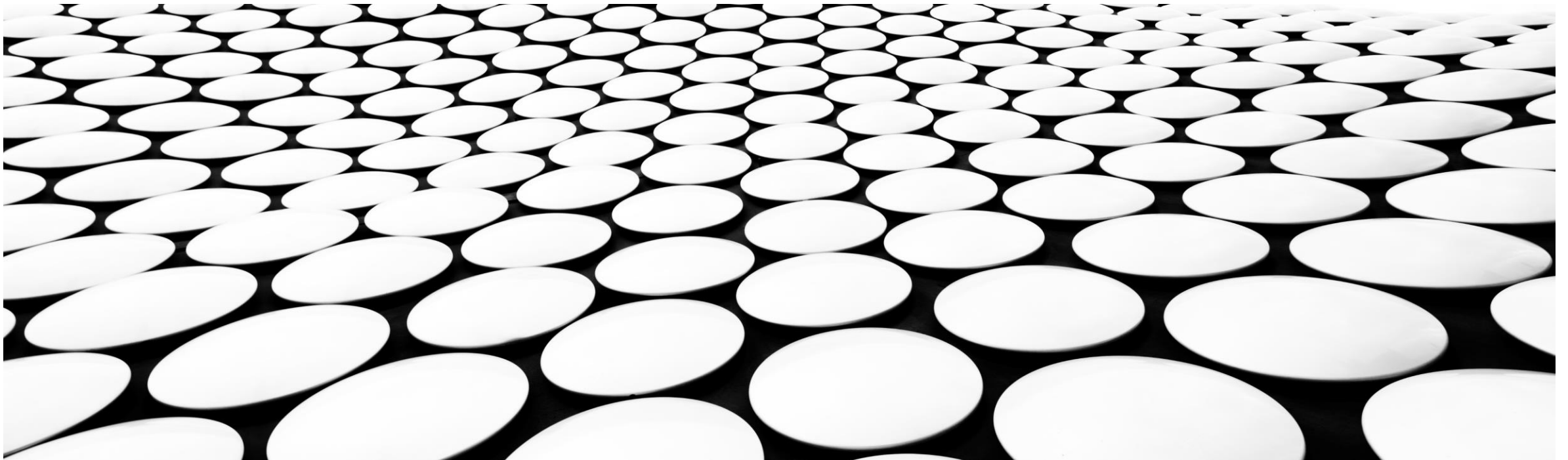


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# **INTERNATIONAL FINANCIAL REPORTING STANDARDS ACCOUNTING FOR GOVERNMENT GRANTS AND DISCLOSURE OF GOVERNMENT ASSISTANCE – IAS 20**

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ACCOUNTING FOR GOVERNMENT GRANTS AND DISCLOSURE  
OF GOVERNMENT ASSISTANCE - IAS 20**

# **ACCOUNTING FOR GOVERNMENT GRANTS AND DISCLOSURE OF GOVERNMENT ASSISTANCE– IAS 20**

## **Learning Outcomes**

- Provisions relating to government grants
- Grants related to income
- Grants related to assets
- Comparison with Indian AS and US GAAP

# ACCOUNTING FOR GOVERNMENT GRANTS AND DISCLOSURE OF GOVERNMENT ASSISTANCE – IAS 20

- A Govt grant is recognized only when enterprise will comply with any conditions attached to it.
- Grant is recognized as income, over the period , to match them with related costs, which they are intended to compensate, on a systematic basis, and should not be credited directly to equity
- Non-monetary grants are usually accounted for at fair value (e.g. land ) although recording both the land and the grant at nominal amount is permitted
- In general grants should not be credited to equity even if there no conditions attached to the assistance specifically related to the operating activities of the enterprise

# ACCOUNTING FOR GOVERNMENT GRANTS AND DISCLOSURE OF GOVERNMENT ASSISTANCE

- A grant receivable as compensation for costs already incurred or for immediate financial support with no future related costs, should be recognized in the period in which it is receivable
- A grant related to assets may be presented as deferred income or by deducting the grant from the asset's carrying amount. A grant related to income may be reported as other income or deducted from related expense
- If a grant is repayable, it should be treated as change in estimate. Where the original grant is related to income, the repayment should be applied first against any related unamortized deferred credit, and any excess shall be dealt with as an expense.
- If the original grant is related to an asset, the repayment should be treated as increasing the carrying out of the asset or reduce the deferred income balance.
- The cumulative depreciation would then be charged as expense.

# ACCOUNTING FOR GOVERNMENT GRANTS AND DISCLOSURE OF GOVERNMENT ASSISTANCE

Government refers to government, government agencies and similar bodies whether local, national or international

**IAS 20 Para 3**

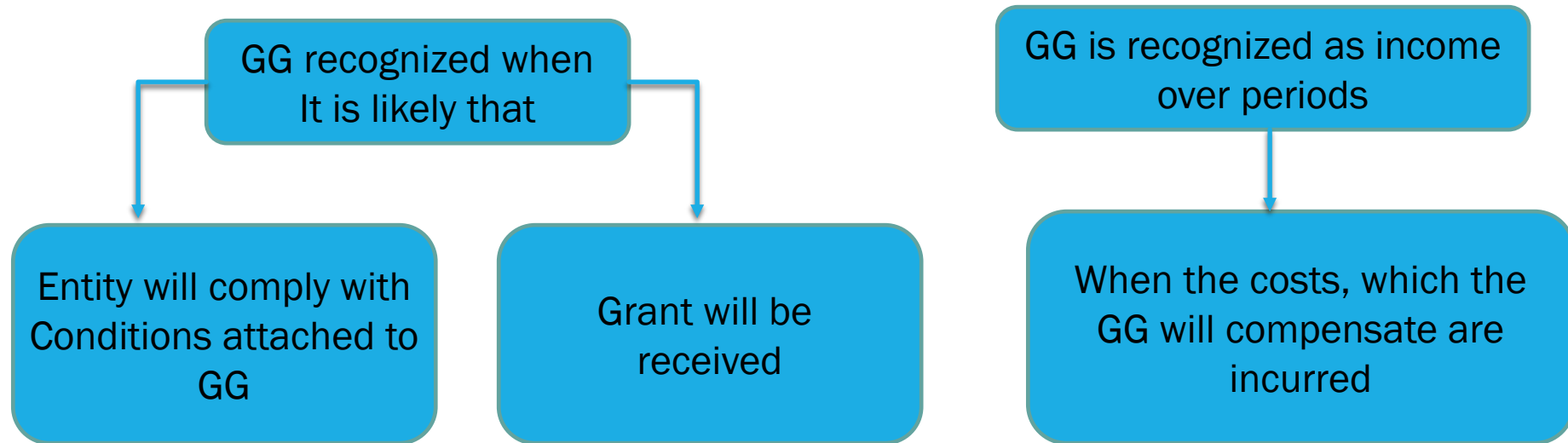
Government grants are assistance by government in the form of transfers of resources to an entity in return for past or future compliance with certain condition relating to the operating activities of the entity.

**IAS 20 Para 3**

Government assistance is action by government designed to provide an economic benefit specific to an entity or range of entities qualifying under certain criteria.

**IAS 20 Para 3**

# RECOGNITION OF GOVERNMENT GRANTS



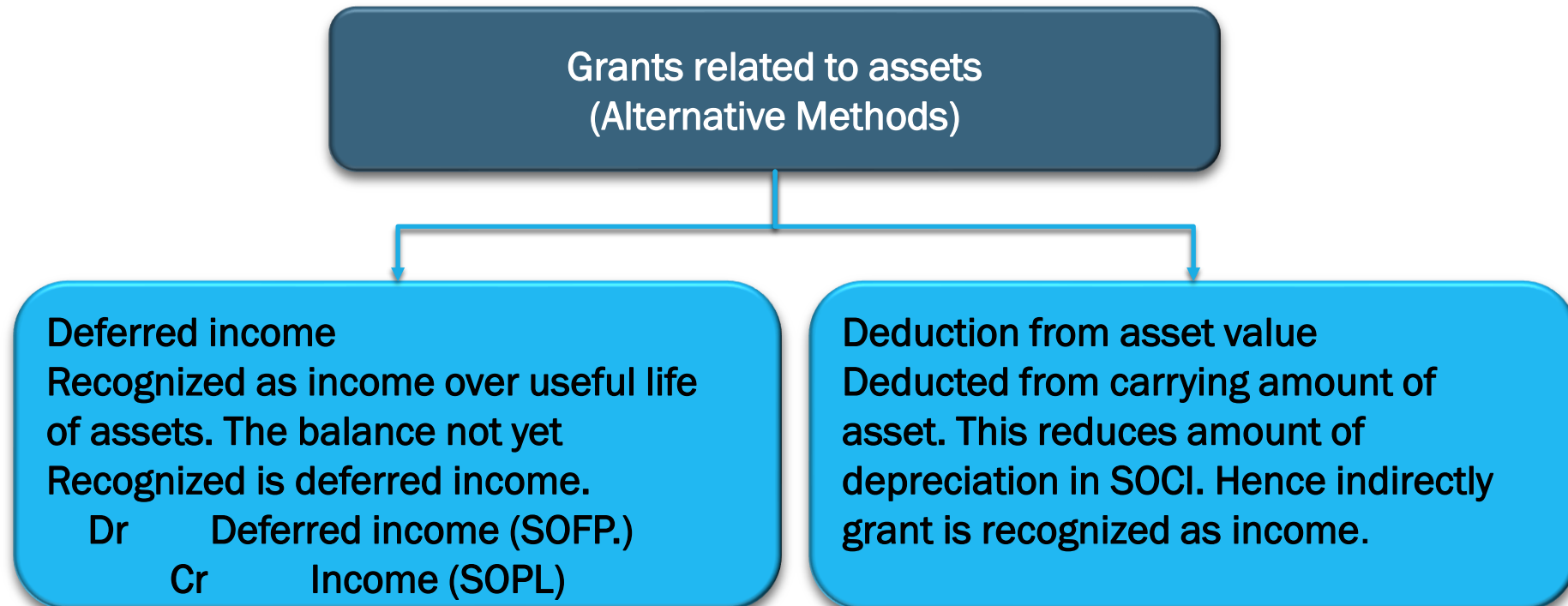
## Important points:

- Receipt of grant does not mean all conditions attached to it / are fulfilled
- Manner of receiving grant does not affect accounting method to be adopted
- A forgivable loan from government is recognized as GG if assurance to meet the necessary conditions

# GRANTS RELATED TO ASSETS

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. Subsidiary 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.

IAS 20 Para 3





# REPAYMENT OF GRANTS RELATED TO ASSET

Accounting treatment depends upon how the grant was disclosed initially when it was received

- repayment – increase in carrying value of the asset (if original receipt of grant was reduced from carrying value)
- Or recorded by reducing the deferred income balance by the amount payable (if original receipt of grant was treated as deferred income)

In either of the above cases, the cumulative additional depreciation that would have been recognized to date as an expense if there was no grant should be recognized immediately as an expense

**The fact that grant had to be repaid may require an entity to consider the possible impairment of the new carrying amount.**

# ACCOUNTING FOR GOVERNMENT GRANTS - SUMMARY OF ACCOUNTING TREATMENT

Inflow by way of grant	Treatment	Effect on FS
Taken as income – Income is not matched With costs	Credit Statement of Comprehensive Income	Immediate increase in Profit, with adverse Impact on results of subsequent years
Taken as part of owners Interest – accrual concept Is not followed	Credit reserves	Grant never features in Income statement – when It fact it contributed to income
Applied to reduce to cost of asset	Reduce net book value of asset	If grant were to be refunded later, the need to disclose at least a portion of adjustments as prior period items - is to be gone into
Allocated to income over an estimated period	Credit deferred income	Cost of asset is reflected as depreciation with a Corresponding income

### Illustration I (Repayment of grants related to assets)

Alpha operates in a poor area. During 2020, it installs a special pollution control device at a cost of Rs. 6m and receives a grant of Rs.3m from the local government. During 2022 the government finds out that Alpha has not complied with the terms of the grant and asks it to repay the grant. After protracted negotiations, Alpha gives up and repays Rs.3m. It had deducted the grant from the carrying amount of the asset and charged depreciation at 10% under the straight-line method for two years.

#### Required:

Show the accounting treatment of the refund.

#### Solution

The carrying value of the asset as on the date of repayment was:

	Rs. m
Gross cost	6.0
Less: Grant	<u>(3.0)</u>
Net cost value	3.0
Depreciation for 2 years	<u>(0.6)</u>
Carrying value	<u>2.4</u>

Depreciation on Rs. 6m (ignoring grant) = Rs. 1.2m (for 2 years)

Additional accumulated depreciation = Rs. 0.6m (1.2 - 0.6)

Two accounting adjustments should be made:

➤ Repayment of grant Rs. 3m

Dr	Equipment	Rs. 3m	
	Cr	Bank	Rs. 3m

Being increase in cost due to repayment of grant

➤ Additional depreciation of Rs. 0.6m – charged in SOPL and credited to accumulated depreciation.

The revised gross amount should be	Rs. 6m (3 + 3)
accumulated depreciation,	Rs. 1.2m (0.6+ 0.6)
carrying value,	Rs.4.8m (2.4 + 3.0 - 0.6).

Note: this would have been the carrying value if no grant was received since beginning i.e. Rs.6m – Rs. 1.2m (2 years depreciation at 10% straight-line) = Rs. 4.8m.

## **Illustration II**

- Foodland Ltd obtained a grant of Rs.1.0 Mil from a Govt agency for an investment project to construct a manufacturing plant of at least Rs. 8.9 Mil. The principal term for the grant payment relate to capital expenditure. The secondary intention is to safeguard 50 jobs. The grant will have to be repaid if there is under spending of capex.
- 20% of the grant will have to be repaid if the jobs are not protected until 18 months after the date of the last asset purchase.
- The plant was completed on Jan 1 2020 at total outlay of Rs.9.0 Mil
- The plant has an expected useful life of 20 years and is depreciated on SLM with no residual value.

Please show treatment under IAS 20 related to Govt grants

## Solution

- The grant should be regarded as an asset related grant. The methods adopted by IAS 20 are as follows:
- Method : I = Setting up grant as deferred income:

	2020	2021	2022
Balance Sheet	Rs'000	Rs'000	Rs'000
-Plant-historical costs	9000	9000	9000
-Acc depreciation	(450)	(900)	(1350)
-Carrying value	8550	8100	7650
-Deferred Income	950	900	850
Income statement			
Depreciation (9000 / 20)	450	450	450
Government grant income (1000/20)	(50)	(50)	(50)

## Solution

- Method : II = Deducting grant from carrying amount of asset :
- The adjusted historical cost of the plant would be Rs.8.0 million ( Rs.9.0 Mil – Rs.1.0 Mil grant)

Balance Sheet	2020 Rs'000	2021 Rs'000	2022 Rs'000
-Plant-historical costs	8000	8000	8000
-Acc depreciation	(400)	(800)	(1200)
-Carrying value	7600	7200	6800
-Deferred Income	950	900	850

Income statement would reflect an annual depreciation of Rs.0.4 Mil ( Rs. 8,000,000 / 20 ). The charge agrees with the net result of the annual accounts in the Income statement under the first method.

# GOVERNMENT GRANTS

Topic	Indian Accounting standards	IFRS / IAS	US GAAP
Government grants	<p>Grants related to fixed assets are shown as deduction from gross value of the assets concerned.</p> <p>Revenue related government grants are recognized on a systematic basis in the income statement over the periods to match them with related costs</p> <p>Grants in the nature of promoter's contribution are credited to capital reserve and treated as a part of shareholders funds.</p>	<p>Capital based grants are deferred and matched with the depreciation of the asset for which the grant arises.</p> <p>Revenue based grants are deferred in the balance sheet and released to the income statement to match the related expenditure that are intended to compensate.</p> <p>Grants related to recognized assets are either presented in the balance sheet as deferred income or amortized.</p> <p>Entities may offset capital grants against asset values</p>	<p>Similar to IFRS except when conditions are attached to grant. In this case, revenue recognition is delayed until such conditions are met.</p> <p>Long-lived asset contributions recorded as revenue in the period received.</p>





**THANK YOU!**