DIGITAL CFO SOLUTIONS • IFRS SERIES

ACTIVE STANDARD

INTERNATIONAL FINANCIAL REPORTING STANDARDS

IAS 20

Government Grants & Government Assistance

Recognition, presentation and disclosure of government grants — plus the below-market government loan benefit and IFRS 18 impact

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ROADMAP

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PART I — FOUNDATIONS

Government Grants & Government Assistance

IAS 20 governs how an entity accounts for assistance received from government — one of the oldest IFRS Standards still in force, largely unchanged since 1983.

FOUNDATIONS

Key Definitions

- Government: government, government agencies and similar bodies, whether local, national or international.
- Government grants: assistance by government in the form of transfers of resources to an entity in return for past or future compliance with certain conditions relating to its operating activities — excluding forms of assistance that cannot reasonably be valued, and transactions with government indistinguishable from normal trading.
- Government assistance: action by government designed to provide an economic benefit specific to an entity or range of entities qualifying under certain criteria — excluding benefits provided only indirectly through action affecting general trading conditions.
- Grants related to assets: government grants whose primary condition is that a qualifying entity should purchase, construct or otherwise acquire long-term assets.
- Grants related to income: government grants other than those related to assets.
- Forgivable loans: loans which the lender undertakes to waive repayment of under certain prescribed conditions.
- Fair value: the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants (consistent with IFRS 13).

FOUNDATIONS

Scope — What IAS 20 Excludes

IAS 20 also does not address the special problems of accounting for government grants in financial statements reflecting the effects of changing prices, or in related supplementary information.

Income Tax-Related Benefits

Benefits available in determining taxable profit or loss, or determined or limited by reference to income tax liability — e.g. tax holidays, investment tax credits, accelerated depreciation — sit outside IAS 20 (see IAS 12).

Government Participation in Ownership

Where government becomes a part-owner of the entity, this is an equity transaction, not a grant, and falls outside the scope of IAS 20.

Agricultural Grants (IAS 41)

Government grants related to biological assets measured at fair value less costs to sell are accounted for under IAS 41, not IAS 20 — except certain grants related to bearer plants.

PART II — RECOGNITION

Recognition Principles

A government grant is not recognised until there is reasonable assurance that the entity will comply with its conditions, and that the grant itself will be received.

Recognition of Government Grants

Government grants — including non-monetary grants at fair value — are recognised only when both conditions are met: the entity will comply with any attached conditions, AND the grant will be received.

- Receipt of a grant does not, by itself, provide conclusive evidence that the conditions attached to it have been, or will be, fulfilled.
- The manner in which a grant is received does not affect the accounting method to be adopted — cash, a non-monetary asset, or a forgivable loan are all accounted for on the same principles.
- A forgivable loan from government is treated as a government grant when there is reasonable assurance that the entity will meet the terms for forgiveness of the loan.
- Once recognition begins, a grant is measured based on the amount receivable, or the fair value of a non-monetary grant received or receivable.

Recognition Timing & the Matching Principle

- Grants are recognised in profit or loss on a systematic basis over the periods in which the entity recognises the related costs the grant is intended to compensate — the matching principle.
- A grant receivable as compensation for costs already incurred, or for immediate financial support with no future related costs, is recognised in profit or loss in the period in which it becomes receivable.
- Grants are never credited directly to equity, even where there are no conditions attached specifically relating to the operating activities of the entity, beyond a requirement to operate in certain regions or industry sectors.
- This matching approach distinguishes IAS 20 from an immediate-recognition model, and is the reason grants related to assets are spread over the depreciable life of the asset they fund.

RECOGNITION PRINCIPLES

Non-Monetary Government Grants

A government grant may take the form of a transfer of a non-monetary asset, such as land or other resources, for the use of the entity.

Fair Value Measurement (General Approach)

Non-monetary grants are usually accounted for on the basis of the fair value of the non-monetary asset — recognising both the asset and the grant at that fair value.

The Nominal-Amount Alternative

IAS 20 also permits recording both the asset and the grant at a nominal amount — an alternative treatment retained from the standard's original drafting.

PART III — GRANTS RELATED TO ASSETS

Grants Related to Assets

Grants whose primary condition is that a qualifying entity should purchase, construct or otherwise acquire long-term assets — presented using one of two methods.

Two Presentation Methods

A government grant related to assets is presented in the statement of financial position using one of two methods — both produce the same net effect on profit or loss over the asset's life.

Deferred Income Method

- The grant is set up as deferred income and recognised in profit or loss on a systematic basis over the useful life of the asset.
- On receipt: Dr Cash / Cr Deferred income (SOFP). On recognition each period: Dr Deferred income / Cr Income (SOPL).
- The asset is carried, and depreciated, at its full gross cost — the deferred income balance runs down separately, in step with depreciation.

Deduction from Asset Method

- The grant is deducted in arriving at the carrying amount of the asset, reducing its depreciable amount.
- The grant is recognised in profit or loss indirectly, over the useful life of the depreciable asset, through a reduced depreciation charge.
- The asset is carried, from initial recognition, net of the grant — there is no separate deferred income balance on the statement of financial position.

Both methods produce an identical net effect on profit or loss each period — see Illustration II for a full numerical comparison.

PART IV — GRANTS RELATED TO INCOME

Grants Related to Income

All government grants other than those related to assets — presented in profit or loss using one of two acceptable approaches.

Two Presentation Approaches

A government grant related to income may be presented in the statement of profit or loss using either approach, applied as an accounting policy.

Presented as Other Income

- Presented as a credit in profit or loss, either separately or under a general heading such as 'Other income'.
- Improves comparability with entities that do not receive a similar grant, by showing the expense and the grant income separately.

Deducted from Related Expense

- Deducted in reporting the related expense — netted directly against the expense the grant is intended to compensate.
- Argued to be justified on the basis that the entity would not have incurred the expense without the grant, so netting avoids a separate disclosure that may not otherwise be necessary.

Both are acceptable for the presentation of grants related to income; the entity discloses the method it adopts as an accounting policy.

PART V — REPAYMENT

Repayment of Government Grants

A government grant that becomes repayable is a change in accounting estimate, not a prior period error — the mechanics depend on the type of grant originally received.

Repayment — The General Principle

A government grant that becomes repayable is accounted for as a change in accounting estimate under IAS 8, not as a prior period error or extraordinary item.

- The specific accounting treatment applied depends on whether the original grant related to income or to assets.
- A grant becoming repayable may also indicate a need to consider whether the new carrying amount of the related asset is impaired, applying IAS 36.
- Common triggers for repayment include non-compliance with conditions such as capital expenditure thresholds, employment levels, or operating-location requirements.

Repayment Mechanics — By Grant Type

Grant Related to Income

- The repayment is applied first against any related unamortised deferred credit recognised in respect of the grant.
- Any excess of the repayment over the unamortised deferred credit is recognised immediately as an expense.

Grant Related to Assets

- Recorded by increasing the asset's carrying amount (if the grant originally reduced it), or by reducing the deferred income balance (if the grant was set up as deferred income).
- The cumulative additional depreciation that would have been recognised as an expense to date, had there been no grant, is recognised immediately as an expense.

See Illustration I for a full worked example of a grant-related-to-asset repayment, including the revised gross cost, accumulated depreciation and carrying value.

PART VI — ASSISTANCE & LOANS

Government Assistance & Government Loans

Not every form of government support is a grant — and since 2009, a below-market government loan carries a grant of its own.

Forms of Government Assistance That Are NOT Grants

IAS 20 grant accounting applies only where a value can reasonably be placed on the assistance, and it can be distinguished from the entity's normal trading transactions.

Free Advice & Guarantees

Assistance such as free technical or marketing advice, or the provision of guarantees, cannot reasonably have a value placed on it, so it falls outside grant accounting under IAS 20 — even where significant to the entity.

Indirect Benefits from General Trading Conditions

Assistance provided only indirectly through action affecting general trading conditions — such as infrastructure in development areas, or trading restrictions imposed on competitors — is excluded from the definition of government assistance altogether.

Government Loans at a Below-Market Rate of Interest

Following a 2008 amendment, effective for annual periods beginning on or after 1 January 2009, the benefit of a below-market-rate government loan is treated as a government grant.

- The loan itself is recognised and measured in accordance with IFRS 9 — initially at fair value, determined using a market rate of interest for a similar loan.
- The benefit of the below-market rate is measured as the difference between the initial carrying amount of the loan (its fair value) and the proceeds received.
- That benefit is accounted for by applying the normal IAS 20 recognition and presentation requirements — typically as a grant related to income or to assets, depending on any conditions attached.
- This removed an earlier transitional exemption that had allowed some below-market government loans to escape fair value measurement — see Illustration III for a full worked calculation.

PART VII — DISCLOSURE

Disclosure Requirements

What every set of financial statements must show about the government support an entity has received — recognised or not.

DISCLOSURE

What the Notes Must Show

1 **Accounting policy adopted**

Including the methods of presentation adopted — deferred income vs deduction from the asset, and other income vs net presentation for income-related grants.

2 **Nature and extent of grants recognised**

The nature and extent of government grants recognised in the financial statements, and an indication of other forms of government assistance from which the entity has directly benefited.

3 **Unfulfilled conditions and contingencies**

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

4 **Assistance that cannot be reasonably measured**

An indication of other forms of government assistance from which the entity has benefited, even where the extent of the benefit cannot reasonably be measured.

PART VIII — SUMMARY OF TREATMENT

Summary of Accounting Treatment

How the presentation choice for a grant flows through to the accounting entry, and its effect on the financial statements.

Presentation Choice, Entry & Effect on the Financial Statements

Inflow / Treatment	Accounting Entry	Effect on Financial Statements
Grant related to income — presented as other income	Credit to profit or loss, on a systematic basis matched to the related costs	Grant income is visible as a separate line, improving comparability with entities that receive no grant
Taken directly to reserves (NOT permitted under IAS 20)	Credit reserves / equity directly	Grant never features in profit or loss, even though it in fact contributed to the entity's income — this treatment is prohibited
Grant related to assets — deduction method	Reduce the carrying amount of the asset	Depreciation is reduced, and the grant is recognised in profit or loss indirectly over the asset's useful life
Grant related to assets — deferred income method	Credit deferred income, released on a systematic basis	Depreciation is charged on the full gross cost of the asset, with a matching grant-income credit released over the same period

The net effect on profit or loss is identical whichever permitted presentation is chosen — only the face of the financial statements differs.

PART IX — APPLICATION

Worked Illustrations

Three institutional-grade examples covering the repayment of an asset-related grant, the two presentation methods compared, and a below-market government loan.

Illustration I — Repayment of a Grant Related to an Asset

FACT PATTERN

Alpha operates in a poor area. During 2023, it installs a special pollution control device at a cost of $6.0m and receives a grant of $3.0m from the local government, which it deducts from the carrying amount of the asset. It charges depreciation at 10% under the straight-line method. During 2025, the government finds Alpha has not complied with the terms of the grant and, after protracted negotiations, Alpha repays the full $3.0m. Required: show the accounting treatment of the refund.

SOLUTION — CARRYING VALUE AT DATE OF REPAYMENT

($m)	Amount
Gross cost	6.0
Less: Grant	(3.0)
Net cost value	**3.0**
Depreciation for 2 years (10% x 3.0 x 2)	(0.6)
Carrying value	**2.4**

Illustration I — Repayment of a Grant Related to an Asset (continued)

STEP 1 — ADDITIONAL DEPRECIATION TO CATCH UP

Depreciation on $6.0m, ignoring the grant, would have been $1.2m over 2 years (10% x $6.0m x 2). Additional accumulated depreciation required = $1.2m – $0.6m already charged = $0.6m.

STEP 2 — TWO ACCOUNTING ADJUSTMENTS

Repayment of grant: Dr Equipment $3.0m / Cr Bank $3.0m — being the increase in cost due to repayment of the grant

Additional depreciation of $0.6m — charged to profit or loss and credited to accumulated depreciation

REVISED POSITION

($m)	Revised Amount
Gross cost (3.0 + 3.0)	6.0
Accumulated depreciation (0.6 + 0.6)	1.2
Carrying value (2.4 + 3.0 – 0.6)	4.8

Note: this matches the carrying value if no grant had ever been received — $6.0m – $1.2m (2 years' depreciation at 10% straight-line) = $4.8m.

Illustration II — Foodland Ltd (Comparing the Two Methods)

FACT PATTERN

Foodland Ltd obtains a grant of $1.0m from a government agency for an investment project to construct a manufacturing plant costing at least $8.9m. The principal condition relates to capital expenditure; a secondary condition is to safeguard 50 jobs, with 20% of the grant repayable if the jobs are not protected until 18 months after the date of the last asset purchase. The plant is completed on 1 January 2023 at a total outlay of $9.0m, with an expected useful life of 20 years, depreciated on a straight-line basis with no residual value.

SOLUTION

The grant is regarded as a grant related to assets. IAS 20 permits two presentation methods, both shown on the following two slides: setting up the grant as deferred income, and deducting the grant from the carrying amount of the asset.

Both methods are illustrated using the plant's three years of accounts, 2023–2025, in ($'000).

Illustration II — Method I: Deferred Income

The grant ($1,000’000) is set up as deferred income and released to profit or loss over the plant's 20-year useful life ($1,000 / 20 = $50 per year). The plant is carried, and depreciated, at its full gross cost of $9,000’000 ($9,000 / 20 = $450 per year).

($’000)	2023	2024	2025
BALANCE SHEET			
Plant — historical cost	9,000	9,000	9,000
Accumulated depreciation	(450)	(900)	(1,350)
Carrying value	**8,550**	**8,100**	**7,650**
Deferred income	**950**	**900**	**850**
INCOME STATEMENT			
Depreciation (9,000 / 20)	450	450	450
Government grant income (1,000 / 20)	(50)	(50)	(50)

Illustration II — Method II: Deduction from Asset Value

The adjusted historical cost of the plant is $8,000’000 ($9,000 – $1,000 grant). Annual depreciation is $400’000 ($8,000 / 20) — note this agrees exactly with the net result under Method I: $450 depreciation less $50 grant income = $400 net charge.

($’000)	2023	2024	2025
Plant — adjusted historical cost	8,000	8,000	8,000
Accumulated depreciation	(400)	(800)	(1,200)
Carrying value	**7,600**	**7,200**	**6,800**

Income statement: an annual depreciation charge of $400’000 ($8,000’000 / 20 years) is recognised, with no separate grant-income line — the grant’s effect is embedded in the lower depreciation charge.

Illustration III — Government Loan at a Below-Market Rate

FACT PATTERN

On 1 January 20X1, an entity receives a five-year government loan of $2,000,000, repayable as a single sum at the end of year 5, carrying interest at 2% per annum, paid annually. The market rate of interest for an equivalent commercial loan without government assistance is 8% per annum. Required: determine the government grant arising on initial recognition.

SOLUTION

Under IFRS 9, the loan is initially recognised at fair value — the present value of the future interest and principal cash flows, discounted at the market rate of 8%.

Present value of the principal ($2,000,000 in 5 years at 8%): approximately $1,361,000. Present value of the five annual interest payments of $40,000 (2% × $2,000,000) at 8%: approximately $160,000. Fair value of the loan on initial recognition: approximately $1,521,000.

The government grant is the difference between the cash proceeds received and the fair value of the loan: $2,000,000 − $1,521,000 = approximately $479,000.

This $479,000 benefit is accounted for as a government grant under IAS 20 — recognised in profit or loss on a systematic basis over the periods necessary to match it with the costs it is intended to compensate.

PART X — RECENT DEVELOPMENTS

Amendments & IFRS 18 Impact

The 2009 below-market loan amendment, the standard's notable stability since 1983, and how IFRS 18 reshapes the presentation of grant income.

RECENT DEVELOPMENTS

The Below-Market Loan Amendment & Standard Stability

IAS 20 is one of the oldest Standards still in force, largely unchanged since 1983 — its most significant amendment addressed government loans.

- Annual Improvements to IFRSs (2008), effective for annual periods beginning on or after 1 January 2009: removed an earlier exemption that had allowed certain below-market government loans to escape fair value measurement on initial recognition.
- From that date, all government loans at a below-market rate of interest are measured under IFRS 9 at fair value on initial recognition, with the resulting benefit accounted for as a government grant (see Illustration III).
- Because the Standard predates much of today's Conceptual Framework and later Standards, its structure and vocabulary are noticeably older than Standards such as IFRS 15 or IFRS 16 — a more fundamental replacement project has been discussed by the IASB from time to time, though not yet undertaken.

Impact of IFRS 18 on Government Grant Presentation

IFRS 18 Presentation and Disclosure in Financial Statements replaces IAS 1 and is effective for annual periods beginning on or after 1 January 2027 (early application permitted).

Grant Income — Operating

Income from grants related to income, and the reduced-depreciation effect of grants related to assets, typically relate to an entity’s main business activities and fall within the OPERATING category.

Required Line-Item Presentation

IFRS 18's more prescriptive structure affects where 'other income' can sit on the face of the statement — entities revisit whether grant income remains a separately presented line or must be disaggregated.

What Does NOT Change

IFRS 18 does not alter how government grants are recognised, measured or presented under IAS 20 itself — the impact is on classification and labelling within the income statement structure.

SUMMARY

Key Takeaways

Two conditions gate recognition

A grant is recognised only when there is reasonable assurance the entity will comply with attached conditions and that the grant will be received.

Matching governs timing

Grants are recognised in profit or loss on a systematic basis, matched to the costs they compensate — never credited directly to equity.

Two ways to present asset grants

Deferred income or deduction from the asset's carrying amount — both produce the same net effect on profit or loss.

Repayment is a change in estimate

Not a prior-period error — mechanics differ for grants related to income versus grants related to assets.

Below-market loans carry a hidden grant

Since 2009, the benefit of a below-market government loan is fair-valued under IFRS 9 and accounted for as a government grant.

Disclosure fills the gaps

Policy, nature and extent of grants, unfulfilled conditions, and other government assistance too — even where it can't be reliably measured.

A Career Built on Making IFRS Understandable

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B D Chatterjee is a Chartered Accountant and financial thought leader with over 35 years of global experience spanning corporate finance, accounting standards, financial reporting, business valuation and financial due diligence. As a seasoned CFO, he has led finance functions across major corporations and now heads Digital CFO Solutions, a platform delivering institutional-grade IFRS, US GAAP and valuation workbooks alongside fractional CFO services.

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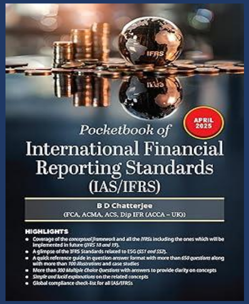

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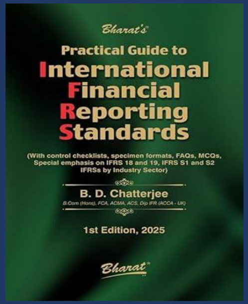

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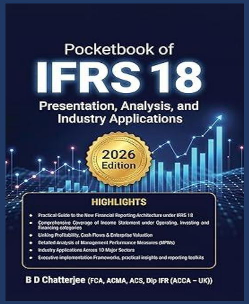

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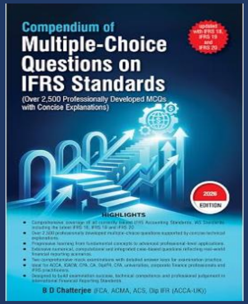

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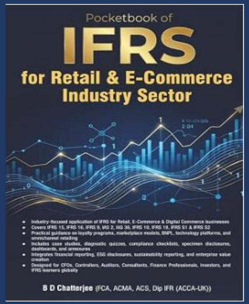

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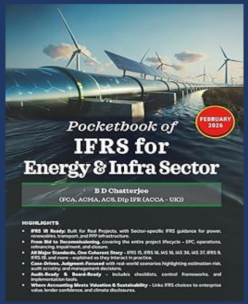

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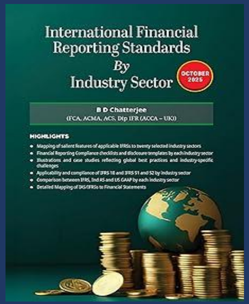

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