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IAS-20 Government Grants & Government Assistance

OBJECTIVE

IAS 20 is applied in accounting for, and in the disclosure of, government grants and in the disclosure of other forms of government assistance.

SCOPE

IAS 20 deals with all types of government grant except:

- Government assistance in the form of tax reliefs (tax holidays, tax credits etc.)
- Government participation in the ownership of an entity
- Government grants covered by IAS 41 Agriculture.

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 the operating activities of the entity.
- However, they exclude those forms of government assistance which cannot reasonably have a value placed upon them & transactions with government which cannot be distinguished from normal trading transactions of the entity.
- Government grants are also called as subsidies, subventions, or premiums.

Grants related to Assets

- 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.

Grants related To income

- Govt. Grants other than those related to assets.

GOVERNMENT GRANTS - PERIOD OF RECOGNITION

- Government grants shall be recognised in P/L on a systematic basis over the periods in which the entity recognises the related costs as expenses, for which the grants are intended to compensate.
- The application of above principle may be summarised as follows:

RECOGNITION

Government grants shall be recognized when there is reasonable assurance that:

- the entity will comply with the conditions attaching to them; &
- the grants will be received.

Grants related to Assets

Grants related to Depreciable Assets

Recognised in P/L over the periods and in the proportions in which depreciation expense on those assets is recognised.

Grants related to Non-depreciable Assets

Such grant may require the fulfilment of certain obligations and would then be recognised in P/L over the periods that bear the cost of meeting the obligations.
For example, a grant of land may be conditional upon construction of a building on the site and therefore it should be recognised in P/L over the life of the building.

Grants related to Income

Compensation of Expenses already incurred or immediate Financial Support

A government grant that becomes receivable as compensation

- for expenses or losses already incurred or
- for giving immediate financial support to the entity with no future related costs shall be recognised in P/L of the period in which it becomes receivable.

Grants in recognition of Future Expenses

Recognised in P/L in the same period as the relevant expenses.

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GOVERNMENT GRANTS - PRESENTATION

Presentation: Grants related to Income

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.

(1) Present the grant as other income

On receipt/accrual of grant

Cash / Grant Receivable	xxxx	
Deferred Grant		xxxx

On recognition of grant as income in P/L

Deferred Grant	xxxx	
Other Income – P/L		xxxx

(2) Present the grant as deduction from related expense

On receipt/accrual of grant

Cash / Grant Receivable	xxxx	
Deferred Grant		xxxx

On recognition of grant as income in P/L

Deferred Grant	xxxx	
Expenses – P/L		xxxx

Presentation: Grants related to Assets

Government grants related to assets, including non-monetary grants at fair value, shall be presented in the statement of financial position either by setting up the grant as deferred income or by deducting the grant in arriving at the carrying amount of the asset.

(1) Setting up the grant as deferred income

On acquisition of asset

Non-current asset (PPE, etc.)	xxxx	
Bank / Cash		xxxx

On receipt/accrual of grant

Cash / Grant Receivable	xxxx	
Deferred grant		xxxx

Period end depreciation expense

Depreciation expense – P/L	xxxx	
Acc. dep (PPE, etc.)		xxxx

Period end amortisation of deferred grant

Deferred grant	xxxx	
Profit or loss		xxxx

(2) Deducting the grant from carrying amount of an asset

On acquisition of asset

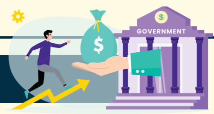
Non-current asset (PPE, etc.)	xxxx	
Bank / Cash		xxxx

On receipt/accrual of grant

Cash / Grant Receivable	xxxx	
Deferred grant		xxxx

Period end depreciation expense (reduced)

Depreciation expense – P/L	xxxx	
Acc. dep (PPE, etc.)		xxxx



OTHER GOVERNMENTS GRANTS

(1) Non-monetary 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

Accounting Treatment

Usually, both grant and non-monetary asset are recognized at fair value. The alternative treatment is to record both asset and grant at a nominal amount

(2) Forgivable loans

Forgivable loans are loans which the lender undertakes to waive repayment of under certain prescribed conditions.

Accounting Treatment

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. Until then, such a loan is treated as a liability in accordance with IFRS 9.

(3) Loans at below market rates of interest

The benefit of a government loan at a below-market rate of interest is treated as a government grant

Accounting Treatment

The benefit of below market rate of interest is measured as the difference between the cash receipt under government loan & the initial carrying amount of the loan measured and recognised in\ accordance with IFRS 9

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REPAYMENT OF GOVERNMENT GRANT

A government grant that becomes repayable shall be accounted for as a change in accounting estimate. It means that repayment is to be recorded in the year the grant becomes repayable and prior period adjustments are not made.

Repayment of a grant related to income

First, debit unamortised balance of deferred grant, and any excess is recognised as expense in profit or loss.

Deferred grant	xxxx	
Profit or loss (excess, if any)	xxxx	
Bank		xxxx

Repayment of grant related to asset

- Repayment of a grant related to an asset shall be recognised by increasing the carrying amount of the asset or reducing the deferred income by the amount repayable.
- The cumulative additional depreciation that would have been recognised in profit or loss to date in the absence of the grant shall be recognised immediately in profit or loss.

Presentation Method 1: Setting up the grant as deferred income

Deferred grant (bal.)	xxxx	
Cumulative additional Dep – P/L	xxxx	
Bank		xxxx

Presentation Method 2: Deducting the grant in arriving at the carrying amount of an asset

Non-current asset (bal.)	xxxx	
Cumulative additional Dep – P/L	xxxx	
Bank		xxxx

GOVERNMENT ASSISTANCE

- Action by government designed to provide an economic benefit specific to an entity or range of entities qualifying under certain criteria.
- However, Government Assistance does not include benefits provided only indirectly through action affecting general trading conditions, such as the provision of infrastructure in development areas or the imposition of trading constraints on competitors.

PRESENTATION & DISCLOSURE

- Accounting policy adopted for government grants, including the methods of presentation adopted in the financial statements;
- 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; and
- Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.
- Government assistance may be significant so that disclosure of the nature, extent and duration of the assistance is necessary in order that the financial statements may not be misleading.