

Accounting Standard 12 – “Accounting for Government Grants”

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Introduction

- ❑ This Standard deals with accounting for government grants.
- ❑ Government grants are sometimes called by other names such as subsidies, cash incentives, duty drawbacks, etc.
- ❑ This Standard does not deal with:
 - the special problems arising in accounting for government grants in financial statements reflecting the effects of changing prices or in supplementary information of a similar nature
 - government assistance other than in the form of government grants
 - government participation in the ownership of the enterprise

What is Government Grant?

- ☐ Government grants are assistance by government in cash or kind to an enterprise for past or future compliance with certain conditions.
- ☐ They exclude those forms of government assistance which cannot reasonably have a value placed upon them and transactions with government which cannot be distinguished from the normal trading transactions of the enterprise.
- ☐ If a government grant has been received, an appropriate method of accounting is necessary.
- ☐ It is desirable to give an indication of the extent to which the enterprise has benefited from such grant during the reporting period.

Accounting Treatment of Government Grants

- ❑ Two broad approaches may be followed for the accounting treatment:-
 - Capital Approach
 - Income Approach
- ❑ It is generally considered appropriate that accounting for government grant should be based on the nature of the relevant grant.
- ❑ Grants which have the characteristics similar to those of promoters' contribution should be treated as per Capital Approach.
- ❑ Income approach may be more appropriate in the case of other grants.

Capital Approach

- ☐ Many government grants are in the nature of promoters' contribution
- ☐ They are given with reference to the total investment in an undertaking or by way of contribution towards its total capital outlay.
- ☐ No repayment is ordinarily expected in the case of such grants
- ☐ These should, therefore, be credited directly to shareholders' funds.
- ☐ It is inappropriate to recognise government grants in the profit and loss statement, since they are not earned but represent an incentive

Income Approach

- ☐ The enterprise often earns grants through compliance with specified conditions and meeting the envisaged obligations.
- ☐ They should therefore be taken to income and matched with the associated costs which the grant is intended to compensate.
- ☐ As income tax and other taxes are charges against income, it is logical to deal in same way also with government grants.
- ☐ It is fundamental to the 'income approach' that government grants be recognised in the profit and loss statement on a systematic and rational basis over the periods necessary to match them with the related costs.
- ☐ In most cases, the periods over which an enterprise recognises the costs or expenses related to a government grant are readily ascertainable.

Recognition Principle

- ❑ Government grants available to the enterprise are considered for inclusion in accounts:
 - where there is reasonable assurance that the enterprise will comply with the conditions attached to them
 - where such benefits have been earned by the enterprise and it is reasonably certain that the ultimate collection will be made.
- ❑ Mere receipt of a grant is not necessarily a conclusive evidence that conditions attaching to the grant have been or will be fulfilled
- ❑ A contingency related to a government grant, arising after the grant has been recognised, is treated in accordance with AS – 4.
- ❑ In certain circumstances, a government grant is awarded for the purpose of giving immediate financial support to an enterprise or as compensation for expenses or losses incurred in a previous accounting period, such circumstances may warrant taking the grant to income in the period in which the enterprise qualifies to receive it, as an extraordinary item if appropriate

Grants related to specific Fixed Asset

- ☐ Grants may take the form of non-monetary assets, such as land or other resources, given at concessional rates. In these circumstances, it is usual to account for such assets at their acquisition cost
- ☐ Grants related to specific fixed assets are government grants whose primary condition is that an enterprise qualifying for them should purchase, construct or otherwise acquire such assets.
- ☐ There are two methods for accounting of such grants.
- ☐ Under one method, the grant is shown as a deduction from the gross value of the asset concerned in arriving at its book value.
- ☐ Under the other method, grants related to depreciable assets are treated as deferred income which is recognised in the profit and loss statement on a systematic and rational basis over the useful life of the asset.

Presentation of Grants

❑ Presentation of Grants Related to Revenue:-

- Grants related to revenue are sometimes presented as a credit in the profit and loss statement
- It is shown either separately or under a general heading such as 'Other Income'
- Alternatively, they are deducted in reporting the related expense.

❑ Presentation of Grants of the nature of Promoters' contribution:-

- The grants are treated as capital reserve which can be neither distributed as dividend nor considered as deferred income.

Refund of Grants

- ☐ Government grants sometimes become refundable because certain conditions are not fulfilled.
- ☐ A government grant that becomes refundable is treated as an extraordinary item
- ☐ The amount refundable in respect of a government grant related to revenue is applied first against any unamortised deferred credit than the amount is charged immediately to profit and loss statement.
- ☐ The amount refundable in respect of a government grant related to a specific fixed asset is recorded by increasing the book value of the asset or by reducing the capital reserve or the deferred income balance, as appropriate
- ☐ Where a grant which is in the nature of promoters' contribution becomes refundable, in part or in full, the relevant amount recoverable by the government is reduced from the capital reserve.

Disclosures

- ❑ the accounting policy adopted for government grants, including the methods of presentation in the financial statements
- ❑ the nature and extent of government grants recognised in the financial statements, including grants of non-monetary assets given at a concessional rate or free of cost.

Thank You