

TOPIC 16

INDAS-20

ACCOUNTING FOR GOVERNMENT GRANTS AND DISCLOSURE OF GOVT. ASSISTANCE

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*Quote:- Life is really simple,
but we insist on making it complicated.*



The government gives grants to entities for various purposes including **for industrial, geographic and social development**, to facilitate the flow of foreign investments, to promote entrepreneurship, as subsidies to **reduce the prices** of goods and services offered by these entities.

The grant could be in different forms, e.g., monetary or non-monetary government grants.

Government grants may be significant for an entity and requires appropriate treatment in the books of accounts and disclosures in financial statements to facilitate comparison with other entities and with prior periods.

APPLICABILITY

Ind AS 20 should be applied for:

- (a) accounting and disclosure of government grants; and
- (b) disclosure of other forms of government assistance.

NON-APPLICABILITY

IndAS 20 does not deal with:

- (a) 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;**
- (b) government assistance that is provided for an entity in the form of benefits that are available in determining taxable profit or tax loss, or are determined or limited on the basis of income tax liability; **Examples** of such benefits are income tax holidays, investment tax credits, and accelerated depreciation.
- (c) Government participation in the ownership of the entity (i.e govt acting as a Co-owner of the entity);
- (d) Government grants that will be covered by Ind AS 41, Agriculture.



DEFINITIONS

1. **Government** refers to government, government agencies and similar bodies whether local, national or international.
2. **Government assistance** is action by government designed to provide an economic benefit **specific to an entity or range of entities qualifying under certain criteria** (not for general public). Example – Free Marketing or Business Advices.

Government assistance for the purpose of Ind AS 20 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.

Government assistance does not include the provision of infrastructure by improvement to the general transport and communication network and the supply of improved facilities such as irrigation or water reticulation which is available on an ongoing indeterminate basis for the benefit of an entire local community.

Example

Free technical assistance or marketing advice and the provision of guarantees are forms of government assistance to which no value could reasonably be assigned.

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 conditions relating to the operating activities of the entity.

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 entity.

Government grants are sometimes called by other names such as subsidies, subventions, or premiums.

4. **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.



5. **Grants related to income** are government grants other than those related to assets.

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

7. **Fair value** is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (IndAS 113, Fair Value Measurement).

RECOGNITION OF GOVERNMENT GRANTS

Government grants, including non-monetary grants at fair value, should be recognised only when there is **reasonable assurance** that:

(a) The entity will comply with the conditions attaching to them; and

(b) The grants will be received.

A government grant is not recognized until there is reasonable assurance that the entity will comply with the conditions attaching to it, and that the grant will be received. **Receipt of a grant does not of itself provide conclusive evidence that the conditions attaching to the grant have been or will be fulfilled.**

TYPES AND TREATMENT OF GOVERNMENT GRANTS

Sr.No.	Type of Grant	Treatment
1.	Grants related to Income (Income Grant)	(a) (first method) presented as a credit in the statement of profit and loss, either separately or under a general heading such as 'Other income'; or (b) (Second method) deducted in reporting the related expense.
2.	Grant for Expenses or Losses already incurred; or Grant for immediate financial Support	If no future cost - then recognise directly to Profit and Loss a/c in the period when receivable. (Accrual)
3.	Non-Monetary Grant	Example - Land or other assets Option to Recognise at Fair Value or Nominal Value



4.	Grants related to Non-depreciable Assets	If it requires fulfillment of certain obligations then recognise in P&L a/c over the period that bears the cost of meeting the obligations.
5.	Grants related to depreciable assets	<p>Option - 1 Should be recognised by creating Deferred Govt Grant A/c in the balance sheet as deferred income.</p> <p>DGG a/c shall be recognised in P&L a/c on a systematic basis over the useful life of the asset.</p> <p>Option - 2 Should be presented by deducting the grant amount from Carrying Amount.</p>
6.	Loans at less than market rate of interest	<p>Recognised and measured as per IndAS 109.</p> <p>Grant = Initial Carrying Amt as per IndAS 109 - Proceeds received.</p>
7.	Forgivable Loans	<p>If conditions already complied then immediately transfer to P&L a/c.</p> <p>If conditions are required to be complied on continuous basis then over the period of compliance of conditions.</p>

Q170

Government gives a grant of Rs 10,00,000 for research and development of HINI vaccine to M/s A Pharmaceuticals Limited. There is no condition attached to the grant. Examine how the Government grant be realized.

Solution

The entire grant should be recognised immediately in profit or loss.



Q171

Government gives a grant of Rs 10,00,000 for research and development of HINI vaccine to M/s A Pharmaceuticals Limited even though similar vaccines are available in the market but are expensive. The entity has to ensure by developing a manufacturing process over a period of 2 years that the costs come down by at least 40%. Examine how the Government grant be realized.

Solution

The entire grant should be recognised immediately as deferred income and charged to profit or loss over a period of two years.

Q172

A village of artisans in a district got devastated because of an earthquake. A Limited was operating in that district and was providing employment to the artisans. The government gave a grant of Rs 10,00,000 to A Limited so that 100 artisans are rehabilitated over a period of 3 years. Government releases Rs 2,00,000. Examine how the Government grant be recognized.

Solution

A Limited will recognise Rs 10,00,000 as government grant and set it up as a deferred income and will recognise it in its profit or loss over the period of three years as per the principles enunciated in IndAS 20.

Once a government grant is recognised, any related contingent liability or contingent asset is treated in accordance with IndAS 37, Provisions, Contingent Liabilities and Contingent Assets.

Q173

A Limited received from the government a loan of Rs 50,00,000 @ 5% payable after 5 years in a bulleted payment. The prevailing market rate of interest is 12%. Interest is payable regularly at the end of each year. Calculate the amount of government grant and Pass necessary journal entry. Also examine how the Government grant be realized.

Solution

The fair value of the loan is calculated at Rs 37,38,328.

Year	Opening Balance	Interest calculated @ 12%	Interest paid @ 5% on Rs 50,00,000 + principal paid	Closing Balance
(a)	(b)	(c) = (b) x 12%	(d)	(e) = (b) + (c) - (d)
1.	37,38,328	4,48,600	2,50,000	39,36,928



2.	39,36,928	4,72,431	2,50,000	41,59,359
3.	41,59,359	4,99,123	2,50,000	44,08,482
4.	44,08,482	5,29,018	2,50,000	46,87,500
5.	46,87,500	5,62,500	52,50,000	Nil

A Limited will recognise Rs 12,61,672 (Rs 50,00,000 – Rs 37,38,328) as the government grant and will make the following entry on receipt of loan:

Bank Account	Dr.	50,00,000
	To Deferred Income	12,61,672
	To Loan Account	37,38,328

Rs 12,61,672 is to be recognised in profit or loss on a systematic basis over the periods in which A Limited recognised as expenses the related costs for which the grant is intended to compensate.

Q174

Continuing with the facts given in the Question no. 173, state how the grant will be recognized in the statement of profit or loss assuming:

- the loan is an immediate relief measure to rescue the enterprise
- the loan is a subsidy for staff training expenses, incurred equally, for a period of 4 years
- the loan is to finance a depreciable asset.

Solution

Rs 12,61,672 is to be recognised in profit or loss on a systematic basis over the periods in which A Limited recognised as expenses the related costs for which the grant is intended to compensate.

Assuming (a), the loan is an immediate relief measure to rescue the enterprise. Rs 12,61,672 will be recognised in profit or loss immediately.

Assuming (b), the loan is a subsidy for staff training expenses, incurred equally, for a period of 4 years. Rs 12,61,672 will be recognised in profit or loss over a period of 4 years.

Assuming (c), the loan is to finance a depreciable asset. Rs 12,61,672 will be recognised in profit or loss on the same basis as depreciation.



Q175

A Limited wants to establish a manufacturing unit in a backward area and requires 5 acres of land. The government provides the land on a leasehold basis at a nominal value of Rs 10,000 per acre. The fair value of the land is Rs 100,000 per acre. Calculate the amount of the Government grant to be recognized by an entity.

Solution

A limited will recognise Rs 450,000 $[(Rs\ 100,000 - Rs\ 10,000) \times 5]$ as government grant.

Q176

A Limited establishes solar panels to supply solar electricity to its manufacturing plant. The cost of solar panels is Rs 1,00,00,000 with a useful life of 10 years. The depreciation is provided on straight line method basis. The government gives Rs 50,00,000 as a subsidy. Examine how the Government grant be recognised.

Solution

A Limited will set up Rs 50,00,000 as deferred income and will credit Rs 5,00,000 equally to its statement of profit and loss over next 10 years.

Or

Reduction from cost or carrying amount of asset. Depreciation will be charged on revised figure.

Q177

Continuing with the facts given in the Question no. 176 above, state how the same will be disclosed in the Statement of cash flows.

Solution

A Limited will show Rs 1,00,00,000 being acquisition of solar panels as outflow in investing activities. The receipt of Rs 50,00,000 from government will be shown as inflow under financing activities.



REPAYMENT (REFUND) OF GOVERNMENT GRANTS

An entity may have to repay the government grant including in cases where conditions related to the grant are not fulfilled by it.

A government grant that becomes repayable should be accounted for as a **change in accounting estimate** and be treated in accordance with IndAS 8, "Accounting Policies, and Changes in Accounting Estimates and Errors".

The following steps should be followed in repayment of a grant related to income:

- (a) The repayment should be applied **first against any un-amortized deferred credit recognized** in respect of the grant.
- (b) To the extent that the repayment exceeds any such deferred credit, or when no deferred credit exists, the repayment should be recognized immediately in profit or loss.

The repayment of a grant related to an asset should be recognized by reducing the deferred income balance by the amount repayable.

If the grant amount was deducted from the cost / carrying amount of asset, then at the time of refund, the amount of refund shall be added to the carrying amount

DISCLOSURE

The following should be disclosed:

- (a) the **accounting policy adopted** for government grants;
- (b) the **methods of presentation adopted** for government grants in the financial statements;
- (c) the **nature and extent of government grants** recognized in the financial statements;
- (d) **an indication of other forms of government assistance** from which the entity has directly benefited. At times, the significance of the benefit of government assistance may be such that disclosure of the nature, extent and duration of the assistance is necessary in order that the financial statements may not be misleading; and
- (e) **Unfulfilled conditions and other contingencies attaching to government assistance** that has been recognized.



Additional Questions

Q178

ABC Ltd. has received the following grants from the Government of Delhi for its newly started pharmaceutical business:

- Rs 20 lakhs received for immediate start-up of business without any condition.
- Rs 50 lakhs received for research and development of drugs required for the treatment of cardiovascular diseases with following conditions:
that drugs should be available to the public at 20% cheaper from current market price:
and
the drugs should be in accordance with quality prescribed by the World Health Organisation [WHO].
- Two acres of land (fair Value: Rs 10 Lakhs) received for set up of plant.
- Rs 2 lakhs received for purchase of machinery of Rs 10 lakhs. Useful life of machinery is 5 years. Depreciation on this machinery is to be charged on straight-line basis.

How should ABC Ltd. recognise the government grants in its books of accounts?

Solution:

ABC Ltd. should recognise the grants in the following manner:

- Rs 20 lakhs has been received for immediate start-up of business. This should be recognised in Statement of Profit and Loss immediately as there are no conditions attached to the grant.
- Rs 50 lakhs should be recognised in profit or loss on a systematic basis over the periods which the entity recognises as expense the related costs for which the grants are intended to compensate provided that there is reasonable assurance that ABC Ltd. Will comply with the conditions attached to the grant.
- Land should be recognised at fair value of Rs 10 lakhs and government grants should be presented in the balance sheet by setting up the grant as deferred income.
- Rs 2 lakhs should be recognised as deferred income and will be transferred to profit and loss over the useful life of the asset. In these cases, Rs 40,000 [Rs 2 lakhs/5] should be credited to profit and loss each year over period of 5 years.



Q179 (MTP AUG 2018)

A Limited received from the government a loan of Rs1,00,00,000 @ 5% payable after 5 years in a bulleted payment. The prevailing market rate of interest is 12%. Interest is payable regularly at the end of each year. Calculate the amount of government grant and Pass necessary journal entry. Also examine how the Government grant be realized. Also state how the grant will be recognized in the statement of profit or loss assuming that the loan is to finance a depreciable asset.

Solution:

The fair value of the loan is calculated at Rs 74,76,656.

Year	Opening Balance	Interest calculated @ 12%	Interest paid @ 5% on Rs1,00,00,000 + principal paid	Closing Balance
(a)	(b)	(c) = (b) x 12%	(d)	(e) = (b) + (c) - (d)
1.	74,76,656	8,97,200	5,00,000	78,73,856
2.	78,73,656	9,44,862	5,00,000	83,18,718
3.	83,18,718	9,98,246	5,00,000	88,16,964
4.	88,16,964	10,58,036	5,00,000	93,75,000
5	93,75,000	11,25,000	1,05,00,000	Nil

A Limited will recognise Rs 25,23,344 (Rs 1,00,00,000 -Rs74,76,656) as the government grant and will make the following entry on receipt of loan:

Bank Account	Dr.	1,00,00,000
To Deferred Income		25,23,344
To Loan Account		74,76,656

Rs 25,23,344 is to be recognised in profit or loss on a systematic basis over the periods in which A Limited recognised as expenses the related costs for which the grant is intended to compensate.

Rs 25,23,344 is to be recognised in profit or loss on a systematic basis over the periods in which A Limited recognised as expenses the related costs for which the grant is intended to compensate.

If the loan is to finance a depreciable asset.Rs 25,23,344 will be recognised in profit or loss on the same basis as depreciation.



Q180

ABC Ltd. purchased a machinery for 25,00,000/- which has estimated life 10 years with a salvage value of 5,00,000/-. On purchase of the machinery central govt. pays a grant for 5,00,000/-. Pass the journal entries with narrations in the books of the company for the first year.

Q181

Gandhi Ltd. received a grant of 2,500/- lacs during the last accounting year (2010-11) from the govt. for welfare activities to be carried on by the company for its employees. The grant prescribed the conditions for its utilization. However, during the year 11-12, it was found that the conditions of grants were not complied with and the grant had to be refunded to the gov. in full. Elucidate the current accounting treatment, with reference to the provision of INDAS 20.

Q182

Santosh Ltd. has received a grant of 8 Crores from the govt. for setting up a factory in backward area. Out of this grant, the company distributed 2 Crores as dividend. Also, Santosh Ltd. received land free of cost from the state govt. but it has not recorded the grant in its books as no money has been spent. In the light of INDAS 20 examine, whether the treatment of both the grants is correct.

Q183

A Ltd. purchased a machinery for 40/- lacs (useful life 4 years and residual value 8/- lacs). Govt. grant received is 16/- lacs. After 2 years grant of 12/- lacs is to be refunded. Show the journal entry to be passed at the time of refund of grant and also calculate the value of fixed asset.



DIFFERENCES BETWEEN AS and INDAS

BASIS OF DIFFERENCE	AS 12 Accounting for GG	IND AS 20 Accounting for GG & Disclosure of Govt. Assistance
Govt Assistance	It does not deal with govt assistance	Ind AS 20 deals with govt assistance which do not fall within the definition of govt. grants.
Grant for Non Depreciable Assets	<p>The amount of grant should be shown as Capital reserve which is a part of shareholders fund.</p> <p>It further requires that if a grant requires fulfillment of certain obligations the grant should be credited to income over the same period over which cost of meeting such obligations is charged to income.</p>	Ind AS 20 is based on the principle that all govt. grants would normally have certain obligations attached to it. Therefore this grant is required to be deferred over the period over which obligations are required to be fulfilled.
Loans at concessional rate	AS 12 does not deal with this issue.	Ind AS 20 requires that loans received from a govt. that have a below market rate of interest should be recognised and measured in accordance with Ind AS 109 (i.e. by considering effective interest rate approach)





Student Notes

COVID-19





Student Notes:-

COVID - 19





Student Notes:-

COVID-19

