

IAS 20 - Accounting for Government Grants and Disclosure of Government Assistance



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Objective

- To prescribe the accounting for, and disclosure of, government grants and other forms of government assistance.

Scope

- Applies to all government grants and other forms of government assistance. [IAS 20.1]
- However, it does not cover government assistance that is provided in the form of benefits in determining taxable income. [IAS 20.2]
- The benefit of a government loan at a below-market rate of interest is treated as a government grant. [IAS 20.10A]

Key Definitions in IAS 20

Government assistance is action by government

- designed to provide an economic benefit
- specific to an entity or range of entities
- qualifying under certain criteria.
- Government assistance for the purpose of this Standard 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.

Key Definitions in IAS 20

Government grants are assistance by government

- in the form of transfers of resources
- In return for past or future compliance with certain conditions
- relating to the operating activities of an 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

Recognition of Government Grants

- Government grants shall not be recognized until there is reasonable assurance that;
 - The entity will comply with any conditions attached to the grant; and
 - The grants will be received.

Even if a grant has been received, this does not prove that the conditions attached to it have been or will be fulfilled.

Accounting Treatment for Government Grants

- Government grants shall be recognized as income over the periods necessary to match them with related costs which they are intended to compensate, on a systematic basis.

They shall not be credited directly to shareholders interests.

3 Types of Grants

- IAS 20 prescribes the accounting treatment for the following three types of grants:
 - (i) Grants relating to assets;
 - (ii) Grants relating to income;
 - (iii) Non-monetary government grants.

Grants Relating to Assets

IAS 20 permits the following two methods of presentation:

- (i) Present the grant as deferred income which is recognised as income on a systematic and rational basis over the useful life of the asset; or
- (ii) Deducting the grant in arriving at the carrying value of the asset, in which case the grant is recognised in income over the life of the asset by way of a reduced depreciation charge.

The profits recorded under both approaches will be exactly the same in each financial period.

Grants Relating to Income

- An example of this type of grant would be a grant received for the training of staff. IAS 20 prescribes the following methods for these types of grants:
 - (i) Present grant received in income statement, either separately or under a general heading such as “Other Income”;
 - (ii) Net grant off against related item of expenditure.

Non Monetary Grants

Non-monetary grants, such as land or other resources, are usually accounted for at fair value, although recording both the asset and the grant at a nominal amount is also permitted

Repayment of a Grant

- A government grant that becomes repayable shall be accounted for as a revision to an accounting estimate under IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

Disclosure of Government Grants

- The following must be disclosed: [IAS 20.39]
 - Accounting policy adopted for grants, including method of statement of financial position presentation
 - Nature and extent of grants recognized in the financial statements
 - Unfulfilled conditions and contingencies attaching to recognized grants

About the Author

- *CA. Rajkumar S Adukia is an eminent business consultant, academician, writer, and speaker. He is the senior partner of Adukia & Associates.*
- *In addition to being a Chartered Accountant, Company Secretary, Cost Accountant, MBA, Dip IFR (UK), Mr. Adukia also holds a Degree in Law and Diploma in Labor Laws and IPR.*
- *Mr. Adukia, a rank holder from Bombay University completed the Chartered Accountancy examination with 1st Rank in Inter CA & 6th Rank in Final CA, and 3rd Rank in Final Cost Accountancy Course in 1983.*
- *He started his practice as a Chartered Accountant on 1st July 1983, in the three decades following which he left no stone unturned, be it academic expertise or professional development.*

About the Author

- *He has been coordinating with various Professional Institutions, Associations, Universities, University Grants Commission and other Educational Institutions.*
- *Authored more than 50 books on a vast range of topics including Internal Audit, Bank Audit, SEZ, CARO, PMLA, Anti-dumping, Income Tax Search, Survey and Seizure, IFRS, LLP, Labour Laws, Real estate, ERM, Inbound and Outbound Investments, Green Audit etc.*
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Thank You