

GOVERNMENT ASSISTANCE: ASPE 3800

Definitions

- **Government assistance** is action by government designed to provide an economic benefit specific to an entity qualifying under certain criteria

Assistance Related to Non-Capital Items

- Estimate of the government assistance **to be** received is accrued (recognized), provided there is **reasonable assurance that the enterprise has complied and will continue to comply** with all the conditions.
 - note how the assistance do not have to be received
- Receipt of a assistance does not of itself provide evidence that the conditions of the grant have been or will be fulfilled
- **A forgivable loan** from the government is treated like a government assistance as long as there is **reasonable assurance** that the **entity will meet the terms for forgiveness** of the loan
 - It is accrued when company is entitled to receive it (receivable)
- Government assistance is **recognised in profit or loss** on a systematic basis over the periods in which the entity recognises the expenses the related costs for which the grants are intended to compensate

Assistance to compensate current period expenses	Recognize in P&L immediately (the revenue can be netted against the expense or shown as a separate revenue item)
Assistance to compensate future period expenses	<ul style="list-style-type: none"> • Defer and amortize to income as the related expenses are incurred (the revenue can be netted against the expense or shown as a separate revenue item) • Grant = deferred revenue
Assistance to compensate the acquisition of property, plant and equipment	<ul style="list-style-type: none"> • Defer and amortize to income as the related expenses are incurred; • the grant can be presented in 2 ways: <ol style="list-style-type: none"> 1. reduce PPE balance and amortize the balance remaining (truer cost of asset on B/S); or 2. set up a deferred liability and amortize on same basis as PPE

Repayment of government grants

- Repayment of government grants are handled prospectively (i.e. a change in estimate)
- Grants usually become repayable when a condition is broken
- **Repayment of grants related to income**
 - When the government assistance was related to expenses of future periods and was treated as a deferred credit, the unamortized balance of the deferred credit is adjusted by the applicable repayment. Future amortization shall be based on the resulting balance when the deferred credit has not been eliminated. Any excess of repayment over the unamortized balance is charged to P&L
 - When the government assistance was applied to reduce expenses or increase revenues in the current period, any repayment is reflected in the current income statement.
 - Example: Dr. grant for 900; cr. Cash for 1,000, dr. a loss of \$100 immediately

- **Repayment of a grant related to PPE**

- When the cost of **fixed assets was reduced by** the original receipt of the assistance, the **cost of the assets is increased** by the repayment. The effect on depreciation is accounted for prospectively.
- When the original receipt of government assistance relating to fixed assets was treated as a **deferred credit**, the unamortized balance of the deferred credit is **adjusted by the repayment**. Future amortization shall be based on the resulting balance
- Unlike IFRS, ASPE doesn't explicitly state that the lower amortization due to government assistance needs to be recognized in P&L immediately when there is a repayment
 - The implications is that if you set up a separate deferred credit, it would lead to a immediate loss
 - If you net the assistance from the asset cost, you would simply increase the asset by the repayment amount and no immediate loss (please see example below)
- **Example**
 - Suppose you get a \$1000 government forgivable loan. In January 2010 to buy a PPE with a UL of 10 years. Now it is December 2011. You broke the terms of the loan, and the entire \$1000 is now payable. You set up a deferred revenue account.
 - Dr. Deferred Revenue\$800
 - Dr. Loss due to lower prior year amort.....200
 - Cr. Cash.....1000
 - If you used the net PPE method
 - Dr. Equipment.....1,000
 - Cr. Cash.....1000

Comparison to IFRS

- Non-monetary grants are not mentioned under ASPE
- IFRS explicitly states that the lower amortization due to government assistance needs to be recognized in P&L immediately when there is a repayment