

ACCOUNTING FOR GOVERNMENT GRANTS AND DISCLOSURE OF GOVERNMENT ASSISTANCE: IAS 20

Definitions

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

Government grants

- Government grants, including non-monetary grants at fair value, **should not be recognised** until there is **reasonable assurance** that:
 - a) the entity **will comply with the conditions** attaching to them; and
 - b) the grants will be **received**
- note how the grants do not have to be received
- Receipt of a grant 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 grant as long as there is **reasonable assurance** that the **entity will meet the terms for forgiveness** of the loan
- The benefit of a government loan at a below-market rate of interest is treated as a government grant
 - The benefit = proceeds – carrying value using effective interest method
 - The benefit is accounted as a government grant
- Government grants are **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

grants 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)
Grants 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
Grants 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

Non-monetary government grants

- Both the asset and grant are measured at the **fair value of the non-monetary asset**

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**
 - Repayment of a grant related to income shall be applied **first** to unamortised deferred credit. To the extent that the **repayment exceeds any deferred credit**, the repayment is recognised **immediately in profit or loss**.
 - Suppose the deferred government balance = \$900 and I need to pay back the full \$1,000 in grant.
 - Dr. grant for 900; cr. Cash for 1,000, dr. a loss of \$100 immediately
- **Repayment of a grant related to PPE**
 - Keep in mind that because we amortize a liability to income, the “amortization expense” becomes lower (this gets reversed whenever a grant becomes repayable)
 - Repayment of a grant related to an asset shall be recognised by increasing the carrying amount of the asset or reducing the deferred income balance 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
 - **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
 - Dr. Loss due to lower prior year amort.....200
 - Cr. Accumulated Amortization.....200
 - Cr. Cash.....1000

Biological Assets

- Grants related to biological assets measured at fair value less cost to sell are covered under **IAS 41 Agriculture**

Comparison to ASPE

- Under ASPE, when there is a repayment of a government grant, it does not require you to recognize the cumulative **additional depreciation that would have been recognised in profit or loss** to date in the absence of the grant