FINANCIAL REPORTING

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

SCOPE OF THE STANDARD

Applied in accounting for, and in the disclosure of, government grants and in the disclosure of other forms of government assistance.

The standard excludes;

- Tax reliefs or tax holidays or government assistance in form of benefits that are available in determining taxable profits or tax losses.
- Agricultural grants under IAS 41
- Government as a part owner in investment in an entity

DEFINITIONS

- **Government:** Refers to government, government agencies and similar bodies whether local, national or international.

- **Government assistance:** An action by government designed to provide an economic benefit specific to an entity or range of entities 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.

FORMS OF GOVERNMENT GRANTS

Government grants can be:

- **Capital grants (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.

- **Revenue grants (Grants not related to assets):** Are government grants other than those related to assets such as government contribution towards employee benefits.

RECOGNITION

Grants shall not be recognized until there is reasonable assurance that;

- The entity will comply with the conditions attaching to them.
- The grant will be received.

TREATMENT OF GRANTS

When determining the treatment of grants, the standard follows two general principles;

- **Prudence:** grants should not be recognized until the conditions for receipt have been complied with and there is reasonable assurance the grant will be received.

- **Accruals/Matching:** grants should be matched with the expenditure towards which they were intended to contribute.

Therefore, for revenue grants,

- If the grant is paid when evidence is produced that certain expenditure has been incurred, the grant should be matched with that expenditure.

- If the grant is paid on a different basis, such as achievement of a nonfinancial objective, for instance the creation of a specified number of new jobs, the grant should be matched with the identifiable costs of achieving that objective.

RECOGNITION AND PRESENTATION OF GRANTS

Revenue grants

▪ If grant is received relating to cost already incurred, then it is recognized in profit or loss directly as an income (Dr: Cash book Cr: P or L – income from gov't grants)

▪ If the grant relates to present or future costs, then it is recognized in the period when the costs are recognized (deferring income for grants relating to future costs) presenting it as either a;

   a) Credit in the statement of profit or loss. (because it is inappropriate to net income and expense items, and that separation of the grant from the expense facilitates comparison with other expenses not affected by a grant) or,

   b) Deduction from the related expense. (because the expenses might well not have been incurred by the entity if the grant had not been available, and presentation of the expense without offsetting the grant may therefore be misleading).

Capital grants (including non-monetary grants at fair value) on the other hand can presented as:

• A write off against the cost of the non-current asset and depreciate the reduced cost. Grant is recognized in profit or loss over the useful life of the asset as a reduced depreciation expense.

• Deferred income and transfer a portion to revenue each year (basing on the useful life of the asset), so offsetting the higher depreciation charge on the original cost. May 2024 Qn 2, Dec 2022 qn 5

Note: *if a government grants takes on a form of transfer of a non-monetary asset such as land, it is usual to assess the fair value of the asset and to account for both the grant and the asset at fair value.*

OTHER CONSIDERATIONS

- A forgivable loan from government is treated as a government grant when 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 loan shall be recognized and measured in accordance with IFRS 9 Financial Instruments. The benefit of the below market rate of interest shall be measured as the difference between the initial carrying value of the loan determined in accordance with IFRS 9 and the proceeds received. The benefit is accounted for in accordance with this Standard. The entity shall consider the conditions and obligations that have been, or must be, met when identifying the costs for which the benefit of the loan is intended to compensate.

REPAYMENT OF THE GRANT

In some cases, grants may need to be repaid if the conditions of the grant are breached.

- If there is an obligation to repay the grant and the repayment is probable, then it should be provided for in accordance with the requirements of IAS 37.

- If the deferred income method for capital grants has been used, the payment is first shown against the remaining deferred income balance, but if the payment exceeds the deferred income, then the excess is treated as an expense in the statement of profit or loss (Applied as a change in accounting estimate in accordance with IAS 8).

- If the netting-off method for capital grants has been used, then the cost of the asset must be increased to recognize the full cost of the asset without the grant. A liability will be set up for the grant repayment.

DISCLOSURES

- The accounting policy adopted for government grants, including the methods of presentation adopted in the financial statements.

- The nature and extent of government grants recognized in the financial statements and an indication of other forms of government assistance from which the entity has directly benefited.

- Unfulfilled conditions and other contingencies attaching to government assistance that have been recognized.