Ind AS 20—ACCOUNTING FOR GOVERNMENT GRANTS & DISCLOSURE OF GOVERNMENT ASSISTANCE

CHATURVEDI & SHAH
CHARTRED ACCOUNTANTS
Scope

• Applied in accounting for & disclosures of Govt. Grants; and

• In the disclosure of other forms of Government Assistance.
Ind AS 20 does not deal with

- Government participation in the ownership of the enterprises;

- Government grants covered by Ind AS 41, Agriculture

- Income Tax incentives offered by the Government
Certain Definitions

- 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.

- Government grants are sometimes called as subsidies, subventions or premium.
Forgivable loans are loans which lender undertakes to waive repayment under certain prescribed conditions.
Government Assistance

• Excluded from the definition of government grants are certain 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.

Examples:

➜ Free technical or marketing advice.
➜ Provision of guarantees.
➜ Minimum Support prices
Recognition Criteria of GG

A) The entity will comply with the conditions attached to the grant; and

B) The grants will be received.
Accounting Treatment Of Government Grants under AS-12.

Capital Approach
• Credited directly to shareholders interest (This approach is not prescribed by Ind-As 20)

Income approach
• Grant is taken as income over one or more period
Types and Presentation of Grants

- Ind AS 20 prescribes the accounting treatment for the following three types of grants:
  
a. Grants relating to assets;
  
b. Grants relating to income;
  
c. Non-monetary government grants.
  
d. Government Loan at below Market rate
GRANTS RELATING TO ASSETS

Ind AS 20 permits the following method of presentation:

- Present the grant as **deferred income** which is recognised in the profit or loss account on a **systematic and rational basis** over the useful life of the asset.
Grants Relating To Income

• Ind AS 20 prescribes the following methods for these types of grants:
  
  ➢ **Gross Disclosure:** Present grant received in income statement, either separately or under a general heading such as “Other Income”;

  ➢ **Net Disclosure:** Alternatively, they are deducted in reporting the related expenses.
Non Monetary Government Grants

A) The fair value of the non-monetary asset should be assessed and

B) the asset and grant should be accounted for at fair value. Grant is to be presented as Deferred Income.
GOVERNMENT LOAN AT BELOW MARKET RATE

Measured as the difference between the initial carrying amount of the loan determined in accordance with Ind AS 109 and the proceeds received.

For e.g.
Repayment Of A Grant

Accounted as a revision to an accounting estimate under Ind AS 8 Accounting Policies, Changes in Accounting Estimates and Errors. ➔ Prospective adjustment

Repayment of a grant related to income:
➔ First adjusted against any unamortised deferred credit
➔ Balance shall be recognised immediately in profit or loss.

Repayment of a grant related to an asset & non-monetary assets:
➔ reduce the deferred income balance by the amount repayable.
➔ Balance shall be recognised immediately in profit or loss.
FIRST TIME ADOPTION -- 101

• Government loans – Interest Free or below market rate of interest
  Requirement of Ind As 20 and Ind AS 109 Financial Intruments are applied prospectively.

Alternatively Ind-As20 may be applied retrospectively, if required information was obtained at the time of initially recognition.
Disclosure Requirements

• Ind AS 20 requires the following matters to be disclosed:
  ✓ Accounting policy adopted for grants, including methods of presentations adopted in the financial statements;
  ✓ Nature and extent of grants recognised in the financial statements;
  ✓ Other forms of government assistance from which the entity has directly benefited;
  ✓ Unfulfilled conditions and contingencies attaching to recognised grants
## Differences between Ind AS 20 and AS 12

<table>
<thead>
<tr>
<th>Topic</th>
<th>Indian GAAP</th>
<th>Ind AS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government Assistance</td>
<td>No specific guidance.</td>
<td>Deals with both government grants and <strong>disclosure of government assistance.</strong></td>
</tr>
<tr>
<td>Forgivable Loans</td>
<td>No specific guidance.</td>
<td>Forgivable loans are treated as government grants when there is a reasonable assurance that the entity will meet the terms for forgiveness of the loan.</td>
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### Differences contd....

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<tr>
<td>Government loans with below market rate of interest</td>
<td>No specific guidance.</td>
<td>Benefit of government loans with below market rate of interest should be accounted for as government grant-measured as the difference between the initial carrying amount of the loan determined in accordance with Ind AS 109 and the proceeds received.</td>
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<tr>
<td>Promoters Contribution</td>
<td>Government grants in the nature of promoters’ contribution are credited directly to shareholders’ funds.</td>
<td>Government grants are not directly credited to shareholders’ interests.</td>
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<td>Non-Monetary Assets</td>
<td>AS 12 requires government grants in the form of non-monetary assets, <strong>given at a concessional rate</strong>, to be accounted for on the basis of <strong>their acquisition cost only</strong>. If a non-monetary asset is given free of cost, it should be recorded at a nominal value.</td>
<td>Ind-AS 20 requires entities to account for government grants in the form of <strong>non-monetary assets at their fair value</strong>.</td>
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<td>Fixed Assets related</td>
<td>Government grants related to specific fixed assets should be presented in the balance sheet by showing the grant as a <strong>deduction from the gross value of the assets concerned in</strong> arriving at their book value. Where the grant related to a specific fixed asset equals the whole, or virtually the whole, of the cost of the asset, the asset should be shown in the balance sheet at a <strong>nominal value</strong>. Alternatively, government grants related to <em>depreciable fixed assets</em> may be treated as <strong>deferred income</strong> which should be recognized in the profit or loss on a systematic and rational basis over the useful life of the asset.</td>
<td>Ind-AS 20 requires an asset related grant to be presented in the balance sheet by setting up the <strong>grant as deferred income</strong>. The grant set up as deferred income is recognized in the profit or loss on a <strong>systematic basis over the useful life of the asset</strong>.</td>
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<td>Repayment of grants relating to fixed assets</td>
<td>Recognised either by <strong>increasing the carrying amount of the asset or reducing the deferred income or capital reserve, as appropriate, by the amount repayable</strong>. If the carrying amount of the asset is increased, depreciation on the revised carrying amount is provided prospectively over the residual useful life of the asset. Classified as an extraordinary item.</td>
<td>Recognised by <strong>reducing the deferred income</strong> balance by the amount repayable. Prohibited to be classified as an extraordinary item.</td>
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<td>Disclosures for unfulfilled conditions and other contingencies</td>
<td>No specific guidance.</td>
<td>IAS 20 requires additional disclosure of unfulfilled conditions and other contingencies attached to government assistance that has been recognized.</td>
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Thank You