

LKAS 20

Accounting for Government Grants and Disclosure of Government Assistance



1.Scope

- Accounting for and in the disclosure of government grants
- The disclosure of other forms of government assistance



2. Scope Excluded:

- a) Accounting for government grants in financial statements reflecting the effects of **changing prices**
- b) Government assistance given in the form of “**tax breaks**”
Examples :
 - Income tax holidays
 - Investment tax credits
 - Accelerated depreciation allowances
 - Reduced income tax rates
- c) Government acting as **part-owner** of the entity.
- d) Government grants covered by LKAS 41 *Agriculture*



3. Definitions

Government refers to government, government agencies and similar bodies whether local, national or international.

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 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.

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.

Grants related to income are government grants other than those related to assets.

Forgivable loans are loans which the lender undertakes to waive repayment of under certain prescribed conditions.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. (See SLFRS 13 *Fair Value Measurement*.)

4. Government grants

Government grants, including non-monetary grants at fair value, shall 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.



- It makes no difference in the treatment of the grant whether it is received in cash or given as a reduction in a liability to government , ie the **manner of receipt is irrelevant.**
- In the case of a **forgivable loan** from government , it should be treated in the same way as a government grant when it is reasonably assured that the entity will meet the relevant terms for forgiveness.
- The benefit of a government loan **at a below-market rate** of interest is treated as a government grant. The loan shall be recognised and measured in accordance with SLFRS 9 *Financial Instruments*.



5. Accounting treatment of Government grant

Government grants shall be recognised in profit or loss on a systematic basis over the periods in which the entity recognises as expenses the related costs for which the grants are intended to compensate.



Accounting Treatment of Government Grant



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graph TD; A[Accounting Treatment of Government Grant] --> B[Capital approach]; A --> C[Income approach];
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Capital approach

Grant is recognised outside profit or loss.

Income approach

Grant is recognised in profit or loss over one or more periods.

6.1 Grants related to depreciable assets

Grants related to depreciable assets are usually recognised in profit or loss over the periods and in the proportions in which depreciation expense on those assets is recognised.

Question 01

Arturo Co. receives a government grant representing 50% of the cost of a depreciating asset which cost Rs.400,000.

Required:

Demonstrate how the grant will be recognized if Radios depreciates the asset:

- a) Over four years straight line
- b) At 40% reducing balance

The residual value is nil. The useful life is four years.

6.2 Grants related to non-depreciable assets

In the case of grants for non-depreciable assets, certain obligations may need to be fulfilled, in which case the grant should be recognised as income over the periods in which the cost of meeting the obligation is incurred.

Example:

if a piece of land is granted on condition that a building is erected on it, then the grant should be recognised as income over the buildings life.

6.3 Grants related to Expenses

A government grant that becomes receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the entity with no future related costs shall be recognised in profit or loss of the period in which it becomes receivable.

7. Non-monetary government grants

- A government grant may take the form of a transfer of a non-monetary asset, such as land or other resources, for the use of the entity.
- In these circumstances it is usual to assess the fair value of the non-monetary asset and to account for both grant and asset at that fair value.
- An alternative course that is sometimes followed is to record both asset and grant at a nominal amount.

8. Presentation of Government Grants



8.1 Presentation of grants related to assets

Government grants related to assets, including non-monetary grants at fair value, shall be presented in the statement of financial position either :

- By setting up the grant as deferred income

Under this method, recognises the grant as deferred income that is recognised in profit or loss on a systematic basis over the useful life of the asset.

- By deducting the grant in arriving at the carrying amount of the asset

Under this method, deducts the grant in calculating the carrying amount of the asset. The grant is recognised in profit or loss over the life of a depreciable asset as a reduced depreciation expense.

Question 02

Accounting for grants related to assets

StartStruck Co. receives a 20% grant toward the cost of a new item of machinery, which cost Rs. 100,000.

The machinery has an expected life of four years and a nil residual value.

The expected profit of the company, before accounting for depreciation on the new machine or the grant, amount to Rs. 50,000 per annum in each year of the machinery's life.

8.2 Presentation of grants related to income

Grants related to income are presented as part of profit or loss either separately or under a general heading such as 'Other income'

Alternatively, they are deducted in reporting the related expense.

9. Government Assistance

Government assistance is action by government designed to provide an economic benefit specific to an entity or range of entities qualifying under certain criteria.

Ex:

- a) Free technical advice
- b) Free marketing advice
- c) The provision of guarantees
- d) A government procurement policy that is responsible for a portion of the entity's sales.



Government assistance does not include:

- The provision of infrastructure by improvement to the general transport and communication network
- The supply of improved facilities such as irrigation or water reticulation

10. Disclosure

Government Grant

- Accounting Policy
- Method of presentation
- Nature and Extent

Government Assistance

- Indication of other forms of government assistance
- Unfulfilled conditions and other contingencies attaching

