Educational Material on Indian Accounting Standard (Ind AS) 20, Accounting for Government Grants and Disclosure of Government Assistance

The Institute of Chartered Accountants of India
(Set up by an Act of Parliament)
NEW DELHI

This Educational Material has been formulated in accordance with the Ind AS notified by the Ministry of Corporate Affairs (MCA) as Companies (Indian Accounting Standards) Rules, 2015 vide Notification dated February 16, 2015 and other amendments finalised and notified till March 2019.

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Contents

Foreword

The Institute of Chartered Accountants of India (ICAI) strives hard to ensure that the accounting practices in India are at par with other global economies and provide high quality financial reporting framework comparable at global level. The Ind AS Implementation Committee of ICAI has been providing guidance to the members and other stakeholders so as to enable them to implement these Standards in the same spirit in which these have been formulated.

The Ministry of Corporate Affairs (MCA) vide its notification dated 16th February, 2015 notified Ind AS 20, *Accounting for Government Grants and Disclosure of Government Assistance* which was later amended vide a notification dated 20th November, 2018. The amendment brought in significantly aligned Ind AS 20 with IAS 20. The Ind AS Implementation Committee has brought out this Educational Material on Ind AS 20, *Accounting for Government Grants and Disclosure of Government Assistance* to provide guidance by way of Frequently Asked Questions (FAQs) and illustrations explaining the principles enunciated in the Standard. This publication will provide guidance to the stakeholders in accounting and to reporting entities in disclosure of various government grants and government assistances received.

I wish to place my appreciation for CA. Nihar Niranjan Jambusaria, Chairman, Ind AS Implementation Committee as well as convenor of the Study Group, CA. Dayaniwas Sharma, Vice-Chairman and other members of the Ind AS Implementation Committee for their valuable technical contribution and cooperation in bringing out this publication.

I am sure that membership at large will benefit immensely from this publication.

New Delhi — **(CA. Prafulla P. Chhajed)**

January 30, 2020 — ***President, ICAI***

Preface

Accounting in India has now substantially transitioned to the new set of standards, Indian Accounting Standards (Ind AS) which are converged with International Financial Reporting Standards (IFRS). These set of standards has received enormous support from various stakeholders for its lucid and smooth implementation. Ind AS Implementation Committee of the Institute of Chartered Accountants of India (ICAI) is one such body which has made arduous efforts for such affluent transition to Ind AS from previous GAAP. The Committee actively engages in providing guidance to the members and other stakeholders by issuing Educational Materials on Ind AS, issuing timely clarifications on issues being faced by the members through Ind AS Technical Facilitation Group (ITFG) Clarification Bulletins, conducting Certificate Course on Ind AS, developing e-learning modules on Ind AS, workshops, seminars, awareness programmes on Ind AS and series of webcasts on Ind AS etc.

I am pleased to share that the Committee has brought out the Educational Material on Indian Accounting Standard (Ind AS) 20, *Accounting for Government Grants and Disclosure of Government Assistance*. The Standard is to be applied in accounting for, and in the disclosure of, government grants and in the disclosure of other forms of government assistance.

I may mention that the views expressed in this publication are the views of the Ind AS Implementation Committee and are not necessarily the views of the Council of the Institute. The purpose of this publication is to provide guidance for implementing this Ind AS effectively by explaining the principles enunciated in the Standard with the help of examples. However, while applying Ind AS in a practical situation, reference should be made to the full text of the Standards.

I would like to convey my sincere gratitude to the Hon'ble President, CA. Prafulla P. Chhajed and Vice-President, CA. Atul Kumar Gupta for providing this opportunity of bringing out implementation guidance on Ind AS in the form of Educational Materials. I would like to place on record the untiring efforts put in by CA. Pramod Jain, Convenor of the Group and other members CA. Parveen Kumar, CA. Jinender Jain, CA. Alok Garg, CA. Abhinay Gupta for preparing the draft of this Educational Material. I would also like to thank all the members of the Ind AS Implementation Committee for their valuable & technical contributions in finalising this publication.

I would like to express my great appreciation to acknowledge CA. Prachi Jain, Executive Officer, Ind AS Implementation Committee and CA. Choshal Patil for their untiring efforts in bringing out this publication. I would also like to thank CA. Vidhyadhar Kulkarni, Head, Technical Directorate, for his guidance.

I am sure that, our stakeholders, particularly the preparers and auditors of financial statements, will find this Educational Material useful in the practical implementation of the Standard.

CA. Nihar Niranjan Jambusaria
Chairman
Ind AS Implementation Committee

Educational Material on Indian Accounting Standard (Ind AS) 20, *Accounting for Government Grants and Disclosure of Government Assistance*

I. Summary

Objective and Scope

This Standard shall be applied in accounting for, and in the disclosure of, government grants and in the disclosure of other forms of government assistance.

Government participation in the ownership of the entity, benefits available in determining taxable profit or loss like tax holidays, income tax credits, accelerated depreciation and grants covered by Ind AS 41, *Agriculture* are not in the scope of this standard.

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

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. Such grant and asset is accounted for at the fair value of the non-monetary asset. An alternative course of recognising both asset and the related grant at a nominal amount is also permitted. The selected accounting policy should be followed consistently and applicable on all non-monetary grants (Ind AS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*).

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.

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.

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.

Grants related to non-depreciable assets may also require the fulfilment of certain obligations and would then be recognised in profit or loss over the periods that bear the cost of meeting the obligations. As an example, a grant of land may be conditional upon the erection of a building on the site and it may be appropriate to recognise the grant in profit or loss over the life of the building.

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. Subsidiary conditions may also be attached restricting the type or location of the assets or the periods during which they are to be acquired or held.

Government grants related to assets, including non-monetary grants at fair value, shall be presented in the balance sheet either:

(a) by setting up the grant as deferred income (which is recognised as income on a systematic and rational basis over the useful life of the asset); or

(b) by deducting the grant from the carrying amount of the asset (in which case the grant is recognised in profit or loss as a reduction of depreciation charged).

The purchase of assets and the receipt of related grants can cause major movements in the cash flow of an entity. For this purpose, such movements are often disclosed as separate items in the statement of cash flows regardless of whether or not the grant is deducted from the related asset for presentation purposes in the balance sheet.

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

Both methods are regarded as acceptable for the presentation of grants related to income. Disclosure of the grant may be necessary for a proper understanding of the financial statements. Disclosure of the effect of the grants on any item of income or expense which is required to be separately disclosed is usually appropriate.

Repayment of Grants

A government grant that becomes repayable shall be accounted for as a change in accounting estimate (Ind AS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*). Repayment of a grant related to income shall be applied first against any unamortised deferred credit recognised in respect of the grant. To the extent that the repayment exceeds any such deferred credit, or when no deferred credit exists, the repayment shall be recognised immediately in profit or loss. 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.

Circumstances giving rise to repayment of a grant related to an asset may require consideration to be given to the possible impairment of the new carrying amount of the asset.

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. It does not include benefits provided only indirectly through action affecting general trading conditions, such as the provision of infrastructure in development areas or the imposition of trading constraints on competitors.

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 of Government assistance may be free technical or marketing advice and the provision of guarantees.

This Standard provides that significance of the benefit given by way of government assistance may be such that disclosure of the nature, extent and duration of such assistance is necessary in order that the financial statements may not be misleading.

Government assistance does not include the provision of infrastructure by improvement to the general transport and communication network and the supply of improved facilities such as irrigation or water reticulation which is available on an ongoing indeterminate basis for the benefit of an entire local community.

Government Assistance—No Specific Relation to Operating Activities

In some countries, government assistance to entities may be aimed at encouragement or long-term support of business activities either in certain regions or industry sectors. Conditions to receive such assistance may not be specifically related to the operating activities of the entity. Appendix A of Ind AS 20 deal with the issue that whether such government assistance is a government grant within the scope of Ind AS 20 and, therefore, should be accounted for in accordance with the Standard.

The Appendix prescribes that such government assistance to entities meets the definition of government grants in Ind AS 20, even if there are no conditions specifically relating to the operating activities of the entity other than the requirement to operate in certain regions or industry sectors. Such grants shall therefore, not be credited directly to shareholders' interests.

Disclosures

The following disclosures are required by the standard:

(a) the accounting policy adopted for government grants, including the methods of presentation adopted in the financial statements;

(b) the nature and extent of government grants recognised in the financial statements and an indication of other forms of government assistance from which the entity has directly benefited; and

(c) unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

II. Frequently Asked Questions

(These FAQs are meant only to illustrate various requirements of Ind AS 20. It may be emphasised that where the facts and circumstances are different from those described in the relevant FAQ, the response as given herein may not hold valid.)

Question 1

Company A sets up an undertaking to manufacture article X and acquires a plant and machinery for the purpose of its operations from May 01, 2019 in the backward area of State of Bihar as notified by the Central Government under section 32AD of the Income Tax Act, 1961. As per the said scheme, the company shall be allowed a deduction of a sum equal to fifteen per cent of the actual cost of such new asset acquired. Whether this deduction of 15% as per the said scheme of government be accounted for as a government grant as per Ind AS 20?

Response

Paragraph 2 of Ind AS 20 states as follows:

> "2 This Standard does not deal with:
>
> (a) the special problems arising in accounting for government grants in financial statements reflecting the effects of changing prices or in supplementary information of a similar nature.
>
> (b) **government assistance that is provided for an entity in the form of benefits that are available in determining taxable profit or tax loss, or are determined or limited on the basis of income tax liability. Examples of such benefits are income tax holidays, investment tax credits, accelerated depreciation.**
>
> (c) government participation in the ownership of the entity.
>
> (d) government grants covered by Ind AS 41, Agriculture." (Emphasis Added)

In accordance with paragraph 2(b) of Ind AS 20, government assistance either provided in the form of benefits available in determining taxable profit or tax loss, or determined or limited according to an entity's income tax liability are excluded from the scope of Ind AS 20.

Accordingly, in the given case, the deduction of 15% of the actual cost of the asset acquired as per the scheme under section 32AD of the Income Tax Act, 1961 available to Company A is in the nature of benefit provided by way of reduction in determining taxable profit and hence, is excluded from the scope of Ind AS 20. Therefore, it will not be accounted for as government grant as per Ind AS 20.

Question 2

Company A has received an unconditional government grant related to a biological asset which is measured at its fair value less costs to sell. Whether such grants are required to be accounted for as per Ind AS 20?

Response

Paragraph 2 of Ind AS 20 states as follows:

> "2 This Standard does not deal with:
>
> (a) the special problems arising in accounting for government grants in financial statements reflecting the effects of changing prices or in supplementary information of a similar nature.
>
> (b) government assistance that is provided for an entity in the form of benefits that are available in determining taxable profit or tax loss, or are determined or limited on the basis of income tax liability. Examples of such benefits are income tax holidays, investment tax credits, accelerated depreciation.
>
> (c) government participation in the ownership of the entity.
>
> (d) **government grants covered by Ind AS 41, Agriculture**." (Emphasis Added)

As per paragraph 2(d) of Ind AS 20, government grants covered by Ind AS 41, *Agriculture* are not dealt with under Ind AS 20.

Paragraphs 34 and 38 of Ind AS 41, *Agriculture* state as follows:

"34 An unconditional government grant related to a biological asset measured at its fair value less costs to sell shall be recognised in profit or loss when, and only when, the government grant becomes receivable.

38 This Standard requires a different treatment from Ind AS 20, if a government grant relates to a biological asset measured at its fair value less costs to sell or a government grant requires an entity not to engage in specified agricultural activity. Ind AS 20 is applied only to a government

grant related to a biological asset measured at its cost less any accumulated depreciation and any accumulated impairment losses."

In accordance with the above, government grants related to biological assets should only be accounted for as per Ind AS 20 if the biological asset is measured at its cost less any accumulated depreciation and any impairment losses. For government grants related to biological assets measured at fair value less costs to sell, the requirements of Ind AS 41 will apply.

Accordingly, in the given case, since the grant relates to a biological asset which is measured at its fair value less costs to sell as per Ind AS 41, *Agriculture* and is therefore, outside the scope of Ind AS 20 and should be accounted for as per Ind AS 41.

Question 3

A Ltd. has received a loan of INR 5,00,000 from government at a nominal rate of interest of 1% p.a. subject to certain conditions to meet specific objectives. The loan is repayable after a period of 10 years. The market rate of interest for a similar loan is 10% p.a. How should A Ltd. account for such loan in its financial statements as per Ind AS?

Response

Paragraph 10A of Ind AS 20 states that, "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 Ind AS 109, *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 Ind AS 109, 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."

In the given case, A Ltd. has received a government loan at a nominal interest rate of 1% per annum which is below the market rate of interest of 10% per annum. A Ltd., therefore, gets economic benefit in the form of reduced cost of interest by availing the government loan.

Accordingly, the loan received from the government will be recognised and measured as per Ind AS 109, *Financial Instruments*.

Paragraph 5.1.1 of Ind AS 109 states that:

"Except for trade receivables within the scope of paragraph 5.1.3, at initial recognition, an entity shall measure a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, *transaction costs* that are directly attributable to the acquisition or issue of the financial asset or financial liability."

Government grant in the instant case is a financial liability and Ind AS 109 requires financial liabilities to be initially recognised at their fair value minus transaction costs (if not classified as subsequently measured at fair value through profit or loss). Therefore, the government loan bearing below-market interest rate at its initial recognition should be measured at its fair value, ascertained as per Ind AS 113, *Fair Value Measurements,* plus or minus transaction costs that are directly attributable to the acquisition of the government loan.

In the given case, A Ltd. has received a benefit of differential rate of interest of 9% (10%-1%) which should be accounted as government grant as per Ind AS 20. The difference between the fair value of the government loan on the transaction date and the proceeds received should be recognised as a government grant. This government grant shall be recognised in the profit or loss either immediately or amortised over a period of time depending upon the objective/purpose of granting this loan at below market rate of interest.

Question 4

A Ltd. has been conducting its business activities in backward areas of the country and due to higher operating costs in such regions, it has collectively incurred huge losses in previous years. As per a scheme of government announced in March 2019, the company will be partially compensated for the losses incurred by it to the extent of INR 10,00,00,000, which will be received in October 2019. The compensation being paid by the government meets the definition of government grant as per Ind AS 20. Assume that no other conditions are to be fulfilled by the company to receive the compensation.

When should the grant be recognised in statement of profit and loss as per Ind AS 20?

Response

Paragraph 7 of Ind AS 20 states that, Government grants, including non-monetary grants at fair value, shall not be recognised until there is reasonable assurance that:

(e) the entity will comply with the conditions attaching to them; and

(f) the grants will be received.

Further, paragraphs 20 and 22 of Ind AS 20 state as follows:

"20 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".

"22 A government grant may become receivable by an entity as compensation for expenses or losses incurred in a previous period. Such a grant is recognised in profit or loss of the period in which it becomes receivable, with disclosure to ensure that its effect is clearly understood."

In accordance with the above, in the given case, as at March 2019, A Ltd. is entitled to receive government grant in the form of compensation for losses already incurred by it in the previous years. Therefore, even though the compensation will be received in the month of October 2019, A Ltd. should recognise the compensation receivable by it as a government grant in the profit or loss for the period in which it became receivable, i.e., for the financial year 2018-19 with disclosure to ensure that its effect is clearly understood.

Question 5

A Ltd. has received a grant in the month of April 2019 subject to the conditions that A Ltd. will spend the grant received on development of a project in City Y over the next 2 years. A Ltd. is unable to conclude with reasonable assurance that it will be able to comply with the conditions attached to the grant, because in order to do so, A Ltd. will have to obtain clearances from various authorities before starting the work. Whether A Ltd. can recognise such grant received in its financial statements from April 2019 as per Ind AS 20?

Response

Paragraph 7 of Ind AS 20 states that, "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."

Mere receipt of a grant does not of itself provide conclusive evidence that the conditions attached to the grant have been or will be fulfilled.

In the given case, although A Ltd. has received the grant, but it is not reasonably assured that it will be able to comply with the conditions attached to the grant, as clearances from various authorities are pending. Accordingly, A Ltd. cannot recognise the grant received in its financial statements. Such grant will be recognised when there is a reasonable assurance that the conditions attached to the grant will be met. Till that time, the amount received, if any, from the government will be shown as a 'Liability'.

Question 6

PQR Ltd. received a piece of land for 'Nil' consideration from the government in order to set up a manufacturing unit and carry on its production activities. The fair value of this land on the date of receipt is INR 10,00,00,000. How should PQR Ltd. present such land in its financial statements?

Response

There are three aspects to be considered:

(i) Accounting of non-monetary grants;

(ii) Presentation of grant in balance sheet; and

(iii) Recognition of grant in statement of profit and loss.

(i) Accounting of Non-monetary grants

Paragraph 23 of Ind AS 20 states that, "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."

In accordance with the above, in the given case, PQR Ltd. has two alternatives:

(i) Record both grant and land at the fair value of land which is INR 10,00,00,000; or

(ii) Record both grant and land at the nominal value which may be for example at INR 1.

In both the cases, proper disclosures should be given to ensure that its effect is clearly understood.

(ii) Presentation of grant in balance sheet

In the instant case, the grant relates to an asset and hence, following provisions are relevant:

“24 Government grants related to assets, including non-monetary grants at fair value, shall be presented in the balance sheet either by setting up the grant as deferred income or by deducting the grant in arriving at the carrying amount of the asset.

25 Two methods of presentation in financial statements of grants or the appropriate portions of grants related to assets are regarded as acceptable alternatives.

26 One 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.

27 The other 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.”

(iii) Recognition of grant in statement of profit and loss

Paragraph 12 of Ind AS 20 requires that 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.

In this regard, paragraph 18 also provides that, “Grants related to non-depreciable assets may also require the fulfilment of certain obligations and would then be recognised in profit or loss over the periods that bear the cost of meeting the obligations. As an example, a grant of land may be conditional upon the erection of a building on the site and it may be appropriate to recognise the grant in profit or loss over the life of the building.”

In accordance with the above, grant should be amortised on a systematic basis to profit or loss depending on the nature of the grant.

Question 7

How should grants related to assets be presented in the balance sheet and statement of cash flows as per Ind AS 20?

Response

Paragraphs 24- 28 of Ind AS 20 state as follows:

"24 Government grants related to assets, including non-monetary grants at fair value, shall be presented in the balance sheet either by setting up the grant as deferred income or by deducting the grant in arriving at the carrying amount of the asset."

25 Two methods of presentation in financial statements of grants or the appropriate portions of grants related to assets are regarded as acceptable alternatives.

26 One 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.

27 The other 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.

28 The purchase of assets and the receipt of related grants can cause major movements in the cash flow of an entity. Such movements are disclosed as separate items in the statement of cash flow whether or not the grant is deducted from the related asset for the purpose of presentation in the balance sheet."

In accordance with the above, the following may be noted:

Presentation in Balance Sheet

Grants that are related to assets (i.e., those whose primary condition is that an entity qualifying for them should purchase, construct or otherwise acquire long-term assets) including non-monetary grants at fair value should be presented in the balance sheet either:

(i) by setting up the grant as deferred income, which is recognised as income on a systematic basis over the useful life of the asset; or

(ii) by deducting the grant in arriving at the carrying amount of the asset, in which case the grant is recognised in profit or loss as a reduction of depreciation expense.

Presentation in the Statement of Cash Flows

Irrespective of the presentation in the balance sheet, receipt of grant and purchase of assets should be shown as separate line items in the statement of cash flows.

Question 8

An entity opens a new factory and receives at the beginning of the year a government grant of INR 15,000 in respect of a capital equipment costing INR 1,00,000. It depreciates all plant and machinery at 20% p.a. using straight-line method. Explain the presentation of the effect of this grant in both balance sheet and statement of profit and loss under both methods permitted under paragraph 24 of Ind AS 20?

Response

(Assuming that there is reasonable assurance that the conditions attached to the grant will be fulfilled.)

Paragraph 24 of Ind AS 20 provides that, "Government grants related to assets, including non-monetary grants at fair value, shall be presented in the balance sheet either by setting up the grant as deferred income or by deducting the grant in arriving at the carrying amount of the asset."

In accordance with the above, presentation of grants related to assets under both the methods are as follows:-

Method 1

(I) The following journal entries will be passed:

S. No.	Particulars	Nature of Account	Dr./ Cr.	Amount (in INR)
(i)	Bank	Balance Sheet (Asset)	Dr.	15,000
	To Government Grant Deferred Income	Balance Sheet (Liability)	Cr.	15,000
	(Being grant received and deferred income set up)			
(ii)	Government Grant Deferred Income	Balance Sheet (Liability)	Dr.	3,000
	To Government Grant Income	Income (P/L)	Cr.	3,000
	(Being amortisation of the grant in Profit or loss for the current year)			

(iii)	Depreciation	Expense (P/L)	Dr.	20,000
	To Accumulated Depreciation	Balance Sheet (Asset)	Cr.	20,000
	(Being depreciation charge of the asset for the current year)			
(iv)	Government Grant Income	Income (P/L)	Dr.	3,000
	To Profit or Loss	P/L	Cr.	3,000
	(Being transfer of government grant income to the statement of profit and loss)			
(v)	Profit or Loss	P/L	Dr.	20,000
	To Depreciation	Expense (P/L)	Cr.	20,000
	(Being the charge of depreciation transferred to the statement of profit and loss)			

(II) Presentation in Balance Sheet and Statement of Profit and Loss

Presentation in the Statement of Profit and Loss (Year 1)

Particulars	**Amount (in INR)**
Income	
Government grant (Refer working note 1)	3,000
Expenses	
Depreciation (1,00,000 x 20 %)	(20,000)
Net effect on profit and loss	(17,000)

Presentation in Balance Sheet (Year 1)

Particulars	**Amount (in INR)**
Property, Plant and Equipment	
Plant & machinery	1,00,000
Accumulated depreciation (1,00,000 × 20%)	(20,000)
Net Amount	**80,000**
Non-current liabilities	
Government grant (Refer working note 1)	9,000

Current liabilities	
Government grant (Refer working note 1)	3,000

Working Note 1: Presentation in Balance Sheet as current and non-current liability

Particulars	Amount (in INR)
Portion to be amortised in next 12 months (15,000 x 20%)	3,000
Portion to be amortised after 12 months	9,000
Total Balance	12,000

Method 2: Deducting the grant from the asset

(I) The following journal entries will be passed:

S. No.	Particulars	Nature of Account	Dr./ Cr.	Amount (in INR)
(i)	Bank	Balance Sheet (Asset)	Dr.	15,000
	To Government Grant	Balance Sheet (Liability)	Cr.	15,000
	(Being grant received)			
(ii)	Government Grant	Balance Sheet (Liability)	Dr.	15,000
	To Plant & Machinery	Balance Sheet (Asset)	Cr.	15,000
	(Being cost of asset reduced with grant received)			
(iii)	Depreciation (85,000 x 20%)	Expense (P/L)	Dr.	17,000
	To Accumulated Depreciation	Balance Sheet (Asset)	Cr.	17,000
	(Being depreciation charge of the asset for the current year)			
(iv)	Profit or Loss	P/L	Dr.	17,000
	To Depreciation	Expense (P/L)	Cr.	17,000
	(Being the charge of depreciation transferred in the statement of profit and loss)			

(II) Presentation in Balance Sheet and Statement of Profit and Loss

Presentation in Statement of Profit and Loss (Year 1)

Particulars	Amount (in INR)
Depreciation (INR 85,000 x 20%)	(17,000)

Presentation in Balance Sheet (Year 1)

Particulars	Amount (in INR)
Property, Plant and Equipment	
Plant & machinery *Original cost* *Less: Government Grant*	 1,00,000 (15,000)
Adjusted cost	85,000
Accumulated depreciation	(17,000)
Carrying amount	**68,000**

Question 9

A Ltd. received a government grant of INR 10,00,000 to defray expenses for environmental protection. Expected environmental costs to be incurred is INR 3,00,000 per annum for the next 5 years. How should A Ltd. present such grant related to income in its financial statements?

Response

As per paragraph 29 of Ind AS 20, 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.

In accordance with the above, presentation of grants related to income under both the methods are as follows:-

Method 1: Credit in the statement of profit and loss

The entity can recognise the grant as income on a straight line basis i.e., INR 2,00,000 per year in the statement of profit and loss either separately or under the head "Other Income".

The supporters of this method consider it inappropriate to present income and expense items on a net basis and that 'separation of the grant from the expense facilitates comparison with other expenses not affected by a grant'.

Method 2: As a deduction in reporting the related expense

Since the grant relates to environmental expenses incurred/to be incurred by the entity, it can present the grant by reducing the grant amount every year from the related expense i.e., environmental expense of INR 1,00,000 (i.e., net expense INR 3,00,000 – INR 2,00,000).

The supporters of this method are of the view that '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'.

The Standard regards both the methods as acceptable for the presentation of grants related to income. However, method 2 may be more appropriate when the company can relate the grant to a specific expenditure.

The Standard also provides that disclosure of the grant may be necessary for a proper understanding of the financial statements. Disclosure of the effect of the grants on any item of income or expense which is required to be separately disclosed is usually appropriate.

Question 10

A Ltd. has received a grant of INR 10,00,00,000 in the year 2016-17 from local government in the form of subsidy for selling goods at lower price to lower income group population in a particular area for two years. A Ltd. had accounted for the grant as income in the year 2016-17. While accounting for the grant in the year 2016-17, A Ltd. was reasonably assured that all the conditions attached to the grant will be complied with. However, in the year 2018-19, it was found that A Ltd. has not complied with the above condition and therefore notice of refund of grant has been served to it. A Ltd. has contested but lost in court in 2018-19 and now grant is fully repayable. How should A Ltd. reflect repayable grant in its financial statements ending 2018-19?

Response

(It is being assumed that the accounting done in previous years was not incorrect and was not in error as per Ind AS 8.)

Paragraph 32 of Ind AS 20, states that, "A Government grant that becomes repayable shall be accounted for as a change in accounting estimate (see Ind AS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*). Repayment of a grant related to income shall be applied first against any unamortised deferred credit recognised in respect of the grant. To the extent that the repayment exceeds any such deferred credit, or when no deferred credit exists, the repayment shall be recognised immediately in profit or loss. 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."

The following journal entries should be passed:

S. No.	Particulars	Nature of Account	Dr./ Cr.	Amount (INR in crores)
(i)	Repayment of Government Grant	Expense (P/L)	Dr.	10
	To Grant repayable	Balance sheet (Liability)	Cr.	10
	(Being recognition of repayment of grant in statement of profit and loss)			
(ii)	Grant repayable	Balance sheet (Liability)	Dr.	10
	To Bank	Balance sheet (Asset)	Cr.	10
	(Being grant refunded)			

Assuming that no deferred credit balance exists in the year 2018-19, therefore repayment recognised in profit or loss.

Question 11

A Ltd. has received an asset related grant of INR 10,00,000. The cost of the asset is INR 20,00,000 and its useful life is 10 years. It is to be depreciated using SLM method of depreciation and its estimated residual value is nil. The asset was acquired at the beginning of the financial year 2017-18. A Ltd. has presented the grant in its balance sheet by deducting the grant in arriving at the carrying amount of the asset. While accounting for the grant in the year 2017-18, A Ltd. was reasonably assured that all the conditions attached to the grant will be complied with. However, during the year 2019-20, A Ltd. failed to comply with certain conditions attached to the grant because of which the grant has become refundable, based on the order of court. How should A Ltd. reflect repayable grant in its financial statements?

Response

(It is being assumed that the accounting done in previous years was not incorrect and was not in error as per Ind AS 8.)

Paragraph 32 of Ind AS 20, states that, "A Government grant that becomes repayable shall be accounted for as a change in accounting estimate (see Ind AS 8, Accounting Policies, Changes in Accounting Estimates and Errors). Repayment of a grant related to income shall be applied first against any unamortised deferred credit recognised in respect of the grant. To the extent that the repayment exceeds any such deferred credit, or when no deferred credit exists, the repayment shall be recognised immediately in profit or loss. 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.

In accordance with the above, following journal entries should be passed:

S. No.	Particulars	Nature of Account	Dr./ Cr.	Amount (INR in lakhs)
(i)	Asset	Balance sheet (Asset)	Dr.	10
	To Grant repayable	Balance sheet (Liability)	Cr.	10
	(Being refund of grant becoming due)			
(ii)	Grant repayable	Balance sheet	Dr.	10

		(Liability)		
	To Bank	Balance sheet (Asset)	Cr.	10
	(Being grant refunded)			
(iii)	Depreciation	Expense (P/L)	Dr.	2
	Accumulated depreciation	Balance sheet (Asset)	Cr.	2
	(Being cumulative additional depreciation charge upto 2018-19 that would have been charged on asset had grant was not received)			
(iv)	Depreciation	Expense (P/L)	Dr.	2
	Accumulated depreciation	Balance sheet (Asset)	Cr.	2
	(Being depreciation charged for the year 2019-20 on asset after adding the refund of grant to the gross block of asset)			
(v)	Profit or Loss	P/L	Dr.	4
	To Depreciation	Expense (P/L)	Cr.	4
	(Being the charge of depreciation of 2 plus 2 as mentioned in entry iii & iv transferred in the statement of profit and loss)			

It may also be noted that the standard provides that, circumstances giving rise to repayment of a grant related to an asset may require consideration to be given to the possible impairment of the new carrying amount of the asset.

Question 12

Company R has invested in a plant and machinery of INR 100,00,00,000, received grant amount of INR 80,00,00,000 against investment in such plant and machinery. The company is following grant accounting by setting up the grant as deferred income and amortising deferred income in systematic manner through depreciation. After few years, the company underwent an impairment assessment.. For determining the impairment loss, should the carrying amount of plant and machinery, for comparison with the recoverable amount, be determined before or after adjusting the unamortised deferred income?

Response

As per paragraph 12 of Ind AS 20, 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.

As per paragraph 24 of Ind AS 20, Government grants related to assets, including non-monetary grants at fair value, shall be presented in the balance sheet either by setting up the grant as deferred income or by deducting the grant in arriving at the carrying amount of the asset.

Further, paragraphs 6 and 60 of Ind AS 36, *Impairment of Assets* states as follows:

"6 An impairment loss is the amount by which the carrying amount of an asset or a cash-generating unit exceeds its recoverable amount."

"The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs of disposal and its value in use."

"60 An impairment loss shall be recognised immediately in profit or loss, unless the asset is carried at revalued amount in accordance with another Standard (for example, in accordance with the revaluation model in Ind AS 16). Any impairment loss of a revalued asset shall be treated as a revaluation decrease in accordance with that other Standard."

In view of the above, the carrying amount of the plant and machinery for determining the impairment loss should be calculated as net of the government grant, even if for the purpose of balance sheet the presentation is on gross basis.

Question 13

How should government grant be presented in the statement of profit and loss? Can government grant be presented under 'other operating revenue' line item of division II of schedule III to the Companies Act, 2013?

Response

A government grant is recognised when there is reasonable assurance that the entity will comply with the conditions attaching to it, and that the grant will be received.

After the grant is recognised, it's further accounting treatment depends upon the type of grant i.e., grant related to asset or income.

As per paragraph 24 of Ind AS 20, Government grants related to assets, including non-monetary grants at fair value, shall be presented in the balance sheet either by setting up the grant as deferred income or by deducting the grant in arriving at the carrying amount of the asset.

As per paragraph 29 of Ind AS 20, 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.

Paragraph 9.1.8 of the Guidance note on Division II -Ind AS Schedule III to the Companies Act, 2013, provides that, the term "other operating revenue" is not defined. This would include Revenue arising from a company's operating activities, i.e., either its principal or ancillary revenue-generating activities, but which is not revenue arising from sale of products or rendering of services. Whether a particular income constitutes "other operating revenue" or "other income" is to be decided based on the facts of each case and detailed understanding of the company's activities.

It may also be noted that considering the requirements of Ind AS Schedule III, which sets out the minimum requirements for disclosure in the financial statements including notes and as per which, line items or sub-line items can be added on the face of the financial statements when such presentation is relevant to the understanding of the company's financial position or performance, in some cases, it may be appropriate that the grant may be presented as a separate line item with appropriate nomenclature between 'Revenue from Operations' and 'Other Income' and with adequate disclosures as per the requirements of the Guidance Note. Alternatively, it can also be deducted in reporting the related expense if the company can relate it with specific expense in the statement of profit and loss.

Accordingly, presentation of grant will require exercise of judgement based on the facts and circumstances of each case.

Question 14

A Ltd. is a registered SEZ/STP unit which receives benefits in the form of exemption from payment of indirect taxes and duties on import or export of goods upon fulfilment of certain conditions under a scheme of the Government of India. Whether such benefit received by A Ltd. is government grant or government assistance? If it is a government grant, whether it is a grant related to asset or a grant related to income?

Response

As per paragraph 3 of Ind AS 20, "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 assistance for the purpose of this Standard does not include benefits provided only indirectly through action affecting general trading conditions, such as the provision of infrastructure in development areas or the imposition of trading constraints on competitors."

"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. They exclude those 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."

Further paragraph 9 of Ind AS 20 states that, "the manner in which a grant is received does not affect the accounting method to be adopted in regard to the grant. Thus a grant is accounted for in the same manner whether it is received in cash or as a reduction of a liability to the government."

In the given case, A Ltd. enjoys the benefit of exemption from payment of indirect taxes and duties on import or export of goods after complying with the prescribed conditions. Such exemption provided by the Government of India tantamount to economic benefit received by A Ltd. in return for past compliance of the attached conditions to the scheme. Therefore, in the given case, the exemption from payment of indirect taxes and duties on import or export of goods provided to A Ltd. is a government grant.

With regard to the classification of a grant, Ind AS 20 defines grants related to assets and grants related to income as follows:

"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. Subsidiary conditions may also be attached restricting the type or location of the assets or the periods during which they are to be acquired or held.

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

The classification of the grant as related to an asset or to income will require exercise of judgement and careful examination of the facts, objective and conditions attached to the scheme. The purpose of the grant and the costs for which the grant is intended to compensate would also be required to be ascertained carefully.

Appendix I

Note: The purpose of this Appendix is only to bring out the major differences, if any, between Indian Accounting Standard (Ind AS) 20, Accounting for Government Grants and Disclosure of Government Assistance and Accounting Standard (AS) 12, Accounting for Government Grants (issued 1991).

Major differences between Ind AS 20, Accounting for Government Grants and Disclosure of Government Assistance and AS 12, Accounting for Government Grants

(i) Ind AS 20 deals with the other forms of government assistance which do not fall within the definition of government grants. It requires that an indication of other forms of government assistance from which the entity has directly benefited should be disclosed in the financial statements. However, AS 12 does not deal with such government assistance.

(ii) Ind AS 20 specifically excludes from its scope government assistance that is provided in the form of benefits that are available in determining taxable profit or tax loss, or are determined or limited on the basis of income tax liability. Examples of such benefits are income tax holidays, investment tax credits, accelerated depreciation. AS 12 do not have such specific exclusion.

(iii) Ind AS 20 also covers government assistance in form of waiver of expenses. However, AS 12 does not cover such assistance as government grant.

(iv) AS 12 requires that in case the grant is in respect of non-depreciable assets, the amount of the grant should be shown as capital reserve which is a part of shareholders' funds. It further requires that if a grant related to a non-depreciable asset requires the fulfilment of certain obligations, the grant should be credited to income over the same period over which the cost of meeting such obligations is charged to income. AS 12 also gives an alternative to treat such grants as a deduction from the cost of such asset.

As compared to the above, Ind AS 20, is based on the principle that all government grants would normally have certain obligations attached to them and these grants should be recognised as income over the periods which bear the cost of meeting the obligation or it also provide alternative approach of treating such grant from the cost of the asset. It, therefore, specifically prohibits recognition of grants directly in the shareholders' funds.

(v) AS 12 recognises that some government grants have the characteristics similar to those of promoters' contribution. It requires that such grants should be credited directly to capital reserve and treated as a part of shareholders' funds. Ind AS 20 does not recognise government grants of the nature of promoters' contribution. As stated at (ii) above, Ind AS 20 is based on the principle that all government grants would normally have certain obligations attached to them and it, accordingly, requires all grants to be recognised as income over the periods which bear the cost of meeting the obligation or it also provide alternative approach of treating such grant from the cost of the asset.

(vi) AS 12 requires that government grants in the form of non-monetary assets, given at a concessional rate, should be accounted for on the basis of their acquisition cost. In case a non-monetary asset is given free of cost, it should be recorded at a nominal value. Ind AS 20 provides an option to value non-monetary grants at their fair value or at a nominal amount.

(vii) Ind AS 20 includes Appendix A which deals with Government Assistance-No Specific Relation to Operating Activities whereas there is no such guidance in AS 12.

(viii) Ind AS 20 requires that loans received from government that have a below-market rate of interest should be recognised and measured in accordance with Ind AS 109 (which requires all loans to be recognised at fair value, thus requiring interest to be imputed to loans with a below-market rate of interest), whereas AS 12 does not require so.

Appendix II

Note: The purpose of this Appendix is only to bring out the major differences, if any, between Indian Accounting Standard (Ind AS) 20, Accounting for Government Grants and Disclosure of Government Assistance and IAS 20, Accounting for Government Grants and Disclosure of Government Assistance.

Major Differences between Ind AS 20, Accounting for Government Grants and Disclosure of Government Assistance and IAS 20, Accounting for Government Grants and Disclosure of Government Assistance

There are no differences between Ind AS 20, *Accounting for Government Grants and Disclosure of Government Assistance* and IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*.