FAR-1 — FINANCIAL ACCOUNTING & REPORTING 1

Topic: GOVERNMENT ASSISTANCE & GRANTS — IAS 20

1 TOPIC OVERVIEW

WHAT IS IT?
IAS 20 governs the accounting for, and disclosure of, government grants and other forms of government assistance received by an entity.

WHY IMPORTANT?
Grants can be received as cash, assets, or loan benefits — the timing and presentation of the related income directly affects profit, asset values and liabilities across several periods.

CORE PRINCIPLE
Grants are recognised in profit or loss on a systematic basis over the periods in which the entity recognises the related costs the grant is meant to compensate — never in equity (capital approach is not allowed).

2 KEY DEFINITIONS

Government: Government, government agencies and similar bodies — local, national or international.

Government assistance: Action by government to provide an economic benefit specific to an entity/range of entities meeting criteria — excludes indirect benefits from general trading conditions (e.g. infrastructure, trade quotas).

Government grants: Transfers of resources to an entity in return for past/future compliance with conditions relating to its operating activities — excludes assistance with no value reasonably placed on it, and transactions indistinguishable from normal trading. Also called subsidies, subventions or premiums.

Grants related to assets: Primary condition is that the qualifying entity should purchase, construct or otherwise acquire long-term assets (subsidiary conditions on type/location/period may attach).

Grants related to income: Government grants other than those related to assets.

Forgivable loan: A loan which the lender undertakes to waive repayment of under certain prescribed conditions.

3 RECOGNITION CRITERIA — DECISION TREE

Government grant (incl. non-monetary grant at fair value) received/receivable

▼

Condition A
Reasonable assurance the entity will comply with attached conditions

Condition B
Reasonable assurance the grant will be received

▼ BOTH satisfied ▼

✔ **RECOGNISE the grant**

IMPORTANT NOTE
Mere **receipt** of a grant is not conclusive evidence that the attached conditions have been or will be fulfilled — assurance must still be assessed independently.

4 NON-MONETARY GRANTS & TWO ACCOUNTING APPROACHES

NON-MONETARY GRANT [IAS 20:23 & 3]
A grant may be a transfer of a non-monetary asset (e.g. land). **Usual treatment:** record both grant and asset at fair value. **Alternative:** record both at a nominal amount. Fair value = the price to sell an asset/transfer a liability in an orderly transaction between market participants at measurement date.

Approach	Treatment
Capital approach	Grant recognised outside profit or loss (e.g. directly in equity) — **NOT allowed by IAS 20 / not examinable**.
Income approach	Grant recognised in profit or loss over one or more periods — **this is the approach required by IAS 20**.

5 GRANT CLASSIFICATION — QUICK CHECK

Condition: acquire/build long-term asset	→ Grant related to **ASSETS** (e.g. grant to import & install a power plant, or to construct a factory).
Condition: operating activity / expense-related	→ Grant related to **INCOME** (e.g. grant to run a football league, or for maintaining low labour turnover).
Indirect benefit only	→ **NOT a grant** — e.g. general infrastructure, trade quotas on competitors, free advice with no measurable value, or benefits indistinguishable from normal trading (favourable procurement policy).

PERIOD OF RECOGNITION, FORGIVABLE & BELOW-MARKET LOANS

6 PERIOD OF RECOGNITION — MATCH GRANT TO RELATED COST

Grant for specific expenses	Recognise in P&L in the **same period** as the relevant expenses.
Compensation for costs already incurred / immediate support (no future related costs)	Recognise in P&L **immediately**, in the period it becomes receivable.
Grant for a depreciable asset	Recognise in P&L over the periods and in the **same proportions as depreciation** on that asset.
Grant for a non-depreciable asset with obligations	Recognise in P&L over the periods that bear the cost of meeting the obligation (e.g. land grant conditional on building → recognise over the life of the building).

WORKED CHECK [Example 05 pattern]

Grant for past good working conditions → recognise **immediately**. Grant for maintaining conditions over next 3 years → recognise **over 3 years**. Grant for a plant depreciated 30% reducing balance over 15 years → recognise **in the same 30% RB proportion over 15 years**. Grant for land conditional on building a factory → recognise **over the building's useful life**.

7 FORGIVABLE LOANS [IAS 20: 3 & 10]

Reasonable assurance conditions for waiver will be met	Treat as a **government grant** (income approach applies).
No reasonable assurance yet / conditions not truly a "waiver" (e.g. cash or asset-transfer settlement required)	Treat as a **liability** under IFRS 9 (not examinable in detail at this level) — not a grant.

8 LOAN AT BELOW-MARKET RATE OF INTEREST [IAS 20:10A]

GOVERNMENT GRANT BENEFIT (BELOW-MARKET LOAN)

Cash received under the loan – Initial carrying amount of the loan (per IFRS 9)

The entity considers the conditions/obligations attached to identify the costs the loan benefit is intended to compensate — this determines the period of recognition of the grant benefit.

Worked example — receipt of below-market loan [Example 08 pattern: Rs.100,000 received, IFRS 9 carrying amount Rs.93,750]		
Cash / Bank	100,000	
Government grant (profit or loss)		6,250
Loan (liability, per IFRS 9)		93,750

9 CALCULATION ROADMAP — GOVERNMENT GRANT QUESTIONS

1. Identify grant type (income / asset / loan-related)
2. Confirm recognition criteria met (assurance of compliance + receipt)
3. Identify matching period/pattern (expense or depreciation)
4. Choose presentation method
5. Journal entry & amortise
6. FS effect (SPL/SFP)

PRESENTATION — GRANTS RELATED TO INCOME & ASSETS

10 PRESENTATION — GRANTS RELATED TO INCOME [IAS 20:29]

Presented as part of profit or loss — either separately/under a heading like "other income", OR deducted in reporting the related expense.

Method 1 — Present as OTHER INCOME		
Cash / Receivable	✓	
Deferred grant		✓
Deferred grant (on recognition as income)	✓	
Other income (P&L)		✓
Method 2 — DEDUCT from related expense		
Cash / Receivable	✓	
Deferred grant		✓
Deferred grant (on recognition as income)	✓	
Expenses (P&L) — netted		✓

WORKED CHECK [Example 09 pattern]

Rs. 50,000 grant for a 2-year training program (actual cost Rs.200,000: 70% Y1 / 30% Y2) → grant income/deduction split **Rs.35,000 : Rs.15,000** across the two years, matching the expense pattern — both methods give the **same net profit**, only presentation (gross "other income" vs "net expense") differs. SFP deferred grant balance is identical either way.

11 PRESENTATION — GRANTS RELATED TO ASSETS [IAS 20:24]

Method 1 — SET UP grant as DEFERRED INCOME		
Non-current asset (PPE, etc.)	✓	
Bank		✓
Cash / Receivable (on receipt of grant)	✓	
Deferred grant		✓
Depreciation expense (period end)	✓	
Accumulated depreciation		✓
Deferred grant (amortisation, period end)	✓	
Profit or loss		✓
Method 2 — DEDUCT grant from asset's carrying amount		
Non-current asset (PPE, etc.)	✓	
Bank		✓
Cash / Receivable (on receipt of grant)	✓	
Non-current asset (PPE, etc.)		✓
Depreciation expense (reduced — period end)	✓	
Accumulated depreciation		✓

12 WORKED CHECK — ASSETS GRANT [Example 10 pattern]

Plant cost Rs.600m, grant Rs.60m, SL depreciation over 3 yrs, residual Rs.120m.

- **Method 1 (deferred income):** Depreciation = (600−120)/3 = **Rs.160m/yr**; grant income = 60/3 = **Rs.20m/yr** as other income. PPE stays at gross Rs.600m cost less full accumulated depreciation.
- **Method 2 (deduct from asset):** PPE recorded net of grant (600−60=540); Depreciation = (540−120)/3 = **Rs.140m/yr**, no separate grant income line.
- Net effect on profit is identical either way — only presentation (gross vs net PPE/expense) differs.

13 DISCLOSURE [IAS 20: 36 & 39]

- Accounting policy adopted for government grants, including the presentation methods used
- Nature and extent of grants recognised, and an indication of other forms of government assistance directly benefited from
- Unfulfilled conditions and other contingencies attaching to recognised government assistance

REPAYMENT, DISCLOSURE, EXAM STRATEGY & QUICK RECAP

14 REPAYMENT OF GOVERNMENT GRANT [IAS 20: 32 & 33]

A grant that becomes repayable is accounted for as a **change in accounting estimate** — recorded in the year it becomes repayable; no prior period adjustment.

Repayment of a grant related to INCOME		
Deferred grant (to the extent of unamortised balance)	✓	
Profit or loss (excess, if any)	✓	
Bank		✓
Repayment of a grant related to an ASSET — deferred income method		
Deferred grant (balancing figure)	✓	
Profit or loss (cumulative additional depreciation, if any)	✓	
Bank		✓
Repayment of a grant related to an ASSET — deduct-from-asset method		
Non-current asset (balancing figure)	✓	
Profit or loss (cumulative additional depreciation, if any)	✓	
Bank		✓

"Cumulative additional depreciation" = the extra depreciation that would have been charged to date had the grant never been received — recognised immediately in P&L on repayment. Repayment may also require considering **impairment** of the asset's new carrying amount.

15 FINANCIAL STATEMENT IMPACT

STATEMENT OF PROFIT OR LOSS

- Other income: grant amortised (or netted against related expense)
- Depreciation expense (gross or reduced, per method)
- Loss/expense on repayment (excess over deferred balance; cumulative additional depreciation)

STATEMENT OF FINANCIAL POSITION

- Deferred grant — split **current** (amortised within 12 months) and **non-current** liability
- Non-current asset — gross cost or net-of-grant carrying amount, per method
- Loan liability (below-market loans) at IFRS 9 carrying amount

⚠ EXAM TRAPS — COMMON MISTAKES

- Recognising a grant merely on **receipt of cash** — receipt alone is not conclusive evidence conditions will be met.
- Using the **capital approach** (crediting equity directly) — not permitted under IAS 20; only the income approach is examinable.
- Matching a grant to the **wrong period** — immediate-support grants go to P&L at once; future-cost grants are deferred and matched to the related expense/depreciation pattern.
- Forgetting that grants for **non-depreciable assets** with conditions (e.g. land + build obligation) are still deferred — over the life of the obligation, not recognised immediately.
- Confusing the **two presentation methods** for asset grants — gross PPE + deferred income vs net PPE — both are acceptable but must not be mixed within the same set of figures.
- **Forgetting the split** of deferred grant between current and non-current liability on the SFP.
- On **repayment**, forgetting to recognise the cumulative additional depreciation immediately in P&L (the "catch-up" the grant had been offsetting).
- Treating grant repayment as a **prior period error** instead of a change in accounting estimate (no restatement of prior years).
- Confusing a **forgivable loan** (grant, if waiver is reasonably assured) with an ordinary loan that merely offers below-market interest (always a grant benefit, measured via IFRS 9 carrying amount).
- Treating indirect general benefits (infrastructure, trade quotas) or unquantifiable government assistance as a **recognisable grant** — they are not.

16 QUICK DECISION TREE — ANSWERING ANY IAS 20 QUESTION

1 Question given → 2 Grant, assistance, or loan benefit? → 3 Income-related or asset-related? → 4 Apply matching period rule → 5 Pick presentation method → 6 Journal entry & FS effect → ✔ Final answer

IAS 20 — GOVERNMENT GRANTS IN 60 SECONDS

Recognise if: reasonable assurance of compliance + reasonable assurance of receipt. Receipt alone ≠ proof.

Only income approach allowed — never capital/equity approach.

Match to cost: specific expense grants → same period; immediate-support grants → recognise now; asset grants → over depreciation/obligation life.

Income grants: present as other income OR deduct from expense — same net profit either way.

Asset grants: present as deferred income OR deduct from asset cost — same net profit either way.

Forgivable loan = grant if waiver reasonably assured; else liability (IFRS 9).

Below-market loan benefit = cash received − IFRS 9 carrying amount → grant.

Repayment = change in accounting estimate; recognise cumulative additional depreciation/excess immediately in P&L.

Disclose: policy, nature/extent of grants, unfulfilled conditions.