IAS 20

Accounting for government grants and disclosure of government assistance

1. Objective

IAS 20 sets out accounting principles and disclosure requirements for government grants and assistance.

2. Scope

Government assistance is government actions designed to provide economic benefits to an entity or range of entities qualifying under certain criteria now or in the future.
IAS 20 describes the various forms of government assistance and how they must be accounted for.

Government assistance may take the form of:

- grants which assist the financing of assets (investment grants);
- grants related to income (operating subsidies), i.e. government grants other than those covering assets, generally to compensate for expenses or to participate in funding operations typically having a structural deficit such as education or health, for example).

Assistance may be granted through the **transfer of monetary or non-monetary assets** (for example, donation or use of land).

Non-repayable loans **(non-repayable provided certain conditions are satisfied)** granted by governments or their agencies subject to are treated as government assistance.

Government grants are not recognized until there is **reasonable assurance** that the entity will comply with the conditions applicable to them and that the grant will be received.

3. Accounting impact

3.1 Grants related to assets

IAS 20 is based on the **income approach**: monetary and non-monetary grants are recognized in the profit or loss statement over one or more periods in order to offset the costs they are intended to contribute to.

There are two approaches to the accounting of government grants relating to assets:

- the grant is reported through profit or loss over the life of the asset in proportion to the depreciation expense or charge recognized on those assets;
- the grant is deducted from the cost price of the asset financed, automatically resulting in a reduced depreciation base and thus future depreciation expenses.

Example 1: Company W acquired a wastewater treatment plant for 30,000, depreciable over 10 years. The government grant received within the framework of an environmental regulation covers one-third of the amount.

Recognition at the time of acquisition is as follows:

Wastewater treatment plant (B/S)	30,000	
Cash (B/S)		30,000

At the same time, due to its regulatory nature, the grant is deemed vested at the time the investment is made:

- First accounting approach

Grant receivable (B/S)	10,000	
Deferred income, investment grant (B/S)		10,000

- Second accounting approach

Grant receivable (B/S)	10,000	
Wastewater treatment plant (B/S)		10,000

In this case, the net investment amount for the plant is 20,000.

The future impact on profit and loss is as follows:

- First approach

Depreciation expense (P&L)	3,000	
Depreciation provision for property, plant and equipment (B/S)		3,000
Deferred income, grant reported as income (B/S)	1,000	
Proportion of grant reported as income (P&L)		1,000

- Second approach

Depreciation expense (P&L)	2,000	
Depreciation provision for property, plant and equipment (B/S)		2,000

➢ *For the purposes of simplification, the impact of deferred tax is not taken into account in the example above.*

3.2 Grants related to income

Grants related to income are reported:

- either in the profit or loss statement under a specific heading (such as “other income”);
- or as a deduction in reporting the related expense.

Example 2: Company X received a grant of 15,000 designed to cover employee training costs.

The company receiving the grant would report the transaction as follows:

Grant receivable (B/S)	15,000	
Grant related to income – other income (P&L)		15,000

or

Grant receivable (B/S)	15,000	
Personnel expenses/staff costs (P&L)		15,000

3.3 Repayment of government grants

A government grant or conditionally non-reimbursable loan that becomes repayable (due to failure to comply with qualification requirements, for instance) must be accounted for as a change in an accounting estimate as per IAS 8.

Repayment of a grant related to income should be applied first against any unamortized deferred credit. The remainder is accounted for as an expense.

Example 3: In year N–1, company Y received a government grant of 50,000 that was immediately deducted from the expense of the related asset. In year N, company Y was required to repay 10,000 to the government because it failed to create a sufficient number of jobs on the site, which was one of the qualifying criteria in the grant contract. The following entry would have to be made:

Repaid grant (P&L)	10,000	
Bank (B/S)		10,000

Repayment of a grant related to an asset shall be applied first to any unamortized deferred credit. The remainder is accounted for by increasing the carrying amount of the asset.

Example 4: In year N–1, company Z received a government grant related to assets of 100,000 that was deducted from the net acquisition price of 300,000 paid for the asset. The asset is depreciable over 10 years. In year N, company Z had to repay 50,000 to the government due to failure to comply with environmental regulations. At the end of year N, the carrying amount of the asset was 180,000. The following entry would have to be made:

Equipment (B/S)	50,000	
Bank (B/S)		50,000

Future depreciation expenses would be calculated based on the adjusted carrying amount, i.e. 180,000 + 50,000 = 230,000 over a remaining residual life of 9 years.

➢ *For the purposes of simplification, the impact of deferred tax is not taken into account in the example above.*

3.4 Subsidized low-interest loans

The economic benefit resulting from a loan granted by a government agency at an interest rate that is lower than the market rate is treated as a grant and must be measured according to IFRS 9.

4. Disclosure

The accounting and presentation method adopted for government grants must be disclosed.
The notes to the financial statements must report:

- for government grants: their nature, extent and amount;
- for forms of government assistance: their nature, extent and duration;
- unfulfilled conditions and any other contingencies that could entail the repayment of all or part of the government assistance that has been recognized.

The statement of cash flows must present two separate flows: asset acquisition and receipt of grant.