

## AS 12 : Accounting for Government Grants.

★ Grant related to Revenue  $\Rightarrow$  credited to P&L  
 eg: Free of cost  $\hookrightarrow$  separately / under 'other income'

Alternative: deducted from reporting related expenses

★ Non-monetary grant eg: land,

@ Free of cost

credited to Capital Reserve  
 [ recorded @ NV ]

@ concessional rate

Non monetary alc  
 To Bank alc  
 [ @ acquisition cost ]

★ grant as promoter contribution [ for working in backward areas ]  
 $\Downarrow$   
 credited to CR

★ grant for non-depreciable asset  $\Rightarrow$  credited to CR

★ Grants for depreciable asset

Net method /  
 Asset Cost Method  
 Reduction

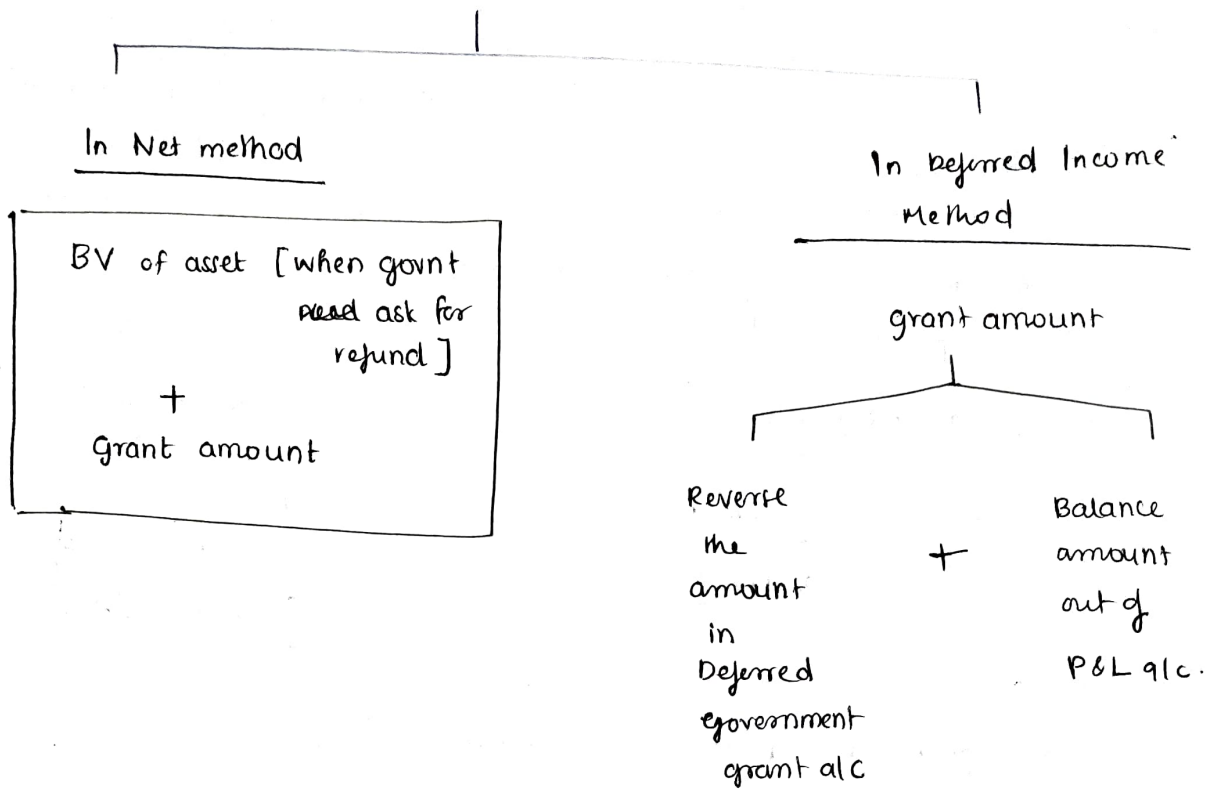
deferred Income Method

gross value of asset	xx
(-) grant	(xx)
Book value	<u>xx</u>

recognized P&L  $\swarrow$

grant amount treated as deferred income  
 recognized in P&L on systematic and rational basis over useful life.

Due to non-compliance of conditions attached to the grant  
 Government may decide to ask for refund.  
 How to calculate?



Journal Entries [ Govt grant ✓ ]

✓ Net method

Fixed asset a/c  
 To Bank a/c

Bank a/c [govt grant]

To Fixed asset a/c

Depreciation a/c

To Fixed asset a/c

P&L a/c

To Depreciation

y11

y12

deferred Income Method

Fixed asset a/c  
 To Bank a/c

Bank a/c [govt grant]

To DGG a/c

Depreciation a/c

To Fixed asset a/c

P&L a/c Dr

To Depreciation

DGG a/c

To P&L a/c

Journal entries

[ Refundable ]

Net method

( respective year BV )  
Fixed asset a/c

To Bank a/c

[ Being government grant on asset refunded ]

Depreciation is calculated on revised book value

[ Book value (when refunded) + grant ]

for the remaining useful years

Deferred Income Method

D/Gr a/c  $( \frac{\text{grant}}{\text{useful life}} \times \text{no. of years (refund)} )$

P&L a/c "

To Bank a/c

✓ D/Gr a/c will become Nil

✓ FA continue to be shown at ₹ \_\_\_\_\_

✓ FA initially @ Actual value [ not deducted grant ]

Depreciation per annum

$$= \frac{\text{Actual Value} - \text{Resid}}{\text{Useful life}}$$

✓ BV after 2 years 40 A.V

(-) 1<sup>st</sup> Dep

(-) 2<sup>nd</sup> Dep

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