

**AS12
GOVT.GRANT**

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DEFINITIONS

a) Meaning of Government

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

b) Meaning of Grant

Government Grants are assistance by Government, in cash or kind to an enterprise, for past or future compliance with certain conditions. They exclude - (a) those forms of Government assistance which cannot reasonably have a value placed upon them and (b) transactions with Government which cannot be distinguished from the normal trading transactions of the enterprise.

APPROACHES FOR ACCOUNTING OF GRANTS

Capital Approach

The Grant is treated as part of Shareholder's Funds.

Income Approach

The Grant is taken to Income over one or more periods.

RECOGNITION OF GRANT

Recognition: Government Grants are recognised only when there is reasonable assurance that -

- the enterprise will comply with the conditions attached to them, and
- the Grant will be received.

TYPES OF GRANTS

1. Grants related to Promoter's Contribution
2. Grants related to Fixed Assets
3. Grants related to Revenue/Expenses
4. Non Monetary Grants

PROMOTER' CONTRIBUTION

The Government Grants may be in the nature of Promoters' Contribution i.e. -

- they are given with reference to the Total Investment in an undertaking or
- by way of contribution towards its Total Capital Outlay, (e.g. Central Investment Subsidy Scheme).

Such Grants are not ordinarily expected to be repaid. Hence, they are treated as capital Reserve, and as part of Shareholders' Funds which cannot be distributed as dividend or considered as Deferred Income.

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PROMOTER' CONTRIBUTION

Journal Entries

At the time of Receipt of Grant

Bank Account Dr.

To Govt. Grant

Govt. Grant Dr.

To Capital Reserve

At the time of Refund of Grant

Capital Reserve Dr.

To bank

GRANTS RELATED TO FIXED ASSETS

These Grants can be classified under two different headings:

- 1) Grants Related to Depreciable Assets
- 2) Grants Related to Non-Depreciable Assets

NON DEPRECIABLE ASSETS

If any grant is received for a fixed asset which is non depreciable, then it can not be transferred to profit & loss account, but it will be credited to Capital Reserve. The same treatment will be done which is specified for promoter' contribution.

Journal Entries

At the time of Receipt of Grant

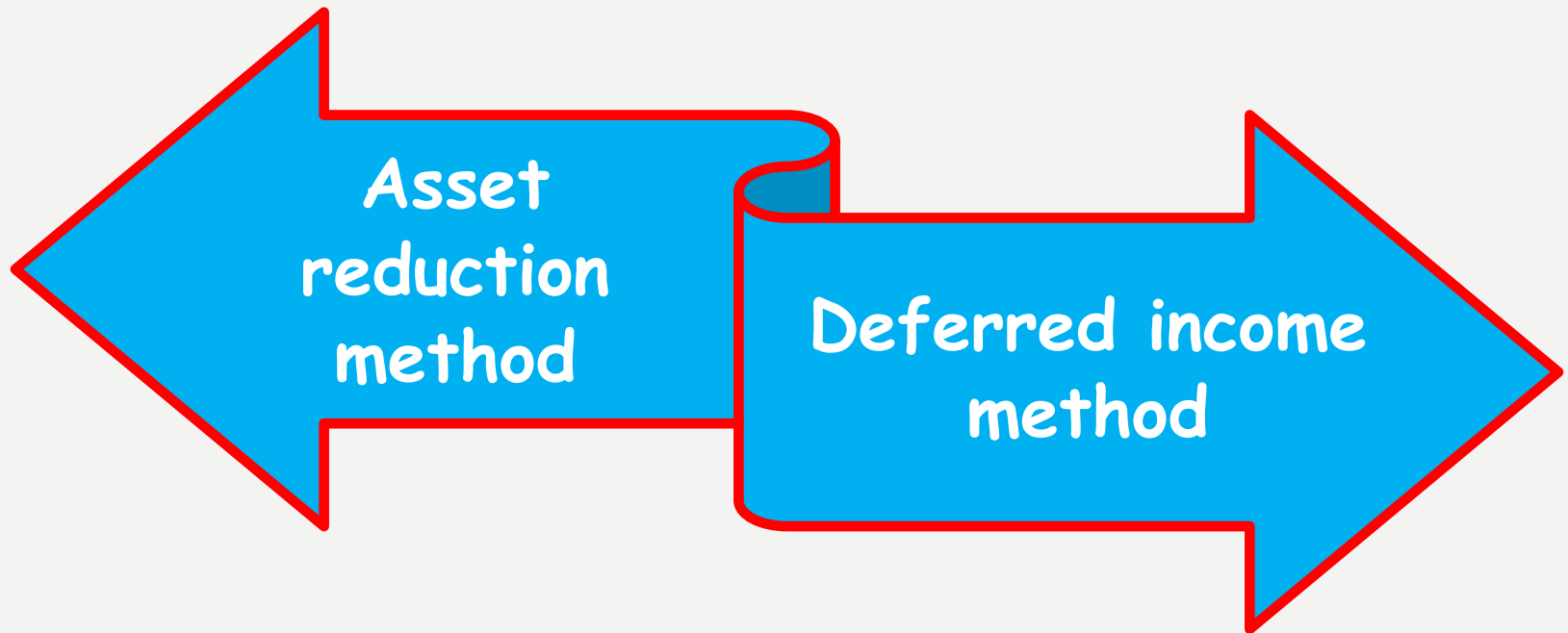
Bank Account Dr.
 To Govt. Grant

Govt. Grant Dr.
 To Capital Reserve

At the time of Refund of Grant

Capital Reserve Dr.
 To bank

DEPRECIABLE ASSETS



ASSET REDUCTION METHOD

Under this method, Grant is directly deducted from cost of Related asset as a result of depreciation will get decreased. It can also be said that depreciation would be charged on reduced value of assets.

If grant is refunded to Govt. then Grant will be added back to Same fixed asset and the revised value of asset will be amortised on the basis of remaining useful life.

At the time of receipt of grant	At the time of refund of grant
Bank Account Dr. To Govt. Grant	Fixed Assets Dr. To Bank
Govt. Grant Dr. To fixed Assets	

DEFERRED INCOME METHOD

Under this method, Grant is not directly deducted from cost of Related Asset but it is transferred to Deferred Grant Account. This Account will be disclosed under the heading R&S in balance sheet. It will be amortised in Profit & Loss Account over the useful life of asset.

If grant is refunded to Govt. then there will be no effect on fixed assets account but deferred grant account will be reversed.

At the time of receipt of grant	At the time of refund of grant
Bank Account Dr. To Govt. Grant	Deferred Grant dr.(unamortised) P&L dr.(amortised)
Govt. Grant Dr. To Deferred Grant	To Bank
<u>At each balance sheet date</u> Deferred Grant Account To P&L.	

GRANTS RELATED TO REVENUE

Recognition

Government Grants related to revenue should be recognized on a systematic basis in the Profit and Loss Statement over the periods necessary to match them with the related costs, which they are intended to compensate.

Presentation

Grants related to revenue are presented -

- As a Credit in the Profit and Loss Statement, either separately or generally as 'Other Income' or
- As a Deduction in reporting the related expense.

NON MONETARY GRANTS

When Government Grants are received in the form of assets such as Land, Plant and Equipment's etc. free of cost, then, such Assets should be entered in the Books of Accounts at Nominal Value. Explain.

If Government Grants are in the form of non-monetary assets (e.g. land or other resources, given at concessional rates), such assets may be recorded at their Cost of Acquisition, i.e. at the Concessional Value.

When these assets are received free of cost, it is recorded at a Nominal Value (say Rs.100) for the purposes of identification and control).