AS 12 - Accounting for Govt. Grants

1. Meaning of Govt. Grant
* Govt. assistance (support) including subsidiary
* Such may in cash / in kind
* For past / future compliance of conditions

Note :- Govt = any

2. Types of Govt. Grants (Rcvd)

A. Grants Related to Fixed Assets

Monetary Grant

(a) For depreciable F.A (SLM / WDV)

I. Reduce G.G from cost of F.A — I-①

50 Lakh
− 10 lakh
40 lakh

(OR)

II.
* open the D.G.G &
* Transfer such to P&L a/c during the life of F.A in the ratio of Depⁿ — I-②

D.G.G = 10,00,000
F.A = SL
show separately

(b) For non-depreciable F.A (Land)

I. Reduce G.G from cost of F.A.

cost = 18,00,000
− GG = 5,00,000
13,00,000

II. Transfer G.G to CR

CR = 12 Lakh
CR = 5 Lakh

Non monetary Grant

Case (A): if free of cost

if payment made then F.A — 1050

cost = 25 Lakh

JE
F.A Dr
To CR

I-③

Case (B): If at concessional cost

cost = (2500000 − 80%) = 5,00,000

J.E
FA Dr SL
To Bank SL

B. Grant for Revenue expenses

Case (A)

For past exp incurred
* Since already transf to P&L
* Govt. G. rcvd will be transf to P&L a/c

Case (B)

For future exp open DGG a/c — process to start

step 1 :- Rcvd G.G (gosbola) will be transf to DGG A/c

step 2 :- Transfer DGG a/c

option 1 (OR) option 2

Option 1: To P&L A/c as Income

Exp 30 lakh | DGG 18 Lakh

I-7

Option 2:
* To exp a/c by crediting to exp a/c
* net reduced exp are transf to P&L A/c

exp − 30 lakh
Dr − 18 Lakh
12 Lakh

I-4, 11

C. Grant for Promoter's contribution

Bank A/c Dr
To CR

I-⑤ & ⑥

Example. Govt. is giving a grant of ₹ 10,00,000 To construct & Run school in backward area total cost of liability was 50,00,000.

=> cost in hands of Mr. A = 50,00,000 − 10,00,000 = 40,00,000
How such accounting will be done in books of Mr. A.

Method 1
Net Approach

est life = 5yrs
S.V = 5,00,000

F.A = 50,00,000
− G.G = 10,00,000
40,00,000

$Dep^n = \frac{40,00,000 - 5 Lakh}{5}$

= 7,00,000

Year 1 a) on acq. of F.A.
F.A A/c Dr 50Lakh -
To Bank A/c - 50Lakh

b) Grant is recvd.
Bank A/c Dr 10Lakh -
To F.A A/c - 10Lakh

c) At year end.
- Dep^n A/c Dr 7L -
To F.A A/c. - 7L.

- P&L A/c Dr 7L -
To Dep^n A/c - 7L.

Method 2.
Gross Approach

F.A = 50,00,000
GG will be recorded as D.G.G
G.G = 10,00,000 (income)
est. life = 5yrs
S.V = 5,00,000

$Dep^n = \frac{50 Lakh - 5 Lakh}{5}$

= 9,00,000.

Year 1
a) on acq. of F.A.
F.A A/c Dr 50Lakh -
To Bank A/c. - 50Lakh

b) on receipt of G.G
Bank A/c Dr 10Lakh -
To D.G.G A/c - 10Lakh.

c) At year end
- Dep^n A/c Dr 9,00,000 -
To F.A A/c. - 9,00,000

- P&L A/c Dr 9L -
To Dep^n A/c - 9L

- D.G.G A/c Dr 2L -
To P&L A/c. - 2L.
(10L ÷ 5)

3. If refund of Govt. Grant:

A. Related to F.A.

- Monetary
  - For depreciable F.A.
    - Method I
      - F.A A/c Dr
      - To Bank A/c
    - Method II
      - D.G.G A/c Dr
      - P&L A/c Dr
      - To Bank A/c
  - For non-depreciable F.A.
    - Method I
      - F.A A/c Dr
      - To Bank A/c.
    - Method II
      - CR A/c Dr
      - To Bank A/c.
- Non-monetary — not possible.

B. Grant for Revenue exp.

- For past exp. — not possible.
- For future exp.
  - step 1:- upto to D.G.G Debit.
  - step 2:- remaining Debit to P&L

C. Promoters contribution

- CR A/c Dr
- To Bank A/c.

Recognisation of Govt. Grant in books

Grant can be recognised in book, only if :-

i. conditions satisfied as per requirement

&

ii. There is no uncertainity for its collection.