

2. AS-12 Government Grants

Objective: IT deals with recognition
measurement
Presentation
Disclosure
&
Methods and approaches of
Government Grants.

Scope: Not Applicable

- a) Special problems arising in Government grants
Eg: Inflationary conditions
- b) Government participation in the ownership of enterprise
Govt = shareholder (Not a grant)
- c) Govt assistance other than govt grant.
[Not received in cash/kind like reduction prices,
Tax holidays, tax exemptions etc)

3. Definition:

a) Government

National

CG

SG

Local bodies

Panchayats

Municipal corporations

Constitutions etc

International

WHO

UNO

UNICEF

etc

b) Grants : can be either in the form of Grants
Subsidies
Incentives
Rewards
Duty drawbacks etc

c) Government grant : Grants received from government either in cash or kind.

Excludes:

1. Govt Grant can't be measured reliably
[Advances, technical assistance provided by the govt]

2. GG can't be distinguished from ordinary course (or) due course of business.

[like government is a customer purchasing goods from an entity]

d) Recognition of government grant:

Only when 2 conditions are satisfied

a) fulfillment of conditions (Past/Future)

b) Reasonable assurance/certainty that grant shall be received

Grants is generally attached with some conditions

Case-1 Govt Grant already received

a) Entity expects no fulfillment of conditions

Cash/Bank A/c — Dr xxx

To Govt Grant payable A/c xxx

b) Entity expects that fulfillment of conditions

Cash/Bank A/c Dr xxx

To Govt Grant A/c xxxxx

Case-2 Government grant will be received when conditions are fulfilled.

a) IF No fulfillment of conditions. - No Grant

b) IF fulfillment of conditions are there

Reasonable assurance Grant shall be received

GG receivable A/c Dr xxx

~~Dr~~

To GG A/c xxx

c) fulfillment of conditions are there, Reasonable assurance Grant shall be received.

No Journal entry.

Summary

Grant received (a)	conditions satisfied (b)	Reasonable assurance	Recognise (or) not.
✓	✓	x (no need)	✓
✓	x	✓ (to b)	✓
✓	x	x (to b)	x
x	✓	x (to a)	x
x	✓	✓ (to a)	✓
x	x	✓ (to a & b)	✓

5. Receipt of Government Grant

A) Monetary grant (Cash)

preciable assets other than depreciable assets

B) Non monetary grant (kind) Asset

Free of cost

At

concessional

B) Non monetary grant

Free of cost
recognise at
Nominal Immaterial
in significant value

Recorded at

Concessional price
concessional price.

→ ASSET A/C Dr @ 1/-
TO Govt Grant. 10/-
etc

Journal entry

⇒ ASSET A/C Dr
TO CASH/BANK A/C
@ concessional price.

⇒ Govt Grant A/C Dr
TO P&L A/C

[Grant is not recorded
directly under this type]
TO make users to know disclose
the grant is received at
concessional price by the
way of GG]

A) Monetary Grant

Other than depreciable assets

Capital Approach

Revenue / Income approach

• Relating to the
establishment
of business

① When shall the
grant be given?
How to identify?

• Grant is related to
the due course of
Business.

capital approach

Income approach

- Share Holders Fund
- Promoter contribution
- capital profit

• Income
[even tax will be levied as
per income tax act 1961]

Gratituous

3) TYPES

Rarely gratuitous



Generally no special
conditions are attached
(establishment of business
itself is the condition)

4) why.

Generally always conditions
shall be attached [like
maintain employees, help
the poor, provide health facilities etc]

Cash/Bank A/C Dr
 TO GG A/C
 GG A/C Dr
 Capital Reserve A/C

5) Journal Entry

C/B Dr
 TO GG/DGG A/C
 GG/DGG A/C Dr
 TO P&L A/C

Cash/Bank
 TO Capital Reserve

* [GG for ≤ 1 year]

[DGG for > 1 year]

* DGG has to be amortised in proportion to expenses spent.

* IT can't be reliably estimated then follow with straight line method]

Capital Reserve
 under Reserves & Surplus
 in the Balance Sheet

6. Presentation. a) amortized portion of CG/DGG.

Options

Journal entries

DGG TO P&L A/C

- ① other income
- ② set off with respective expenses
- ③ as an exceptional item

DGG A/C Dr
 TO EXPENSES A/C

For Presentation

b) Unamortized portion of DGG

Options

- ① R & Surplus
- ② separate line item (after share holder fund but before non current liability)
- ③ long term liability. [Generally not preferable]

Q-6

Shown Separately as
Other income

- ① Salaries 30L
 TO CIB 30L
- ② CIB 90L
 TO DGG 90L
- ③ DGG A/C Dr 18L
 TO P&L A/C 18L
 [90L ÷ 5]
- ④ P&L A/C Dr 30L
 TO Salary 30L

Deduct against

- ① Salary A/C Dr 30L
 TO CIB 30L
- ② CIB 90L
 TO DGG A/C 90L
- ③ DGG A/C Dr 18L
 P&L A/C Dr 12L
 TO Salary 30L

(or)

Alternative

- DGG 18L
 to salary 18L
- P&L A/C Dr 12L
 to salary A/C 12L

Relating to Depreciable assets

method-1

- Asset Reduction method (or)
- Cost Reduction method

method-2

- DGG method (or)
- Deferred income method (or)
- Liability method (or)
- Asset liability method (or)

CIB
 TO GG

GG
 TO Asset A/C

JE

CIB A/C Dr
 TO Deferred govt Grant A/C

DGG A/C Dr
 TO P&L A/C

Note: Provide depreciation on reduced value of asset.

[In proportion to Expenses on asset is depreciation]

6) Refund of GG.

Receipts

Asset
TO GG (NV)
GG
TO P&L A/C

Types of GG.

- 1) Non monetary @at free of cost

Refund of Re.
Refund of Asset

P&L / GG @ NV
TO Asset A/C

[If GG is not yet closed then debit GG instead of P&L]

Say Govt is not asking asset but asking to pay cash.

Asset A/C Dr
TO cash/BANK A/C

Asset 3L
TO CIB 3L

- b) at concessional price [say 5L - fair value
3L - concessional price]

Generally Govt wont ask ~~debt~~ back the asset since entity paid some cash.

→ It generally asked to pay the difference in cash.

Asset 2L
TO CIB 2L
(5L-3L)

2) monetary grants

a) other than Depreciate assets

(i) capital approach

CIB / GG
TO CIB

CIB
TO GG
GG
TO CIB

(ii) Revenue or Income Approach.

P&L / GG
DGG (with the drawn)
TO CIB

CIB
TO GG / DGG
GG / DGG
TO P&L A/C

b) Monetary Grants under Depreciable Assets

C/B
TO GG A/c
GG
TO asset A/c

(i) ARM (Asset Reducing method)

Asset/GG
TO C/B

(ii) DGG method

Special points

- If any contingency / conditions exists then follow AS 4
- Receipt of GG → Exceptional item
- Refund of GG → Extraordinary item.

But in the following two situations "Receipt of Grant treated as extra-ordinary item"

↓
Government grant received in current year related to past expenses spent the same is not recognised in the past since no certainty & can't adjust now in P&F's since P&F are closed. Hence treated as Extra-ordinary item and Present separately in the P&L A/c by disclosing the information above.

↓
CG in due course of business by the way of providing financial assistance without any conditions attached treated as EO item since all other entities for such grants conditions