

Meaning & Recognition of Government Grants

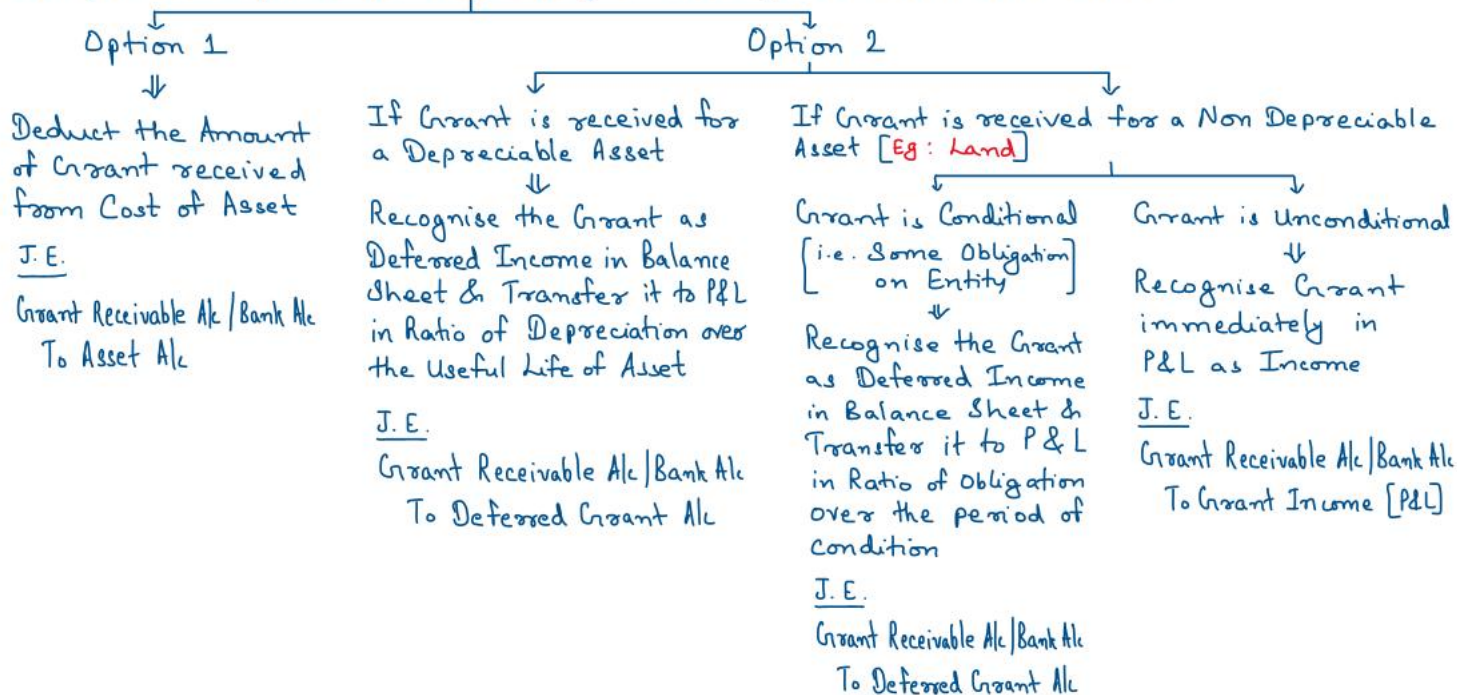
- Government Grant means assistance by Government in form of transfer of resources to Entity.
- Entity shall recognise Government Grant in Books only when there is Reasonable Assurance that
 - Entity will comply with conditions of Grant (if any)
 - and
 - Grant will be received

Accounting of Government Grants Related to Asset

It means grant given by Government to Entity for Purchase / Construction of Long Term Asset (PPE) [Example: Establishment / Setup of a Plant; Purchase / Development of Equipment, Machinery or Land, etc.]

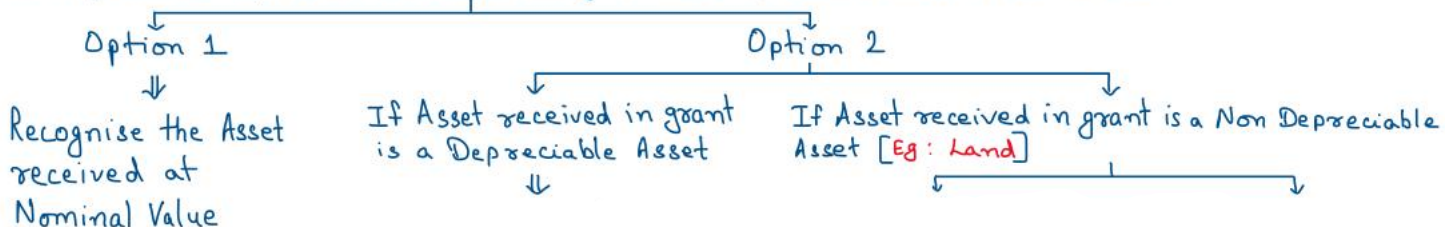
(1) Accounting of Monetary Government Grant Related to Asset [i.e. When Government Grant is receivable in Cash] :-

Entity has 2 Options for Accounting of this type of Government Grant



(2) Accounting of Non Monetary Government Grant Related to Asset [i.e. When Government Grant is receivable in Kind] :-

Entity has 2 Options for Accounting of this type of Government Grant



* Nominal Value means:

→ Nominal Amount that Entity has paid to Government to acquire the Asset

→ If Asset is received for free from Government, then Nominal Value means ₹ 1

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Asset Alc [Nominal Value]
To Bank Alc

- Recognise the Asset at Fair Value
- Recognise the Grant at Fair Value as Deferred Income in Balance Sheet & Transfer it to P&L in Ratio of Depreciation over the Useful Life of Asset

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Asset Alc [Fair Value]
To Deferred Grant Alc

Grant is Conditional [i.e. Some Obligation on Entity]

- Recognise the Asset at fair Value
- Recognise the Grant at Fair Value as Deferred Income in Balance Sheet & Transfer it to P&L in Ratio of Obligation over the period of condition

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Asset Alc [Fair Value]
To Deferred Grant Alc

Grant is Unconditional ↓

- Recognise the Asset at fair Value
- Recognise the Grant at Fair Value immediately in P&L as Income

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Asset Alc [Fair Value]
To Grant Income [P&L]

Accounting of Government Grants Related to Income

- It means grant given by Government to Entity for incurring expenses or for relief in case of losses in business [Example: For Immediate Startup of Business / Relief Measure; Subsidy for Staff Training Expense, for Research & Development, for incurring expense to protect environment; Subsidy to sell goods at lower Price, etc.]
- Entity shall do Accounting for this type of Government Grant as follows :-

If Grant is receivable for expenses already incurred or for immediate startup / relief [i.e. Unconditional]

↓
Recognise the Grant immediately in P&L as Income

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Grant Receivable Alc / Bank Alc
To Grant Income [P&L]

If Grant is receivable for future expenses [i.e. Conditional]

↓
Recognise the Grant as Deferred Income in Balance Sheet & Transfer it to P&L in Ratio of related future expenses over the period in which those expenses are to be incurred

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Grant Receivable Alc / Bank Alc
To Deferred Grant Alc

Presentation of Government Grants

(1) Balance Sheet :-

Deferred Grant is shown in Liability as Current or Non Current

(2) Statement of Profit or Loss :-

Option 1 ⇒ Grant Income is shown separately in 'Other Income'.

Option 2 ⇒ Grant Income is deducted from the related Expense.

(3) Statement of Cash Flows :-

Grant received is shown under Financing Activities.

Accounting of Repayment (Refund) of Government Grants

Entity has to do Accounting of Repayment of Government Grants according to the following cases :-

If Grant was recognised directly in P&L as Income

↓
Repayment of Grant will be debited to P&L

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P&L
To Grant Payable A/c | Bank A/c [Refund Amount]

If Grant was recognised as Deferred Income

↓
Repayment of Grant will be debited to Deferred Grant & any remaining amount of refund will be debited to P&L

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Deferred Grant A/c [Carrying Amount]
P&L [Balancing figure]
To Grant Payable A/c | Bank A/c [Refund Amount]

If Grant was recognised by way of deduction from Cost of Asset

↓
Repayment of Grant will be debited to that Asset A/c

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Asset A/c
To Grant Payable A/c | Bank A/c [Refund Amount]

Note:- Depreciation that would have been recognised on this Asset (if there were no Grant) shall be recognised immediately in P&L

Accounting of Loan Received from Government at Less than Market Interest Rate

- Apply Financial Liability (Loan Taken) Accounting as per Ind AS 109.
- At Initial Recognition, Difference between Loan Amount Received & Fair Value of Loan (Financial liability) will be treated as Government Grant.

↓
This difference amount of Government Grant will be accounted as per Ind AS 20 [i.e. according to the nature of Grant (Purpose of Loan) as discussed in above topics]

Journal Entry at Initial Recognition of Loan

Bank A/c To Loan A/c To Deferred Grant A/c P&L	Amount Received Fair Value Balancing figure
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