AS 12 - Accounting for Govt. Grants

1] Defn of Govt Grant

It is assistance by govt. in cash or in kind for past or future compliance with certain conditions.

2] Scope

AS 12 does not apply to:

a) Grant such as tax holiday period, Tax Exemptions

b) Govt participation such as Investment by Govt in a co. as a equity shareholder.

3] Recognition of Govt. Grant

A govt grant is recognised only when there is reasonable assurance that:

a) Enterprise will comply with conditions attached to grant AND

b) Grant will be rec'd.

4] Accounting Treatment of Govt Grant

- Capital Approach (Capital Grant)
- Income Approach (Revenue Grant)

5] Types of Govt Grant

- Non-Monetary Grant (recd in kind)
- Monetary Grant (recd in cash)

Non-Monetary Grant

- Received Asset at concessional rate
  (eg: Bldg cost → 10cr provided at 4cr)
  ↓
  Record at acquisition cost
  J.E. Bldg A/c Dr 4cr
  To C/B A/c 4cr
- Received Asset free of cost
  (eg Bldg worth ₹10cr provided for free by Govt)
  ↓
  Record at Nominal Value (immaterial value)
  J.E Bldg A/c Dr ₹1/₹10/₹100
  To Govt Grant ₹1/₹10/₹100
  ↓
  (P&L Capital Reserve)

* Monetary Grant

- A. Grant Relating to Fixed Assets (PPE)
- B. Grant relating to revenue nature
- C. Grant in the nature of promoter's contribut.

A. Monetary Grant Relating to PPE (Fixed Assets)

i) Depreciable Asset

Eg: Co purchased Bldg worth ₹ 10 cr.
Govt Grant received is 6 cr.
life of PPE = 10 yrs

First Method

Reduce the grant from cost of Asset

J.E ①
Bldg A/c Dr 10 cr
To CIB 10 cr

② Govt Grant
CIB A/c Dr 6 cr
To Bldg A/c 6 cr

Net value of Bldg on Day ① = 4 cr
(10 cr - 6 cr)

③ Deprn (4 yr end)
Deprn 0.4 cr
To Bldg 0.4 cr
(4 cr / 10 yrs)

Second Method

Treat the Grant as deferred income (DGG) & recognise as income in proportion to Deprn / life of asset

J.E ① Bldg A/c Dr 10 cr
To CIB 10 cr

② CIB A/c Dr 6 cr
To Deferred Govt Grant (DGG) 6 cr

4 yr lend

③ Deprn
Deprn 1 cr P/L
To Bldg 1 cr To Deprn
(10 cr / 10 yrs)

ii) Non-Depreciable Asset

P/L 0.4cr
To Depn 0.4cr

P/L (Extract)

Depn	0.4cr		

④ Trf of DGr to P/L

DGr A/c Dr 0.6cr
To P/L (Other Income) 0.6cr

(6cr / 10yrs)

P/L (Extract)

Depn	1cr	Other Inc (Grs)	0.6cr
Net Exp	0.4cr		

ii) Non-Depreciable Asset (eg: Land purchased for 10cr Govt Grant recd = 6cr)

First Method

Reduce the Grant from cost of Asset

J.E ① Land A/c Dr 10cr
To CIB 10cr

② Grant
CIB 6cr
To Land 6cr

Second Method

Co. wants to treat the grant separately i.e. DO NOT reduce from cost of Asset

J.E ① Land A/c Dr 10cr
To CIB 10cr

Net value of land = 4cr

↓

No Depr° as it is a Non Dep. Asset

② Grant

Grant is unconditional

(No conditions to be fulfiled)

↓

Treat this like a promoter's cont° & hft to Cap Rese

↓

CIB A/c Dr 6cr

To Govt Grant 6cr

(Capital Rese)

Grant is conditional

(eg: Co cannot sell land for 5 yrs)

J.E.

Day ① CIB 6cr

To DGG 6cr

Yrend

DGG 1.2cr

To P/L 1.2cr

(6cr/5yrs)

B. Grant relating to Revenue Nature

(Generally these grants are received to reimburse expenses of the Co.
eg: Sal$ Exp, Advt Exp, Emp training exp etc.)

Grant rec'd to reimburse exp of 1 year

Trf Grant to PIL in one year.

(eg: Sal$ exp was ₹90L p.a. Grant rec'd was ₹30L to reimburse Sal$ of 1st year)

J.E. Sal$ Exp 90L
To CIB 90L

CIB A/c Dr 30L
To Govt Grant (PIL) 30L

Presentation in PIL

First Method

Show Exp & Inc separately

PIL	
Other Income (GG)	30L
Exp	
EBE (Sal$ Exp)	90L

Second Method

Adjust the Grant income from Exp

PIL		
Exp		
Sal$ Exp	90L	
(-) GG	(30L)	60L

Grant rec'd to reimburse exp of multiple years

Book the Grant as DGG & trf to PIL over the years in which exp is Booked

(eg: Sal$ Exp was ₹90L p.a. Grant rec'd was ₹100L lumpsum to reimburse salary of 5yrs)

J.E. Yr1 Sal$ Exp 90L
To CIB 90L

CIB 100L
To DGG 100L

DGG Dr. 20L
To PIL 20L
(100/5yrs)

Here also in PIL 2 ways of presentation.

Grant rec'd for past exp incurred which was NOT promised earlier.

Trf to PIL

J.E
CIB
To PIL

Logic: Past Exp already trf in PIL
∴ GG also in PIL

c. Govt Grant in the nature of Promoter's contribution

It means Grant rec'd to setup Busn / factory / Plant in a Backward Region / Notified Area

↓

Trf to Cap Rese

J.E. CIB A/c Dr
To Cap Reserve

6. Refund of Govt Grant (As per AS5, Refund of GG is an Extra-ordinary item)

If Grant received was adjusted against cost of Asset.

↓

Refund of Grant will be added to cost of Asset

↓

J.E Refund PPE xx
To CIB xx

(After above J.E, CA of PPE increases ∴ Depn will change prospectively

If Grant rec'd was trf to DGG

↓

Refund of Grant will be done from DGG upto the Bal in DGG. Excess refund (if any) will be adjusted from P/L.

Eg: Grant Day ① 100 cr to be trf to P/L over 5 yrs. Day ① DGG = 100 cr
On 1st day of 3rd yr full 100 cr becomes refundable.
1st Day of 3rd yr (DGG Bal) = 60 cr

J.E Refund DGG 60 cr
P/L 40 cr
To CIB 100 cr

(100 cr ÷ 5 × 2 = 40)
2 yrs trf to P/L

If Grant rec'd was trf to Cap Rese.

↓

Refund also from Cap Rese

J.E Cap Rese Dr
To CIB.

Que 1 Grant adjusted from cost of Asset

Year 1 Fixed Asset A/c Dr 50L
To CIB 50L

CIB A/c Dr 10L
To Fixed Asset 10L

Net value of Asset = 40L (life 5 yrs, salvage value = 5L)

Depra Dr 7L
To Fixed Asset 7L
} $\left(\frac{40L-5L}{5yrs}\right)$

PIL 7L
To Depra 7L

Year 2 Depra Dr 7L
To Fixed Asset 7L

PIL 7L
To Depra 7L

Ques 2 Grant for PPE, treated as Deferred Income (DGG)

Year 1 Fixed Asset A/c Dr SOL
To CIB SOL

CIB IOL
To DGG IOL

Depn

Depn Dr 9L
To Fixed Asset 9L $\left(\frac{SOL - SL}{5yrs}\right)$

P/L 9L
To Depn 9L

DGG trf to P/L

DGG A/c Dr 2L
To P/L 2L $\left\}\ \left(\frac{IOL}{5yrs}\right)\right.$

Year 2

Depn

Depn Dr 9L
To Fixed Asset 9L

P/L 9L
To Depn 9L

DGG trf to P/L

DGG A/c Dr 2L
To P/L 2L

Q3 → Q.B

Q4 J.E.

Year 1 Sal & Exp (PL) Dr 30L
To CB 30L

CB A/c Dr 90L
To DGG A/c 90L

DGG A/c Dr 18L
To PL 18L
(90L / 5yrs)

Case (a) Grant shown separately as Other Income

PL (Extract)

Revenue		
Other Income (Govt Grant)		18L
Exp		
Sal & Exp		30L

Case (b) Grant deducted against Sal & Exp

PL (Extract)

Exp		
Sal & Exp	30L	
less: GG	(18L)	12L

Q8 Journal entries

Year 1 Purchase

PPE A/c Dr 20L
To CIB 20L

Grant

CIB Dr 8L
To PPE 8L

(Net value of PPE = 12L, life = 4yr, Salvage value = 4L)

Depr

Depr Dr 2L
To Fixed Asset 2L
} $\left(\frac{12L - 4L}{4yr}\right)$

P/L 2L
To Depr 2L

Year 2

1st Day Refund

PPE A/c Dr 5L
To CIB 5L

Working ① Calc of Depr

Day ① Cost 20L (4yr, Res. value 4L)
less: Grant (8L)
12L
less: Yr 1 Depr (2L)
Yr 2 Day ① 10L
(+) Refund 5L
Yr 2 Day ① Revised 15L
(-) Yr 2 Depr (3.67L) $\left(\frac{15L - 4L}{3yr}\right)$

Yr 2 end Depr

Depr Dr 3.67
To Fixed Asset 3.67

P/L 3.67
To Depr 3.67

Refund 1st June 2019.

Q9 (WDV)

Particulars	(₹ in lakhs)
01.04.16 Cost of Machine	300
Less: Govt Grant rec'd	(60)
Net cost on 01.04.16	240
less: Depn 16-17 @ 10% (WDV)	(24)
CA on 31.3.17	216
less: Depn 17-18 @ 10% (WDV)	(21.6)
CA on 31.3.18	194.4
less: Depn 18-19 @ 10% (WDV)	(19.44)
CA on 31.3.19	174.96
less: 2m Depn (1st April to 1st June) (174.96 x 10% x 2/12)	(2.916)
CA on 01.06.19	172.044
Add: Refund of Grant	60
Revised CA on 01.06.19 (after Refund)	232.044
less: 10m Depn (1st June '19 to 31/03/20) (232.044 x 10% x 10m/12m)	(19.337)
CA on 31.3.20	212.707

19.20

J.E (19-20)

01/06/19 Refund PPE A/c Dr. 60
To CLB 60

Depn 19-20 Depn 22.253
To PPE 22.253
P/L 22.253
To Depn 22.253

2.916 + 19.337
|| ||
2m 10m

Q10 (CUR)

Case A: If grant is credited to PPE A/c

i) Cal^n of value of PPE (after Refund)

Day ①	Cost of PPE	40 lakhs	(life 4yr, Res. value = 8L)
less:	Grant rec'd	(16 lakhs)	
	Net cost of PPE	24 lakhs	
less:	Depr^n Yr 1	(4 lakhs)	$\left(\frac{24L - 8L}{4yr}\right)$
	CA @ the end of Yr 1	20 lakhs	
less:	Depr^n Yr 2	(4 lakhs)	
	CA @ the end of Yr 2	16 lakhs	
Add:	Refund of Grant (1st Day of 3rd yr)	16 lakhs	
	CA (after Refund)	32 lakhs	
less:	Depr^n Yr 3	(12 lakhs)	$\left(\frac{32L - 8L}{2yr}\right)$
	CA @ the end of Yr 3	20 lakhs	

ii) J-E for Refund

PPE A/c	Dr	16L
To CIB		16L

Case B: Grant is credited to DGG

i) Cal^n of PPE (after Refund)

(Hint: Grant is Booked as DGG. ∴ PPE ko grant milne se ya refund se koi farak nahi pdta hai)

Day ① Cost of PPE	40L	(Life 4yrs, Res value 8L)
less: Yr 1 Depn $\left(\frac{40L-8L}{4yrs}\right)$	(8L)	
CA @ the end of Yr 1	32L	
less: Yr 2 Depn	(8L)	
CA @ the end of Yr 2	24L	
~~(-) Refund~~		
less: Yr 3 Depn #	(8L)	
CA @ the end of Yr 3	16L	

Cal^n of Bal in DGG

CIB	16L	
TO DGG	16L	
Day ① DGG	16L	(Trf to PIL over 4yrs)
less: Yr 1 trf to PIL	(4L)	(16L/4yrs)
	12L	
less: Yr 2 trf to PIL	(4L)	
DGG Bal @ the end of Yr 2	8L	
J-E for Refund (1st day of 3rd yr)		
DGG A/c Dr	8L	
PIL A/c Dr	8L	
TO CIB	16L	

Yr 3 Dep wont change as refund of Grant is NOT adjusted against PPE.

Ques II

Day ① DGG Bal	90L	(Trf to PIL over 5yrs)
less: Trf to PIL (Yr 1, Yr 2, Yr 3)	(54L)	$(90L \times 3/5)$
DGG Bal @ the end of Yr 3/Begn of Yr 4	36L	

J-E Refund (@ the start of Yr 4)

DGG	36L	
PIL	54L	(Bif)
TO CIB	90L	

Q16 i) Refund

DGG (Given) 10 SL
PIL (BIF) 4 SL
TO CLB 1 SL

No effect of Refund on Amt of PPE & Deprn.

ii) Refund

01.04.17 PPE A/C Dr. 1 SL
TO CLB 1 SL

C.A (after refund) on 01.04.17 = 56 L + 1 SL
= 71 L

Depn (17-18) $\left(\frac{71\,L}{7\,yrs}\right)$ = 10.14 L (Remaing life = 7 yrs)

Q18 Amount of Deprn for 2nd yr (22-23)

Case i) Cost 01/04/21 60 L (Salvage 10L, life 10yrs)
less: Grant rec'd (20L)
Net cost 40L
less: Deprn (21-22) (3L) $\left(\frac{40L - 10L}{10yrs}\right)$
CA on 31/3/22 37L
less: Deprn (22-23) (3L)

Amt of Deprn for 22-23 will be ₹ 3 lakhs.

Case ii) Cost 01/04/21 60 lakhs
less: Deprn 21-22 (5L) $\left(\frac{60L - 10L}{10yrs}\right)$
55L
less: Deprn 22-23 (5L)

Grant trf to DG = 20L

Amt of Deprn for 22-23 will be ₹ 5 lakhs.

Case iii) Cost 01/04/21 60L (Salvage value 10L, life 10yrs)
less: Grant rec'd (20L)
Net cost 40L
less: Deprn (21-22) (3L)
CA on 31/3/22 37L
less: Deprn (22-23) (3L)
CA on 31/03/23 34L
(+) Refund @ the end of the 4L
31/3/23

Refund is done @ the end of yr 2 ∴ Deprn wont change for yr 2. it will start changing from 3rd year.

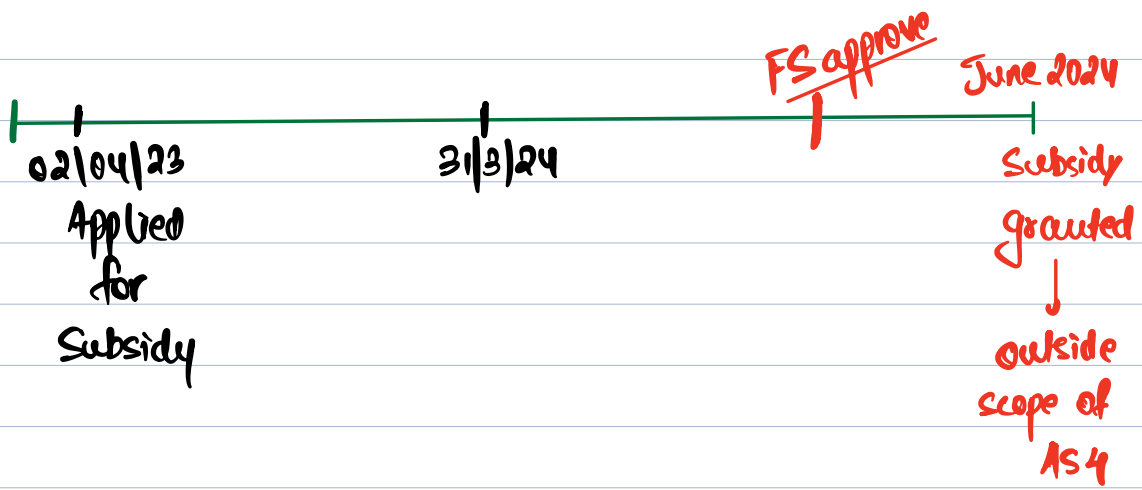
Amt of Depn for 22-23 will be ₹ 3 lakhs.

(Case iv) Depn will be same as case ii)

Cost 01/04/21	60 lakhs	$\left(\frac{60L - 10L}{10yrs}\right)$	Grant trf to Cap Res = 20L
less: Depn 21-22	(5L)		
	55L		
less: Depn 22-23	(5L)		

Amt of Depn for 22-23 will be ₹ 5 lakhs.

Q19



Q20 → QOTD

Q21 (LOR)

Cost of Machines on 01.04.22		33,02,00,000
(40 units (x) $165100 p.u. x ₹50/$)		
(+) Directly Attributable cost		
Bank charges on import	($4000 x ₹50/$)	2,00,000
Sea freight	(₹7500 x 40 units) p.u.	3,00,000
(life 5 yrs) Total cost of Machine 01.04.22		33,07,00,000
less: Grant recd		(5,00,00,000)
Net cost on 01.04.22		28,07,00,000
less: Total 3 yrs Depn	$\left(28,07,00,000 \times \frac{3}{5}\right)$	(16,84,20,000)
CA on 31.3.25 / 01.04.25		11,22,80,000
(+) Refund of GG		5,00,00,000
Revised CA (after Refund)		16,22,80,000