AS 12

Accounting For Govt. Grants

1) Govt. Grants are monetary help to the Business Entities.

2) Tax Exemptions & deductions are not a Govt. Grant.

3) Grant Can be in Cash (Or) in Kind.

4) When to record Govt. Grant in the Books?

   if Following Conditions are satisfied then Grant Can be recognised :-

   a) All the Conditions provided by Govt. are Complied by the entity.

   &

   b) There is a reasonal assurance that " Grant will be Collected"

Grant Can be recorded even on accrual Basis of above Two Conditions are satisfied.

5) Types of Grant :- including Treatment

(A) Revenue Grant :- Grant received to incur Expenses of Revenue Nature.

(or)

Alternate 1

Treat Grant as Other Income

↓

Bank a/c Dr.
To Grant Income (P&L)

Alternate 2

If Grant is received in respect of any Specific Expenditure

↓

1) Bank a/c Dr. 10
To Grant 10

This Grant a/c is treated as temporary Liability Untill actual Expense is incurred.

2) Grant a/c Dr. 10
To Expense 10

This entry is required when actual Expense is incurred.

Expense Dr. 15
To Bank 15

P&L

Exp Gross 15	5 lan.
(-) Grant (10)	

(B) Grant received in the nature of Promoter's Contribution :- (just like Capital Investment)

Such Grant can be received to promote Businesses in backward areas.

This Grant can never be utilised to pay Dividend.

Accounting :- Always transfer to Capital Reserve.

a) Bank a/c Dr.
To Grant a/c

b) Grant a/c Dr.
To CR a/c

(C) Grant in Kind (Non monetary Grant) (Non Cash)

e.g :- Land, Inventory, any other Asset.

Free of Cost → Recognised at Nominal value
eg. 1/-, 10/-, 100/- etc.
→ Asset a/c Dr. 1
To CR 1

No Depreciation

at Concessional Price → Recognised at actual price paid
→ Land MV 50 lacs.
Paid 10 lacs.
to Govt.
→ Land a/c Dr. 10
To Bank 10

Notes :- Land received whose MP was 50 lac.
& Paid 10 lac.

(D) Grant Received for Immediate Financial Support :-

eg:- Bail out Package
↳ Bachao Bachao → Company Ko

If Unconditional Grant is Received

↓

Grant is directly Credited to P&L a/c (Other Income)

↓

a) Bank a/c Dr.
 To Grant

b) Grant a/c Dr.
 To P&L a/c

Def. Grant a/c

To P&L 5	By Bank 20
To Bal 15	
	By Bal. 15

If Conditional Grant is Received

↓

Grant is Deferred & Amortised over the period of Conditions to be fulfilled

↓

1st yr. Bank Dr. 20 lacs.
 To Deferred Grant 20 lacs.

Expected to fulfill the condition in 4 years.

1st yr. end Deferred Grant Dr. 5
 To P&L 5

Remaining Un-amortised Balance of 15 lacs. is shown on Liability Side of B/S.

(E) Grant received to purchase Depreciable Asset :-

Eg:- To purchase Machine
To Construct factory

Any One OF Following Options Can be taken :-
↳ alternatives

Option 1 :- Grant amount is deducted from the Cost (or) Book value of Such Asset.

Depreciation will be Charged on Revised Value OF Asset.

Grant received 10 lacs. to purchase Machine OF 25 lacs. Depreciation 10%.

a) Bank a/c Dr. 10 lacs.
To Grant 10 lacs.

b) Machine a/c Dr. 25 lacs.
To Bank 25 lacs.

c) Grant a/c Dr. 10 lacs
To Machine a/c 10 lacs.

d) Depreciation = 15 lacs. x 10% = 150000

Option 2 :- Grant Received is Deferred & Amortised Over the Life of Asset in the Ratio of Depreciation

- Do not deduct Grant From Cost of Asset
- Instead treate it as Separate Liability
- This Liability is amortised in P&L as Deferred Income Over the Life of Asset
- in the Ratio of Depreciat. Charged on Asset

a) Bank Dr. 10 lacs
  To Deferred Grant 10 lacs.
  (Temporary Liability)

b) Machine Dr. 25 lacs.
  To Bank 25 lacs.

Depreciation = 10% = 250000 (P&L Dr. side)

Deferred Income = 10 lacs × 10% => 100000 (P&L Cr. side)

B/S

Def. Grant 900000	Machine 2250000

P&L

Dep 250000	D.Income 100000

Deferred Grant Dr. 100000
  To P&L a/c a/c 100000

(F) Grant Received to purchase Non Depreciable Asset :- eg. Land, Inventory.

If Unconditional Grant is Received

↓

Grant is directly Credited to P&L a/c (Other Income)

↓

a) Bank a/c Dr.
To Grant

b) Grant a/c Dr.
To P&L a/c

If Conditional Grant is Received

↓

Grant is Deferred & Amortised over the period of Conditions to be fulfilled

↓

1st yr. Bank Dr. 20 lacs.
To Deferred Grant 20 lacs.

Expected to fulfill the Condition in 4 years.

1st yr. end Deferred Grant Dr. 5/5
To P&L

Remaining Un-amortised Balance of 15 lacs. is shown on Liability Side of B/S.

6) Refund of Govt. Grant :-

When Grant is received but further conditions were not fulfilled subsequently then Grant is required to be refunded :-

Accounting Treatment of Refund :-

a) If Grant was earlier treated as Income in P&L (No Deferred) :-

Then Refund of Grant shall be Debited to P&L.

b) If Grant was earlier Credited to Capital Reserve :-

Then CR shall be Debited

c) If Grant was earlier treated as Deferred Grant & there is still Unamortised Balance is available :-

↳ Liability Balance

Such Unamortised Balance shall be Debited First & if there is any Difference, it is transfer to the P&L a/c.

d) If Grant Received was deducted from Cost of Asset earlier:-

Refund amount shall be debited to the Asset a/c & Further Depreciation shall be Charged on Increased value of Assets (prospective effect only)

Important Key Points to Solve the Questions

1) If Grant Received For Revenue nature of Expenses For more than 1 year then it should be Deferred & Amortised over the period of obligation (Refer Q1)

2) Imp. When Grant is Received after purchase of Asset and deducted from Cost/BV of Asset, it may be possible that Asset a/c will be negetive. In such case, the Excess amount i.e negetive Balance is Credited to P&L a/c only & Asset BV will be NiL. (Refer Q8)

3) Grant Received For Notified Backward area

- If Specific Asset/Project is mentioned
  - ↓ Two alternate Answers
    - CR a/c
    - (or)
    - Grant is for purchase of Dep. Asset
- No specific Assets are mentioned
  - ↓ Only one Answer
    - ↓ CR a/c

4) Date of Filing of application for Grant is different from the date of actual approval of Grant → When to recognise the Grant in Books ?

(Refer Q17)

Grant should be recognised only on the date of actual approval.
On actual approval reasonable Assurance of Collection may be achieved.

5) Whenever Grant is received towards Employees Benefits such as welfare activities, medical facilities, Corona Vaccine or any other Employee Benefits, then such Grant is of Revenue Nature.