

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 reasonable assurance that "Grant will be Collected"

Grant can be recorded even on accrual Basis if above Two Conditions are satisfied.

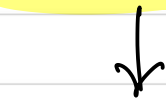
5) Types of Grant :- including Treatment

(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

2) Grant a/c Dr. 10

To Expense 10

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

This entry is required when actual Expense is incurred.

P&L	
Exp Gross 15	5 Jan.
(-) 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 / 1
To CR

No Depreciation

at Concessional Price

↓
Recognised at actual price paid

↓
Land Mr. Sohan.
Paid 10 lak.
to Govt.

↓
Land a/c Dr. 10
To Bank 10

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

(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

IF Conditional Grant is Received

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

↓
1st yr. Bank Dr. 20 lac.
To Deferred 20 lac.
Grant

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 lac.

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 lac. to purchase Machine of 25 lac. Depreciation 10%.

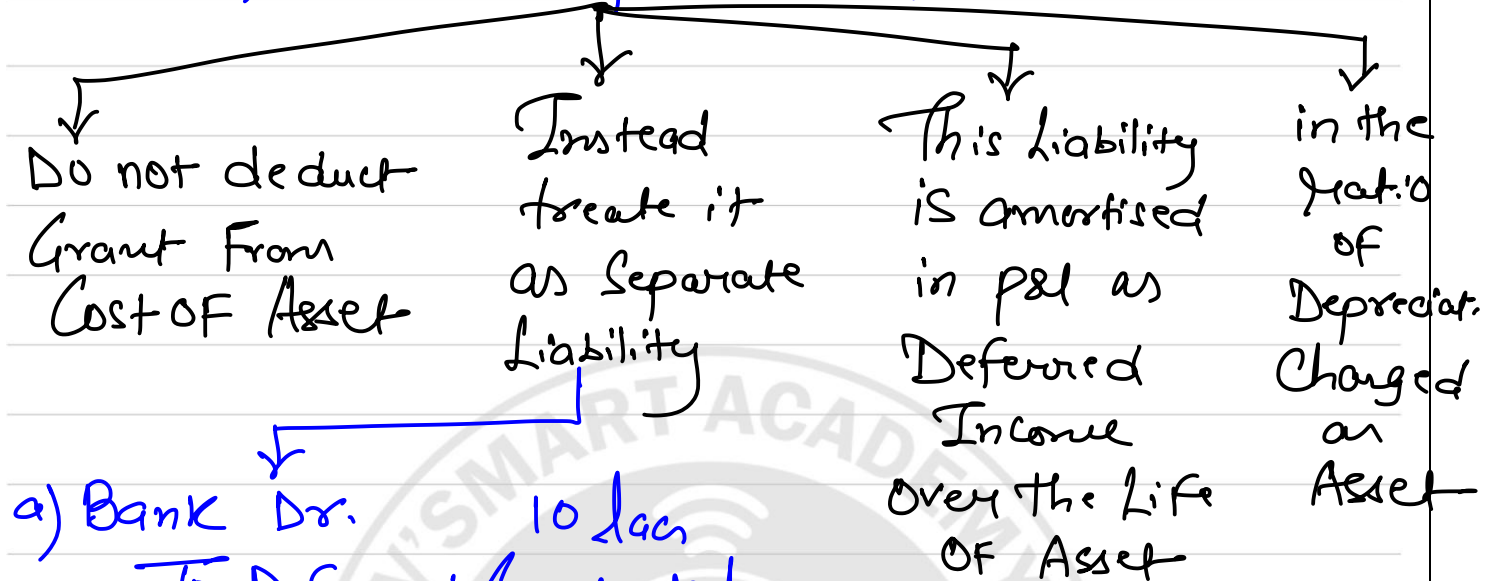
a) Bank a/c Dr. 10 lac.
To Grant 10 lac.

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

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

d) Depreciation = 15 lac. $\times$ 10% = 150000

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



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

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

Depreciation = 10% = 25,00,00 (P&L Dr. side)

Deferred Income = 10 lac $\times$ 10% $\Rightarrow$ 1,00,000 (P&L Cr. side)

B/s		P&L	
Def. Grant 900000	Machine 250000	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 lac.
To Deferred 20 lac.
Grant

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 lac. 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

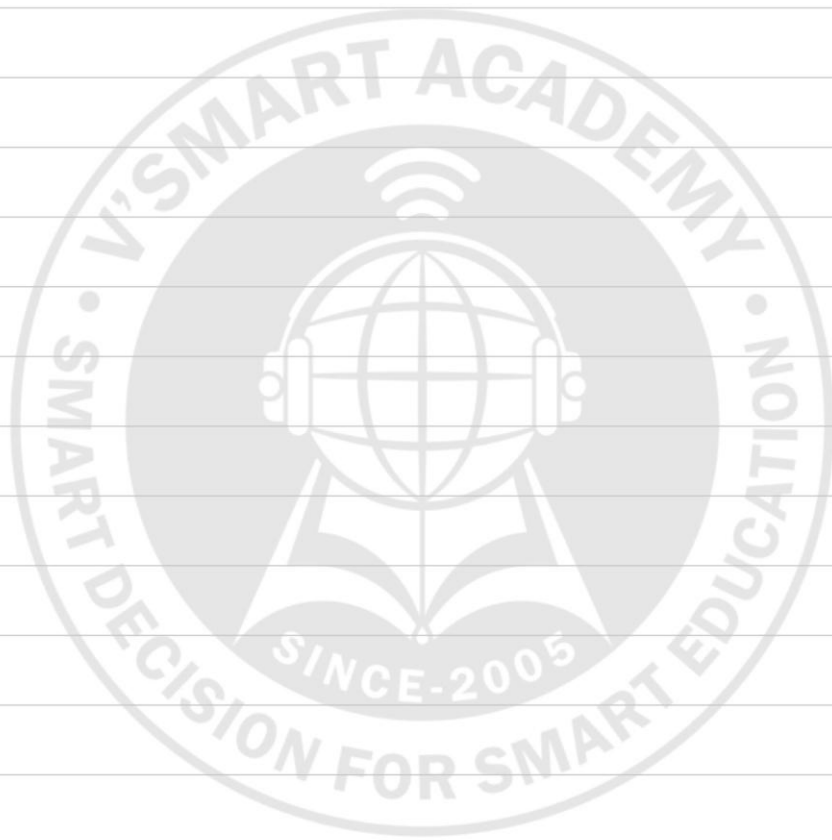
c) If Grant was earlier treated as Deferred Grant & there is still Unamortised Balance is available :-

↳ Liability Balance

Such Unamortised Balance shall be Debited first & if there is any Difference, it is transferred 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)



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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 negative. In such case, the Excess amount i.e. negative 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.

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