

## CHAPTER 12

# ACCOUNTING FOR GOVERNMENT GRANTS AND DISCLOSURE OF GOVERNMENT ASSISTANCE (IND AS 20)

### QUESTIONS FROM ICAI STUDY MATERIAL

**Q1:** Government gives a grant of ₹ 10,00,000 for research and development of H1N1 vaccine to A Pharmaceuticals Limited. There is no condition attached to the grant. Examine how the Government grant be recognised.

**Ans:** The entire grant should be recognised immediately in profit or loss.

**Q2:** Government gives a grant of ₹ 10,00,000 for research and development of H1N1 vaccine to A Pharmaceuticals Limited even though similar vaccines are available in the market but are expensive. The entity has to ensure by developing a manufacturing process over a period of 2 years that the costs come down by at least 40%. Examine how the Government grant be recognised.

**Ans:** The entire grant should be recognised immediately as deferred income and charged to profit or loss over a period of two years.

**Q3:** A village of artisans in a district got devastated because of an earthquake. A Limited was operating in that district and was providing employment to the artisans. The government gave a grant of ₹ 10,00,000 to A Limited so that 100 artisans are rehabilitated over a period of 3 years. Government releases ₹ 2,00,000. Examine how the Government grant be recognised.

**Ans:** A Limited will recognise ₹ 10,00,000 as government grant and set it up as a deferred income and will recognise it in its profit or loss over the period of three years as per the principles enunciated in Ind AS 20.

Once a government grant is recognised, any related contingent liability or contingent asset is treated in accordance with Ind AS 37, Provisions, Contingent Liabilities and Contingent Assets.

The manner in which a grant is received does not affect the accounting method to be adopted in regard to the grant. Thus a grant is accounted for in the same manner whether it is received in cash or as a reduction of a liability to the government or in the form of a non-monetary asset.

**Q4:** A Limited received from the government a loan of ₹ 50,00,000 @ 5% payable after 5 years in a bullet payment. The prevailing market rate of interest is 12%. Interest is payable regularly at the end of each year. Calculate the amount of government grant and Pass necessary journal entry. Also examine how the Government grant be recognised.

**Ans:** The fair value of the loan is calculated at ₹ 37,38,328 (Refer WN).

Year	Opening Balance	Interest calculated @ 12%	Interest paid @ 5% on ₹50,00,000 + principal paid	Closing Balance
(a)	(b)	(c) = (b) x 12%	(d)	(e) = (b) + (c) – (d)
1	37,38,328	4,48,600	2,50,000	39,36,928
2	39,36,928	4,72,431	2,50,000	41,59,359
3	41,59,359	4,99,123	2,50,000	44,08,482
4	44,08,482	5,29,018	2,50,000	46,87,500
5	46,87,500	5,62,500	52,50,000	Nil

A Limited will recognise ₹ 12,61,672 (₹ 50,00,000 – ₹ 37,38,328) as the government grant and will make the following entry on receipt of loan:

Bank Account	Dr.	50,00,000
To Deferred Income		12,61,672
To Loan Account		37,38,328

₹ 12,61,672 is to be recognised in profit or loss on a systematic basis over the periods in which A Limited recognised as expenses the related costs for which the grant is intended to compensate. (see Q5 in this regard)

Working Note:

Particulars	Amount ( )	Discounting factor	Present value taking 12% as the discount rate ( )
Interest @ 5% for Year 1 on loan amount of 50 lakhs	2,50,000	0.893	2,23,214
Interest @ 5% for Year 2 on loan amount of 50 lakhs	2,50,000	0.797	1,99,298
Interest @ 5% for Year 3 on loan amount of 50 lakhs	2,50,000	0.712	1,77,945
Interest @ 5% for Year 4 on loan amount of 50 lakhs	2,50,000	0.636	1,58,880
Interest @ 5% for Year 5 on loan amount of 50 lakhs	2,50,000	0.567	1,41,857
Loan	50,00,000	0.567	28,37,134
<b>Present value of loan at the beginning of Year 1</b>			<b>37,38,328</b>

The above present value above has been computed on full scale basis.

**Q5:** Continuing with the facts given in the Q4, state how the grant will be recognized in the statement of profit or loss assuming:

- the loan is an immediate relief measure to rescue the enterprise
- the loan is a subsidy for staff training expenses, incurred equally, for a period of 4 years
- the loan is to finance a depreciable asset.

**Ans:** ₹ 12,61,672 is to be recognised in profit or loss on a systematic basis over the periods in which A Limited recognised as expenses the related costs for which the grant is intended to compensate.

Assuming (a), the loan is an immediate relief measure to rescue the enterprise. ₹ 12,61,672 will be recognised in profit or loss immediately.

Assuming (b), the loan is a subsidy for staff training expenses, incurred equally, for a period of 4 years. ₹ 12,61,672 will be recognised in profit or loss over a period of 4 years.

Assuming (c), the loan is to finance a depreciable asset. ₹ 12,61,672 will be recognised in profit or loss on the same basis as depreciation.

**Q6:** A Limited wants to establish a manufacturing unit in a backward area and requires 5 acres of land. The government provides the land on a leasehold basis at a nominal value of ₹ 10,000 per acre. The fair value of the land is ₹ 100,000 per acre. Calculate the amount of the Government grant to be recognized by an entity.

**Ans:** A limited will recognise the land at fair value of 5,00,000 and 450,000  $[(100,000 - 10,000) \times 5]$  as government grant. This government grant should be presented in the balance sheet by setting up the grant as deferred income. Alternatively, the land may be recognised by A Ltd. at nominal value of 50,000  $(10,000 \times 5)$ .

**Q7:** A Limited establishes solar panels to supply solar electricity to its manufacturing plant. The cost of solar panels is ₹ 1,00,00,000 with a useful life of 10 years. The depreciation is provided on straight line method basis. The government gives ₹ 50,00,000 as a subsidy. Examine how the Government grant be recognised.

**Ans:** A Limited will set up ₹ 50,00,000 as deferred income and will credit ₹ 5,00,000 equally to its statement of profit and loss over next 10 years.

Alternatively, A Ltd. may deduct ₹ 50,00,000 from the cost of solar panel of ₹ 1,00,00,000.

**Q8:** Continuing with the facts given in the Q 7 above, state how the same will be disclosed in the Statement of cash flows.

**Ans:** A Limited will show ₹ 1,00,00,000 being acquisition of solar panels as outflow in investing activities. The receipt of ₹ 50,00,000 from government will be shown as inflow under financing activities.

**Q9:** A Ltd. received a government grant of ₹ 10,00,000 to defray expenses for environmental protection. Expected environmental costs to be incurred is ₹ 3,00,000 per annum for the next 5 years. How should A Ltd. present such grant related to income in its financial statements?

[RTP May 2023; IBS CS4]

**Ans:** As per paragraph 29 of Ind AS 20, Grants related to income are presented as part of profit or loss, either separately or under a general heading such as „Other income“; alternatively, they are deducted in reporting the related expense.

In accordance with the above, presentation of grants related to income under both the methods are as follows:

**Method 1: Credit in the statement of profit and loss**

The entity can recognise the grant as income on a straight line basis i.e., ₹ 2,00,000 per year in the statement of profit and loss either separately or under the head "Other Income".

The supporters of this method consider it inappropriate to present income and expense items on a net basis and that „separation of the grant from the expense facilitates comparison with other expenses not affected by a grant“.

**Method 2: As a deduction in reporting the related expense**

Since the grant relates to environmental expenses incurred/to be incurred by the entity, it can present the grant by reducing the grant amount every year from the related expense i.e., environmental expense of ₹ 1,00,000 (i.e., net expense ₹ 3,00,000 – ₹ 2,00,000).

The supporters of this method are of the view that „the expenses might well not have been incurred by the entity if the grant had not been available and presentation of the expense without offsetting the grant may therefore be misleading“.

The Standard regards both the methods as acceptable for the presentation of grants related to income. However, method 2 may be more appropriate when the company can relate the grant to a specific expenditure.

The Standard also provides that disclosure of the grant may be necessary for a proper understanding of the financial statements. Disclosure of the effect of the grants on any item of income or expense which is required to be separately disclosed is usually appropriate.

**Q10:** A Ltd. has received a grant of ₹10,00,00,000 in the year 20X1-20X2 from local government in the form of subsidy for selling goods at lower price to lower income group population in a particular area for two years. A Ltd. had accounted for the grant as income in the year 20X1-20X2. While accounting for the grant in the year 20X1-20X2, A Ltd. was reasonably assured that all the conditions attached to the grant will be complied with. However, in the year 20X5-20X6, it was found that A Ltd. has not complied with the above condition and therefore notice of refund of grant has been served to it. A Ltd. has contested but lost in court in 20X5-20X6 and now grant is fully repayable. How should A Ltd. reflect repayable grant in its financial statements ending 20X5-20X6?

**Ans:** Note: It is being assumed that the accounting done in previous years was not incorrect and was not in error as per Ind AS 8.

Paragraph 32 of Ind AS 20, states that a Government grant that becomes repayable shall be accounted for as a change in accounting estimate (see Ind AS 8, Accounting Policies, Changes in Accounting Estimates and Errors).

Repayment of a grant related to income shall be applied first against any unamortised deferred credit recognised in respect of the grant. To the extent that the repayment exceeds any such deferred credit, or when no deferred credit exists, the repayment shall be recognised immediately in profit or loss.

Repayment of a grant related to an asset shall be recognised by increasing the carrying amount of the asset or reducing the deferred income balance by the amount repayable. The cumulative

additional depreciation that would have been recognised in profit or loss to date in the absence of the grant shall be recognised immediately in profit or loss.

The following journal entries should be passed:

S. No.	Particulars	Nature of Account	Dr./Cr.	Amount (₹ in crores)
(i)	Repayment of Government Grant	Expense (P/L)	Dr.	10
	To Grant repayable (Being recognition of repayment of grant in statement of profit or loss)	Balance sheet (Liability)		10
(ii)	Grant repayable	Balance sheet (Liability)	Dr.	10
	To Bank (Being grant refunded)	Balance sheet (Asset)		10

Assuming that no deferred credit balance exists in the year 20 X5-20X6, therefore repayment recognised in P&L.

It may also be noted that the standard also provides that circumstances giving rise to repayment of a grant related to an asset may require consideration to be given to the possible impairment of the new carrying amount of the asset

**Q11:** ABC Ltd. has received the following grants from the Government of Delhi for its newly started pharmaceutical business:

- ₹ 30 lakhs for past research of technology related to solar system. There is no condition attached to the grant.
- ₹ 20 lakhs received for immediate start-up of business without any condition.
- ₹ 50 lakhs received for research and development of drugs required for the treatment of cardiovascular diseases with following conditions:
  - that drug should be available to the public at 20% cheaper from current market price: and
  - the drugs should be in accordance with quality prescribed by the World Health Organisation [WHO].
- Two acres of land (fair Value: ₹ 10 Lakhs) received for set up plant.
- ₹ 2 lakhs received for purchase of machinery of ₹ 10 lakhs. Useful life of machinery is 5 years. Depreciation on this machinery is to be charged on straight-line basis.

How should ABC Ltd. recognise the government grants in its books of accounts?

[Exam May 24 (6 Marks); IBS CS4; MTP Jan 2026]

**Ans:** ABC Ltd. should recognise the grants in the following manner:

- Entire grant amount of ₹ 30 lakhs should be recognised immediately in the profit & Loss account as there are no conditions attached to the grant.
- ₹ 20 lakhs has been received for immediate start-up of business. This should be recognised in Statement of Profit and Loss immediately as there are no conditions attached to the grant.
- ₹ 50 lakhs should be recognised in profit or loss on a systematic basis over the periods which the entity recognises as expense the related costs for which the grants are intended to compensate provided that there is reasonable assurance that ABC Ltd. will comply with the conditions attached to the grant.
- Land should be recognised at fair value of ₹ 10 lakhs and government grants should be presented in the balance sheet by setting up the grant as deferred income.
- ₹ 2 lakhs should be recognised as deferred income and will be transferred to profit and loss over the useful life of the asset. In this case, ₹ 40,000 [₹ 2 lakhs/5] should be credited to profit and loss each year over period of 5 years.

**Q12:** A Limited received from the government a loan of ₹1,00,00,000 @ 5% payable after 5 years in a bulleted payment. The prevailing market rate of interest is 12%. Interest is payable regularly at the end of each year.

Calculate the amount of government grant and Pass necessary journal entry. Also examine how the Government grant be recognised. Also state how the grant will be recognized in the statement of profit or loss assuming that the loan is to finance a depreciable asset.

**Ans:** The fair value of the loan is calculated at ₹ 74,76,656.

Year	Opening Balance	Interest calculated @ 12%	Interest paid @ 5% on ₹1,00,00,000 + principal paid	Closing Balance
(a)	(b)	(c) = (b) x 12%	(d)	(e) = (b) + (c) – (d)
1	74,76,656	8,97,200	5,00,000	78,73,856
2	78,73,856	9,44,862	5,00,000	83,18,718
3	83,18,718	9,98,246	5,00,000	88,16,964
4	88,16,964	10,58,036	5,00,000	93,75,000
5	93,75,000	11,25,000	1,05,00,000	Nil

A Limited will recognise ₹ 25,23,344 (₹ 1,00,00,000 – ₹ 74,76,656) as the government grant and will make the following entry on receipt of loan:

Bank Account	Dr.	1,00,00,000
To Deferred Income		25,23,344
To Loan Account		74,76,656

₹ 25,23,344 is to be recognised in profit or loss on a systematic basis over the periods in which A Limited recognised as expenses the related costs for which the grant is intended to compensate.

If the loan is to finance a depreciable asset. ₹ 25,23,344 will be recognised in profit or loss on the same basis as depreciation.

**Q13:** MNC Ltd. has received grant in the nature of exemption of custom duty on capital goods with certain conditions related to export of goods under Export Promotion Capital Goods (EPCG) scheme of Government of India.

State whether the same is a government grant under Ind AS 20, Government Grants and Disclosure of Government Assistance? If yes, then how the same is to be accounted for if it is

- a) A grant related to asset; or
- b) A grant related to income.

**Ans:** Paragraph 3 of Ind AS 20 states that Government grants are assistance by government in the form of transfers of resources to an entity in return for past or future compliance with certain conditions relating to the operating activities of the entity. They exclude those forms of government assistance which cannot reasonably have a value placed upon them and transactions with government which cannot be distinguished from the normal trading transactions of the entity.

In accordance with the above, in the given case exemption of custom duty under EPCG scheme is a government grant and should be accounted for as per the provisions of Ind AS 20.

Ind AS 20 defines grant related to assets and grants related to income as follows:

“Grants related to asset are government grants whose primary condition is that an entity qualifying for them should purchase, construct or otherwise acquire long-term assets. Subsidiary conditions may also be attached restricting the type or location of the assets or the periods during which they are to be acquired or held. Grants related to income are government grants other than those related to assets.”

### Presentation

It is pertinent to note that the classification of the grant as related to asset or income will require exercise of judgement and careful examination of the facts, objective and conditions attached to the scheme of the government. Care is also required to ascertain the purpose of the grant and the costs for which the grant is intended to compensate. Based on the evaluation of facts, if it is ascertained that the grant is an asset related grant then the same shall be presented as per paragraphs 24 and 26 of Ind AS 20 which has been stated below:

#### Presentation of grants related to assets

As per para 24, government grants related to assets, including non-monetary grants at fair value, shall be presented in the balance sheet by setting up the grant as deferred income.

As per para 26, the grant set up as deferred income is recognised in profit or loss on a systematic basis over the useful life of the asset.

If it is determined that the grant is related to income then the same shall be presented as follows:

### Presentation of grants related to income

As per para 29, grants related to income are presented as part of profit or loss, either separately or under a general heading such as 'Other income'; alternatively, they are deducted in reporting the related expense.

It may be further noted that as per paragraph 12 of Ind AS 20, government grants shall be accounted as follows:

As per para 12, government grants shall be recognised in profit or loss on a systematic basis over the periods in which the entity recognises as expenses the related costs for which the grants are intended to compensate.

In the given case, if based on the terms and conditions of the scheme, the grant received is to compensate the import cost of assets subject to an export obligation as prescribed in the EPCG Scheme; recognition of grant in the statement of profit and loss should be linked to fulfilment of associated export obligations.

However, if the grant received is to compensate the import cost of the asset and based on the examination of the terms and conditions of the grant, if it can be reasonably concluded that conditions relating to export of goods are subsidiary conditions, then it is appropriate to recognise such grant in profit or loss over the life of the underlying asset.

**Q14:** ABC Ltd is a government company and is a first-time adopter of Ind AS. As per the previous GAAP, the contributions received by ABC Ltd. from the government (which holds 100% shareholding in ABC Ltd.) which is in the nature of promoters' contribution have been recognised in capital reserve and treated as part of shareholders' funds in accordance with the provisions of AS 12, Accounting for Government Grants.

State whether the accounting treatment of the grants in the nature of promoters' contribution as per AS 12 is also permitted under Ind AS 20 Accounting for Government Grants and Disclosure of Government Assistance.

**Ans:** Paragraph 2 of Ind AS 20, "Accounting for Government Grants and Disclosure of Government Assistance" inter alia states that the Standard does not deal with government participation in the ownership of the entity.

Since ABC Ltd. is a Government company, it implies that government has 100% shareholding in the entity. Accordingly, as per Ind AS 20, the entity needs to determine whether the payment is provided as a shareholder contribution or as a government. Equity contributions will be recorded in equity while grants will be shown in the Statement of Profit and Loss.

Where it is concluded that the contributions are in the nature of government grant, the entity shall apply the principles of Ind AS 20 retrospectively as specified in Ind AS 101 "First Time Adoption of Ind AS". Ind AS 20 requires all grants to be recognised as income on a systematic basis over the periods in which the entity recognises as expenses the related costs for which the grants are intended to compensate. Unlike AS 12, Ind AS 20 requires the grant to be classified as either a capital or an income grant and does not permit recognition of government grants in the nature of promoter's contribution directly to shareholders' funds.

**Q15:** Rainbow Limited is carrying out various projects for which the company has either received government financial assistance or is in the process of receiving the same. The company has received two grants of ₹ 1,00,000 each, relating to the following ongoing research and development projects:

The first grant relates to the “Clean river project” which involves research into the effect of various chemicals waste from the industrial area in Madhya Pradesh. However, no major steps have been completed by Rainbow limited to commence this research as at 31st march, 20X2.

The second grant relates to the commercial development of a new equipment that can be used to manufacture eco-friendly substitutes for existing plastic products. Rainbow Limited is confident about the technical feasibility and financial viability of this new technology which will be available for sale in the market by April 20X3.

In September 20X1, due to the floods near one of its factories, the entire production was lost and Rainbow Limited had to shut down the factory for a period of 3 months. The State Government announced a compensation package for all the manufacturing entities affected due to the floods. As per the scheme, Rainbow Limited is entitled to a compensation based on the average of previous three months’ sales figure prior to the floods, for which the company is required to submit an application form on or before 30th June, 20X2 with necessary figures. The financial statements of Rainbow Limited are to be adopted on 31st May, 20X2, by which date the claim form would not have been filed with the State Government.

Suggest the accounting treatment of, if any, for the two grants received and the flood - related compensation in the books of accounts of Rainbow Limited as on 31st March, 20X2.

[RTP MAY 2020]

**Ans: Accounting treatment for:**

**First Grant:** The first grant for ‘Clear River Project’ involving research into effects of various chemicals waste from the industrial area in Madhya Pradesh, seems to be unconditional as no details regarding its refund has been mentioned. Even though the research has not been started nor any major steps have been completed by Rainbow Limited to commence the research, yet the grant will be recognised immediately in profit or loss for the year ended 31st March, 20X2.

Alternatively, in case, the grant is conditional as to expenditure on research, the grant will be recognised in the books of Rainbow Limited over the year the expenditure is being incurred.

**Second Grant:** The second grant related to commercial development of a new equipment is a grant related to depreciable asset. As per the information given in the question, the equipment will be available for sale in the market from April, 20X3. Hence, by that time, grant relates to the construction of an asset and should be initially recognised as deferred income.

The deferred income should be recognised as income on a systematic and rational basis over the asset’s useful life.

The entity should recognise a liability on the balance sheet for the years ending 31st March, 20X2 and 31st March, 20X3. Once the equipment starts being used in the manufacturing

process, the deferred grant income of ₹ 100,000 should be recognised over the asset's useful life to compensate for depreciation costs.

Alternatively, as per Ind AS 20, Rainbow Limited would also be permitted to offset the deferred income of ₹100,000 against the cost of the equipment as on 1st April, 20X3.

**For flood related compensation:** Rainbow Limited will be able to submit an application form only after 31<sup>st</sup> May, 20X2 ie in the year 20X2-20X3. Although flood happened in September, 20X1 and loss was incurred due to flood related to the year 20X1-20X2, the entity should recognise the income from the government grant in the year when the application form related to it is submitted and approved by the government for compensation.

Since, in the year 20X1-20X2, the application form could not be submitted due to adoption of financials with respect to sales figure before flood occurred, Rainbow Limited should not recognise the grant income as it has not become receivable as on 31st March, 20X2.

**Q16:** An entity opens a new factory and receives a government grant of ₹ 15,000 in respect of capital equipment costing ₹ 1,00,000. It depreciates all plant and machinery at 20% per annum on straight-line basis. Show the statement of profit and loss and balance sheet extracts in respect of the grant for first year under both the methods as per Ind AS 20. [MTP May 2023; IBS CS 39]

Ans:

(a) **When grant is treated as deferred income**

**Statement of profit and loss – An extract**

	₹
Depreciation (₹ 1,00,000 x 20%)	(20,000)
Government grant credit (W.N.1)	3,000

**Balance Sheet - An extract**

		₹
<b>Non-current assets</b>		
Property, plant and equipment	1,00,000	
Less: Accumulated depreciation	(1,00,000 x 20%) (20,000)	<u>80,000</u>
		<u>????</u>
<b>Non-current liabilities</b>		
Government grant	[12,000 – 3,000 (current liability)]	9,000
<b>Current liabilities</b>		
Government grant	(15,000 x 20%)	<u>3,000</u>
		<u>????</u>

**Working Note:**

1. **Government grant deferred income account**

	₹		₹
To Profit or loss	3,000	By Grant cash received	15,000
(15,000 × 20%)			
To Balance c/f	<u>12,000</u>		
	<u>15,000</u>		<u>15,000</u>

(b) When grant is deducted from cost of the asset

**Statement of profit and loss – An extract**

	₹
Depreciation [(₹ 1,00,000 – 15,000) × 20%]	(17,000)

**Balance Sheet - An extract**

		₹
Non-current assets		
Property, plant and equipment	(1,00,000-15,000) 85,000	
Less: Accumulated depreciation	<u>(17,000)</u>	68,000

**Q17:** A company receives a cash grant of ₹ 30,000 on 31 March 20X1. The grant is towards the cost of training young apprentices. Training programme is expected to last for 18 months starting from 1 April 20X1. Actual costs of the training incurred in 20X1-20X2 was ₹ 50,000 and in 20X2-20X3 ₹ 25,000. State, how this grant should be accounted for? **[Exam May 22 (4 Marks)]**

**Ans:** At 31st March 20X1 the grant would be recognised as a liability and presented in the balance sheet as a split between current and non-current amounts.

₹ 20,000 [(12 months / 18 months) × 30,000] is current and would be recognised in profit and loss for the year ended 31st March, 20X1. The balance amount of ₹10,000 will be shown as non-current.

At the end of year 20X1-20X2, there would be a current balance of 10,000 (being the non-current balance at the end of year 20X1-20X1 reclassified as current) in the balance sheet. This would be recognised in profit in the year 20X2-20X3.

**Extracts from the financial statements are as follows: Balance Sheet (extracts)**

	31 March 20X1	31 March 20X2	31 March 20X3
Current liabilities			
Deferred income	20,000	10,000	-
Non-current liabilities			
Deferred income	10,000	-	-

**Statement of profit and loss (extracts)**

	31 March 20X2	31 March 20X3
<b>Method 1</b>		
Other Income - Government grant received	20,000	10,000
Training costs	(50,000)	(25,000)
<b>Method 2</b>		
Training costs (50,000 – 20,000)	30,000	
Training costs (25,000 – 10,000)		15,000

**Q18:** Entity A is awarded a government grant of ₹60,000 receivable over three years (₹40,000 in year 1 and ₹10,000 in each of years 2 and 3), contingent on creating 10 new jobs and maintaining them for three years. The employees are recruited at a total cost of ₹30,000, and the wage bill for the first year is ₹1,00,000, rising by ₹10,000 in each of the subsequent years. Calculate the grant income and deferred income to be accounted for in the books for year 1, 2 and 3.

Calculate the grant income and deferred income to be accounted for in the books for the years 1, 2 and 3 under the following two situations:

- There is reasonable assurance that the entity will comply with the conditions attaching to them and the grant will be received
- There is no reasonable assurance that the grant will be received.

[RTP Nov 2020; Exam May 22 (4 Marks); Exam May 2024]

**Ans. a) When there is reasonable assurance**

The grant of 60,000 should be recognised at the beginning of the first year as receivable and will be compensated for the related costs over three years.

The initial journal entry would be:

Grant Receivable Ac	Dr.	60,000	
To Deferred Income A/c			60,000

Calculation of grant income and deferred income:

Year	Labour Cost	Grant Income	Computation of Grant Income	Deferred Income at the end of the year	Computation of deferred income at the end of the year
	₹	₹		₹	
1	1,30,000	21,667	60,000 x (130/360)	38,333	(60,000 – 21,667)
2	1,10,000	18,333	60,000 x (110/360)	20,000	(38,333 – 18,333)
3	1,20,000	20,000	60,000 x (120/360)	-	(20,000 – 20,000)
	<u>3,60,000</u>	<u>60,000</u>			

Therefore, grant income to be recognised in the Statement of Profit and Loss for the years 1, 2 and 3 would be 21,667, 18,333 and 20,000 respectively.

The amount of grant that has not yet been credited to the statement of profit and loss i.e. deferred income is to be shown in the balance sheet. Hence deferred income balance as at end of year 1, 2 and 3 are 38,333, 20,000 and Nil respectively.

### b) When reasonable assurance is not there

The grant of 60,000 should be recognised over three years to compensate for the related costs.

The journal entry on receipt of grant at year 1 would be:

Grant Receivable Ac	Dr. 40,000
To Deferred Income A/c	40,000

Calculation of Grant Income and Deferred Income:

Year	Labour Cost	Grant Income wrt 1st receipt of 40,000	Grant Income wrt 2nd receipt of 10,000	Grant Income wrt 3rd receipt of 10,000	Deferred Income at the end of the year	Computation of deferred income at the end of the year
	₹	₹			₹	
1	1,30,000	14,445	NA	NA	25,555	(40,000 – 14,445)
2	1,10,000	12,222	4,783	NA	18,550	(50,000 – 14,445 – 12,222 – 4,783)
3	1,20,000	13,333	5,217	10,000	-	(60,000 – 14,445 – 12,222 – 4,783 – 13,333 – 5,217 – 10,000)
	3,60,000	40,000*	10,000**	10,000***		

\*40,000 bifurcated into three years in the ratio of 130:110:120

\*\*10,000 bifurcated into two years in the ratio of 110:120

\*\*\*10,000 credited entirely in the third year

Therefore, Grant income to be recognised in the statement of Profit and Loss for the years 1, 2 and 3 would be 14,445, 17,005 and 28,550 respectively.

Amount of grant that has not yet been credited to the statement of profit and loss i.e; deferred income is to be shown in the balance sheet. Hence, deferred income balance as at the end of year 1, 2 and 3 are 25,555, 18,550 and Nil respectively.

## QUESTIONS FROM RTP/MTP/EXAMS

**Q19:** How will you recognize and present the grants received from the Government in the following cases as per Ind AS 20?

- (i) A Ltd. received one acre of land to setup a plant in backward area (fair value of land ₹ 12 lakh and acquired value by Government is ₹ 8 lakhs).
- (ii) B Ltd. received an amount of loan for setting up a plant at concessional rate of interest from the Government.

- (iii) D Ltd. received an amount of ₹ 25 lakh for immediate start-up of a business without any condition.
- (iv) S Ltd. received ₹ 10 lakh for purchase of machinery costing ₹ 80 lakh. Useful life of machinery is 10 years. Depreciation on this machinery is to be charged on straight line basis.
- (v) Government gives a grant of ₹ 25 lakh to U Limited for research and development of medicine for breast cancer, even though similar medicines are available in the market but are expensive. The company is to ensure by developing a manufacturing process over a period of two years so that the cost comes down at least to 50%.

[Nov 2018 Exam (5 Marks); MTP May 2025]

Ans:

- (i) The land and government grant should be recognized by A Ltd. at fair value of ₹ 12,00,000 and this government grant should be presented in the books as deferred income. (Refer footnote 1)
- (ii) As per para 10A of Ind AS 20 'Accounting for Government Grants and Disclosure of Government Assistance', loan at concessional rates of interest is to be measured at fair value and recognised as per Ind AS 109. Value of concession is the difference between the initial carrying value of the loan determined in accordance with Ind AS 109, and the proceeds received. The benefit is accounted for as Government grant.
- (iii) ₹ 25 lakh has been received by D Ltd. for immediate start-up of business. Since this grant is given to provide immediate financial support to an entity, it should be recognised in the Statement of Profit and Loss immediately with disclosure to ensure that its effect is clearly understood, as per para 21 of Ind AS 20.
- (iv) ₹ 10 lakh should be recognized by S Ltd. as deferred income and will be transferred to profit and loss over the useful life of the asset. In this case, ₹ 1,00,000 [₹ 10 lakh / 10 years] should be credited to profit and loss each year over period of 10 years. (Refer footnote 2)
- (v) As per para 12 of Ind AS 20, the entire grant of ₹ 25 lakh should be recognized immediately as deferred income and charged to profit and loss over a period of two years based on the related costs for which the grants are intended to compensate provided that there is reasonable assurance that U Ltd. will comply with the conditions attached to the grant.

**Note 1:** Alternatively, if the company is following the policy of recognising non-monetary grants at nominal value, the company will not recognise any government grant. Land will be shown in the financial statements at ₹ 1.

**Note 2:** Alternatively, company can deduct grant from cost price of asset.

**Q20:** A Ltd. has been conducting its business activities in backward areas of the country and due to higher operating costs in such regions, it has collectively incurred huge losses in previous years. As per a scheme of government announced in March 20X1, the company will be partially compensated for the losses incurred by it to the extent of ₹ 10,00,00,000, which will be received in October 20X1. The compensation being paid by the government meets the

definition of government grant as per Ind AS 20. Assume that no other conditions are to be fulfilled by the company to receive the compensation.

When should the grant be recognised in statement of profit and loss? Discuss in light of relevant Ind AS. **[RTP Nov 2021]**

**Ans:** Paragraph 7 of Ind AS 20 states that, Government grants, including non-monetary grants at fair value, shall not be recognised until there is reasonable assurance that:

- (a) the entity will comply with the conditions attaching to them; and
- (b) the grants will be received.

Further, paragraphs 20 and 22 of Ind AS 20 state as follows:

“A government grant that becomes receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the entity with no future related costs shall be recognised in profit or loss of the period in which it becomes receivable”.

“A government grant may become receivable by an entity as compensation for expenses or losses incurred in a previous period. Such a grant is recognised in profit or loss of the period in which it becomes receivable, with disclosure to ensure that its effect is clearly understood.”

In accordance with the above, in the given case, as at March 20X1, A Ltd. is entitled to receive government grant in the form of compensation for losses already incurred by it in the previous years. Therefore, even though the compensation will be received in the month of October 20X1, A Ltd. should recognise the compensation receivable by it as a government grant in the profit or loss for the period in which it became receivable, i.e., for the financial year 20X0-20X1 with disclosure to ensure that its effect is clearly understood.

**Q21:** A Limited is engaged in the manufacturing of certain specialized chemicals. During the manufacturing process, certain wastewater is produced which is released by A Limited in the nearby river. To reduce pollution of the rivers, the state government has introduced a scheme with the following salient features:

- a) If a manufacturer installs certain pre-approved wastewater treatment plant, the government will provide an interest free loan equal to 50% of the cost of the plant;
- b) Such loan will be repayable to the government in 5 years from the date of disbursement;
- c) The manufacturer availing the benefit of this scheme must treat the wastewater of its factory using the specified plant before releasing it to the river. If this condition is violated, the entire loan shall become immediately repayable to the government along with a penalty of ₹ 10 lakh.

Cost of the wastewater treatment plant to be installed to avail the benefit of the scheme is ₹ 50 lakh. A Limited decided to utilise this scheme because, if it were to obtain the similar loan from a bank, it would be available at a market interest rate of 12% per annum. Accordingly, A Limited applied for and obtained the government loan of ₹ 25 lakh on 1st April, 20X1. A Limited purchased and installed the plant such that it became ready for use on the same date.

A Limited has an accounting policy of recognising government grant in relation to depreciable assets in the proportion of depreciation expense. It has determined that the plant will be

depreciated over a period of 5 years using straight-line method. In the month of March, 20X3, government officials conducted a surprise audit, and it was found that A Limited was not using the wastewater treatment plant as prescribed. Accordingly, on 31st March, 20X3, the government ordered A Limited to repay the entire loan along with penalty. A Limited repaid the loan with interest and penalty as per the order on 31st March, 20X3.

Measure the amount of government grant as on 1st April, 20X1. Determine the nature of the government grant and its accounting treatment (principally) for the year ended 31 st March, 20X2. Also determine the impact on profit or loss if any, on account of revocation of government grant as on 31st March, 20X3. **[RTP May 2022; MTP Nov 2022]**

**Ans:** As per the principles of Ind AS 20 “Accounting for Government Grants and Disclosure of Government Assistance”, the benefits of a government loan at a below market rate of interest is treated as a government grant. The loan shall be recognized and measured in accordance with Ind AS 109 “Financial Instruments”. The benefit of the below market rate of interest shall be measured as the difference between the initial carrying value of the loan determined in accordance with Ind AS 109 and the proceeds received. The benefit is accounted for in accordance with Ind AS 20. As per Ind AS 109, the loan should be initially measured at its fair value.

#### Initial recognition of grant as on 1st April, 20X1

Fair value of loan = ₹ 25,00,000 x 0.567 (PVF @ 12%, 5th year) = ₹ 14,17,500

A Limited will recognize ₹ 10,82,500 (25,00,000 – 14,17,500) as the government grant and will make the following entry on receipt of loan:

Date	Particulars	Dr. (₹)	Cr. (₹)
1.4.20X1	Bank account Dr.	25,00,000	
	To Deferred Grant Income		10,82,500
	To Loan account		14,17,500
	(Being grant initially recorded at fair value)		

#### Accounting treatment for year ending 31st March, 20X2

As per para 3 of Ind AS 20, grants related to assets are government grants whose primary condition is that an entity qualifying for them should purchase, construct or otherwise acquire long-term assets.

As per para 24-27 of Ind AS 20, Government grants related to assets, including non-monetary grants at fair value, shall be presented in the balance sheet either by setting up the grant as deferred income or by deducting the grant in arriving at the carrying amount of the asset.

One method recognises the grant as deferred income that is recognised in profit or loss on a systematic basis over the useful life of the asset.

The other method deducts the grant in calculating the carrying amount of the asset. The grant is recognised in profit or loss over the life of a depreciable asset as a reduced depreciation expense.

A Ltd. has adopted first method of recognising the grant as deferred income that is recognised in profit or loss on a systematic basis over the useful life of the asset. Here, deferred income is recognised in profit or loss in the proportion in which depreciation expense on the asset is recognised.

Depreciation for the year (20X1-20X2) = ₹ 50,00,000 / 5 years = ₹ 10,00,000

As the loan is to finance a depreciable asset, ₹ 10,82,500 will be recognized in Profit or Loss on the same basis as depreciation.

Since the depreciation is provided on straight line basis by A Limited, it will credit ₹ 2,16,500 (10,82,500 / 5) equally to its statement of profit and loss over the 5 years.

#### Journal Entries

Date	Particulars	Dr. (₹)	Cr. (₹)
31.3.20X2	Depreciation (Profit or Loss A/c) Dr.	10,00,000	
	To Property, Plant & Equipment		10,00,000
	(Being depreciation provided for the year)		
	Deferred grant income Dr.	2,16,500	
	To Profit or Loss		2,16,500
	(Being deferred income adjusted)		

#### Impact on profit or loss due to revocation of government grant as on 31st March 20X3

As per para 32 of Ind AS 20, a government grant that becomes repayable shall be accounted for as a change in accounting estimate. Repayment of a grant related to income shall be applied first against any unamortised deferred credit recognised in respect of the grant. To the extent that the repayment exceeds any such deferred credit, or when no deferred credit exists, the repayment shall be recognised immediately in profit or loss.

Amount payable to Government on account of principal loan = ₹ 25,00,000

Amount payable to Government on account of penalty = ₹ 10,00,000

#### Journal Entries

Date	Particulars	Dr. (₹)	Cr. (₹)
31.3.20X3	Deferred grant income Dr.	2,16,500	
	To Profit or Loss		2,16,500
	(Being deferred income adjusted)		
	Loan account (W.N.1) Dr.	17,78,112	
	Deferred grant income (W.N.2) Dr.	6,49,500	
	Profit or Loss Dr.	72,388	
	To Government grant payable		25,00,000
	(Being refund of government grant)		

	Profit or Loss	Dr.	10,00,000	
	To Government grant payable			10,00,000
	(Being penalty payable to government)			

Therefore, total impact on profit or loss on account of revocation of government grant as on 31st March, 20X3 will be ₹ 10,72,388 (10,00,000 + 72,388).

Circumstances giving rise to repayment of a grant related to an asset may require consideration to be given to the possible impairment of the new carrying amount of the asset.

### Working Notes:

#### 1. Amortisation Schedule of Loan

Year	Opening balance of Loan	Interest @ 12%	Closing balance of Loan
31.03.20X2	14,17,500	1,70,100	15,87,600
31.03.20X3	15,87,600	1,90,512	17,78,112

#### 2. Deferred Grant Income

Year	Opening balance	Adjustment	Closing balance
31.03.20X2	10,82,500	2,16,500	8,66,000
31.03.20X3	8,66,000	2,16,500	6,49,500

**Q22:** To encourage entities to expand their operations in a specified development zone, the government provides interest-free loans to fund the purchase of manufacturing equipment.

In accordance with the development scheme, an entity receives an interest-free loan of ₹ 5,00,000 from the government for a period of three years. The market rate of interest for similar loans for 3 years is 5% per year. There are no future performance conditions attached to the interest-free loan.

Discuss how to account for the above loan. Pass necessary journal entries in the entity's books of accounts from year 1 to year 3, as per relevant Ind AS. **[RTP Nov 2022]**

**Ans:** The entity measures the loan on initial recognition at ₹ 4,32,000, which is the present value of the loan (financial liability) — ₹ 5,00,000/(1.05)<sup>3</sup>. ₹ 68,000, the difference between the loan proceeds received ₹ 5,00,000 (the loan's face value) and present value of the loan ₹ 4,32,000, is a government grant and is recognised immediately as there are no specified future performance conditions.

The amount recognised on day one will accrete to ₹ 5,00,000 over the three-year term using the effective interest method.

### Journal Entries

#### On initial recognition:

		₹	₹
Cash/Bank (financial asset)	Dr.	5,00,000	

To Loan (financial liability)		4,32,000
To Income (profit or loss)		68,000
(Being interest-free loan recognised at fair value and the receipt of a government grant)		

**At the end of****Year 1:**

		₹	₹
Finance cost (profit or loss) Dr.		21,600	
To Loan (financial liability)			21,600
(Being accretion of time value recognised on the financial liability)			

**Year 2**

		₹	₹
Finance cost (profit or loss) Dr.		22,680	
To Loan (financial liability)			22,680
(Being accretion of time value recognised on the financial liability)			

**Year 3**

		₹	₹
Finance cost (profit or loss) Dr.		23,720	
To Loan (financial liability)			23,720
(Being accretion of time value recognised on the financial liability)			

Immediately after all the accretions are recognised, the carrying amount of the loan is equal to its face value of ₹ 5,00,000, which is also the amount payable to the government.

		₹	₹
Loan (financial liability) Dr.		5,00,000	
To Cash/Bank			5,00,000
(Being loan repaid to the government)			

**Working Note:****Calculation of Amortised Cost**

Year	Opening balance (A)	Interest at 5% (B) = (A) x 5%	Cash flow (C)	Closing balance (A) + (B) – (C)
1	4,32,000	21,600	–	4,53,600
2	4,53,600	22,680	–	4,76,280
3	4,76,280	23,720*	(5,00,000)	–

\* Difference is due to approximation.

**Q23.** An entity opens a new factory and receives at the beginning of the year a government grant of ₹ 15,000 in respect of capital equipment costing ₹ 1,00,000. It depreciates all plant and machinery at 20% p.a. using straight-line method. Assume that there is reasonable assurance that the conditions attached to the grant will be fulfilled.

For year 1, pass the necessary Journal Entries and show the presentation of the effect of this grant in both Balance Sheet and Statement of Profit and Loss under both methods permitted under paragraph 24 of Ind AS 20? **[RTP Nov 2022]**

**Ans.** Paragraph 24 of Ind AS 20 provides that government grants related to assets, including non-monetary grants at fair value, shall be presented in the balance sheet either by setting up the grant as deferred income or by deducting the grant in arriving at the carrying amount of the asset. In accordance with the above, journal entries and presentation of grants related to assets under both the methods are as follows:

**Method 1: When the deferred income account is set-up with the amount of government grant**

(i)

**Journal Entries**

S. No.	Particulars	Nature of Account	Dr./ Cr.	Amount (in ₹)	Amount (in ₹)
(i)	Bank A/c	Balance Sheet (Asset)	Dr.	15,000	15,000
	To Government Grant Deferred Income A/c	Balance Sheet (Liability)	Cr.		
	(Being grant received and deferred income set up)				
(ii)	Government Grant Deferred Income A/c	Balance Sheet (Liability)	Dr.	3,000	3,000
	To Government Grant Income A/c	Income (P/L)	Cr.		
	(Being amortisation of the grant in Profit and loss A/c for the current year)				
(iii)	Depreciation A/c	Expense (P/L)	Dr.	20,000	20,000
	To Accumulated Depreciation A/c	Balance Sheet (Asset)	Cr.		
	(Being depreciation charge of the asset for the current year)				
(iv)	Government Grant Income A/c	Income (P/L)	Dr.	3,000	3,000
	To Profit and Loss A/c	P/L	Cr.		

	(Being transfer of government grant income to profit and loss A/c)				
(v)	Profit and Loss A/c	P/L	Dr.	20,000	
	To Depreciation A/c	Expense (P/L)	Cr.		
	(Being the charge of depreciation transferred to profit and loss A/c)				

(II) **Presentation in Balance Sheet and Statement of Profit and Loss Extract of Statement of Profit and Loss**

Particulars	Amount (in ₹)
Income	
Government grant (Refer W.N.1)	3,000
Expenses	
Depreciation (1,00,000 x 20%)	(20,000)
<b>Net effect on profit and loss</b>	<b>(17,000)</b>

**Presentation in Balance Sheet (Year 1)**

Particulars	Amount (in ₹)
<b>Non-current Assets</b>	
<b>Property, Plant and Equipment</b>	
Plant & machinery	1,00,000
Accumulated depreciation (1,00,000 × 20%)	(20,000)
	80,000
<b>Non-current liabilities</b>	
Government grant (Refer W.N.1)	9,000
<b>Current liabilities</b>	
Government grant (Refer W.N.1)	3,000

**Working Note 1: Presentation in Balance Sheet as current and non-current liability**

Particulars	Amount (in ₹)
Portion to be amortised in next 12 months (15,000 x 20%)	3,000
Portion to be amortised after 12 months	9,000
<b>Total Balance</b>	<b>12,000</b>

**Method 2: When the government grant is deducted from the cost of the asset**

(I) **Journal Entries**

S. No.	Particulars	Nature of Account	Dr./ Cr.	Amount (in ₹)	Amount (in ₹)
(i)	Bank A/c	Balance Sheet (Asset)	Dr.	15,000	
	To Government Grant A/c	Balance Sheet (Liability)	Cr.		15,000
	(Being grant received)				
(ii)	Government Grant A/c	Balance Sheet (Liability)	Dr.	15,000	
	To Plant & Machinery A/c	Balance Sheet (Asset)	Cr.		15,000
	(Being cost of asset reduced with grant received)				
(iii)	Depreciation A/c (85,000 x 20%)	Expense (P/L)	Dr.	17,000	
	To Accumulated Depreciation A/c	Balance Sheet (Asset)	Cr.		17,000
	(Being depreciation charge of the asset for the current year)				
(iv)	Profit and Loss A/c	P/L	Dr.	17,000	
	To Depreciation	Expense (P/L)	Cr.		17,000
	(Being the charge of depreciation transferred to the profit and loss A/c)				

(II) **Presentation in Balance Sheet and Statement of Profit and Loss**  
**Extract of Statement of Profit and Loss (Year 1)**

Particulars	Amount (in ₹)
Depreciation (₹ 85,000 x 20%)	(17,000)

**Extract of Balance Sheet (Year 1)**

Particulars	Amount (in ₹)
Non-current Assets	
Property, Plant and Equipment - Plant & machinery	
Original cost	1,00,000
Less: Government Grant	(15,000)
Adjusted cost	85,000

Accumulated depreciation	(17,000)
Carrying amount	68,000

**Q24:** M Limited had constructed another factory few years ago with the assistance of yet another government grant, 'Innovative Product'. The grant is non-repayable and, following the construction of the factory, cannot be clawed back by the government. There are no further conditions attached to the grant that the Company is required to satisfy. The grant received has been treated as deferred income and is being credited to the income statement over the same period as the factory is being depreciated. Following an adverse change in the demand of the product the factory manufactures, during the year at the reporting date, the directors have concluded that the factory's carrying value is no longer recoverable in full and that a write down for impairment is required. The write down is more than covered by the amortized deferred income balance related to the grant.

Discuss, in the context of Ind AS framework and Ind AS 20, the impairment of the factory for which 'Innovative Product' government grant, has been received. Would your answer be different, if there are further conditions attached to grant beyond construction of factory?

[MTP May 2022]

**Ans: Accounting treatment for Government Grant:**

Government grants, related to assets, including non-monetary grants at fair value should be presented in the Balance Sheet either by setting up the grant as deferred income or by deducting the grant in arriving at the asset's carrying amount. (Para 24 of Ind AS 20)

Government grants should be recognised as income over the periods in which the entity recognises as expenses the related costs that they are intended to compensate, on a systematic basis. The outcome should be same in the Profit and Loss account statement regardless of whether grants are netted or deferred.

In case the grant had been offset against the acquisition cost of the factory and net carrying value is less than the recoverable amount, there would be no need for an impairment write-down. The Profit and Loss account would be charged with annual depreciation on the net acquisition cost.

**Government grant relating to 'Innovative Product':**

To match the same result for the grant 'Innovative Product' which has been shown as deferred income and the factory is initially recorded at its cost, it is reasonable to release an amount of deferred income to the Profit and Loss account to compensate for the impairment write-down.

**Treatment in case of further conditions attached:**

If there are further conditions attached to the grant beyond construction of the factory, it may not be appropriate to release an amount of the deferred income to compensate for the impairment write down. An entity would need to assess those further conditions to determine the amount, if any, of deferred income to release.

**NOTES**

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