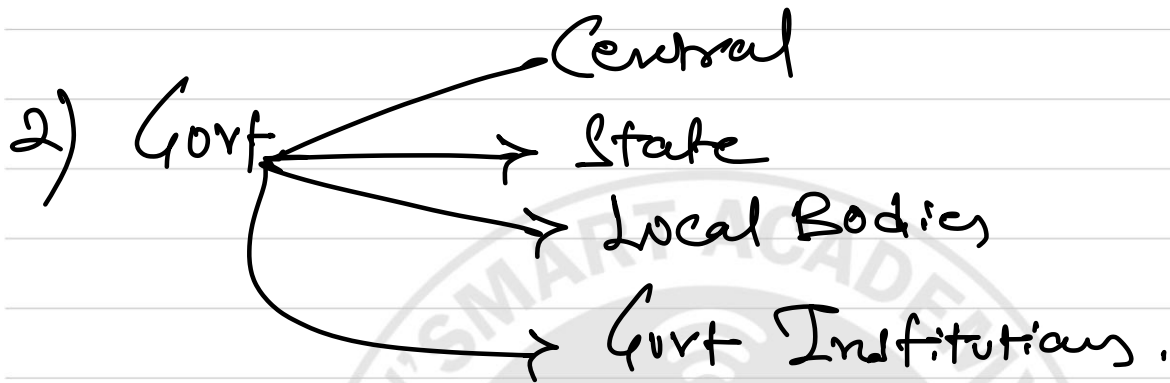
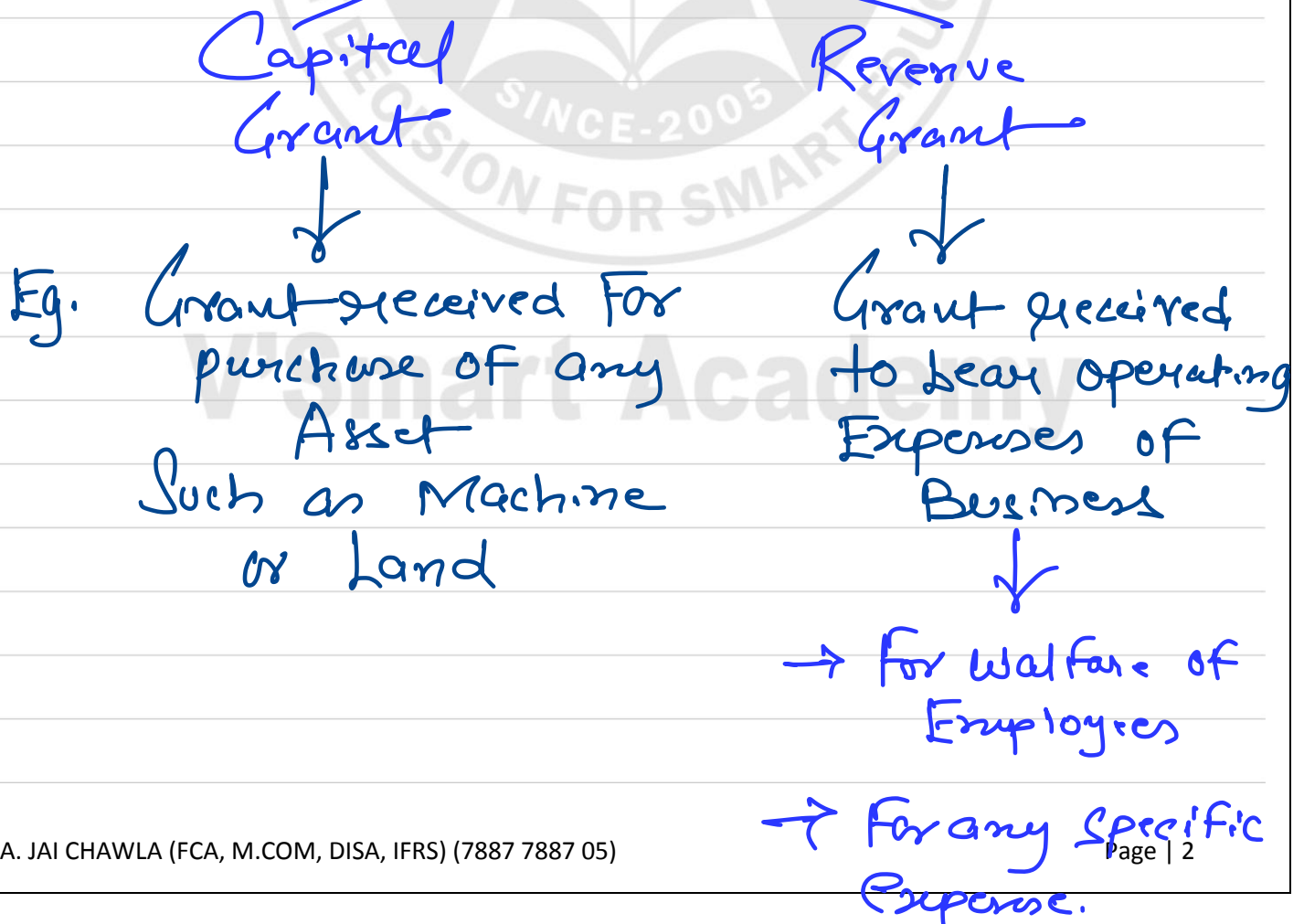


AS 12 - Accounting For Govt. Grants

1) Govt. Grant means monetary help provided to Business Entities subject to fulfillment of certain conditions.



3) Nature of Grant (From the POV of Receiver Entity)



4) Grant amount can never be utilized to distribute Dividend.

5) When to Recognise Govt. Grant?
(Timing of Recognition)

Grant can be recognised on Accrual Basis
Subject to fulfillment of below 2
Conditions :-

- 1) Entity has complied all the related conditions of Grant.
- 2) There is a reasonable assurance (Probability) that Grant will be received.

Note :- If Grant is received but conditions are yet to be fulfilled then treat the Grant as Liability.

↓
Bank a/c Dr.
 To Govt Grant Liability

B/s 1st yr.

Liability
DGG

30 Cr.

↳ Unamortised
Balance

7) Grant related to Depreciable Asset

Option 1

Deduct from Cost
of Asset

Option 2

Treat DGG
(i.e. Deferred Income
Over the life
of Asset)

Ex:- Fy 23-24 1/4/23 Machine purchased
Costing 25,00,000 Useful life 10 yrs.
Grant received at the same time
5,00,000 How to treat?

Solution

Option 1

- Deduct Grant from Cost of Asset
- Depreciation will be charged on Net Value

1/4/23 Machine a/c Dr. 25,00,000
 To Bank a/c 25,00,000

1/4/23 Bank a/c Dr. 50000
 To GG a/c 50000

1/4/23 GG a/c Dr. 50000
 To Machine a/c 50000

B/s

Machine 1800000

Revised Value = 20,00,000

Annual Depreciation = $\frac{2000000}{10} = 2 \text{ Lakhs p.a.}$

Option 2

Treat Grant as Deferred Income in proportion of Depreciation.

10% WDV

$\frac{500000}{10} = 50000$ Grant Income p.a.

1/4 Machine a/c Dr. 25,00,000
 To Bank 25,00,000

1/4 Bank a/c Dr. 50000
 To DGG 50000

Annual Depreciation = $\frac{2500000}{10} = 250000$

31/3 Depreciation A/c ^(P&L)
To Machine 250000

31/3 DGG a/c Dr. 50,000
To P&L 50,000

| P&L | | B/S | |
|--------------|--------|---------|---------|
| Other Income | 50000 | DGG | 450000 |
| Depreciation | 250000 | Machine | 2250000 |

Q5

Provision :- As per AS 12 (A/c for GG) when the Grant is refundable, the Un-amortised Balance shall be reversed first.

Any Difference (excess amt of refund) will be transfer to Statement of P&L.

Facts :- Previously when grant was received it must have been treated as Deferred Income over the 5 yrs. period.

Hence, DGG (un-amortised Bal.) at Beginning
of 4th should be Rs. 36 lacs.
($90 \div 5 \times 2$)

Treatment & Journal Entry :-

DGG Bal. of 36 lacs shall be debited
& Difference amt of 54 lacs
shall be transfer to SPL.

DGG a/c Dr. 36 lacs
P&L a/c Dr. 54 lacs
 To Bank a/c 90 lacs.

Note:- If Entire Grant was Credited in
P&L of 1st yr. then following entry
would be passed for Defund:-

P&L a/c Dr. 90 lacs
 To Bank 90 lacs

Q11

Solution:-

Grant received for Welfare activities of Employee is a Revenue grant & it should either be Credited to related Expense or Other Income.

At the time of Refund following a/c treatment shall be done :-

- a) If Credited to Expense a/c earlier, Refund amt should be debited to the same Expense a/c.
- b) If Credited to Other Income a/c earlier then Refund amt shall be debited to SPL as "Extra-ordinary item".

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Q6

(₹ in Lakhs)

First year :-
Machine a/c Dr. 20/20
 To Bank

Bank a/c Dr. 8/8
 To Govt. Grant

Govt. Grant a/c Dr. 8/8
 To Machine a/c

Calculation of Dep :-

$$\frac{12 - 4}{4} = 2 \text{ Lakhs p.a.}$$

Depreciation a/c Dr. 2/2
 To Machine a/c

CA of Machine at 1st yr. end = 10 Lakhs.

Second yr :- Refund of Grant of 5 Lakhs. shall be added to the cost of machine & Calculate Dep on Revised value.

Machine a/c Dr. 5/5
 To Bank a/c

Revised CA of Machine = $10 + 5 = 15$ lacs.

$$\text{Depreciation} = \frac{15 - 4}{3} = 3.67 \text{ lacs.}$$

Depreciation 3.67 lacs
To Machine 3.67 lacs.

Q1

Note:- In the given case Grant is received for payment of Salary for next 5 yrs.

Hence, one more alternative is to Defer the Grant amt of 90 lacs in 5 years.

In such case, Deferred Grant Income of 18 lacs. pa shall be either Credited Separately or deducted from Salary etc.

| | 1 | 2 | 3 | 4 | 5 |
|--------------|------|----|----|----|----|
| Salary | 30 | 30 | 30 | 30 | 30 |
| Other Income | (90) | | | | |

₹ in Lac.

Q7

Option 1 :- Grant Credited to Asset

| <u>Particulars</u> | <u>Amount</u> |
|--|---------------|
| I st yr. Purchase Cost | 40 |
| (-) Grant Received | (16) |
| <hr/> | <hr/> |
| Net purchase Cost | 24 |
| Depreciation | (4) |
| <u>24 - 8</u> | |
| 4 | |
| <hr/> | <hr/> |
| Balance Value | 20 |
| II nd yr. (-) Depreciation | (4) |
| <hr/> | <hr/> |
| Balance Value | 16 |
| III rd Beg. (+) Refund of Grant | 16 |
| <hr/> | <hr/> |
| Value of Asset at 3 rd yr. Beg. | = 32 |

(-) Depreciation

$$\frac{32-8}{2}$$

(12)

Balance
Asset

20

Machine a/c Dr. 16

To Bank 16

(Being Grant refunded & added to
Machine cost)

Note:- Assuming Grant is refunded at
Beg. of year.

Option-2 Grant is Credited to Deferred
Grant a/c

Particulars

Amount

Grant Amt Received
(DGG a/c)

16 Lacs.

← Total life of Asset

4 yrs.

Annual Deferred Income
 $16 \div 4$

4 Lacs.

Balance of DGA a/c
at 3rd yr. Beg.
(16-4-4)

8 lac.

DGA a/c Dr. 8
P&L a/c Dr. 8
To Bank a/c 16

Value of Asset →

- a) Org. Cost of Machine 40—
b) Annual Depreciation 8
40-8
4
c) Cumulative Depreciation (16)—
for Two years

Bal. of Machine = 24

at the Time of
Refund

(a - c)

* Whenever the Grant is received in relation to Depreciable Asset & Entity is following the 1st method i.e. deduction from Cost of Asset. If this results in negative Value of Asset, then such Difference amt should be transfer to P&L immediately. (Other Income)

Asset Value becomes Nil.

B/s

| | |
|--------------------|-----|
| Asset | |
| Gross 2000000 | NIL |
| (-) Prov. (120000) | |
| (-) Grant (800000) | |
| | |

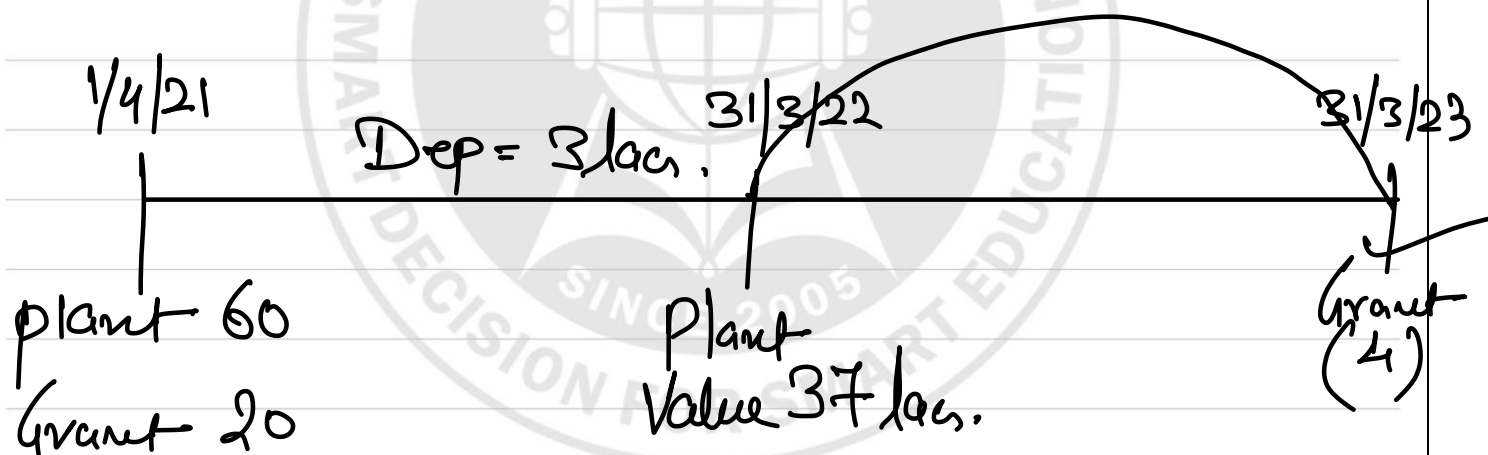
Bank a/c Dr. 16

To Machine 8
 To P&L (Other & Income)

Q8 In the given case, it seems that Company has followed the deduction method of Grant. While reducing the Grant amt. (₹16 lac) from CA of Machine (₹ 8 lac), the value of Machine becomes negative 800000 which is Incorrect.

Correct Treatment :- If entity want to follow reduction method then ₹ 8 lac. shall be reduced from CA of machine & remaining amt. is treated as recovery of purchase cost & transfer to P&L a/c immediately.

Note :- However, Entity has another choice to follow Deferred Grant Income method alternately.



Alternate 1 :- Grant is refunded after changing Dep on Machine
Hence Depreciation of 22-23 = 3 lac.

Alternate 2 :- Assuming Entity has the policy of Changing Depreciation after the refund of Grant then Depreciation for 22-23 :-

$$\text{Opng Bal} = 37$$

$$\begin{array}{r} (+) \text{ Grant} = 4 \\ \text{Refunded} \end{array}$$

$$\text{Revised Bal} = 41 \text{ lac.}$$

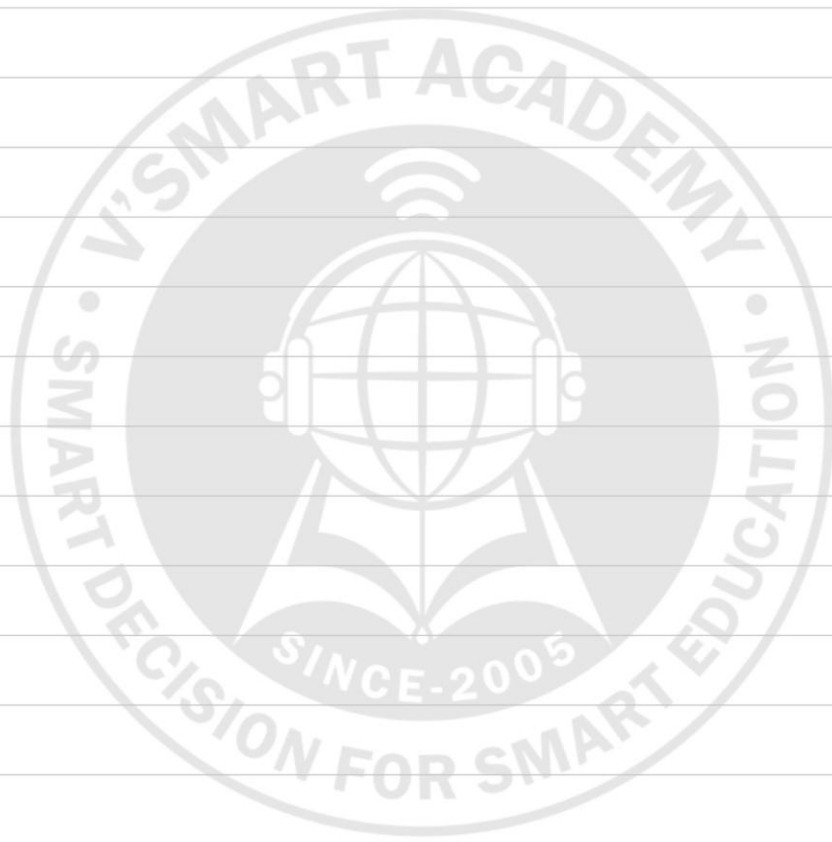
$$\text{Revised Dep} = 3.44 \text{ lac.}$$

$$\begin{array}{r} 41 - 10 \\ \hline 9 \end{array}$$

$$\text{Closg} = 37.56 \text{ lac.}$$

Asset

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