

AS 12

Accounting for Government Grants

Question 1

Viva Ltd. received a specific grant of ₹ 30 lakhs for acquiring the plant of ₹ 150 lakhs during 2018-19 having useful life of 10 years. The grant received was credited to deferred income in the balance sheet and was not deducted from the cost of plant. During 2021-22, due to non-compliance of conditions laid down for the grant, the company had to refund the whole grant to the Government. Balance in the deferred income on that date was ₹ 21 lakhs and written down value of plant was ₹ 105 lakhs. What should be the treatment of the refund of the grant and the effect on cost of the fixed asset and the amount of depreciation to be charged during the year 2021-22 in profit and loss account?

(MTP 5 Marks, Sep '22 May 20, March '21, RTP May '19)

Answer 1

As per AS-12, 'Accounting for Government Grants', "the amount refundable in respect of a grant related to specific fixed asset should be recorded by reducing the deferred income balance. To the extent the amount refundable exceeds any such deferred credit, the amount should be charged to profit and loss statement.

In this case the grant refunded is ₹ 30 lakhs and balance in deferred income is ₹ 21 lakhs, ₹ 9 lakhs shall be charged to the profit and loss account for the year 2021-22. There will be no effect on the cost of the fixed asset and depreciation charged will be on the same basis as charged in the earlier years.

Question 2

Ram Ltd. purchased machinery for Rs. 80 lakhs (useful life 4 years and residual value Rs. 8 lakhs). Government grant received was Rs. 32 lakhs. The grant had to be refunded at the beginning of third year. Show the Journal Entry to be passed at the time of refund of grant and the value of the fixed assets in the third year and the amount of depreciation for remaining two years, if the grant had been credited to Deferred Grant A/c.

(MTP 5 Marks April 21, April 19, April 22 & Oct '23)

Answer 2

As per AS 12 'Accounting for Government Grants,' income from Deferred Grant Account is allocated to Profit and Loss account usually over the periods and in the proportions in which depreciation on related assets is charged. Accordingly, in the first two years (Rs. 32 lakhs /4 years) = Rs. 8 lakhs x 2 years= Rs. 16lakhs will be credited to Profit and Loss Account and Rs. 16 lakhs will be the balance of Deferred Grant Account after two years.

Therefore, on refund of grant, following entry will be passed:

		Rs.	Rs.
Deferred Grant A/c	Dr.	16 lakhs	
Profit & Loss A/c	Dr.	16 lakhs	
To Bank A/c			32 lakhs
(Being Government grant refunded)			





Therefore, on refund of grant, following entry will be passed:

1. Value of Fixed Assets after two years but before refund of grant

Fixed assets initially recorded in the books = Rs. 80 lakhs

Depreciation for each year = $(Rs. 80 \text{ lakhs} - Rs. 8 \text{ lakhs}) / 4 \text{ years} = Rs. 18 \text{ lakhs per year}$

Book value of fixed assets after two years = $Rs. 80 \text{ lakhs} - (Rs. 18 \text{ lakhs} \times 2 \text{ years}) = Rs. 44 \text{ lakhs}$

2. Value of Fixed Assets after refund of grant

On refund of grant the balance of deferred grant account will become nil. The fixed assets will continue to be shown in the books at Rs. 44 lakhs.

3. Amount of depreciation for remaining two years

Depreciation will continue to be charged at Rs. 18 lakhs per annum for the remaining two years.

Question 3

Caseworker Limited received a specific grant of ₹ 6 crore for acquiring the plant of ₹ 30 crore on 1.4.2016 having useful life of 10 years. At the beginning of the financial year 2021-2022, due to non-compliance of conditions laid down for the grant of ₹ 6 crore, the company had to refund the grant to the Government. What should be the treatment of the refund if grant was deducted from the cost of the plant during financial year 2016-2017? Assume depreciation is charged on fixed assets as per straight line Method.

(MTP 5 Marks April 23 & Nov '21)

Answer 3

As per AS 12, the amount refundable in respect of grant related to specific fixed assets should be recorded by increasing the book value of the asset or by reducing the capital reserve or the deferred income balance, as appropriate, by the amount refundable. Where the book value of the asset is increased, depreciation on the revised book value should be provided prospectively over the residual useful life of the asset.

Where grant was deducted from the cost of the asset, initial value of the plant after deduction of grant amount of Rs. 6 crore would have been = $Rs. 30 \text{ crore} - Rs. 6 \text{ crore} = Rs. 24 \text{ crore}$.

Carrying value of the plant after 5 years on 1.4.2021 = $[(Rs. 24 \text{ crore} / 10 \text{ years}) \times 5 \text{ years}] = Rs. 12 \text{ crore}$.
Annual depreciation charge would be Rs. 2.4 crore.

On refund of grant to the Government, the book value of the plant shall be increased by Rs. 6 crore i.e. $Rs. 12 \text{ crore} + Rs. 6 \text{ crore} = Rs. 18 \text{ crore}$. The increased cost of Rs. 18 crore of the plant should be amortized prospectively over remaining 5 years of useful residual life. Depreciation charge in the year 2021-2022 would be $Rs. 18 \text{ crore} / 5 \text{ years} = Rs. 3.6 \text{ crore}$ instead of earlier Rs. 2.4 crore.

Question 4

Darshan Ltd. purchased a Machinery on 1st April, 2016 for ₹ 130 lakhs (Useful life is 4 years). Government grant received is ₹ 40 lakhs for the purchase of above Machinery.

Salvage value at the end of useful life is estimated at ₹ 60 lakhs. Darshan Ltd. decides to treat the grant as deferred income. You are required to calculate the amount of depreciation and grant to be recognized in profit & loss account for the year ending 31st March, 2017, 31st March, 2018, 31st March, 2019 & 31st March, 2020. Darshan Ltd. follows straight line method for charging depreciation.

(MTP 5 Marks Oct '21, PYP 5 Marks Jan '21)



Answer 4

As per 12 “Accounting for government grants”, grants related to depreciable assets, if treated as deferred income are recognized in the profit and loss statement on a systematic and rational basis over the useful life of the asset. Amount of depreciation and grant to be recognized in the profit and loss account each year

Depreciation per year:

	₹ in lakhs
Cost of the Asset	130
Less: Salvage value	(60)
	70
Depreciation per year (70lakhs / 4)	17.50

₹ 17.50 Lakhs depreciation will be recognized for the year ending 31st March, 2017, 31st March, 2018, 31st March, 2019 and 31st March, 2020.

Amount of grant recognized in Profit and Loss account each year: 40 lakhs /4 years = ₹ 10 Lakhs for the year ending 31st March, 2017, 31st March, 2018, 31st March, 2019 and 31st March, 2020.

Question 5

On 01.04.2018, XYZ Ltd. received Government grant of ₹ 100 Lakhs for an acquisition of new machinery costing ₹ 500 lakhs. The grant was received and credited to the cost of the assets. The life span of the machinery is 5 years. The machinery is depreciated at 20% on WDV method. The company had to refund the entire grant in 2nd April, 2021 due to non-fulfilment of certain conditions which was imposed by the government at the time of approval of grant. How do you deal with the refund of grant to the Government in the books of XYZ Ltd. as per AS 12? (MTP 5 Marks, Mar’22, MTP 5 Marks Oct 20)(PYP 5 Marks May ’18 & Nov ’20)

Answer 5

According to AS 12 on Accounting for Government Grants, the amount refundable in respect of a grant related to a specific fixed asset (if the grant had been credited to the cost of fixed asset at the time of receipt of grant) should be recorded by increasing the book value of the asset, by the amount refundable. Where the book value is increased, depreciation on the revised book value should be provided prospectively over the residual useful life of the asset.

		(₹ in lakhs)
1st April, 2018	Acquisition cost of machinery (₹ 500 – ₹ 100)	400.00
31st March, 2019	Less: Depreciation @ 20%	(80)
1st April, 2019	Book value	320.00
31st March, 2020	Less: Depreciation @ 20%	(64)
1st April, 2020	Book value	256.00
31st March, 2021	Less: Depreciation @ 20%	(51.20)
1st April, 2021	Book value	204.80
2nd April, 2021	Add: Refund of grant	100.00
	Revised book value	304.80

Depreciation @ 20% on the revised book value amounting ₹ 304.80 lakhs is to be provided prospectively over the residual useful life of the asset.



Question 6

D Ltd. acquired a machine on 01-04-2017 for ₹ 20,00,000. The useful life is 5 years. The company had applied on 01-04-2017, for a subsidy to the tune of 80% of the cost. The sanction letter for subsidy was received in November 2020. The Company's Fixed Assets Account for the financial year 2020-21 shows a credit balance as under:

Particulars	₹
Machine (Original Cost)	20,00,000
Less: Accumulated Depreciation (from 2017-18- to 2019-20 on Straight Line Method)	12,00,000
	8,00,000
Less: Grant received	(16,00,000)
Balance	(8,00,000)

You are required to explain how should the company deal with this asset in its accounts for 2020-21?

(MTP 5 Marks March '23) (RTP Nov 21, May 18)

Answer 6

From the above account, it is inferred that the Company has deducted grant from the book value of asset for accounting of Government Grants; Accordingly, out of the ₹ 16,00,000 that has been received, ₹ 8,00,000 (being the balance in Machinery A/c) should be credited to the machinery A/c; The balance ₹ 8,00,000 may be credited to P&L A/c, since already the cost of the asset to the tune of ₹ 12,00,000 had been debited to P&L A/c in the earlier years by way of depreciation charge, and ₹ 8,00,000 transferred to P&L A/c now would be partial recovery of that cost. There is no need to provide depreciation for 2020-21 or 2021-22 as the depreciable amount is now Nil.

Question 7

(i) Hygiene Ltd. had received a grant of Rs. 50 lakh in 2012 from a State Government towards installation of pollution control machinery on fulfilment of certain conditions. The company, however, failed to comply with the said conditions and consequently was required to refund the said amount in 2020. The company debited the said amount to its machinery account in 2020 on payment of the same. It also reworked the depreciation for the said machinery from the date of its purchase and passed necessary adjusting entries in the year 2020 to incorporate the retrospective impact of the same. State whether the treatment done by the company is correct or not.

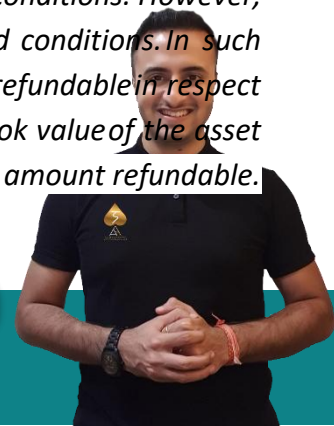
(RTP May '21, May'23)

(ii) ABC Ltd. received two acres of land received for set up of plant. It also received Rs.2 lakhs received for purchase of machinery of Rs. 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. recognize these government grants in its books of accounts?

(RTP May '21)

Answer 7

(i) As per the facts of the case, Hygiene Ltd. had received a grant of Rs. 50 lakh in 2012 from a State Government towards installation of pollution control machinery on fulfilment of certain conditions. However, the amount of grant has to be refunded since it failed to comply with the prescribed conditions. In such circumstances, AS 12, "Accounting for Government Grants", requires that the amount refundable in respect of a government grant related to a specific fixed asset is recorded by increasing the book value of the asset or by reducing the capital reserve or the deferred income balance, as appropriate, by the amount refundable.



The Standard further makes it clear that in the first alternative, i.e., where the book value of the asset is increased, depreciation on the revised book value should be provided prospectively over the residual useful life of the asset. Accordingly, the accounting treatment given by Hygiene Ltd. of increasing the value of the plant and machinery is quite proper. However, the accounting treatment in respect of depreciation given by the company of adjustment of depreciation with retrospective effect is improper and constitutes violation of AS 12.

(ii) ABC Ltd. should recognize the grants in the following manner:

As per AS 12, government grants may take the form of non-monetary assets, such as land or other resources, given at concessional rates. In these circumstances, it is usual to account for such assets at their acquisition cost. Non-monetary assets given free of cost are recorded at a nominal value. Accordingly, land should be recognized at nominal value in the balance sheet.

The standard provides option to treat the grant either as a deduction from the gross value of the asset or to treat it as deferred income as per provisions of the standard. Under first method, the grant is shown as a deduction from the gross value of the asset concerned in arriving at its book value. The grant is thus recognised in the profit and loss statement over the useful life of a depreciable asset by way of a reduced depreciation charge. Accordingly, the grant of Rs. 2 lakhs are deducted from the cost of the machinery. Machinery will be recognised in the books at Rs. 10 lakhs – Rs. 2 lakhs = Rs. 8 lakhs and depreciation will be charged on it as follows: Rs. 8 lakhs/ 5 years = Rs. 1.60 lakhs per year.

Under the second method, grants related to depreciable assets are treated as deferred income which is recognized in the profit and loss statement on a systematic and rational basis over the useful life of the asset. Such allocation to income is usually made over the periods and in the proportions in which depreciation on related assets is charged. Rs. 2 lakhs should be recognized as deferred income and will be transferred to profit and loss over the useful life of the asset. In this case, Rs. 40,000 [Rs. 2 lakhs / 5 years] should be credited to profit and loss each year over the period of 5 years.

Question 8

How would you treat the following in the accounts in accordance with AS 12 'Government Grants'?

1. **Rs.35 Lakhs received from the Local Authority for providing medical facilities to the employees. (RTP Nov 20, RTP May 20, MTP Oct'22, 5 Marks, Old & New SM)**
2. **Rs.100 Lakhs received as Subsidy from the Central Government for setting up a unit in a notified backward area. (RTP Nov 20, RTP May 20, MTP Oct'22, 5 Marks, Old & New SM)**
3. **Rs.10 Lakhs Grant received from the Central Government on installation of anti- pollution equipment. (RTP May 20, MTP Oct'22, 5 Marks)**

Answer 8

1. Rs.35 lakhs received from the local authority for providing medical facilities to the employees is a grant received in the nature of revenue grant. Such grants are generally presented as a credit in the profit and loss statement, either separately or under a general heading such as 'Other Income'; Alternatively, Rs;35 lakhs may be deducted in reporting the related expense i.e. employee benefit expenses.



2. As per AS 12 'Accounting for Government Grants', where the government grants are in the nature of promoters' contribution, i.e. they are given with reference to the total investment in an undertaking or by way of contribution towards its total capital outlay and no repayment is ordinarily expected in respect thereof, the grants are treated as capital reserve which can be neither distributed as dividend nor considered as deferred income. In the given case, the subsidy received from the Central Government for setting up a unit in notified backward area is neither in relation to specific fixed asset nor in relation to revenue. Thus, amount of Rs.100 lakhs should be credited to capital reserve.
3. Rs.10 lakhs grant received for installation anti-pollution equipment is a grant related to specific fixed asset. Two methods of presentation in financial statements of grants related to specific fixed assets are regarded as acceptable alternatives. Under first method, the grant is shown as a deduction from the gross value of the asset concerned in arriving at its book value. The grant is thus recognized in the profit and loss statement over the useful life of a depreciable asset by way of a reduced depreciation charge. Under the second method, grants related to depreciable assets are treated as deferred income which is recognised in the profit and loss statement on a systematic and rational basis over the useful life of the asset. Thus, Rs.10 lakhs may either be deducted from the cost of equipment or treated as deferred income to be recognized on a systematic basis in profit & Loss A/c over the useful life of equipment.

Question 9

Samrat Limited has set up its business in a designated backward area which entitles the company for subsidy of 25% of the total investment from Government of India. The company has invested Rs.80 crores in the eligible investments. The company is eligible for the subsidy and has received Rs.20 crores from the government in February 2019. The company wants to recognize the said subsidy as its income to improve the bottom line of the company. Do you approve the action of the company in accordance with the Accounting Standard? (RTP Nov'19, Nov'22)

Answer 9

As per AS 12 "Accounting for Government Grants", where the government grants are in the nature of promoters' contribution, i.e., they are given with reference to the total investment in an undertaking or by way of contribution towards its total capital outlay (for example, Central Investment Subsidy Scheme) and no repayment is ordinarily expected in respect thereof, the grants are treated as capital reserve which can be neither distributed as dividend nor considered as deferred income. The subsidy received by Samrat Ltd. for setting up its business in a designated backward area will be treated as grant by the government in the nature of promoter's contribution as the grant is given with reference to the total investment in an undertaking i.e. subsidy is 25% of the eligible investment and also no repayment is apparently expected in respect thereof. US \$ 8,547 = 5,00,000/58.50 Since the subsidy received is neither in relation to specific fixed assets nor in relation to revenue. Thus, the company cannot recognize the said subsidy as income in its financial statements in the given case. It should be recognized as capital reserve which can be neither distributed as dividend nor considered as deferred income.



Question 10

A specific government grant of ₹ 15 lakhs was received by USB Ltd. for acquiring the Hi-Tech Dairy plant of ₹ 95 lakhs during the year 2014-15. Plant has useful life of 10 years. The grant received was credited to deferred income in the balance sheet. During 2017-18, due to non-compliance of conditions laid down for the grant, the company had to refund the whole grant to the Government. Balance in the deferred income on that date was ₹ 10.50 lakhs and written down value of plant was ₹ 66.50 lakhs.

1. What should be the treatment of the refund of the grant and the effect on cost of plant and the amount of depreciation to be charged during the year 2017 -18 in profit and loss account?
2. What should be the treatment of the refund, if grant was deducted from the cost of the plant during 2014-15 assuming plant account showed the balance of ₹ 56 lakhs as on 1.4.2017? You are required to explain in the line with provisions of AS 12. (RTP Nov 18)

Answer 10

1. As per para 21 of AS 12, 'Accounting for Government Grants', "the amount refundable in respect of a grant related to specific fixed asset should be recorded by reducing the deferred income balance. To the extent the amount refundable exceeds any such deferred credit, the amount should be charged to profit and loss statement.
2. In this case the grant refunded is ₹ 15 lakhs and balance in deferred income is ₹ 10.50 lakhs, ₹ 4.50 lakhs shall be charged to the profit and loss account for the year 2017-18. There will be no effect on the cost of the fixed asset and depreciation charged will be on the same basis as charged in the earlier years.
3. If the grant was deducted from the cost of the plant in the year 2014-15 then, para 21 of AS 12 states that the amount refundable in respect of grant which relates to specific fixed assets should be recorded by increasing the book value of the assets, by the amount refundable. Where the book value of the asset is increased, depreciation on the revised book value should be provided prospectively over the residual useful life of the asset. Therefore, in this case, the book value of the plant shall be increased by ₹ 15 lakhs. The increased cost of ₹ 15 lakhs of the plant should be amortized over 7 years (residual life). Depreciation charged during the year 2017-18 shall be $(56+15)/7$ years = ₹ 10;14 lakhs presuming the depreciation is charged on SLM.

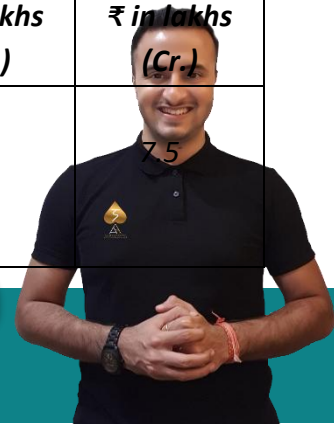
Question 11

A fixed asset is purchased for ₹ 30 lakhs. Government grant received towards it is ₹ 12 lakhs. Residual Value is ₹ 6 lakhs and useful life is 4 years. The company charges depreciation based on Straight-Line method. Asset is shown in the balance sheet net of grant. After 1 year, grant becomes refundable to the extent of ₹ 7.5 lakhs due to non-compliance with certain conditions. You are required to give necessary journal entries for second year. (RTP May '22)

Answer 11

Journal Entries

Year	Particulars	₹ in lakhs (Dr.)	₹ in lakhs (Cr.)
2nd	Fixed Asset Account Dr. To Bank Account (Being government grant on asset partly refunded which increased the cost of fixed asset)	7.5	7.5





Depreciation Account (W.N.) To Fixed Asset Account (Being depreciation charged on SLM on revised value of fixed asset prospectively)	Dr.	5.5	5.5
Profit & Loss Account To Depreciation Account (Being depreciation transferred to Profit and Loss Account at the end of year 2)	Dr.	5.5	5.5

Working Note:**Depreciation for Year 2**

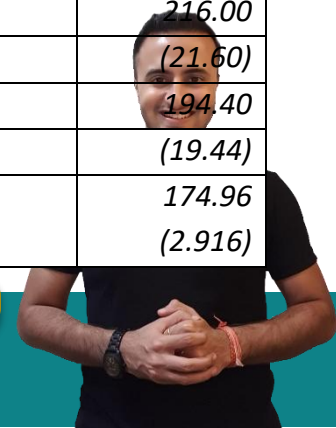
	₹ in lakhs
Cost of the Asset	30
Less: Government grant received	(12)
Less: Depreciation for the first year [$18-6/4$]	18
	3
	15
Add: Government grant refundable	7.5
Depreciation for the second year [$22.5-6/3$]	22.5

Question 12

On 1st April, 2016, Mac Ltd. received a Government Grant of ₹ 60 lakhs for acquisition of machinery costing ₹ 300 lakhs. The grant was credited to the cost of the asset. The estimated useful life of the machinery is 10 years. The machinery is depreciated @ 10% on WDV basis. The company had to refund the grant in June 2019 due to non-compliance of certain conditions. How the refund of the grant is dealt with in the books of Mac Ltd. assuming that the company did not charge any depreciation for the year 2019-20. Pass necessary Journal Entries for the year 2019-20. (PYP 5 Marks Nov '20) (Same concept different figures MTP 5 Marks, Mar'22, MTP 5 Marks Oct 20, PYP 5 Marks May'18)

Answer 12

		(₹ in lakhs)
1st April, 2016	Acquisition cost of machinery	300.00
	Less: Government Grant	60.00
		240.00
31st March, 2017	Less: Depreciation @ 10%	(24.00)
1st April, 2017	Book value	216.00
31st March, 2018	Less: Depreciation @ 10%	(21.60)
1st April, 2018	Book value	194.40
31st March, 2019	Less: Depreciation @ 10%	(19.44)
1st April, 2019	Book value	174.96
	Less: Depreciation @10% for 2 months	(2.916)





1st June, 2019	Book value	172.044
June 2019	Add: Refund of grant*	60.00
	Revised book value	232.044

Depreciation @10% on the revised book value amounting to ₹ 232;044 lakhs is to be provided prospectively over the residual useful life of the machinery.

*considered refund of grant at beginning of June month and depreciation for two months already charged. Alternative answer considering otherwise also possible.

Journal Entries

Machinery Account To Bank Account (Being government grant on asset partly refunded which increased the cost of fixed asset)	Dr.	60	60
Depreciation Account To Machinery Account (Being depreciation charged on revised value of fixed asset prospectively for 10 months)		19.337	19.337
Profit & Loss Account To Depreciation Account (Being depreciation transferred to Profit and Loss Account amounting to ₹ (2;916 + 19.337= 22.253)		22.253	22.253

Question 13

State whether the following statements are 'True' or 'False'. Also give reason for your answer. As per the provisions of AS-12, government grants in the nature of promoters' contribution which become refundable should be reduced from the capital reserve. (PYP May '19, 1 Mark)

Answer 13

True: When grants in the nature of promoters' contribution becomes refundable, in part or in full to the government on non-fulfillment of some specified conditions, the relevant amount refundable to the government is reduced from the capital reserve.

Question 14

Alps Limited has received the following Grants from the Government during the year ended 31st March, 2021:

- 1) ₹ 120 Lacs received as Subsidy from the Central Government for setting up an Industrial undertaking in Medak, a notified backward area.
- 2) ₹ 15 Lacs Grant received from the Central Government on installation of Effluent Treatment Plant.
- 3) ₹ 25 Lacs received from State Government for providing medical facilities to its workmen during the pandemic.



Advise Alps Limited on the treatment of the above Grants in its books of Account in accordance with AS-12 "Government Grants".
(PYP July'21, 5 Marks)

Answer 14

(i) As per AS 12 'Accounting for Government Grants', where the government grants are in the nature of promoters' contribution i.e., they are given with reference to the total investment in an undertaking or by way of contribution towards its total capital outlay and no repayment is ordinarily expected in respect thereof, the grants are treated as capital reserve which can be neither distributed as dividend nor considered as deferred income. In the given case, the subsidy received from the Central Government for setting up an industrial undertaking in Medak is neither in relation to specific fixed asset nor in relation to revenue; Thus, the amount of ₹ 120 Lacs should be credited to capital reserve; (Note: Subsidy for setting up an industrial undertaking is considered to be in the nature of promoter's contribution)

(ii) As per AS 12 'Accounting for Government Grants', two methods of presentation in financial statements of grants related to specific fixed assets are regarded as acceptable alternatives –

- The grant is shown as a deduction from the gross value of the asset concerned in arriving at its book value. The grant is thus recognised in the profit and loss statement over the useful life of a depreciable asset by way of a reduced depreciation charge. Where the grant equals the whole, or virtually the whole, of the cost of the asset, the asset is shown in the balance sheet at a nominal value.
- Grants related to depreciable asset are treated as deferred income which is recognised in the profit and loss statement on a systematic and rational basis over the useful life of the asset.
- In the given case, ₹ 15 Lacs was received as grant from the Central Government for installation of Effluent Treatment Plant. Since the grant was received for a fixed asset, either of the above methods can be adopted.

(iii) ₹ 25 lacs received from State Government for providing medical facilities to its workmen during the pandemic is a grant received in nature of revenue grant. Such grants are generally presented as a credit in the profit and loss statement, either separately or under a general heading such as "Other Income"; Alternatively, ₹ 25 lacs may be deducted in reporting the related expense i.e., employee benefit expense.

Question 15

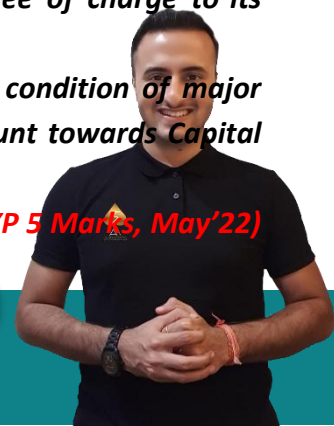
Answer the following Questions:

a. Suraj Limited provides you the following information:

- It received a Government Grant @40% towards the acquisition of Machinery worth ₹ 25 Crores.**
- It received a Capital Subsidy of ₹ 150 Lakhs from Government for setting up a Plant costing ₹300 Lakhs in a notified backward region.**
- It received ₹ 50 Lakhs from Government for setting up a project for supply of arsenic free water in a notified area.**
- It received ₹ 5 Lakhs from the Local Authority for providing Corona Vaccine free of charge to its employees and their families.**
- It also received a performance award of ₹ 500 Lakhs from Government with a condition of major renovation in the Power Plant within 3 years. Suraj Limited incurred 90% of amount towards Capital expenditure and balance for Revenue Expenditure.**

State, how you will treat the above in the books of Suraj Limited.

(PYP 5 Marks, May'22)



Answer 15

1. As per AS 12 "Accounting for Govt; Grants", two methods of presentation in financial statements of grants related to specific fixed assets are regarded as acceptable alternatives. Under the first alternative, the grant of ₹ 10 crores (40% of 25 crores) is shown as a deduction from the gross value of the asset concerned in arriving at its book value. The grant is thus recognized the profit and loss statement over the useful life of a depreciable asset by way of a reduced depreciation charge. Under second alternative method, grant amounting ₹ 10 crores is treated as deferred income which is recognized in the profit and loss statement on a systematic and rational basis over the useful life of the asset.
2. In the given case, the grant amounting ₹ 150 lakhs received from the Central Government for setting up a plant in notified backward area may be considered as in the nature of promoters' contribution; Thus, amount of ₹ 150 lakhs should be credited to capital reserve and the plant will be shown at ₹ 300 lakhs;
3. ₹ 50 lakhs received from Govt. for setting up a project for supply of arsenic free water in notified area should be credited to capital reserve. Alternatively, if it is assumed that the project consists of capital asset only, then the amount of ₹ 50 lakhs received from Govt; for setting up a project for supply of arsenic free water should either be deducted from cost of asset of the project concerned in the balance sheet or treated as deferred income which is recognized in the profit and loss statement on a systematic and rational basis over the useful life of the asset.
4. ₹ 5 lakhs received from the local authority for providing corona vaccine to the employees is a grant received in nature of revenue grant. Such grants are generally presented as a credit in the profit and loss account, either separately or under a general heading 'Other Income'; Alternatively, ₹ 5 lakhs may be deducted in reporting the related expense i.e. employee benefit expenses.
5. ₹ 500 Lakhs will be reduced from the renovation cost of power plant or will be treated as deferred income irrespective of the expenditure done by the entity out of it as it was specifically received for the purpose major renovation of power plant. However, it may be, later on, decided by the Govt. whether the grant will have to be refunded or not due to non-compliance of conditions attached to the grant.

Question 16

On 1st April 2021, Eleanor Limited purchased a manufacturing Plant for ₹ 60 lakhs, which has an estimated useful life of ₹ 10 years with a salvage value of ₹ 10 lakhs. On purchase of the Plant, a grant of ₹ 20 lakhs was received from the government.

You are required to calculate the amount of depreciation as per AS-12 for the financial year 2022-23 in the following cases:

1. **If the grant amount is deducted from the value of Plant.**
2. **If the grant is treated as deferred income.**
3. **If the grant amount is deducted from the value of Plant, but at the end of the year 2022-2023 grant is refunded to the extent of ₹ 4 lakhs, due to non-compliance of certain conditions.**
4. **If the grant is treated as the promoter's contribution.**

(Assume depreciation on the basis of Straight-Line Method.)

(PYP 5 Marks May '23)





Answer 16

Calculation of depreciation as per AS 12 for the financial year 2022–23:

If the grant amount is deducted from the value of Plant, then the amount of depreciation will be ₹3,00,000 p.a. $(₹ 60,00,000 - ₹ 10,00,000 - ₹ 20,00,000) / 10$ year.

If the grant is treated as deferred income, then amount of depreciation will be ₹ 5,00,000 p.a. $(₹ 60,00,000 - ₹ 10,00,000) / 10$ year.

If the grant amount is deducted from the value of plant, but at the end of the year 2022–23 grant is refunded to the extent of ₹ 4 lakh then the amount of depreciation will be ₹ 3,00,000 p.a. $(₹ 60,00,000 - ₹ 10,00,000 - ₹ 20,00,000) / 10$ year for year 202122 and for the year 2022–23 Depreciation will be ₹ 3,00,000 calculated as follows, $(₹60,00,000 - ₹ 10,00,000 - ₹ 20,00,000 - ₹ 3,00,000) / 10$ years.

Note:

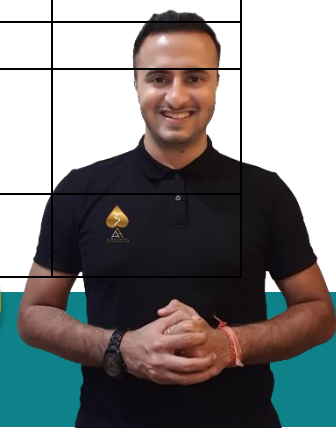
It is assumed that the depreciation for the year has been charged on the book value on the plant before making adjustment for grant. Alternatively, if it is considered otherwise then the depreciation will be charged after making adjustment for grant. In that case depreciation for the year 2022–23 will be as ₹ 3,44,444 calculated as follows, $(₹ 60,00,000 - ₹10,00,000 - ₹ 20,00,000 + 4,00,000 - ₹ 3,00,000) / 9$ years

If the grant is treated as promoter's contribution, then the amount of depreciation will be ₹5,00,000 p.a. $(₹ 60,00,000 - ₹10,00,000) / 10$ year.

NOTE:

The answer can be presented in the following alternative manner:

Date	Particulars	(i)		(ii)		(iii)		(iv)	
		Grant deducted from Plant	Value	Grant treated as Deferred Income	Grant Refunded	Grant is treated as Promoter's Contribution			
01.04.2021	Cost of Plant Less: Salvage	60,00,000		60,00,000	60,00,000	60,00,000		60,00,000	
		10,00,000		10,00,000	10,00,000	10,00,000		10,00,000	
		50,00,000		50,00,000	50,00,000	50,00,000		50,00,000	
01.04.2021	Less: Grant	20,00,000		-	20,00,000	20,00,000		-	
		30,00,000		50,00,000	30,00,000	30,00,000		50,00,000	
	Useful Life (years)	10		10	10	10		10	
31.03.2022	Depreciation FY 2021–22	3,00,000		5,00,000	3,00,000	3,00,000		5,00,000	
1.4.2022	Cost of Plant Less: Salvage				60,00,000	10,00,000			
					50,00,000				
	Less: Grant				20,00,000				
	Less:				30,00,000				
	Depreciation FY 2022–23				3,00,000				
					27,00,000				
	Book value at the time of refund of grant i.e. at the end of period				4,00,000				
	Add: Grant Refundable at end of 22–23 Book value				31,00,000				



	available for remaining 8 years.			
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Note:

It is assumed that the depreciation for the year has been charged on the book value on the plant before making adjustment for grant. Alternatively, if it is considered otherwise then the depreciation will be charged after making adjustment for grant. In that case depreciation for the year 2022–23 will be as:

Cost of Plant	60,00,000
Less: Salvage	10,00,000
	50,00,000
Less: Grant	20,00,000
	30,00,000
Add: Grant Refundable	4,00,000
	34,00,000
Less: Depreciation For 2021–22	3,00,000
	31,00,000
Useful Life (years)	9
Depreciation For 2022–23	3,44,444

Question 17

S Ltd. has received a grant of 18 crores from the Government for setting up a factory in a backward area. Out of this grant, the company distributed 12 crores as dividend.

Also, S Ltd. received land free of cost from the State Government but it has not recorded it at all in the books as no money has been spent.

In the light of AS-12 examine, whether the treatment of both the grants is correct.

(RTP Nov '23)

Answer 17

As per AS 12, when government grant is received for a specific purpose, it should be utilized for the same. Thus, the grant received for setting up a factory is not available for distribution of dividend.

As per AS-12, if an asset is acquired free of cost it is to be recorded at a nominal value.

Thus, even if the company has not spent money for the acquisition of land, land should be recorded in the books of accounts at a nominal value.

The treatment of both the elements of the grant is incorrect as per AS 12.

