STUDENT NOTES

GOVERNMENT GRANTS

1. Receivable by the entity

Government Grants are-
- Assistance by government
- In cash or kind to an enterprise
- For past or future compliance with certain conditions.

Electricity
Market = ₹10/unit
₹3.5/unit
outflow of cash.

It excludes-
- Govt. assistance which cannot reasonably have a value placed upon them.
- Transactions with govt. which cannot be distinguished from normal trading transactions.

RECOGNITION OF GOVERNMENT GRANTS

Should not be recognised until there is REASONABLE ASSURANCE that-
1. The enterprise will comply with conditions attached to the grant AND
2. The grant will be received. → Assurance

Ignore — complied with cond
Past ×
Future ×

NOTE:
a. Mere receipt of grant is not a conclusive evidence that the conditions attached to it have been or will be fulfilled.
b. When grant is received and there is no reasonable assurance that the conditions attached to it will be fulfilled, such grant should be recognised as a LIABILITY.

Monetary Grants

1. RELATED TO DEPRECIABLE FIXED ASSETS → P&M

P&M Dr. 150cr.
To, Bank 150cr.

150cr × 20% = 30cr.

Bank Dr. 30cr.
To, P&M 30cr.

INITIAL RECOGNITION

1.Credit to Fixed Asset a/c.
Bank/Grant receivable a/c Dr. 30cr.
To, Fixed Asset a/c (P&M) 30cr.

2. Credit to govt. grant a/c.
Bank/Grant receivable a/c Dr.
To, Deferred Govt. Grant a/c
(write off to P&L in proportion of depn.)

REFUND OF GRANT

1.Debit to Fixed Asset a/c
Fixed Asset a/c Dr.
To, Bank/Grant Payable a/c
(depn. on revised value prospectively)

2.Debit to D.G.G a/c & P&L a/c
D.G.G. a/c Dr.(to extent of bal.)
P&L a/c Dr.(excess if any)
To, Bank/Grant payable a/c

P&M = 120cr.
Depn = 12cr.

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Plant & Machinery a/c Dr. 150cr.
To, Bank 150cr.

Depreciation : SLM / useful life = 10 years

Year	Depn (P&L Dr.)	DGG (P&L Cr.) w/off
1	15cr = 12cr. Dr.	3cr.
2	15cr.	3cr.
3	15cr.	3cr.
4	15cr.	3cr.

Bank Dr. 30cr.
To, Deferred Govern. Grant 30cr.

write off to P&L in proportion to Depreciation.

Net Investment = 150cr − 30cr. = 120cr.

Net Depn (P&L Dr.) = 120/10 = 12 Crore Dr

Y1 Deferred Govt Grant Dr. 3cr.
To, P&L a/c 3cr.
[30cr x 10% = 3crore]

Proportion of Depn

Depn = 10% p.a. WDV

Bank Dr. 30cr.
To, Deferred Govt Grant 30cr.

Y1 : Depn prop → 30cr x 10% = 3cr.
DGG balance = 27cr.

DGG Dr. 3cr.
To, P&L 3cr.

Y2 : Depn prop → 27cr x 10% = 2.7

DGG Dr. 2.7cr.
To, P&L 2.7cr.

AS-12: ACCOUNTING FOR GOVERNMENT GRANTS

$\boxed{10 - 2 = 8 \rightarrow 8/10 = 0.8 \text{ crores}}$

Bank Dr 2
To, DGG ②

DGG Dr. 0.2cr. (10%) → In proportion
To, P&L 0.2cr. (10%) to depn.

DGG Cr. = 2cr. DGG Dr. = 20L×4 = 80L
P&L Cr. = 80L

DGG bal. 2cr.
- 80L
1.20cr.

DGG Dr. 1.20cr.
P&L Dr. 0.80cr.
To, Bank 2cr.

STUDENT NOTES

2cr×10% = 0.2cr.

2/10 = 20L

Machine Purchased	= 10 crores; Depreciation Method= SLM
Grant Received	= 2 crores; Useful Life = 10 Years

YEAR	DEPRECIATION	DGG w/off	EFFECTIVE DEPN.
1	1 cr. P&L Dr.	20L (2cr./10) P&L Cr.	80L P&L Dr.
2	1 cr.	20L (2cr./10)	80L
3	1 cr.	20L (2cr./10)	80L
4	1 cr.	20L (2cr./10)	80L
5	1 cr.	20L (2cr./10)	80L
6	1 cr.	20L (2cr./10)	80L
7	1 cr.	20L (2cr./10)	80L
8	1 cr.	20L (2cr./10)	80L
9	1 cr.	20L (2cr./10)	80L
10	1 cr.	20L (2cr./10)	80L

Y1 = 70L
40L
50L
40L
woff 2cr.

DGG Dr.
To, P&L

RELATED TO NON-DEPRECIABLE FIXED ASSETS → Land

INITIAL RECOGNITION

1.Credit to Fixed Asset a/c.
Same as above

2.Credit to govt. grant a/c.
Same as above
(this is applicable if certain costs need to be incurred in respect of such grant, then recognise it over the period when such costs will be incurred.)

Bank Dr.
To, DGG

3.Credit to Capital Reserve
Bank/Grant Receivable a/c Dr.
To, Capital reserve a/c

REFUND OF GRANT

1.Debit to Fixed Asset a/c
Same as above.

2.Debit to D.G.G a/c & P&L a/c
Same as above.

3.Debit to Capital Reserve & P&L
Capital Res. a/c Dr.(extent of bal.)
P&L a/c Dr.(excess if any)
To bank/grant payable a/c

$2cr \times \frac{70}{200}$

$2cr \times \frac{40}{200}$

$2cr \times \frac{50}{200}$

Land Dr. 100 crore
To, Bank 100 crore

} Non- Depreciable F.A.

Method 1

Bank Dr. 20 crore
To, Land 20 crore

Method 2

Bank Dr. 20 crore
To, DGG 20 crore

Method 3

Bank Dr. 20 crore
To, Cap Reserve 20 crore

If associated cost exists
↓
Only then credited to DGG

In proportion to depn cannot be w/off

Because Land is a non depreciable FA

If no associated cost exists, then donot credit to DGG

In case of non depreciable Fixed Assets, Grant should be credited to DGG only if there is an associated cost against which such DGG can be written off to P&L.

Y_1 = 15L
Y_2 = 35L
Y_3 = 45L
Y_4 = 40L
135L

} Associated Cost
↓
proportion
↓
DGG → P&L : w/off

$Y_1 = 20 \times 15/135 =$

$Y_2 = 20 \times 35/135 =$

$Y_3 = 20 \times 45/135 =$

$Y_4 = 20 \times 40/135 =$

} DGG Dr.
To, P&L

AS-12: ACCOUNTING FOR GOVERNMENT GRANTS

→ Bank Dr.
To, Capital Reserve

STUDENT NOTES

3. RELATED TO PROMOTERS' CONTRIBUTION → 100cr. Invest.

INITIAL RECOGNITION

1. Credited to Capital Reserve

Bank/grant receivable a/c Dr.
To, Capital reserve a/c

REFUND OF GRANT

1. Debited to Capital Reserve & P&L

Capital Reserve a/c Dr.
P&L a/c Dr.
To, Bank/grant payable a/c

GRANTS RELATED TO PROMOTERS' CONTRIBUTION

- Such grants are given with respect to TOTAL INVESTMENT IN AN UNDERTAKING or by way of CONTRIBUTION TOWARDS ITS TOTAL OUTLAY and no repayment is ordinarily expected with respect to such grants.

$Y_1 = 2$ cr.
$Y_2 = 2.2$ cr.
$Y_3 = 2.5$ cr.
$Y_4 = 2.75$ cr.
$Y_5 = 3$ cr.
12.45 crores

Grant = 10 crores → Y_1 ⇒ DGG Cr. → Y_1 P&L Cr. $= 10 \times 2/12.45$
Y_2 P&L Cr. $= 10 \times 2.2/12.45$
Y_3 P&L Cr.
Y_4 P&L Cr.
Y_5 P&L Cr.

1000 employees
↓
"Revenue expenditure" ↳ P&L Dr.
↑
Govern. Grant ↳ P&L Cr.

RELATED TO REVENUE

INITIAL RECOGNITION

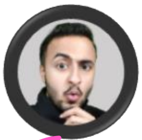
1. Credit to P&L a/c
Bank a/c Dr.
To, P&L a/c
(Alternatively, it can be reduced from its related expenditure.)

2. Credit to D.G.G a/c
Bank a/c Dr.
To, D.G.G a/c
(Write off to P&L in the period over which such costs are incurred.)

REFUND OF GRANT

1. Debit to P&L.
P&L a/c Dr.
To, Bank a/c

2. Debit to D.G.G a/c & P&L a/c
D.G.G a/c Dr.(extent of bal.)
P&L a/c Dr.(excess if any)
To, Bank/Grant Payable



AS-12: ACCOUNTING FOR GOVERNMENT GRANTS

Clear

Bank Dr. 1cr. To DGG Cr. 1cr. | DGG Dr. 1cr x 15/45 To, P&L | DGG 1cr x 20/45 To, P&L | DGG Dr. 1cr x 10/45 To, P&L

STUDENT NOTES

EXAMPLE: When Revenue Grant is credited to DGG a/c.
Grant received of revenue nature = 1 crore
Salary : Year 1 = 15L; Year 2 = 20L; Year 3 = 10L

YEAR	SALARY	DGG w/off
1	15	1cr. * 15/45 = 33.33 lakhs
2	20	1cr. * 20/45 = 44.44 lakhs
3	10	1cr. * 10/45 = 22.23 lakhs

JE	Y1	Y2	Y3
DGG Dr.	33.33L	44.44L	22.23L
To, P&L	33.33L	44.44L	22.23L

RELATED TO COST INCURRED IN PREVIOUS PERIOD/NO CORRESPONDING CURRENT/FUTURE COST TO BE INCURRED → Revenue

INITIAL RECOGNITION	REFUND OF GRANT
1.Credit to P&L a/c Bank a/c Dr. To, P&L a/c	**1.Debit to P&L a/c** P&L a/c Dr. To,Bank a/c

NON-MONETARY GRANT: ASSET GIVEN AT CONCESSIONAL RATE → In kind

P&M = 100cr.
↓
Conc. Rate = 40cr.

Clear

INITIAL RECOGNITION	REFUND OF GRANT
1.Record asset at actual cost incurred. Fixed Asset a/c Dr. 40 Cr. To, Bank a/c. 40Cr.	**1.If Asset is taken over.** P&L a/c Dr. To, Fixed Asset a/c. Bank Dr. → 20 P&L Dr. → 8 To, FA → 28 **2.If concession amount required to be paid.** Fixed Asset a/c Dr. To, Bank/Grant Payable a/c

FA= 40-4-4-4 = 28cr.

STUDENT NOTES

Question 4

Naukri Ltd. is awarded a government grant of ₹6,00,000 receivable over three years (₹4,00,000 in year 1 and ₹ 1,00,000 in each of years 2 and 3). As part of the conditions, it should create 10 new jobs and maintain them for three years. The cost of recruiting the employees is ₹50,000 and the wage payable to them in year 1 - ₹80,000, Year 2 - 1,10,000 and Year 3 - 1,20,000. The entity has reasonable assurance on satisfying the conditions. What is the accounting treatment for this in the books of the entity?

Answer:

Bank Dr. 400000
Grant rec. Dr. 200,000
To, DGrG 600000

Y1 = $\frac{130,000}{360,000} \times 600000$
DGrG Dr. 216667
P&L Cr. 216667

Y2: Bank Dr. 100000
To Grant rec. 100,000
DGrG Dr. 183334
To, P&L 183334

Y3 Bank Dr. 1L
To Grant rec 1L
DGrG Dr. 2L
To, P&L 2L

$\frac{110000}{360000} \times 6L$

=

$\frac{120000}{360000} \times 6L$

Quote: As per AS-12: Government Grants, if the grant is in the nature of a Revenue Grant, the company should recognize such grant in the P&L in proportion to the costs incurred(Matching Concept) to satisfy the conditions related to such grants.

Analysis: *In the given case, since Naukri Ltd. Has to generate employment for 3 years in order to satisfy conditions in relation to the grant. It is incurring expenses over a period of 3 years in relation to the grant. Hence, Naukri Ltd. should recognize the grant to P&L in the following manner:*

Year	Estimated Labour cost	Grant to be recognised	Calculation	Deferred Income	Calculation
1	1,30,000	2,16,667	6,00,000 x (130/360)	3,83,333	(6,00,000 - 2,16,667)
2	1,10,000	1,83,333	6,00,000 x (110/360)	2,00,000	(3,83,333 - 1,83,333)
3	1,20,000	2,00,000	6,00,000 x (120/360)		(2,00,000 - 2,00,000)
	3,60,000	6,00,000			

The amount not recognized to P&L in each year should be recognized as Deferred Income in the Reserves & Surplus.

Journal entries

At the time of receipt of grant:

DATE	JOURNAL ENTRY	DEBIT	CREDIT
	Cash/ Bank a/c Dr	4,00,000	
	Grant receivable a/c Dr	2,00,000	
	To Deferred income a/c		6,00,000

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20 - 2 = 18crore / 9 × 4 = 8crore depn → WDV = 10 crore + 2 crore = 12crore / 5 = 2.4cr.

STUDENT NOTES

Question 8

Chacha Vidhayak Hein Ltd. received a grant of ₹2 crore from the Central Government for the purpose of special machinery during 2013-14. The cost of Machinery was ₹20 crore and had a useful life of 9 years. During 2017- 18 (after 4 years), the grant has become refundable due to non-fulfillment of certain conditions attached to it. Assuming the entire grant was deducted from the cost of machinery in the year of acquisition, state with reasons the accounting treatment to be followed in the year 2017-18.

Calculate depn for 17-18 → Mach Dr. 2
To Bank 2

~~Depn = 2.22 × 4 = 8.88~~
~~WDV as on 1-4-17 = 20 - 8.88 = 11.12 + 2 = 13.12~~
~~D = 2.624~~

20-2 = 18/9 = 2×4 = 8
WDV = 18 - 8 = 10 + 2 = 12 ÷ 5
17-18 2.4 = Dep

Answer:

Quote: *As per AS-12: Government Grants, in case of refund of government grant, which was already deducted from the carrying amount of depreciable asset, refunded amount should be added to the carrying amount of the depreciable asset on the date of refund. The revised book value is depreciated over the remaining useful life of the asset prospectively.*

Analysis: *In the given case, book value of machinery will be increased by ₹2 crore in 2017-2018. Depreciation for FY 2017-18 onwards continues as follows:*

	₹in crores
Cost of machinery (Initial cost)	20
Less: Grant received (at the time of receipt)	2
Cost of machinery	18
Useful life of machinery	9 years
Annual Depreciation as per SLM (₹18 / 9 years)	2
(Residual value is assumed as zero) Total depreciation for 4 years (2013-14 to 2016-2017) (4 x 2)	8
Carrying amount on the date of refund (in FY 2017-2018) (₹18 - 8)	10
Add: Grant refunded	2
Revised book value	12
Remaining useful life (9-4 years)	5 years
Revised annual depreciation (₹12 / 5 years)	2.4 crores

Conclusion: *Thus, book value of machinery will be ₹12 crore in the year 2017-18 and the annual depreciation of ₹2.4 crore will be charged on machinery over remaining five years of life (including 2017-18).*

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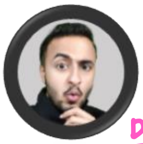

DGG = $\frac{2crore}{9}$ = 2222222 x 4 = 88,88,888 → P&L Cr.

DGG bal : 20000000 - 8888888 = 1,11,11,112

DGG Dr. 1,11,11,112
P&L Dr. 8888888
To Bank 200,00,000

STUDENT NOTES

Question 9

Continuation to the above example, if Chacha Vidhyak Hein Ltd. had credited the grant received to deferred government grant (deferred income a/c), discuss the accounting treatment.

Answer

Quote: *As per AS-12: Government Grants, if the entity receives a grant specific to a fixed asset, it can credit the amount received to deferred government grant a/c and it can transfer to P&L in a systematic and rational basis over the useful life of the asset.*

In this case if government grant is refunded, the existing balance in deferred govt, grant should be debited and the balance should be charged to P&L statement.

Analysis:

	₹ in crores
Amount credited to deferred govt, grant a/c when grant received	2
Less: Amount transferred to P&L over 4 years (2013-14 to 2016-2017) [(2 crores / 9 years x 4 years)]	0.89
Balance remaining in deferred govt, grant a/c	1.11

Conclusion: *The JE to be recorded at the time of refund:*

Date	Journal entry	Debit	Credit
	Deferred govt, grant a/c Dr	1.11 crore	
	P&L a/c Dr	0.89 crore	
	To Cash/ Bank a/c		2 crore

As the received grant is credited to deferred govt, grant a/c, it doesn't affect the depreciation computation.

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Grant recd. (13-14)

Bank Dr. 2
To DGG 2

13-14 | 14-15 | 15-16 | 16-17

DGG Dr. 2222222 x 4 = 88,88,888
To P&L 22,22,222 x 4 = 88,88,888
(2,00,00,000 / 9 = 22,22,222)

1.4.17 (17-18)

DGG balance = 2,00,00,000 - 88,88,888
= 1,11,11,112

Refund = DGG Dr. 1,11,11,112
P&L Dr. 88,88,888
To Bank 2,00,00,000