Ind AS 20: Accounting for Government Grants and Disclosures of Government Assistance

1. **Recognition of Government Grant**

   Government gives a grant of Rs. 50,00,000 for research and development of vaccine to B Pharmaceuticals Limited. There is no condition attached to the grant.

   Examine how the Government grant be realized.

   Response :

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

2. **Government gives a grant of Rs. 50,00,000 for research and development of vaccine to B 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 4 years that the costs come down by at least 60%.

   Examine how the Government grant be realized.

   Response :

   The entire grant should be recognised immediately as **deferred income and charged to profit or loss over a period of 4 years.**

3. **A village 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 Rs. 10,00,000 to A Limited so that people in that village are rehabilitated over a period of 3 years.

   Government releases Rs. 2,00,000.

   Examine how the Government grant be realized.

   Response :

   A Limited will recognise Rs. 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.

4. **The government provides 5 Acres of Land to ABC Ltd to establish a manufacturing unit in a backward area on a leasehold basis of a Nominal Value of ₹10,000 per acre. The Fair Value of the Land is ₹ 100,000 per acre.**

   Explain how this grant will be recognized.

   Response :

   The Asset should be measured at **its Fair Value**, ₹100,000 x 5 Acres =₹ 500,000, but the amount paid therefor is only ₹ 10,000 x 5 Acres = ₹ 50,000.

   Hence, the difference of ₹450,000 should be recognised as Government Grant. The amount should be recognized in Profit and Loss over the period of Lease.

5. **A Company receives a Grant from the State Government as compensation for loss of Stocks due to Unseasonal Floods. The entire Grant received is credited to "Capital Reserve".**

   How would you deal with the above?

   Response :

   Conclusion: Any Govt Grant should not be credited to Capital Reserve. It should be recognised or credited **in Profit or Loss-**

   (a) As a Credit in the Statement of Profit and Loss, either separately or generally **as 'Other Income' or**
   (b) As a Deduction in reporting the related Expense.

Capital Grant

6. **Ram Ltd purchased a Machinery for ₹ 1.00 Crore. The State Government granted the Company a subsidy of ₹40 Lakhs to meet partial cost of Machinery. The Company credited the Subsidy received from the State Government to its Profit and Loss Account for the year ended 31st March. Comment on the above.**

   The Central Government sanctioned ₹ 20 Lakhs as Grant to Aayush Hospital for the purchase of certain Equipments, and paid ₹ 10 Lakh as advance. Aayush Hospital took ₹ 10 Lakh as Income in the Profit & Loss Account for the year. As an Auditor, how would react to the above situation?

   1. Principle: Where a Government Grant is received towards a specific depreciable Fixed Asset, it should be accounted for either under **Cost Reduction Method or Deferred Income Method.**
   2. Conclusion: The accounting treatment of the Company, i.e. crediting P&L A/c is incorrect.

7. **ABC Ltd purchased a Machinery for ₹ 10 Crore. The State Government granted the Company a subsidy of ₹50 Lakhs to meet partial cost of Machinery. The Company credited the Subsidy received from the State Government to its Profit and Loss Account for the year ended 31st March.**

   Comment on the above.

   <u>Response :</u>

   (a) **Principle:** Where a Government Grant is received towards a specific depreciable Fixed Asset, it should be accounted for either under **Cost Reduction Method or Deferred Income Method.**

   (b) **Conclusion:** The accounting treatment of the Company, i.e. crediting P&L A/c is incorrect.

8. **The Central Government sanctioned ₹ 20 Lakhs as Grant to ABC Hospital for the purchase of certain equipments, and paid ₹ 10 Lakh as advance.**

   ABC Hospital took ₹ 10 Lakh as Income in the Profit & Loss Account for the year.

   As an Auditor, how would react to the above situation?

   <u>Response :</u>

   (a) **Principle:** Where a Government Grant is received towards a specific depreciable Fixed Asset, it should be accounted for either under Cost Reduction Method or Deferred Income Method.

   (b) **Conclusion:** The accounting treatment of the Company, i.e. crediting P&L A/c is incorrect.

9. **ABC Ltd acquired the Fixed Assets of ₹ 100 Lakhs on which it received a Grant of ₹ 10 Lakhs. What will be the cost of the Fixed Assets and how it will be disclosed in the Financial Statements?**

   Response :

   Principle- Where a Government Grant is received towards a specific depreciable Fixed Asset, it should be accounted for either under Cost Reduction Method or Deferred Income Method.

   The accounting will be as under –

   (a) **Asset Reduction Method:** Cost ₹ 100 Lakhs Less Grant ₹ 10 Lakhs = ₹ 90 Lakhs will be the Carrying Amount, and written off over its useful life.

   (b) **Deferred Income Method:** ₹ 10 Lakhs will be treated as Deferred Income. A portion of this ₹ 10 Lakhs will be credited to P&L A/c every year, over the useful life of the asset.

10. PQR Ltd. set up a new factory in the backward area and purchased Plant for ₹500 Lakhs for the purpose. Purchases were entitled for the Input Tax Credit of ₹10 Lakhs and also the Government agreed to extend 20% Subsidy for Backward Area Development.

Determine the Depreciable Value of the Asset.

Particulars	**₹ Lakhs**
Cost of the Plant **Less**: Input Tax Credit available	500 (10)
Balance = Depreciable Value of the Plant	**490**
Subsidy (Assuming Subsidy on Cost Net of Input Tax Credit = 20% of ₹490 Lakhs)	98
Carrying Amount (to be depreciated over the useful life) under Asset Cost Reduction Method	490-98 = 392
Carrying Amount (to be depreciated over the useful life) under Deferred Income Method	490 (Refer note)

Note: Subsidy of ₹98 Lakhs will be set up as Deferred Income. It will be recognized in Profit or Loss over the useful life of the Asset, on a systematic basis.

11. ABC Ltd has received a Grant of ₹ 8 Crores from the Government, for setting up a Factory in a backward area. Out of this Grant, the Company distributed ₹ 2 Crores as Dividend.

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

In the light of Ind AS-20, examine, whether the treatment of both the Grants is correct.

Response :

(a) ₹ 8 Crores Grant should be treated as Deferred Income and **recognised in Profit or Loss over a period of time. Its distribution as Dividend is inappropriate.**

(b) Land received free of cost, being Non-Monetary Grant, may be recorded **at Fair Value.** Both Land and Grant may be recorded at **Fair Value.** An alternative course that is sometimes followed is to record both Asset and Grant at **a Nominal Amount.**

12. PQR Ltd. received an area of Land, free of cost, from the Government. This amount is not recorded at all.

The Company argues that - (a) No money has been spent by the Company on its acquisition, and (b) Land is not a depreciable asset. Comment.

Response :

(a) Principle: Non-monetary Grants / Assets received free of cost, are recorded at a **fair Value or at a Nominal Amount.** Whether it is depreciable or non-depreciable is not relevant in this regard.

(b) **Conclusion:** The above Land and Grant should be recorded at **Fair Value.** Alternatively, it can be recorded at a Nominal Amount (say ₹100) for the purpose of identification and control. Hence, the Company's stand is not recording the Asset at all, is not in accordance with Ind AS 20.

13. Loans at less than market rate of interest

A Limited received from the government a loan of Rs. 50,00,000 @ 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 realized.

Response :

The fair value of the loan is calculated at Rs. 37,38,328.

Year	Opening Balance	Interest calculated @ 12%	Interest paid @ 5% on Rs. 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 Rs. 12,61,672 (Rs. 50,00,000 – Rs. 37,38,328) as the government grant and will make the following entry on receipt of loan:

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

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

14. Accounting for Government Grant

Continuing with the facts given in the Illustration 13, state how the grant will be recognized in the statement of profit or loss assuming:
(a) the loan is an immediate relief measure to rescue the enterprise
(b) the loan is a subsidy for staff training expenses, incurred equally, for a period of 4 years

(c) the loan is to finance a depreciable asset.

Response :

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

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

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

15. **A Limited received from the government a loan of Rs. 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 realized.

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.

Response :

The fair value of the loan is calculated at Rs. 74,76,656.

Year	**Opening Balance**	**Interest calculated @ 12%**	**Interest paid @ 5% on Rs. 50,00,000 + 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 Rs. 25,23,344 (Rs. 1,00,00,000 – Rs. 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

Rs. 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. Rs. 25,23,344 will be recognised in profit or loss on the same basis as depreciation.

16. Incentive received from the State Government has been treated as Capital Subsidy. Comment

Response :

(a) Govt Grant: As per Ind AS-20, **Government Grant** 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. **Hence, the Incentive from State Government is a Government Grant.**

(b) Recognition in P&L: Government Grants shall be recognized in Profit or Loss on a systematic basis over the periods in which the entity recognizes as expenses the related costs for which the entity recognize as expenses the related costs for which the grants are intended to compensate.

(c) Treatment of Government Grant merely as Capital subsidy, without recognizing suitably in Profit or Loss, is **not proper**.

17. Identify how the Government Grant will be recognized in the following situations

(a) Government gives a grant of ₹10 Crores to AB Pharma Ltd, for R&D of H1N1 Vaccine. There is no condition attached to the Grant.

(b) Government gives a grant of ₹ 10 Crores to AB Pharma Ltd, for Research and Development of H1N1 Vaccine, 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 3 years that the costs come down by at least 70%.

(c) An area of artisans in a District got devastated because of an earthquake. AB Handicrafts Limited was operating in that district and was providing employment to the Artisans. The Government gave a grant of ₹ 10,00,000 to AB Handicrafts Limited so that 100 artisans are rehabilitated over a period of 3 years. Government releases ₹ 2,00,000.

Response :

(a) The entire Grant should be recognised immediately **in Profit or Loss,** in full. (No condition attached).

(b) The entire Grant should be recorded immediately as **Deferred Income,** and credited / recognized in Profit or Loss over a period of 3 years.

(c) The entire ₹ 10,00,000 Government Grant should be recorded immediately as **Deferred Income, and credited / recognised in Profit or Loss** as per the Ind AS-20, e.g. Period of related Costs and Expenses, etc.

18. <u>**Non-monetary government grants**</u>

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 Rs. 10,000 per acre.

The fair value of the land is Rs. 100,000 per acre.

Calculate the amount of the Government grant to be recognized by an entity.

Response :

A limited will recognise the land at fair value of Rs. 5,00,000 and Rs. 450,000 [(Rs. 100,000 – Rs. 10,000) x 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 Rs. 50,000 (Rs.10,000 x 5).

19. <u>**Presentation in the Balance Sheet**</u>

A Limited establishes solar panels to supply solar electricity to its manufacturing plant. The cost of solar panels is Rs. 1,00,00,000 with a useful life of 10 years. The depreciation is provided on straight line method basis. The government gives Rs. 50,00,000 as a subsidy.

Examine how the Government grant be realized.

Response :

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

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

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

(a) Rs. 20 lakhs received for immediate start-up of business without any condition.

(b) Rs. 50 lakhs received for research and development of drugs required for the treatment of cardiovascular diseases with following conditions:
- **(i) that drugs should be available to the public at 20% cheaper from current market price; and**
- **(ii) the drugs should be in accordance with quality prescribed by the World Health Organisation [WHO].**

(c) Two acres of land (fair Value: Rs. 10 Lakhs) received for set up plant.

(d) 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. recognise the government grants in its books of accounts?

Response :

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

(a) Rs. 20 lakhs have been received for immediate start-up of business. This should be recognised in **<u>statement of profit and loss immediately</u>** as there are no conditions attached to the grant.

(b) Rs. 50 lakhs should be recognised in **<u>profit or loss on a systematic basis over the periods</u>** 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.

(c) Land should be recognised at fair value of Rs.10 lakhs and government grants should be presented in the balance sheet by setting up the grant as deferred income. Alternatively, deduct the amount of grant from the cost of the asset.

In the given case, the land is granted at no cost. It will be presented in the books at nominal value.

(d) Rs. 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 cases, Rs. 40,000 [Rs. 2 lakhs/5] should be credited to profit and loss each year over period of 5 years.

Alternatively, Rs. 2,00,000. will be deducted from the cost of the asset and depreciation will be charged at Rs. 8,00,000 (Rs. 10,00,000 – Rs. 2,00,000).

21. 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. 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?

Response :
In the given case, 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 and does not relate to purchase, construction or acquisition of a long term asset. **Hence it is a grant related to income.**

Accounting of such grant

It may be further noted that as per paragraph 12 of Ind AS 20, **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 Grants related to income are presented as part of profit or loss, over a period, either separately or under a general heading such as ‘Other income’.

Alternatively, they are deducted in reporting the related expense.

22. ABC Co. is a government company and is a first-time adopter of Ind AS. As per the previous GAAP, the contributions received by ABC Co. from the government (which holds 100% shareholding in ABC Co.) 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.

1) 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. If not, then what will be the accounting treatment of such grants recognised in capital reserve as per previous GAAP on the date of transition to Ind AS.

2) What will be the accounting treatment of the grants in the nature of promoters' contribution which ABC Co. receives post transition to Ind AS?

Response:

1. In this fact pattern, Government has 100% shareholding in the entity. Accordingly, 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 affect 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.** 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.

   Accordingly, as per the above requirements of paragraph 10(c) in the given case, contributions recognised in the Capital Reserve should be transferred to appropriate category under 'Other Equity' at the date of transition to Ind AS.

   The company needs to evaluate whether such grant is a capital grant or income grant and account for the same accordingly.

23. A Limited is a private sector company. Specifically, the government does not have any shareholding in A Limited. The company has set up its business in a designated backward area which entities it to receive, as per a public scheme announced by the Government of India (GOI), a subsidy equal to 15% of the cost of investment.

Having fulfilled all conditions laid down under the scheme, the company on its investment of INR 100 lakhs in capital assets during its accounting year ending on 31 March 2016 received a subsidy of INR 15 lakhs in January 2017 from the GOI.

The accountant of the company would like to record the receipt as capital reserve. Is this action justified under Ind-AS 20?

Response :

In the instant case, the government is not shareholder of the company. Hence, grant given is not in the capacity of shareholder of the company. Ind AS 20 does not recognize the concept of recognizing government grants directly in capital reserve.

Hence, the accountant's proposal is not justified. The company should determine whether the grant is an asset related government grants or revenue related grant. Accounting for the grant will depends on such categorization.

24. 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. Whether the same is a government grant under Ind AS 20, Government Grants and Disclosure of Government Assistance? If yes, then whether it is a Grant related to asset or Grant related to income and how the same is to be accounted for?

Response:

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.

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.

Exams related Questions

Question 1

How will you recognize and present the grants received from the Government in the following cases as per Ind AS 20? (Nov 2018)

(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 Iakhs).

(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%.

(5 Marks)

Answer 1

(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.

As per the amendment made by MCA in Ind AS 20 on 21st September, 2018, 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.**

(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.

As per the amendment made by MCA in Ind AS 20 on 21st September, 2018, alternatively, if the company is following the policy of recognising non-monetary grants at nominal value, the company will not recognise any government grant. The machinery will be recognised at ₹ 70 lakh (₹ 80 lakh - ₹ 10 lakh). Reduced depreciation will be charged to the Statement of Profit or Loss.

(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.

Question 2

Mediquick Ltd. has received the following grants from the Central Government for its newly started pharmaceutical business:

(i) ₹50 lakh received for immediate start-up of business without any condition.

(ii) ₹ 70 lakh received for research and development of drugs required for the treatment of cardiovascular diseases with following conditions:
(a) That drugs should be available to the public at 20% cheaper from current market price and
(b) The drugs should be in accordance with quality prescribed by the Govt. Drug Control department.

(iii) Three acres of land (fair value: ₹20 lakh) received for set up of plant.

(iv) ₹ 4 lakh received- for purchase of machinery of ₹ 10 lakh. Useful life of machinery is 4 years. Depreciation on this machinery is to be charged on straight-line basis.

How should Mediquick Ltd. recognize the government grants in its books of accounts as per relevant Ind AS?

(May 2019)
(4 Marks)

Answer 7 (May 2019)

Mediquick Ltd. should recognise the grants in the following manner:

(i) 50 lakhs have been received for immediate start-up of business. This should be **recognised in the Statement of Profit and Loss immediately** as there are no conditions attached to the grant.

(ii) ₹ 70 lakhs should be recognised in profit or loss on a systematic basis **over the periods in which the entity recognises as expense the related costs** for which the grants are intended to compensate. However, for this compliance, there should be reasonable assurance that Mediquick Ltd. complies with the conditions attached to the grant.

(iii) Land should be recognised at **fair value of ₹ 20 lakhs** and government grants should be presented in the balance sheet by setting up the grant as **deferred income.**

Alternatively, since the land is granted at no cost, it may be presented in the books at **nominal value.**

(iv) ₹ 4 lakhs should be recognised as deferred income and will be transferred to profit and loss account over the useful life of the asset. In this cases, ₹ 1,00,000 [₹ 4 lakhs/ 4 years] should be credited to profit and loss account each year over the period of 4 years.

(v) Alternatively, ₹ 4,00,000 will be deducted from the cost of the asset and depreciation will be charged at reduced amount of ₹ 6,00,000 (₹ 10,00,000 - ₹ 4,00,000) i.e. ₹ 1,50,000 each year.

Question 3

Arun Ltd. is an entity engaged in plantation and farming on a large scale and diversified across India. On 1st April, 2018, the company has received a government grant for ₹20 lakh subject-to a condition that it will continue to engage in plantation of eucalyptus tree for a coming period of 5 years.

The management has a reasonable assurance that the entity will comply with condition of engaging in the plantation of eucalyptus trees for specified period of 5 years and accordingly it recognizes proportionate grant for ₹4 lakh in Statement of Profit and Loss as income following the principles laid down under Ind AS 20 Accounting for Government Grants and Disclosure of Government Assistance.

Required:
Evaluate whether the above accounting treatment made by the management is in compliance with the applicable Ind AS. If not, advise the correct treatment.

(Nov. 2019)
(4 Marks)

Answer 3

Arun Ltd. is engaged in plantation and farming on a large scale. This implies that it has agriculture business. Hence, Ind AS 41 will be applicable.

Further, the government grant has been given subject to a condition that it will continue to engage in plantation of eucalyptus tree for a coming period of five years. This implies that it is a conditional grant.

In the absence of the measurement base of biological asset, it is assumed that “Arun Ltd measures its Biological Asset at fair value less cost to sell”:

(i) **As per Ind AS 41, the government grant should be recognised in profit or loss when, and only when, the conditions attaching to the government grant are met ie continuous plantation of eucalyptus tree for coming period of 5 years.**
In this case, the grant shall not be recognised in profit or loss until the five years have passed. The entity has recognised the grant in profit and loss on proportionate basis, which is incorrect.

(ii) However, if the terms of the grant allow part of it to be retained according to the time elapsed, the entity recognises that part in profit or loss as time passes. Accordingly, the entity can recognise the proportionate grant for ₹ 4 lakh in the statement of Profit and Loss based on the terms of the grant.

Alternatively, it may be assumed that Arun Ltd. measures its Biological Asset at its cost less any accumulated depreciation and any accumulated impairment losses (as per para 30 of Ind AS 41):

In such a situation, principles of Ind AS 20 with respect to conditional grant will apply. According to Ind AS 20, the conditional grant should be recognised in the Statement of Profit and Loss over the periods and in the proportions in which depreciation expense on those assets is recognised. Hence the proportionate recognition of grant ₹ 4 lakh (20 lakh / 5) as income is correct since the entity has reasonable assurance that the entity will comply with the conditions attached to the grant.

Note: In case eucalyptus tree is considered as bearer plant by Arun Ltd., then Ind AS 20 will be applicable and not Ind AS 41.

RTP

Question 3 – Nov 2020 RTP

Entity A is awarded a government grant of `60,000 receivable over three years (INR 40,000 in year 1 and INR 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 INR 30,000, and the wage bill for the first year is INR 1,00,000, rising by INR 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.

Response :

The income of INR 60,000 should be recognised over the 3 years period to compensate for the related costs.

Calculation of Grant Income and Deferred Income:

Year	Recruitment Costs	Labour Costs	Total Costs	Grant Received	Grant Income (Allocated on the basis of cost incurred)	Deferred Income (Yearly)	Cumulative Deferred Income
1	30,000	100,000	130,000	40,000	21,667 (130,000 x 60,000) 360,000	18,333	18,333
2	-	110,000	110,000	10,000	18,333 (110,000 x 60,000) 360,000	-8,333	10,000
3	-	120,000	120,000	10,000	20,000 (110,000 x 60,000) 360,000	-10,000	0
	30,000	330,000	360,000	60,000	60,000	0	

Therefore, Grant income to be recognised in Profit & Loss for years 1, 2 and 3 are INR 21,667, INR 18,333 and INR 20,000 respectively.

Amount of grant that has not yet been credited to profit & loss i.e; deferred income is to be reflected in the balance sheet. Hence, deferred income balance as at year end 1, 2 and 3 are INR 18,333, INR 10,000 and Nil respectively.