



AS 12- GOVERNMENT GRANT

Overview :

- [a] Meaning Objective & Scope of Government grant
- [b] Types of Government Grants
- [c] Treatment of Refund of Government Grants
- [d] Disclosures under AS -12

CONCEPT 1 : MEANING

- Assistance by government
- in cash or in kind to an enterprise
- in return for some past or future compliance
- with certain conditions to be satisfied by the company receiving grant.
- It is also called subsidies, cash incentives etc.
- Examples of Conditions :
 - i] some part of the products to be sold to the government undertaking companies
 - ii] open an industrial unit in backward areas etc.
- Government grants may be for Capital Expenditures or Revenue Expenditures.

☹ Is Sales tax a Grant?

- As sales tax exemption is neither cash nor a kind grant, hence Sales tax is not a grant as per AS-12.

CONCEPT 2 : OBJECTIVE

- * One should know what should be the proper treatment of Government Grants and
- * how much the company is benefited from such grants.

CONCEPT 3 : SCOPE OF GOVERNMENT GRANTS

☞ Exclusions from Government Grants

- [a] If government deals with the company in normal trading activities,
- [b] Tax holidays and tax exemptions received by a company under section 10, section 80.
- [c] Government participation as equity holders. It means government is also one of the shareholders of co.

CONCEPT 4 : WHEN TO RECOGNIZE GOVERNMENT GRANTS?

☞ On satisfying the following conditions:

- [a] Conditions for receipt of Government Grants should be fulfilled.
- [b] Grants are certain to be received.

Mere receipt of a grant is not the conclusive evidence that grant has to be immediately recorded.

Following points has to be considered;

- [i] Where the grant is in the nature of compensation for any past losses (sick companies) or immediate financial support (flood affected company) then such grant should be treated as per AS - 5 (as an Extraordinary activity).
- [ii] After receipt of grant, if there is any contingency then it is to be governed by AS - 4 (now AS - 29).

CONCEPT 5 : TYPES OF GOVERNMENT GRANTS

Following are the types of government grants :

- [i] Grants related to Depreciable Assets.
- [ii] Grants related to Non - Depreciable Assets.



[iii] Grants related to Revenue.

[iv] Grants towards Promoter's Contributions

[I] Grants related to depreciable assets (like Plant, Machinery etc.)

GRANTS RELATED TO DEPRECIABLE ASSETS	
MONETARY GRANTS (CASH GRANTS)	NON-MONETARY GRANTS (ASSET)
[a] <u>Capital Approach :</u> ▶ Cash grants received ▶ Reduced from the Gross Book Value (GBV) ▶ Depreciation on the Net Book Value (NBV) ▶ If the NBV is reduced to Zero then in such case the NBV should be recorded at Nominal Value i.e. ₹ 1/-	▶ Receiving Plant and Machine etc. at concessional price. ▶ Such asset acquired is to be recorded at the amount paid for acquiring the asset. ▶ It is mostly a concessional price. ▶ If the asset is received free of cost then in such case the NBV should be recorded at Nominal Value i.e. ₹ 1/-.
[b] <u>Income Approach :</u> ▶ Cash grants received is to be transferred to "Deferred Grants" ▶ Shown under the head Shareholders Funds. ▶ Such "Deferred Grants" are to be transferred to Profit and Loss Account every year in the ratio of the depreciation of the Asset.	

[III] Grants related to non - depreciable assets (like Land):

GRANTS RELATED TO NON DEPRECIABLE ASSETS	
MONETARY GRANTS (CASH GRANTS)	NON-MONETARY GRANTS (ASSET)
[I] Capital Approach: <u>Possibility 1: If conditions for grants is already fulfilled:</u> ▶ Cash grants received is to be transferred to "Capital Reserve A/c"	▶ Receiving Land etc. at concessional price. ▶ Such asset acquired is to be recorded at the amount paid for acquiring the asset. ▶ It is mostly a concessional price. ▶ If the asset is received free of cost then in such case the NBV should be recorded at Nominal Value i.e. ₹1/-.
[II] Income Approach: <u>Possibility 2: If the conditions for grants are yet to be fulfilled</u> ▶ Cash grants received is to be transferred to "Deferred Grants" under the head Shareholders Funds. ▶ Such "Deferred Grants" are to be transferred to Profit and Loss Account, every year in the ratio of the costs to be incurred in future for fulfilling such conditions.	

☞ Note : Deferred Grants A/c will be disclosed under the line item "Other long term liabilities" as per New Schedule III. Also 1 year deferred portion will be disclosed under the "Other current liabilities"

[III] Grants related to Revenue :

→ Such grants can be for

[a] Sale of products to government agencies at concessional price

[b] Expenses incurred by the company for Quality Control

[c] Training Expenses,

[d] High costs incurred for a creation of a product etc.

→ Such grants have to be recognized on systematic basis to P&L A/c to match revenue against cost.

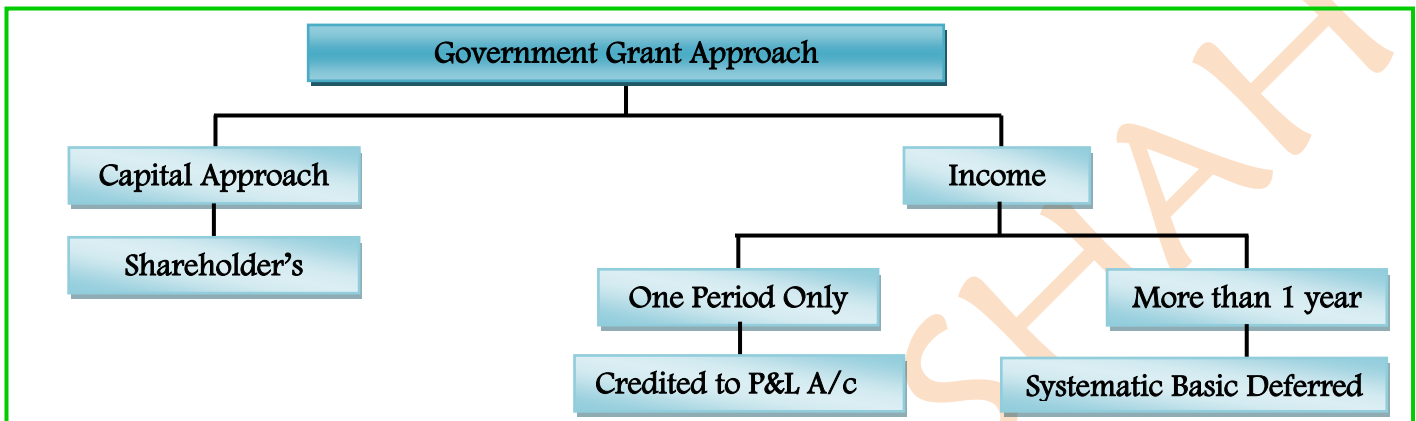
→ It can be recorded as "Other income" or reduced from the concerned expenses.



[IV] Grants towards Promoter's Contributions :

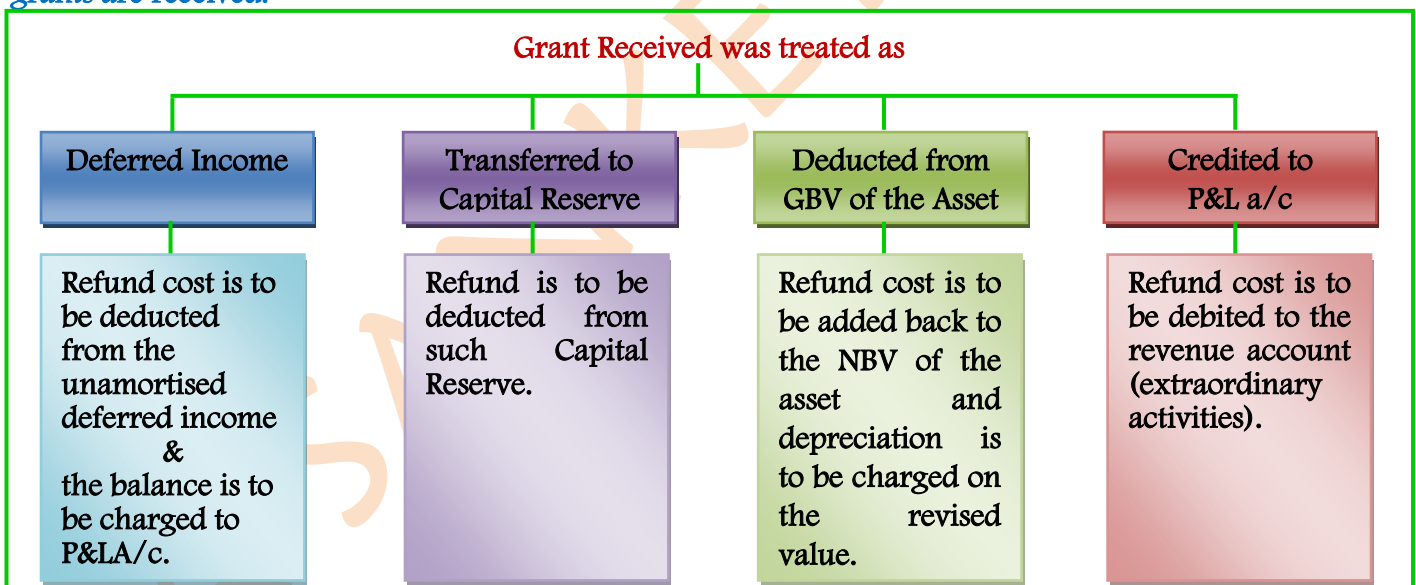
- Promoters contribution means major investments in the project is made by the government.
- No repayment of such grants is ordinarily expected.
- Such receipt is always a huge amount so it is credited to Capital Reserve Account under the head "Shareholders Funds."
- Such amounts credited to Capital Reserve should not be utilized for any purpose like dividends/writing off losses.

CONCEPT 6 : APPROACHES TO GOVERNMENT GRANTS



CONCEPT 7 : TREATMENT OF REFUNDS OF GOVERNMENT GRANTS

Government grants may be refunded by the company if it has not complied with the conditions for which grants are received.



➤ Example : Asset costing ₹100, Government Grant received ₹40, Life of Asset = 10 years

Sr. No.	Particulars	Dr	Cr
Option 1 : Deduct from Fixed Assets			
1]	Asset A/c Dr	100	
	To Cash		100
2]	Cash A/c Dr	40	
	To Asset		40
3]	Depreciation A/c Dr	6	
	To Asset		6



In Balance Sheet Asset Balance will be shown as ₹54 [60-6]

Asset Balance = 60, Life of Asset = 10 years, Depreciation = $60/10 = ₹6$

Sr. No.	Particulars	Dr	Cr
	Option 2 : Shown as deferred Income		
1]	Asset A/c Dr	100	
	To Cash		100
2]	Cash A/c Dr	40	
	To Deferred GG		40
3]	Depreciation A/c Dr	10	
	To Asset		10
4]	Deferred GG A/c Dr	4	
	To P&L A/c		4
Balance Sheet (Extract)			
Particulars	₹	Particulars	₹
Deferred GG [40 – 4]	36	Asset (100 – 10)	90
P&L A/c (Extract)			
Particulars	₹	Particulars	₹
To Depreciation	10	By Deferred GG	4

➤ Conclusion : Treatment is same at the time of receiving grant but is different in both the cases if grant has to be refunded in case of non compliance of condition.

REFUND CASE (after 3 years)

Option I		Option II	
Asset = $60 - 18 = 42$		Asset = $100 - 30 = 70$ GG = $40 - 12 = 28$	
Asset A/c Dr	40	GG A/c Dr	28
To Cash	40	P&L A/c Dr	12
(Balance Asset = $42 + 40 = 82$ & Balance Depreciation for 7 years)		To Cash	40
➤ Conclusion : ₹12 Depreciation for 7 years		(Asset = 70 & Balance Depreciation over 7 yrs)	
		➤ Conclusion : ₹12 Debited to P&L A/c	

CONCEPT 8 : DISCLOSURES UNDER AS - 12

- [a] Accounting policy adopted.
- [b] Nature of Government grants received (monetary or non - monetary).
- [c] Amount of government grants.
- [d] Whether the asset acquired at concessional rate or free of cost.

ANNUAL REOPORTS (EXTRACTS)

ASIAN PAINTS LTD

➤ REVENUE FROM OPERATIONS

Sr. No	Particulars	Year 2017-18	Year 2016-17
[A]	Revenue From sale of products (including excise duty)		
	Home market (net of returns)		
	Exports		
	Turnover		



	Less: Discounts		
		TOTAL	
[B]	Revenue From sale of services		
	Revenue from home solutions operations		
	Colour consultancy income		
		TOTAL	
[C]	Other operating revenues		
	Processing and service income		
	Scrap sales		
	Subsidy from state government		
		TOTAL	

➤ Note : The Company's manufacturing facility at Khandala, Maharashtra has been granted "Mega Project Status" by Government of Maharashtra (GoM) and hence is eligible for Industrial Promotion Subsidy (IPS) under Package Scheme of Incentive, 2007 in the form of refund of VAT paid to Maharashtra Government, exemption on electricity duty and stamp duty within a period of 9 years from the date of commencement of commercial production, restricted to a maximum of 100% of fixed capital investment as per the Eligibility Certificate issued by Director of Industries, Government of Maharashtra. Based on Memorandum of Understanding and clarifications from GoM, the Company has continued to recognise the incentive computed based on SGST paid to GoM. Further, in terms of the Ind AS 20 - "Accounting for Government Grants and Disclosure of Government Assistance", eligible incentive as mentioned above amounting to ₹162.36 crores (Previous year ₹136.53 crores) for year ended 31st March, 2018 is credited to the Statement of Profit and Loss and included under the head "Other operating income" on accrual basis.

➤ Government grants and subsidies

a) Recognition and Measurement :

The Company is entitled to subsidies From government in respect of manufacturing units located in specified regions. Such subsidies are measured at amounts receivable from the government which are non-refundable and are recognized as income when there is a reasonable assurance that the Company will comply with all necessary conditions attached to them. Income from subsidies is recognized on a systematic basis over the periods in which the related costs that are intended to be compensated by such subsidies are recognized.

The Company has received refundable government loans at below-market rate of interest which are accounted in accordance with the recognition and measurement principles of IndAS109, Financial Instruments. The benefit of below-market rate of interest is measured as the difference between the initial carrying value of loan determined in accordance with IndAS109 and the proceeds received. It is recognized as income when there is a reasonable assurance that the Company will comply with all necessary conditions attached to the loans. Income from such benefit is recognized on a systematic basis over the period of the loan during which the Company recognizes interest expense corresponding to such loans.

b) Presentation:

Income from subsidies are presented on gross basis under Revenue from Operations. Income arising from below-market rate of interest loans are presented on gross basis under other income.

CENTURY ENKA LTD

OTHER NON-CURRENT LIABILITIES

Deferred Income on Government Grant		
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OTHER CURRENT LIABILITIES

Advances from Customers		
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Others		
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Statutory dues		
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Deferred Income on Government Grant		
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Other Liabilities		
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Total ₹		
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OTHER INCOME

Interest Income		
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Tax Refunds		
Subsidy refund (Refer Note)		
From Customers		
Others		
Total ₹		
Profit on Sale of Assets		
Profit on Sale of Current and Non-Current Investments (Net)		
Gain on Fair Valuation of Investments through Profit and Loss		
Dividend Received on Mutual Funds		
Liabilities / Provisions no longer required written back		
Government Grant		
Miscellaneous Income		
Total ₹		

✍ Note : As per Ind AS 20

Other Income includes subsidy received against Capital Investments, under Technology Upgradation Fund (TUF) Scheme of ₹ NIL Lacs (31st March, 2017- ₹292 Lacs).

✍ Government Grants and Subsidies :

Government grants are recognised in the Statement of Profit and Loss on a systematic basis over the periods in which the

Company recognises the related costs for which the grants are intended to compensate.

Government grants are not recognised until there is reasonable assurance that the Company will comply with the conditions attached to them and that the grants will be received.

SS - QUESTIONS

Problem 1 :

SS Ltd. receives ₹3,00,000 as share application money from Govt. Comment whether it is a Government Grants as per AS-12?

Problem 2 :

On 1st April 2010 SS Ltd purchases an asset at ₹10,00,000. Salvage value ₹1,00,000, life 5 years. Government grant received in September 2010 ₹3,00,000. Due to non - compliance of some conditions attached with the asset the whole grant become refundable in the year 2012-13. Compute depreciation in the year 2012-13. (Assume SLM depreciation). SS Ltd. adopts capital approach.

Problem 3 :

SS Ltd. has received ₹50,00,000 as grant towards Land purchased on 1.4.2007. Cost of Land is ₹5 crores. The operating cost in the area is likely to be higher due to lack of adequate infrastructural facilities. The factory commences production on 1.4.2007. The projects for building necessary infrastructure are expected to be completed by the end of 2009-2010. The incremental costs incurred due to lack of infrastructural facilities were ₹50 lacs, ₹50 lacs, ₹25 lacs.

Show the accounting treatment as per AS-12 for all the years.

Problem 4 :

Top & Top Limited has set up its business in a designated backward area which entitles the company to receive from the Government of India a subsidy of 20% of the cost of investment. Having fulfilled all the conditions under the scheme, the company on its investment of ₹50 crore in capital assets, received ₹10 crore from the Government in January, 2005 (accounting period being 2004-2005). The company wants to treat this receipt as an item of revenue and thereby reduce the losses on profit and loss account for the year ended 31st March, 2005.

Keeping in view the relevant Accounting Standard, discuss whether this action is justified or not.

(C.A. Final Nov. 1995 & May 2005) (3/4 Marks respectively)

**Problem 5 :**

SS Ltd. has received grant of ₹20 lacs under the Government Subsidy Scheme for acquiring imported machinery for setting up an oil exploration plant and the entire grant received is credited to profit and loss account.
(CA Final Nov. 2006 Audit) (4 Marks)

Problem 6 :

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". Comment on the accounting treatment
(CA Final Audit)

Problem 7 :

SS hospitals Ltd. had acquired 40 units of Doppler scan machines from Holiver USA at a cost of US\$ 1,65,100 per unit in the beginning of Financial Year 2008-09. The prevailing rate of exchange was ₹50 to the US\$. The acquisition was partly funded out of a government grant of ₹5 crores. The grant relating to such machines was given with a rider that in the event of a change in management, the entity is bound to return the grant. In April 2011, 51% control in the company was taken over by an overseas investor. The expected productive period of such an asset is normally reckoned at 5 years. The depreciation rate adopted was 20% p.a. S.L.M. basis. The company had incurred expenditure of US\$ 4,000 towards bank charges and ₹7,500 per unit as sea freight. You are also informed that neither capital reserve nor deferred income account has been maintained by the company. You are required to suggest accounting treatment as a result of the return of the grant, in the light of the relevant AS.
(CA Final Nov 2011 Marks 5)

SOLUTIONS - SS QUESTIONS**Problem 1 :**

Government participation as equity holders is not covered by AS ~12. Government is also one of the shareholders of the company hence the receipt is a contribution towards capital.

Problem 2 :

Sr. No.	Particulars	₹
a]	Cost of asset (1.4.2010)	10,00,000
b]	Less: Grant received	3,00,000
c]	Net cost (a – b)	7,00,000
d]	<u>Depreciation for</u> : 2010-11 = (1,20,000) 2011-12 = (1,20,000)	(2,40,000)
e]	WDV on 1.4.2012 (c – d)	4,60,000
f]	Add: Refund of grant	3,00,000
g]	Revised WDV (e + f)	7,60,000
h]	Depreciation 2012-13	2,20,000
Depreciation for 2010-11 = (10-3) ~ 1 / 5 = 1.2 Depreciation for 2012-13 = 7.6-1 / 3 = 2.2		
i]	WDV as on 1/04/2013	5,40,000

Problem 3 :

As the expenses for non - depreciable asset [Land] is going to be incurred in future, but the grant is already received by the company hence grant has to be deferred [CONDITIONAL GRANT]:

Year	Particulars	Dr	Cr
01.04.2007	Bank A/c	Dr	50,00,000
	To Deferred Grant A/c		50,00,000
2007-08	Deferred Grant A/c (Step 1)	Dr	20,00,000
	To P&L A/c		20,00,000



2008-09	Deferred Grant A/c (Step 1)	Dr	20,00,000	
	To P&L A/c			20,00,000
2009-10	Deferred Grant A/c (Step 1)	Dr	10,00,000	
	To P&L A/c			10,00,000

Step 1 : Computation of amount to be transferred to P&L every year :-

Sr. No.	Year	Computation	Amount trf to P&L
i]	2007-2008	$50,00,000 * \frac{50}{50+50+25}$	₹20,00,000
ii]	2008-2009	$50,00,000 * \frac{50}{50+50+25}$	₹20,00,000
iii]	2009-2010	$50,00,000 * \frac{25}{50+50+25}$	₹10,00,000
iv]	Total	i + ii + iii	₹50,00,000

Problem 4 :

➤ Facts of the Case :

In given case, subsidy received is neither in relation to specific fixed asset nor in relation to revenue.

➤ Provisions of AS :

As per para 10 of 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.

➤ Conclusion :

Thus it is inappropriate to recognise government grants in the profit and loss statement, since they are not earned but represent an incentive provided by government without related costs. The correct treatment is to credit the subsidy to Capital Reserve. Therefore, the accounting treatment followed by the company is not proper.

Problem 5 :

➤ Facts of the Case :

In the given case, the entire grant received for acquiring imported Machinery is credited to P&L A/c.

➤ Provisions of AS :

As per AS 12, when the government grant is received for acquisition of machinery, either of the following treatment is to be made in the books of accounts :

- [a] Deduct the amount of grant from the cost of Asset (Capital Approach)
- [b] Treat it as Deferred Income (Income Approach).

➤ Conclusion :

Thus the treatment given by SS Ltd. is wrong & it should either be reduced from the cost of asset or to be shown in the Balance Sheet on liabilities side as deferred income.

Problem 6 :

➤ Facts of the Case :

In the given case, the entire grant received as compensation for loss of stocks due to unseasonal floods is credited to Capital Reserve.

➤ Provisions of AS :

Where the grant is in the nature of compensation for any past losses (sick companies) or immediate financial support (flood affected company) then such grant should be treated as per AS - 5 (Extraordinary activity).

➤ Conclusion :

In the present case the company has to show such government receipt as Extraordinary Receipt.

**Problem 7 :**

The grant is received towards fixed asset. Capital approach is adopted.

Sr. No.	Particulars	Computation	₹in lakhs
a]	Cost of asset (Doppler machines)	(1,65,100*40 @ 50)	3,302
b]	Add : Freight and other charges	(4,000 @ 50 + 7,500 *40)	5
c]	Total	(a+b)	3,307
d]	Less: Grants received		-500
e]	Cost as per AS- 10	(c - d)	2,807
f]	Less: Depreciation for 3 years	(2,807 * 20% * 3)	-1684.2
g]	Carrying amount as on 1/4/2011	(e – f)	1,123
h]	Add: Grant refunded		500
i]	Revised carrying amount	(g + h)	1,623

EXERCISE - QUESTIONS**Illustration 1 :**

Explain the treatment of refund of Government Grants as per Accounting Standard 12.

Illustration 2 :

Viva Ltd. received a specific grant of ₹30 lakhs for acquiring the plant of ₹150 lakhs during 2007-08 having useful life of 10 years. The grant received was credited to deferred income in the balance sheet. During 2010-11, 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 2010-11 in profit and loss account?
- What should be the treatment of the refund, if grant was deducted from the cost of the plant during 2007-08 assuming plant account showed the balance of ₹84 lakhs as on 1.4.2010?

Illustration 3 :

M/s A Ltd. has set up its business in a designated backward area with an investment of ₹200 Lakhs. The Company is eligible for 25% subsidy and has received ₹50 Lakhs from the Government.

Explain the treatment of the Capital Subsidy received from the Government in the Books of the Company.
