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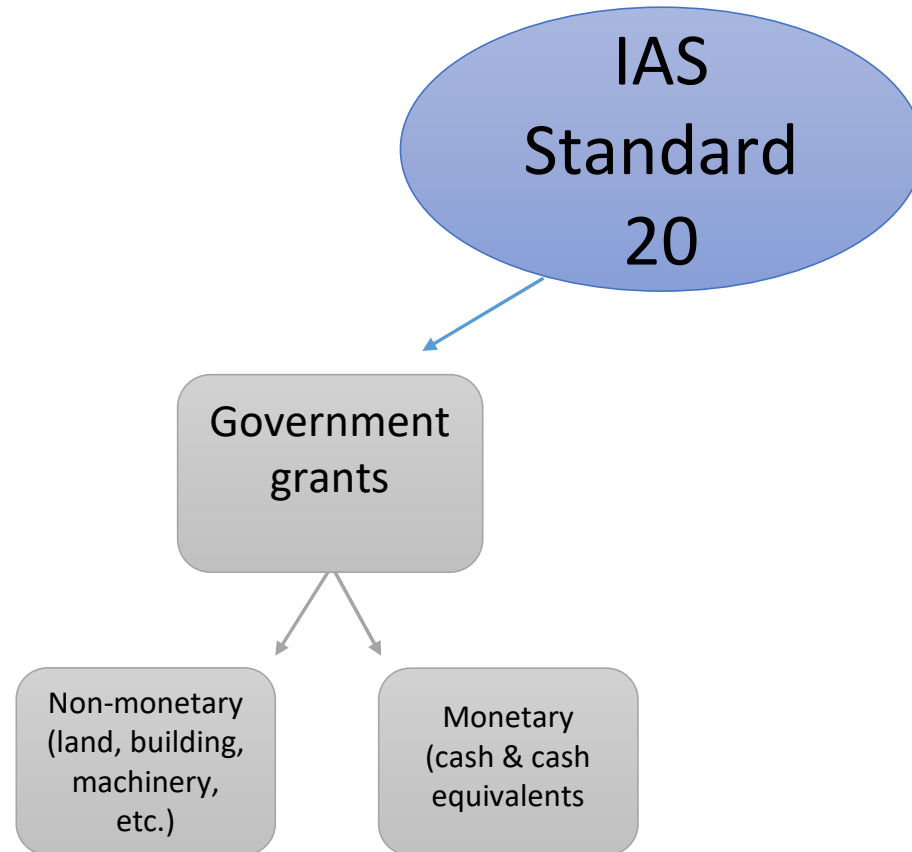
IAS® Standard 20 Accounting for Government Grants and Disclosure of Government Assistance



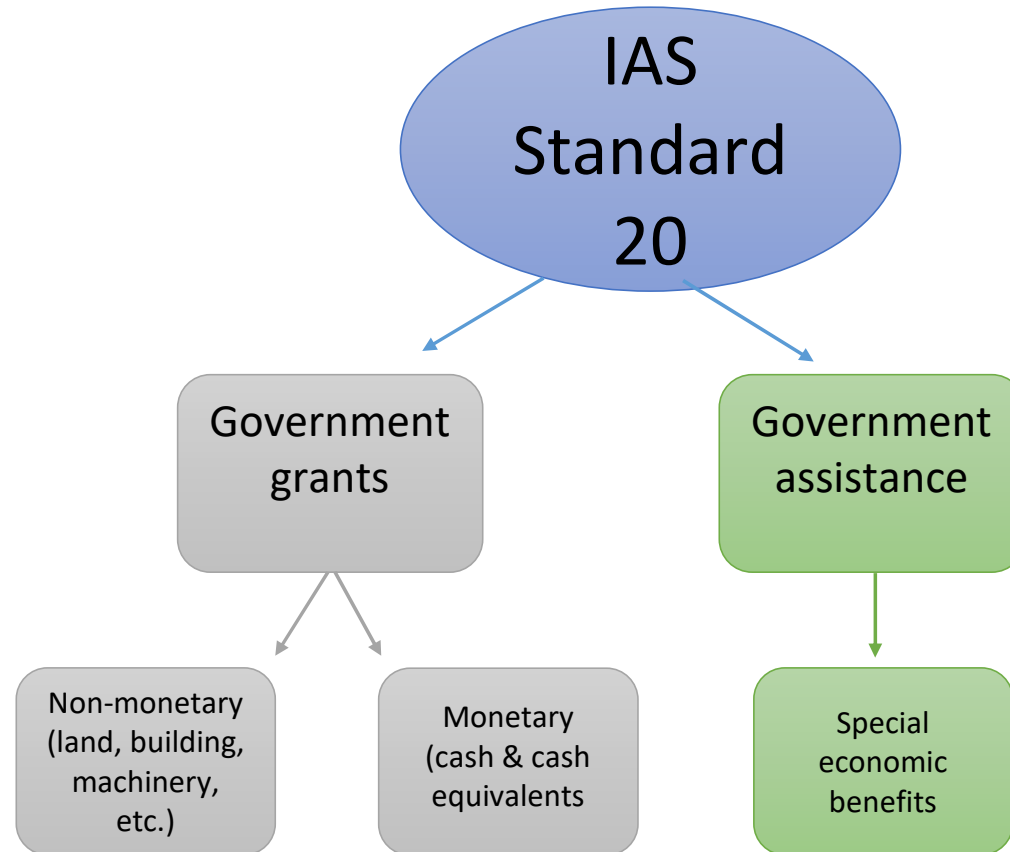
SCOPE AND KEY DEFINITIONS



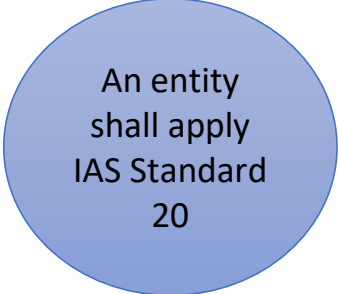
SCOPE AND KEY DEFINITIONS



SCOPE AND KEY DEFINITIONS

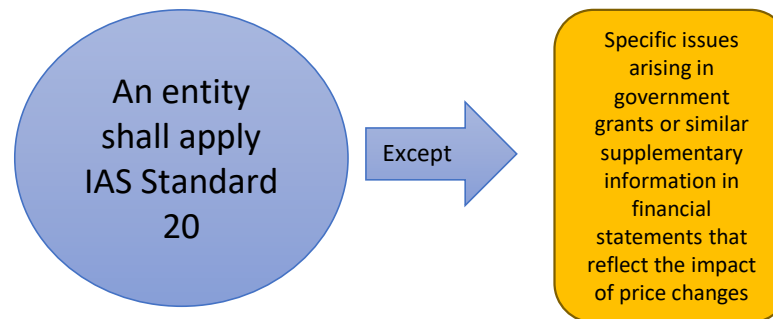


SCOPE AND KEY DEFINITIONS

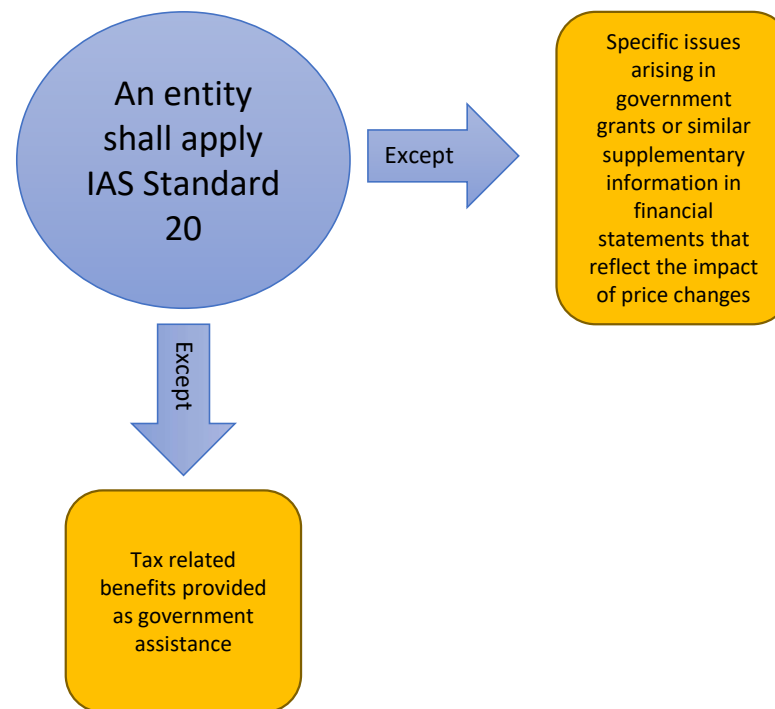


An entity
shall apply
IAS Standard
20

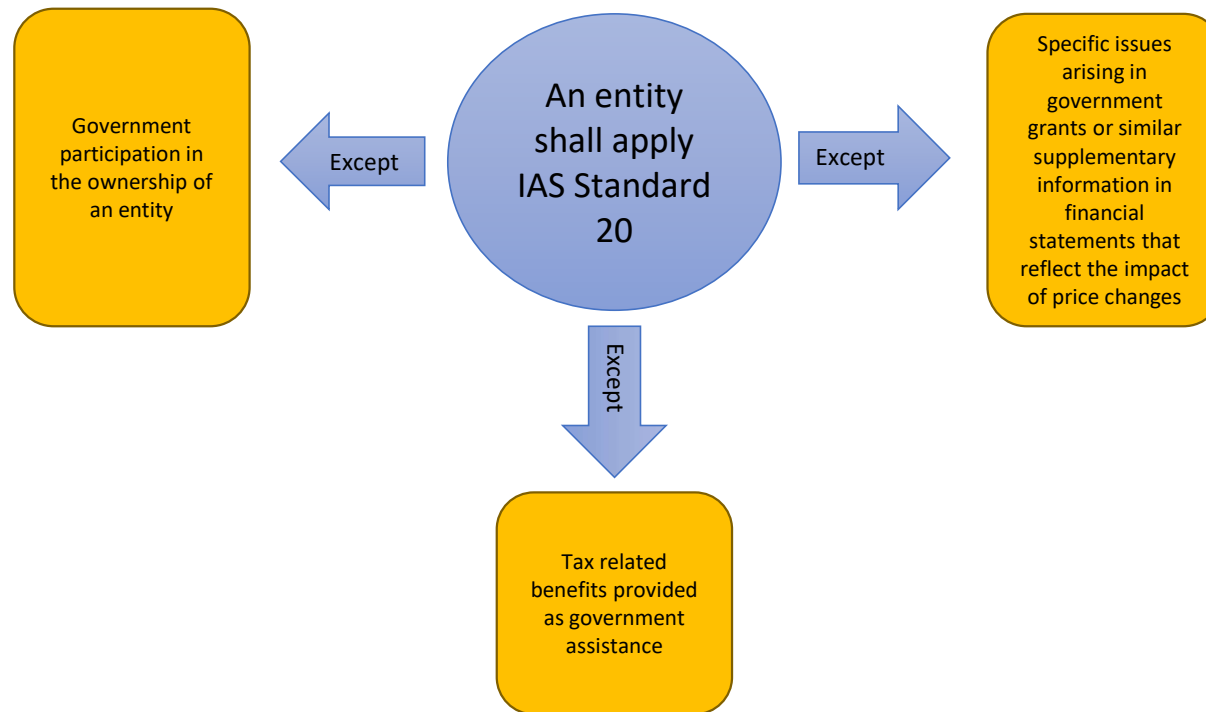
SCOPE AND KEY DEFINITIONS



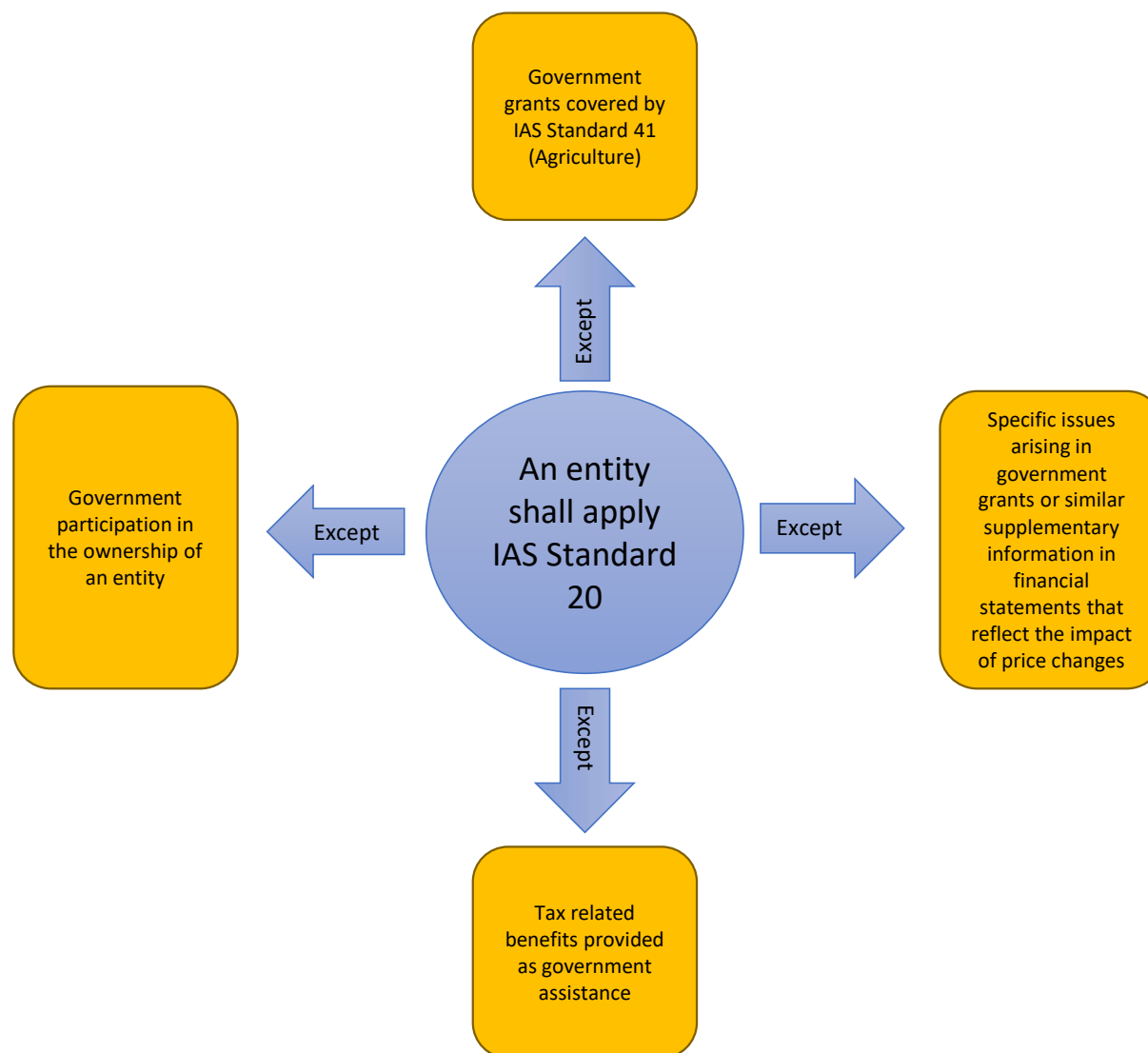
SCOPE AND KEY DEFINITIONS



SCOPE AND KEY DEFINITIONS



SCOPE AND KEY DEFINITIONS



SCOPE AND KEY DEFINITIONS

Fair Value

SCOPE AND KEY DEFINITIONS

Fair Value

Government

SCOPE AND KEY DEFINITIONS

Fair Value

Government

Government
assistance

SCOPE AND KEY DEFINITIONS

Fair Value

Government

Government
assistance

Government grants

SCOPE AND KEY DEFINITIONS

Fair Value

Government

Government
assistance

Government grants

Grants related to
assets

SCOPE AND KEY DEFINITIONS

Fair Value

Government

Government
assistance

Government grants

Grants related to
assets

Grants related to
income

SCOPE AND KEY DEFINITIONS

Fair Value

Fair Value is the price that would be received in exchange for selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Government

Government assistance

Government grants

Grants related to assets

Grants related to income

SCOPE AND KEY DEFINITIONS

Fair Value

- price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date

Government

- government, government bodies and similar local, national or international organizations.

Government assistance

Government grants

Grants related to assets

Grants related to income

SCOPE AND KEY DEFINITIONS

Fair Value

- price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date

Government

- government, government bodies and similar local, national or international organizations.

Government assistance

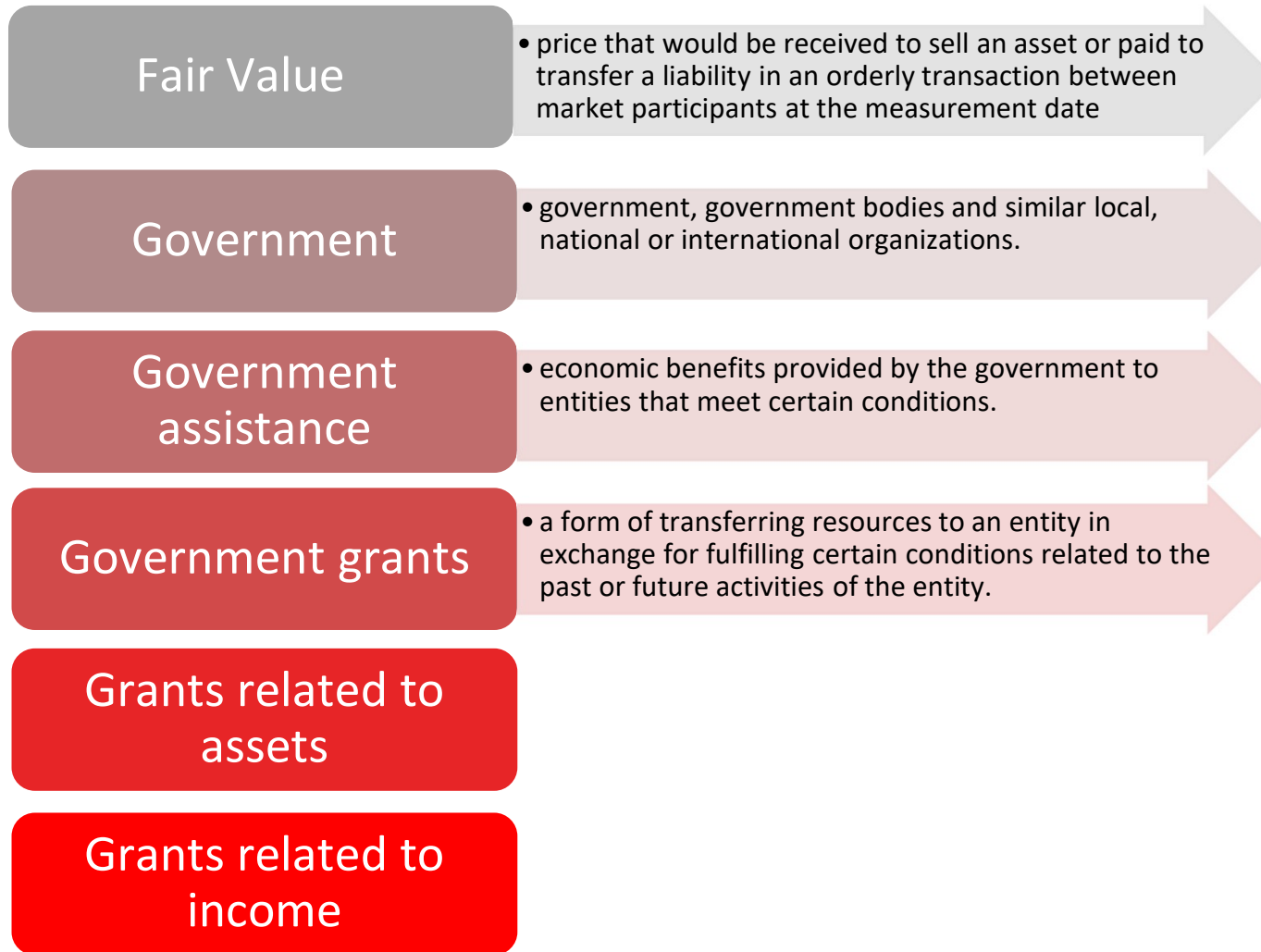
- economic benefits provided by the government to entities that meet certain conditions.

Government grants

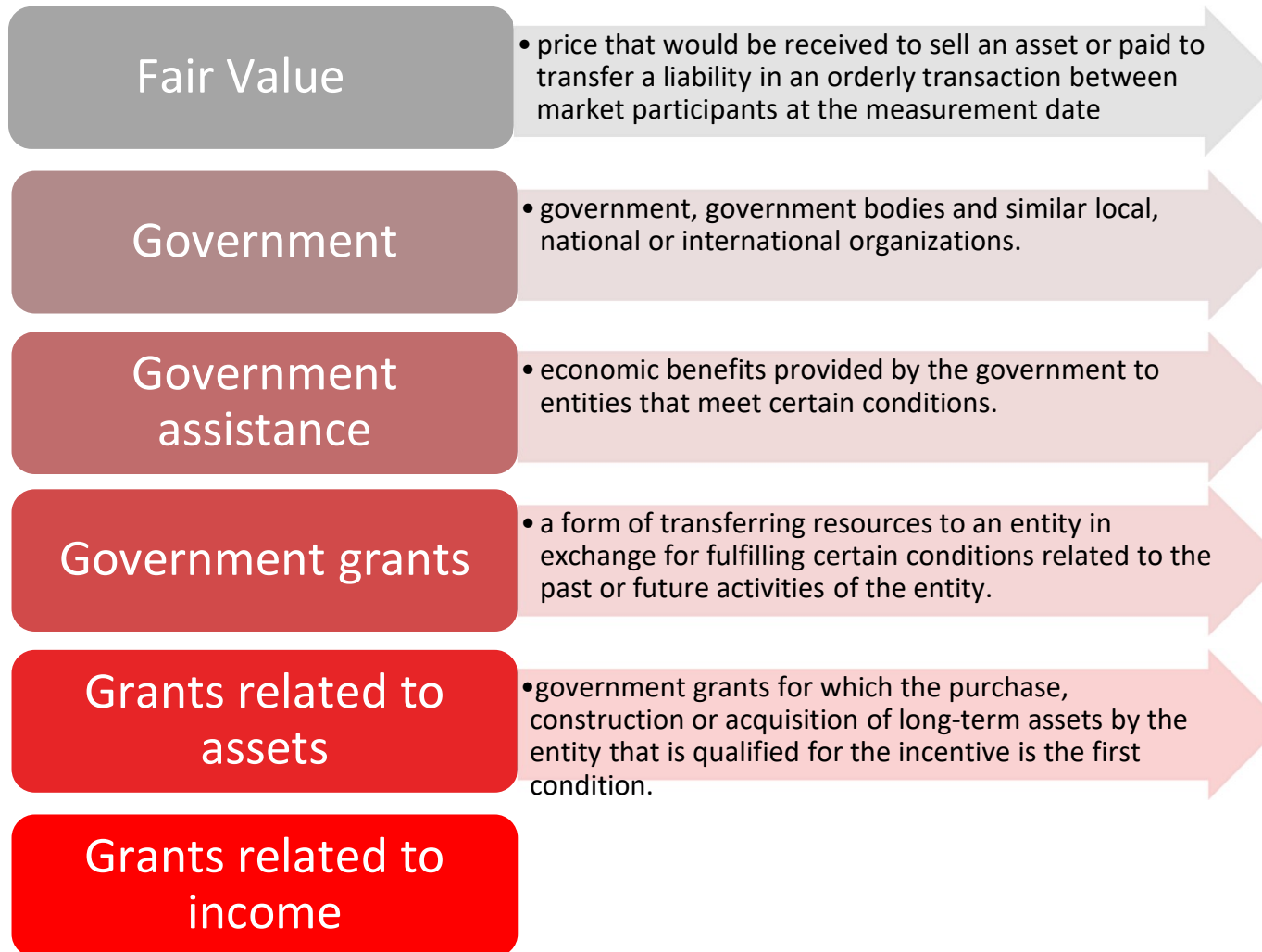
Grants related to assets

Grants related to income

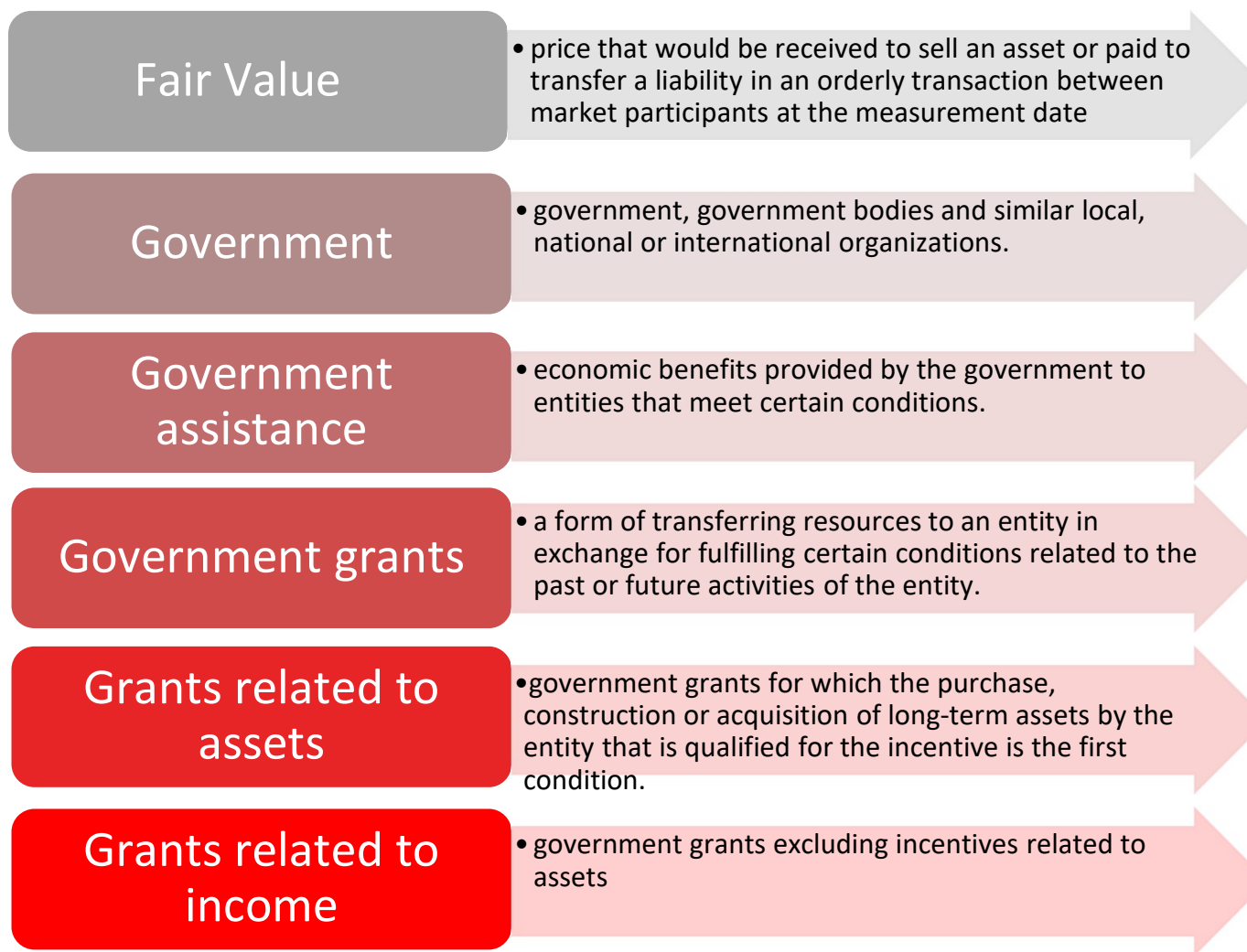
SCOPE AND KEY DEFINITIONS



SCOPE AND KEY DEFINITIONS



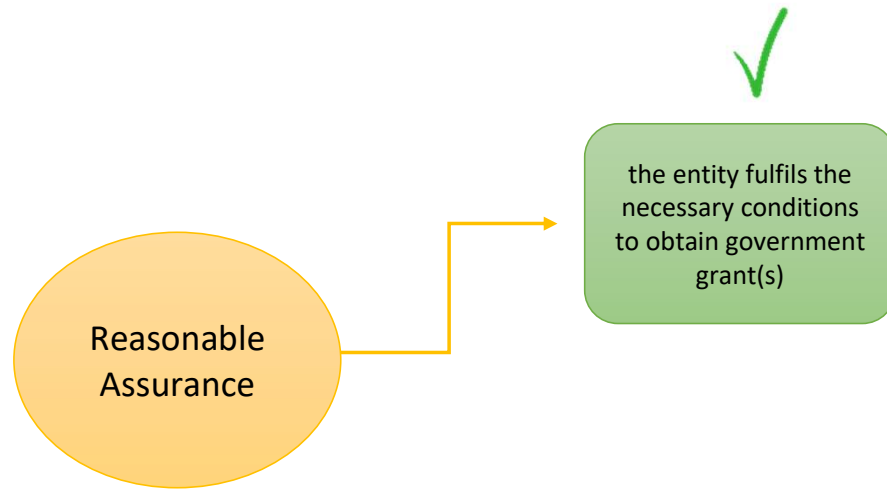
SCOPE AND KEY DEFINITIONS



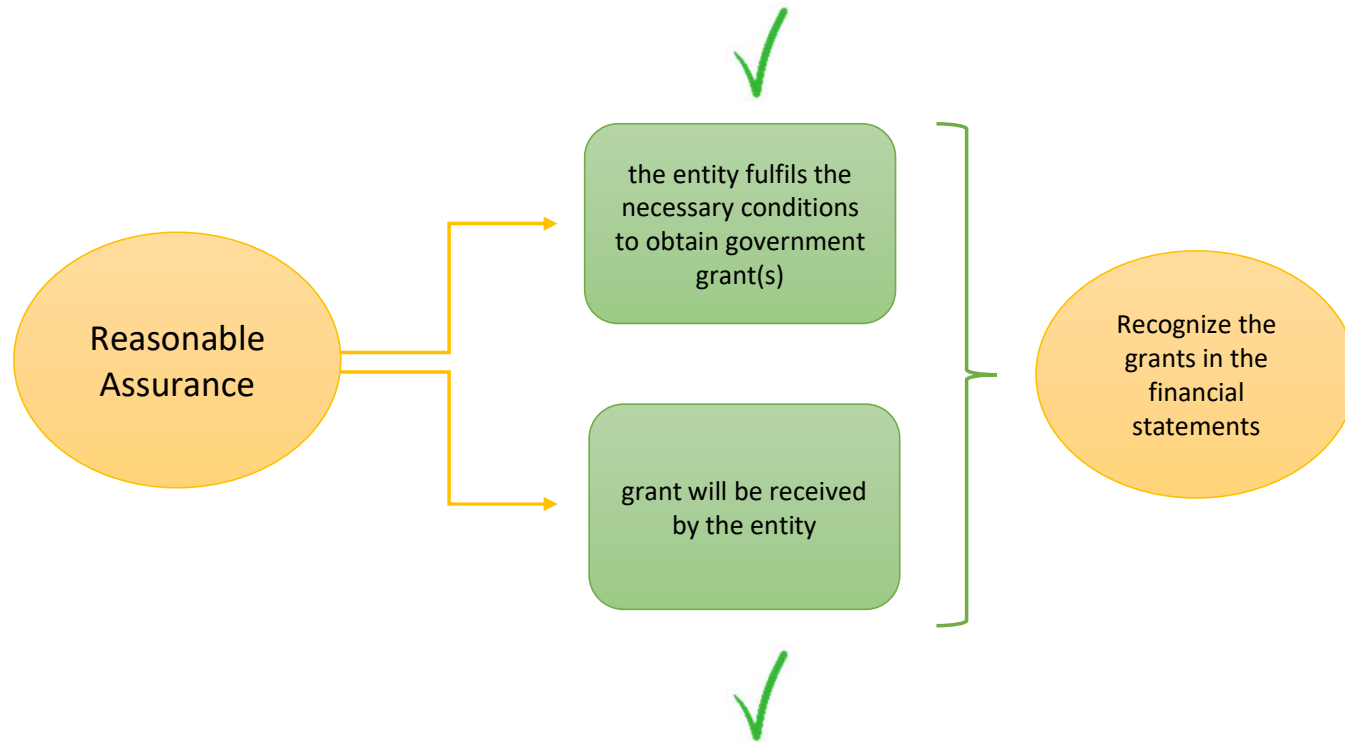
RECOGNITION



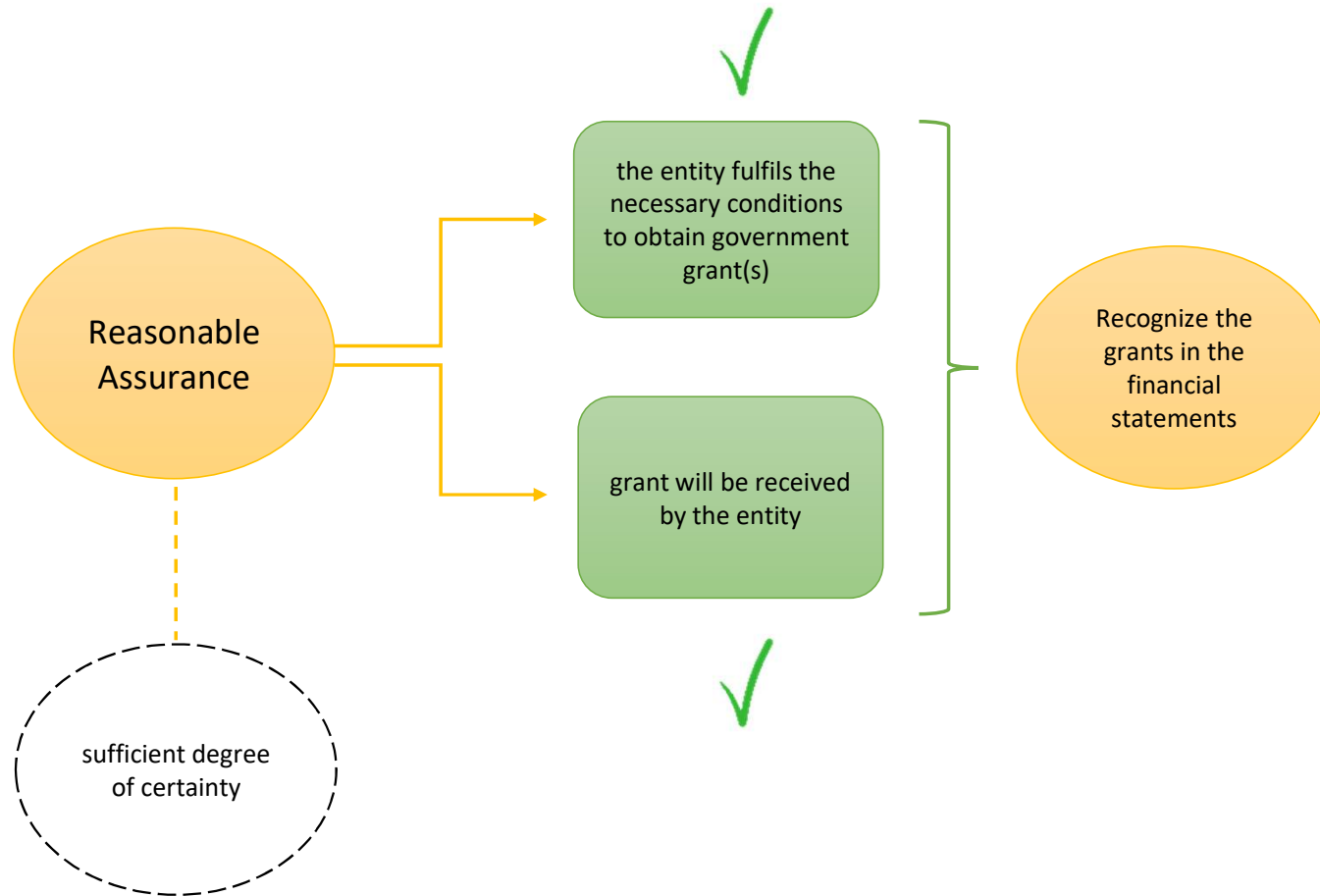
RECOGNITION



RECOGNITION



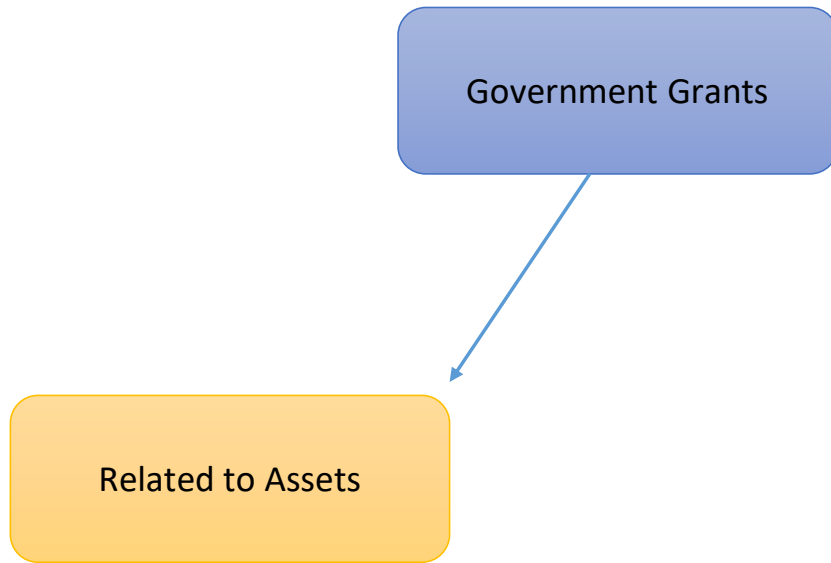
RECOGNITION



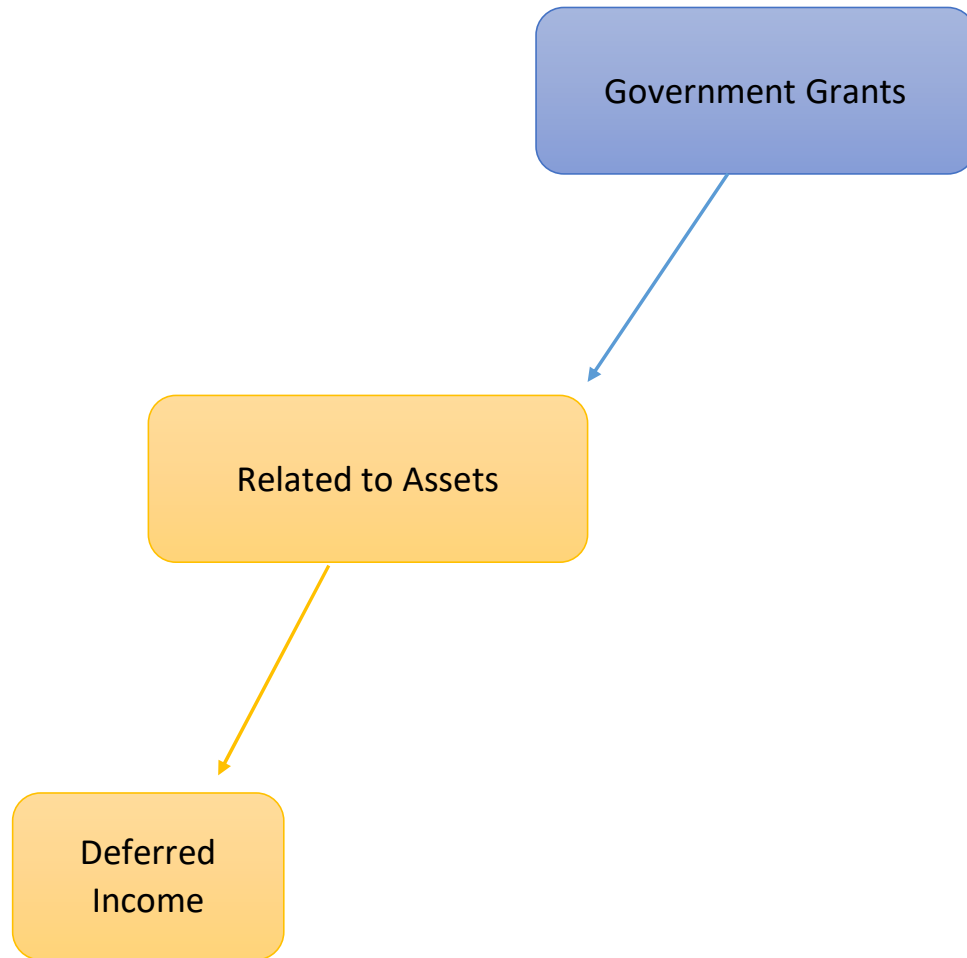
RECOGNITION

Government Grants

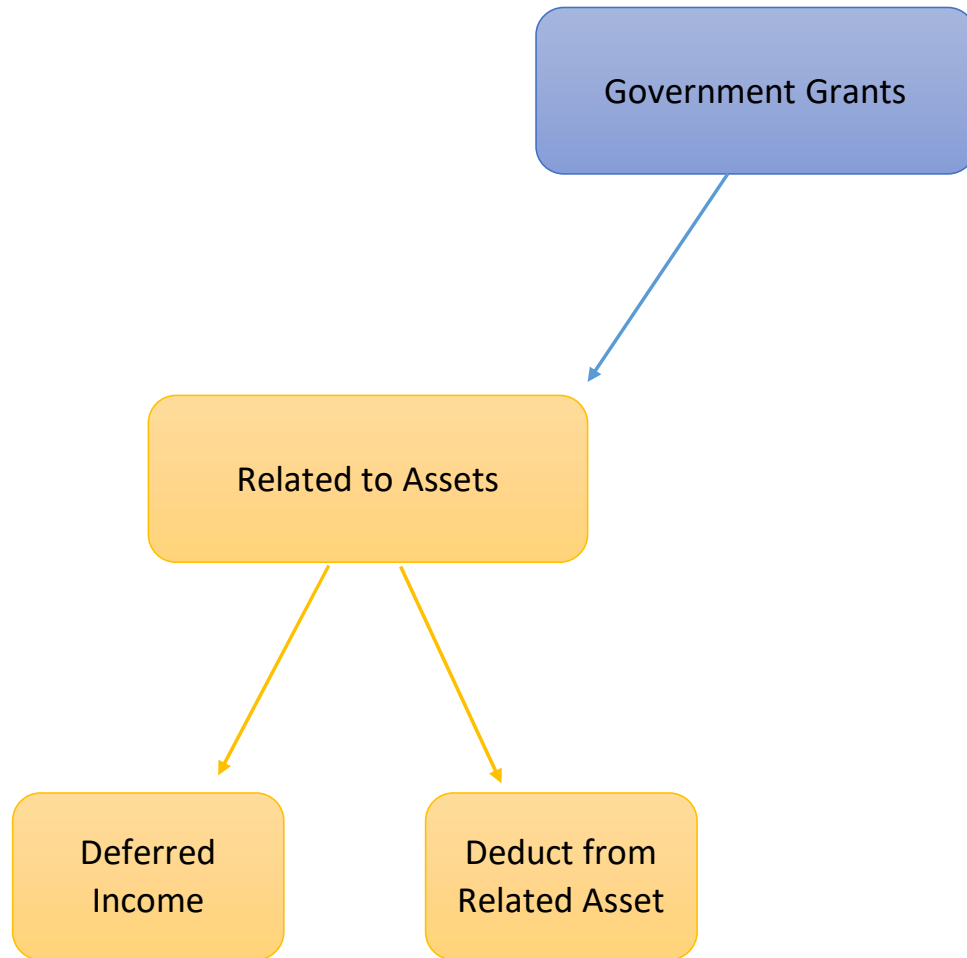
RECOGNITION



RECOGNITION



RECOGNITION



EXAMPLE – GOVERNMENT GRANTS RELATED TO ASSETS

An entity will receive government grant for CU 90,000 for an equipment to be purchased. The cost of the equipment to be purchased is CU 130,000, its expected useful life is 3 years. The residual value of the equipment at the end of its useful life is expected to be CU 10,000. The entity will apply the straight-line method of depreciation on a monthly basis.

EXAMPLE – GOVERNMENT GRANTS RELATED TO ASSETS

An entity will receive government grant for CU 90,000 for an equipment to be purchased. The cost of the equipment to be purchased is CU 130,000, its expected useful life is 3 years. The residual value of the equipment at the end of its useful life is expected to be CU 10,000. The entity will apply the straight-line method of depreciation in monthly basis.

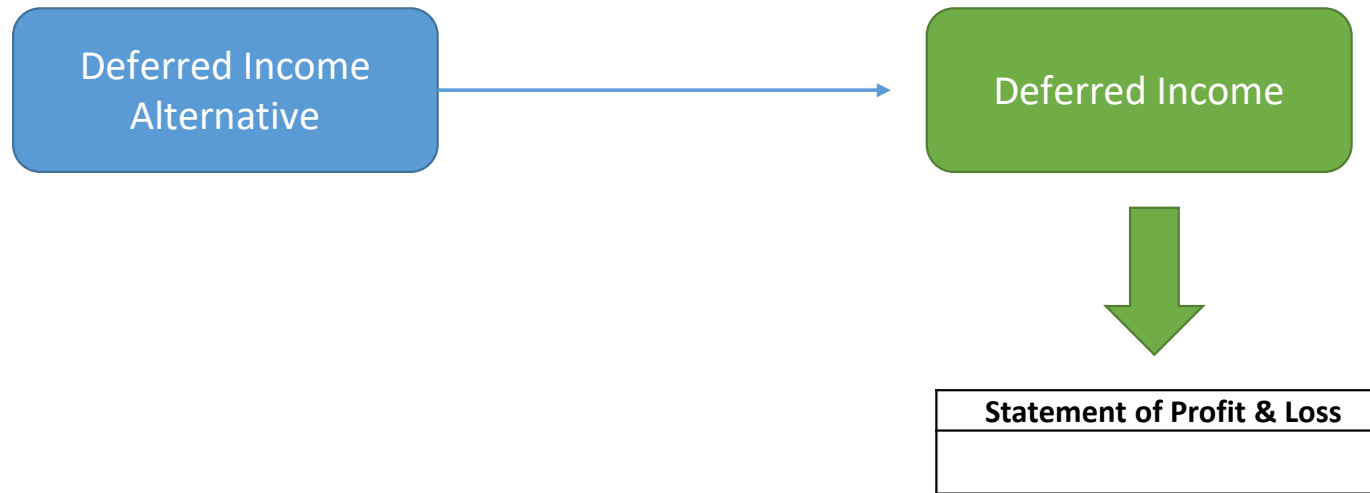
Yearly depreciation expense of the equipment will be CU 40,000. The residual value is subtracted from the book value of the asset and the remaining amount is divided by its useful life to calculate the amount of annual depreciation.

$$\text{Yearly Depreciation} = \frac{\text{Book Value} - \text{Residual Value}}{\text{Useful Life}} = \frac{\text{CU } 130,000 - \text{CU } 10,000}{3 \text{ years}} = \text{CU } 40,000$$

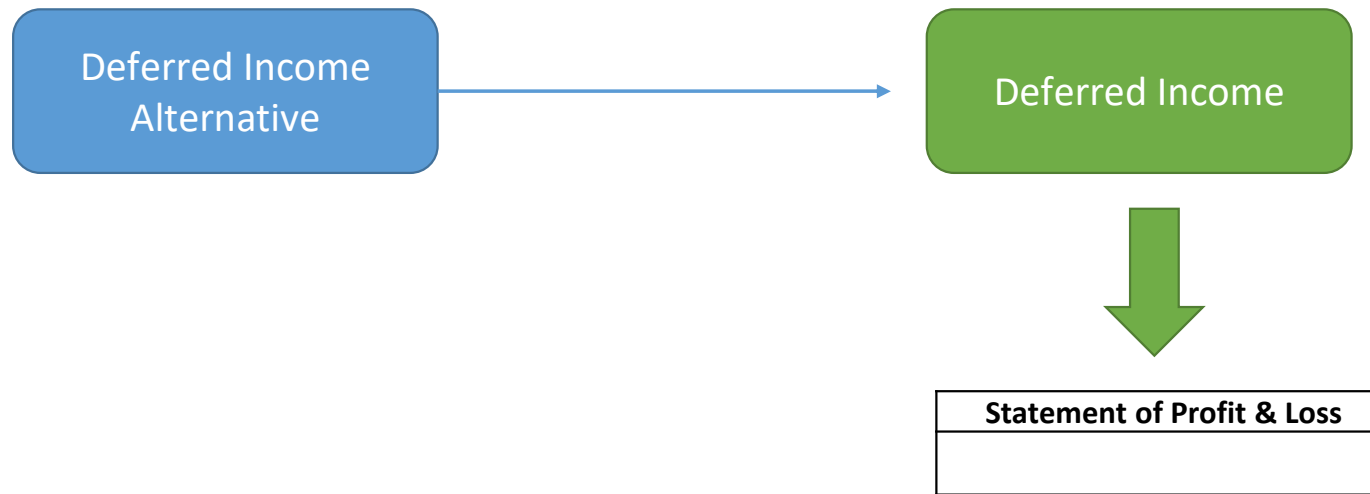
EXAMPLE – GOVERNMENT GRANTS RELATED TO ASSETS

Deferred Income
Alternative

EXAMPLE – GOVERNMENT GRANTS RELATED TO ASSETS



EXAMPLE – GOVERNMENT GRANTS RELATED TO ASSETS



$$\text{Yearly Amount of Income} = \frac{\text{CU } 90,000}{3 \text{ years}} = \text{CU } 30,000$$

EXAMPLE – GOVERNMENT GRANTS RELATED TO ASSETS

Dr.	PP&E (ASSETS)	130,000	
Cr.	BANK (ASSETS)		130,000

Dr.	BANK (ASSETS)	90,000	
Cr.	DEFERRED INCOME (LIABILITIES)		90,000

EXAMPLE – GOVERNMENT GRANTS RELATED TO ASSETS

Dr.	PP&E (ASSETS)	130,000	
Cr.	BANK (ASSETS)		130,000

Dr.	BANK (ASSETS)	90,000	
Cr.	DEFERRED INCOME (LIABILITIES)		90,000

Dr.	DEPRECIATION EXPENSE – EQUIPMENT (P&L)	40,000	
Cr.	ACCUMULATED DEPRECIATION (ASSETS)		40,000

EXAMPLE – GOVERNMENT GRANTS RELATED TO ASSETS

Dr.	PP&E (ASSETS)	130,000	
Cr.	BANK (ASSETS)		130,000

Dr.	BANK (ASSETS)	90,000	
Cr.	DEFERRED INCOME (LIABILITIES)		90,000

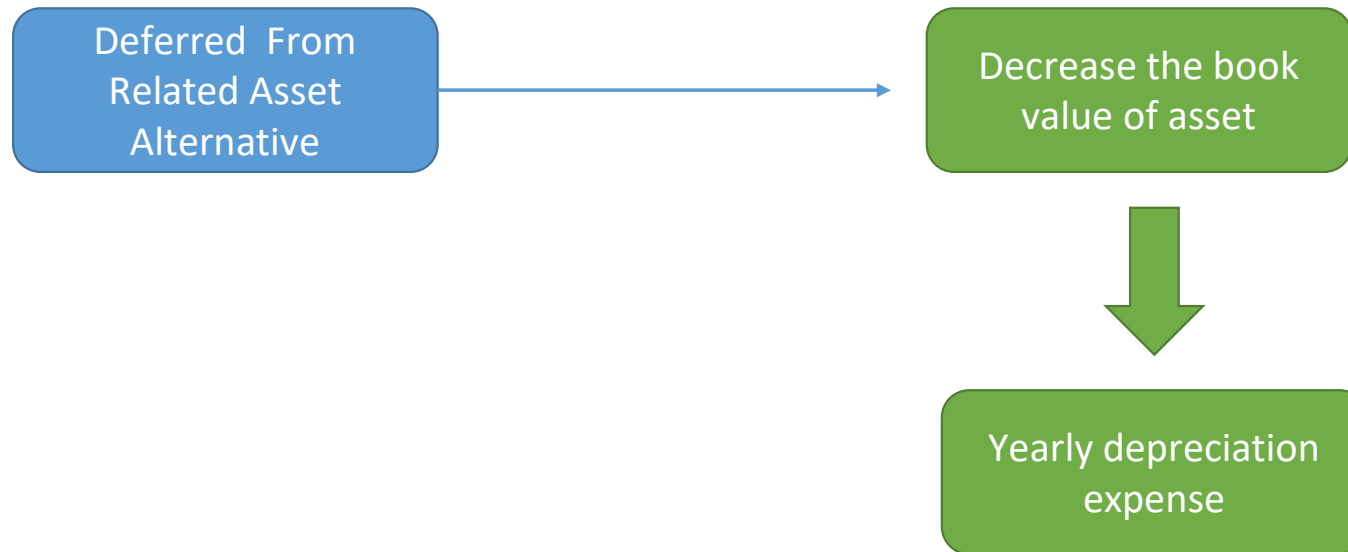
Dr.	DEPRECIATION EXPENSE – EQUIPMENT (P&L)	40,000	
Cr.	ACCUMULATED DEPRECIATION (ASSETS)		40,000

Dr.	DEFERRED INCOME (LIABILITIES)	30,000	
Cr.	OTHER INCOME – GOVERNMENT GRANTS (P&L)		30,000

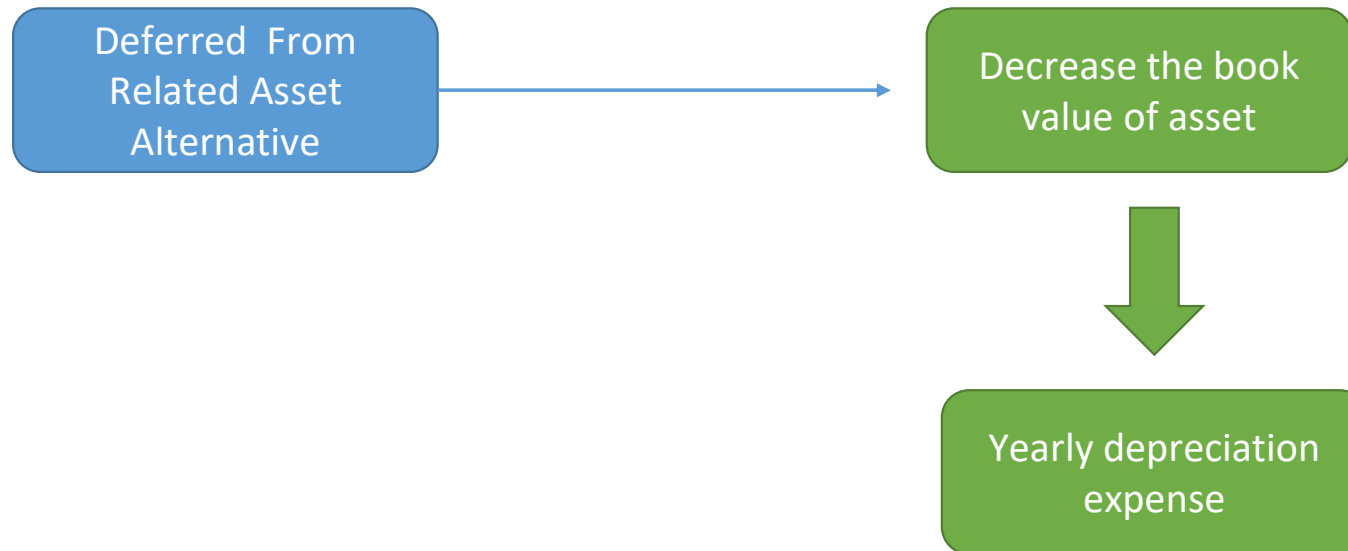
EXAMPLE – GOVERNMENT GRANTS RELATED TO ASSETS

Deferred From
Related Asset
Alternative

EXAMPLE – GOVERNMENT GRANTS RELATED TO ASSETS

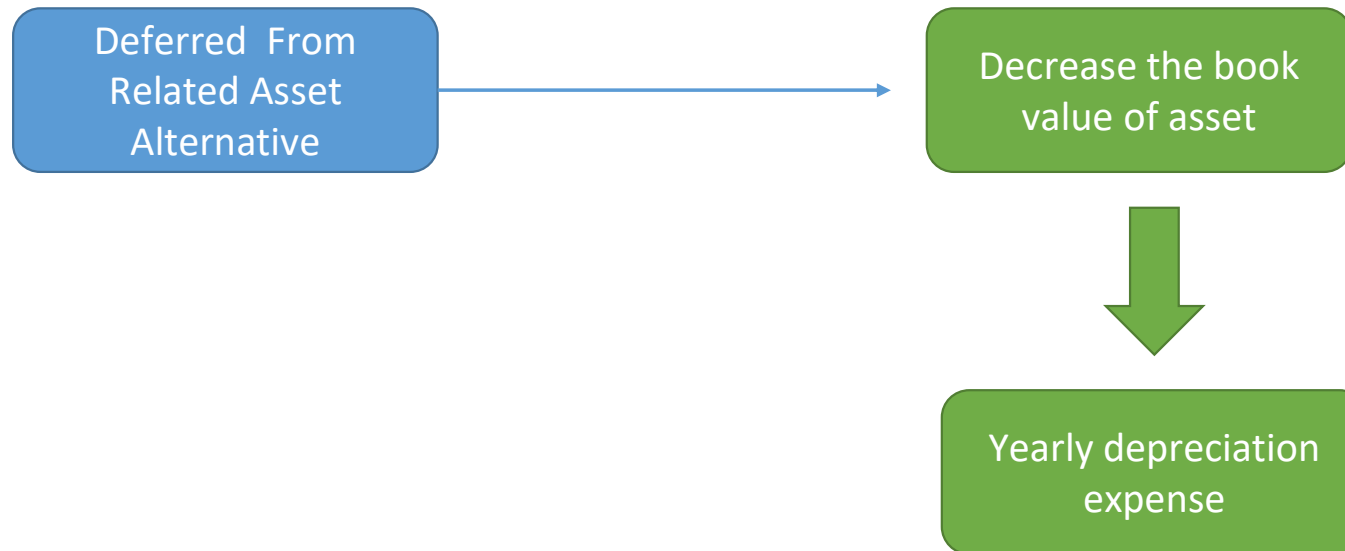


EXAMPLE – GOVERNMENT GRANTS RELATED TO ASSETS



$$\textit{Book Value} = \textit{Cost} - \textit{Grant Amount} = \textit{CU } 130,000 - \textit{CU } 90,000 = \textit{CU } 40,000$$

EXAMPLE – GOVERNMENT GRANTS RELATED TO ASSETS



$$\text{Book Value} = \text{Cost} - \text{Grant Amount} = \text{CU } 130,000 - \text{CU } 90,000 = \text{CU } 40,000$$

$$\text{Yearly Depreciation} = \frac{\text{Book Value} - \text{Residual Value}}{\text{Useful Life}} = \frac{\text{CU } 40,000 - \text{CU } 10,000}{3 \text{ years}} = \text{CU } 10,000$$

EXAMPLE – GOVERNMENT GRANTS RELATED TO ASSETS

Dr.	PP&E (ASSETS)	130,000	
Cr.	BANK (ASSETS)		130,000

Dr.	BANK (ASSETS)	90,000	
Cr.	PP&E (ASSETS)		90,000

EXAMPLE – GOVERNMENT GRANTS RELATED TO ASSETS

Dr.	PP&E (ASSETS)	130,000	
Cr.	BANK (ASSETS)		130,000
Dr.	BANK (ASSETS)	90,000	
Cr.	PP&E (ASSETS)		90,000
Dr.	DEPRECIATION EXPENSE – EQUIPMENT (P&L)	10,000	
Cr.	ACCUMULATED DEPRECIATION (ASSETS)		10,000

EXAMPLE – GOVERNMENT GRANTS RELATED TO ASSETS

Statement of Financial Position Beginning of Year 1 CU (Deferred Income Alternative)			
Assets		Lia.&OE	
PP&E	130,000	Deferred Income	90,000

Statement of Financial Position Beginning of Year 1 CU (Deduct From Related Asset Alternative)			
Assets		Lia.&OE	
PP&E	40,000	Deferred Income	-

EXAMPLE – GOVERNMENT GRANTS RELATED TO ASSETS

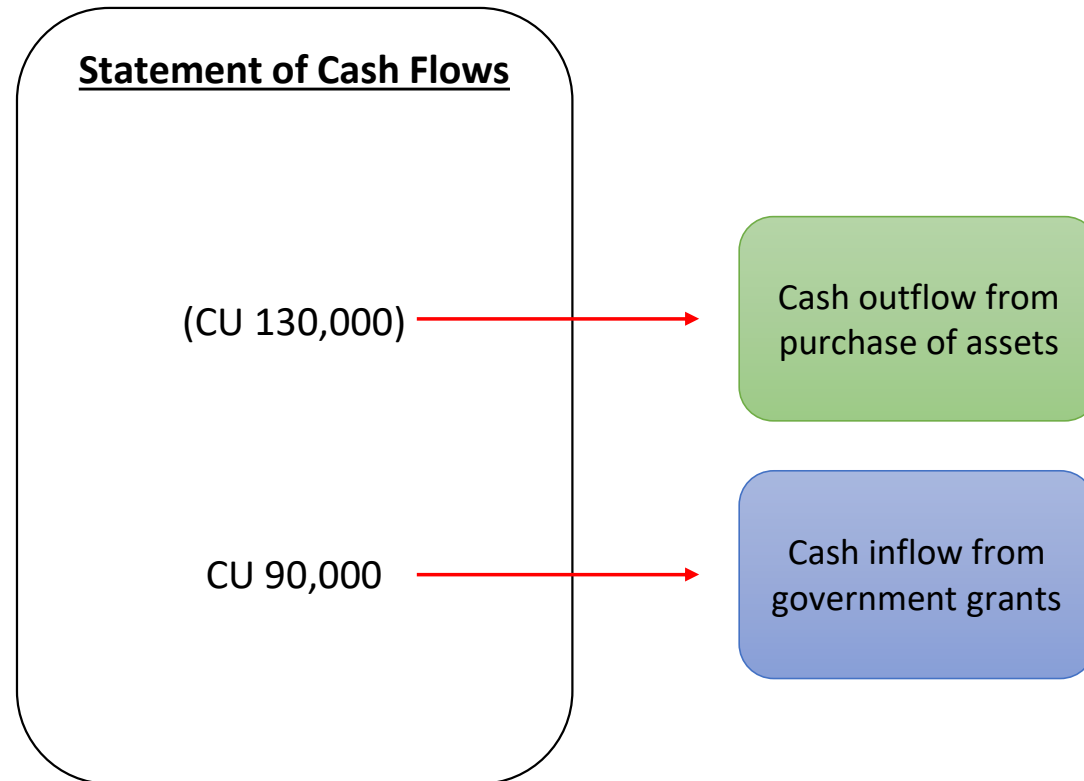
Statement of Financial Position Beginning of Year 1 CU (Deferred Income Alternative)			
Assets		Lia.&OE	
PP&E	130,000	Deferred Income	90,000

Statement of Financial Position Beginning of Year 1 CU (Deduct From Related Asset Alternative)			
Assets		Lia.&OE	
PP&E	40,000	Deferred Income	-

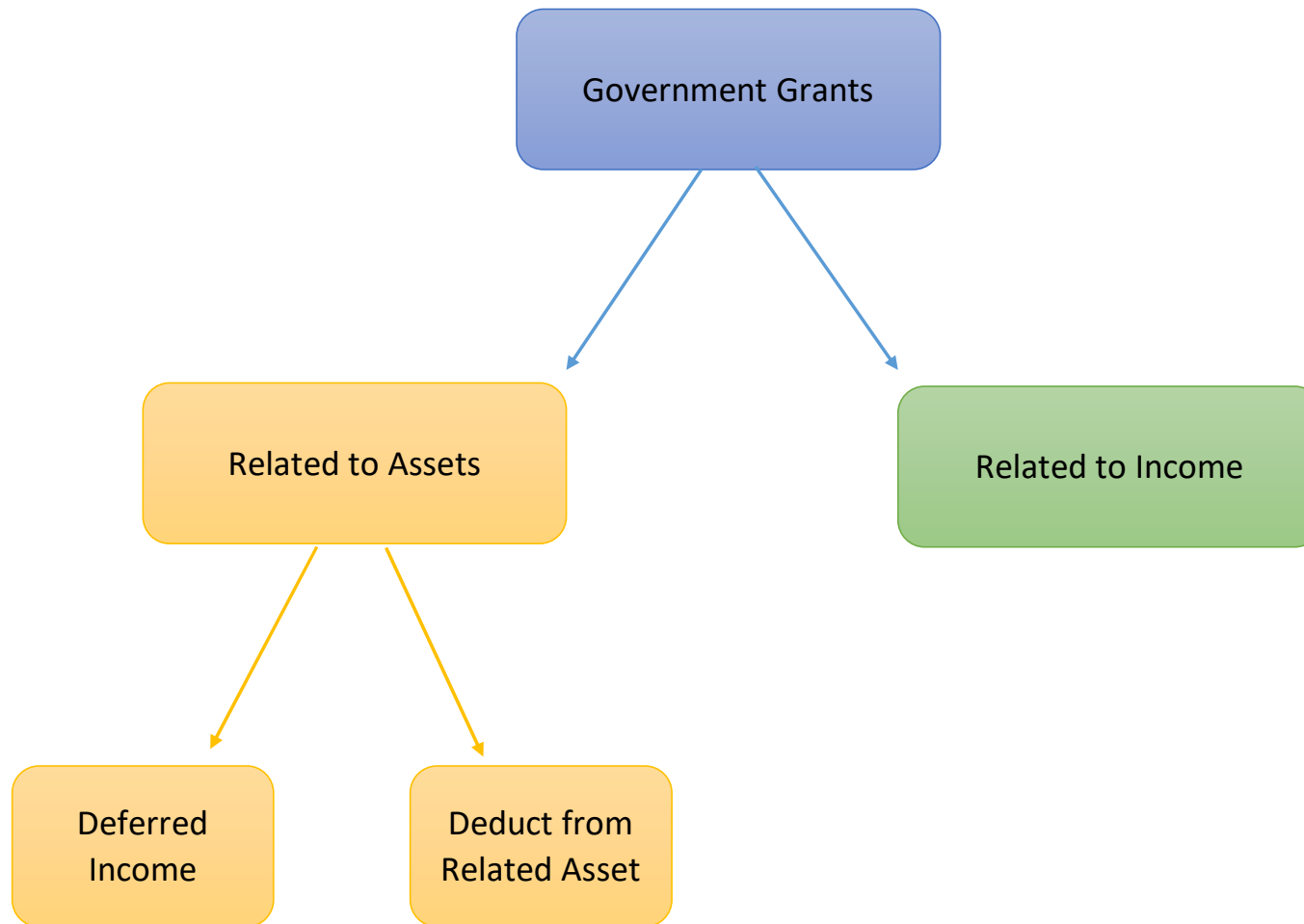
Statement of Financial Position End of Year 1 CU (Deferred Income Alternative)			
Assets		Lia.&OE	
PP&E	130,000	Deferred Income	60,000
Acc.Dep.	(40,000)		

Statement of Financial Position End of Year 1 CU (Deduct From Related Asset Alternative)			
Assets		Lia.&OE	
PP&E	40,000	Deferred Income	-
Acc.Dep.	(10,000)		

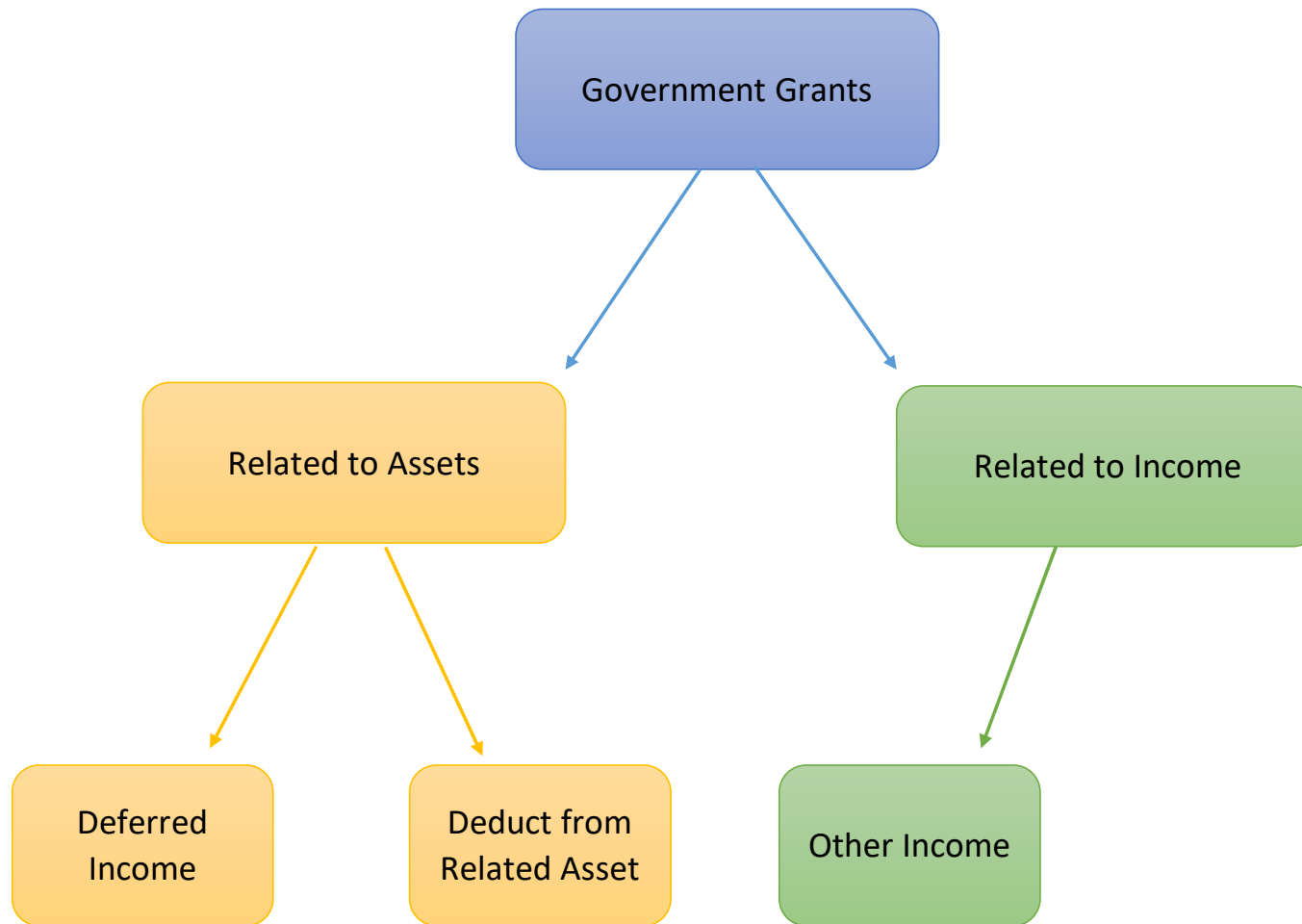
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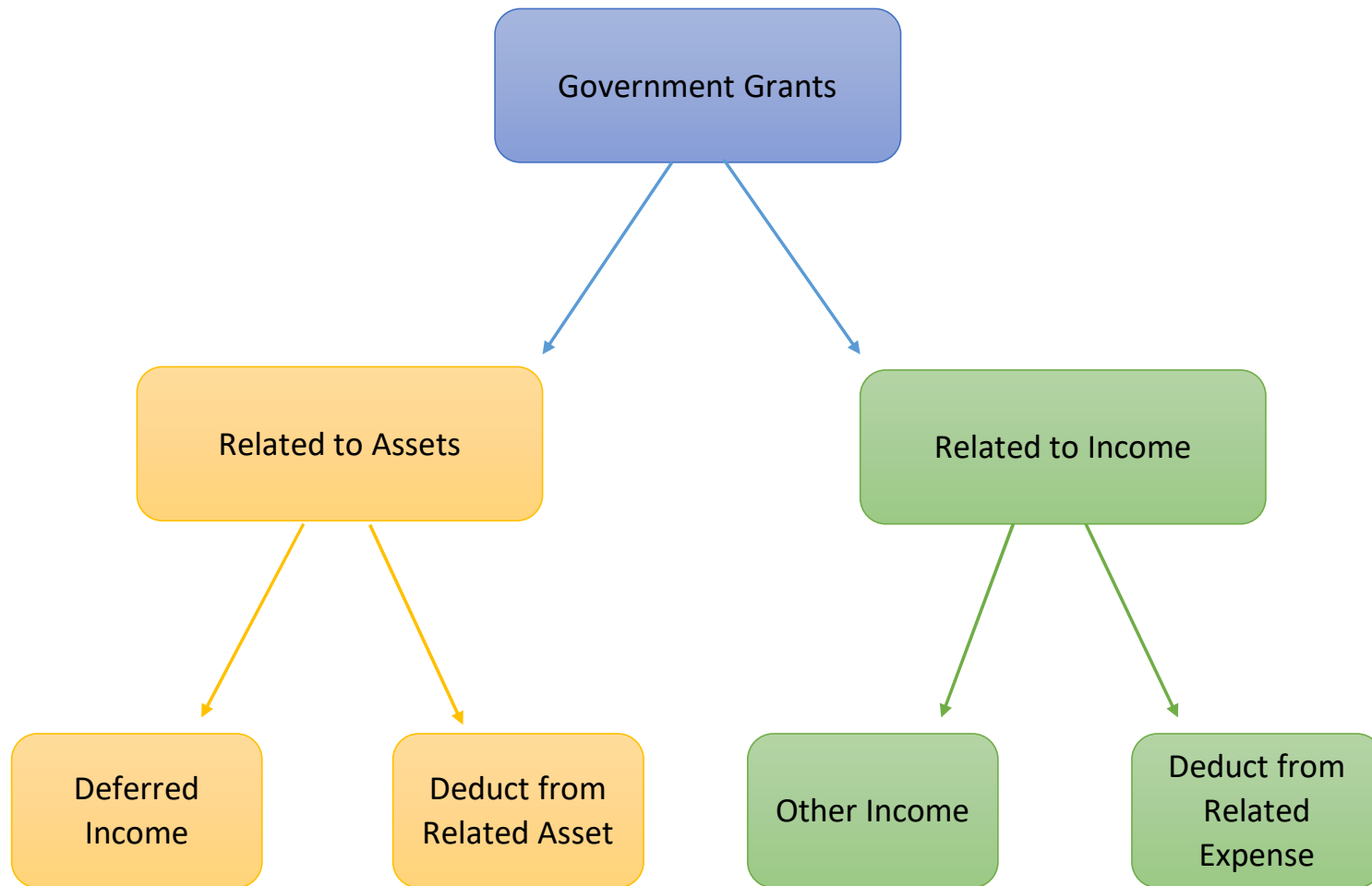
RECOGNITION



RECOGNITION



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EXAMPLE – GOVERNMENT GRANTS RELATED TO INCOME

An entity received a government grant of CU 1,000,000 to cover environmental costs over a period of three years.

EXAMPLE – GOVERNMENT GRANTS RELATED TO INCOME

An entity received a government grant of CU 1,000,000 to cover environmental costs over a period of three years.

Environmental costs for the next three years are CU 200,000, CU 800,000 and CU 600,000, respectively.

Year	Costs
1	CU 200,000
2	CU 800,000
3	CU 600,000
Total	CU 1,600,000

EXAMPLE – GOVERNMENT GRANTS RELATED TO INCOME

According to IAS Standard 20, the government grants received should be systematically matched with the costs associated with it. In this case, the government grants obtained can be allocated over the years in a manner that matches with yearly environmental expenses.

EXAMPLE – GOVERNMENT GRANTS RELATED TO INCOME

According to IAS Standard 20, the government grants received should be systematically matched with the costs associated with it. In this case, the government grants obtained can be allocated over the years matching with yearly environmental expenses.

Year	Costs	Ratio of Annual Cost to Total Cost	Grants Recognised by Year
1	CU 200,000	$\text{CU } 200,000 / \text{CU } 1,600,000 = \mathbf{0.125}$	$0.125 * \text{CU } 1,000,000 = \mathbf{\text{CU } 125,000}$
2	CU 800,000	$\text{CU } 800,000 / \text{CU } 1,600,000 = \mathbf{0.50}$	$0.50 * \text{CU } 1,000,000 = \mathbf{\text{CU } 500,000}$
3	CU 600,000	$\text{CU } 600,000 / \text{CU } 1,600,000 = \mathbf{0.375}$	$0.375 * \text{CU } 1,000,000 = \mathbf{\text{CU } 375,000}$
Total	CU 1,600,000	1.00	CU 1,000,000

EXAMPLE – GOVERNMENT GRANTS RELATED TO INCOME

Dr.	BANK (ASSETS)	1,000,000	
Cr.	DEFERRED INCOME (LIABILITIES)		1,000,000

EXAMPLE – GOVERNMENT GRANTS RELATED TO INCOME

Dr.	BANK (ASSETS)	1,000,000	
Cr.	DEFERRED INCOME (LIABILITIES)		1,000,000

Dr.	ENVIRONMENTAL EXPENSES (P&L)	200,000	
Cr.	BANK (ASSETS)		200,000

Dr.	DEFERRED INCOME (LIABILITIES)	125,000	
Cr.	OTHER INCOME – GOVERNMENT GRANTS (P&L)		125,000

EXAMPLE – GOVERNMENT GRANTS RELATED TO INCOME

Dr.	BANK (ASSETS)	1,000,000	
Cr.	DEFERRED INCOME (LIABILITIES)		1,000,000

EXAMPLE – GOVERNMENT GRANTS RELATED TO INCOME

Dr.	BANK (ASSETS)	1,000,000	
Cr.	DEFERRED INCOME (LIABILITIES)		1,000,000

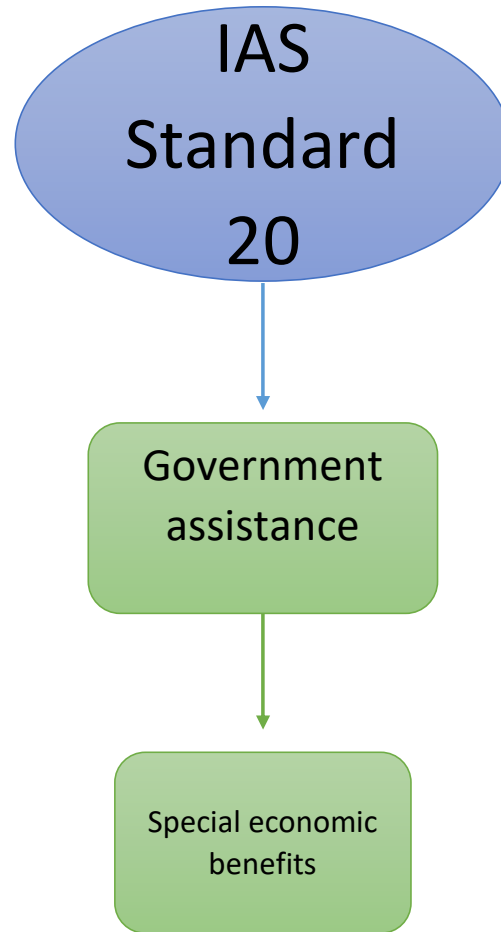
Dr.	ENVIRONMENTAL EXPENSES (P&L)	200,000	
Cr.	BANK (ASSETS)		200,000

Dr.	DEFERRED INCOME (LIABILITIES)	125,000	
Cr.	ENVIRONMENTAL EXPENSES (P&L)		125,000

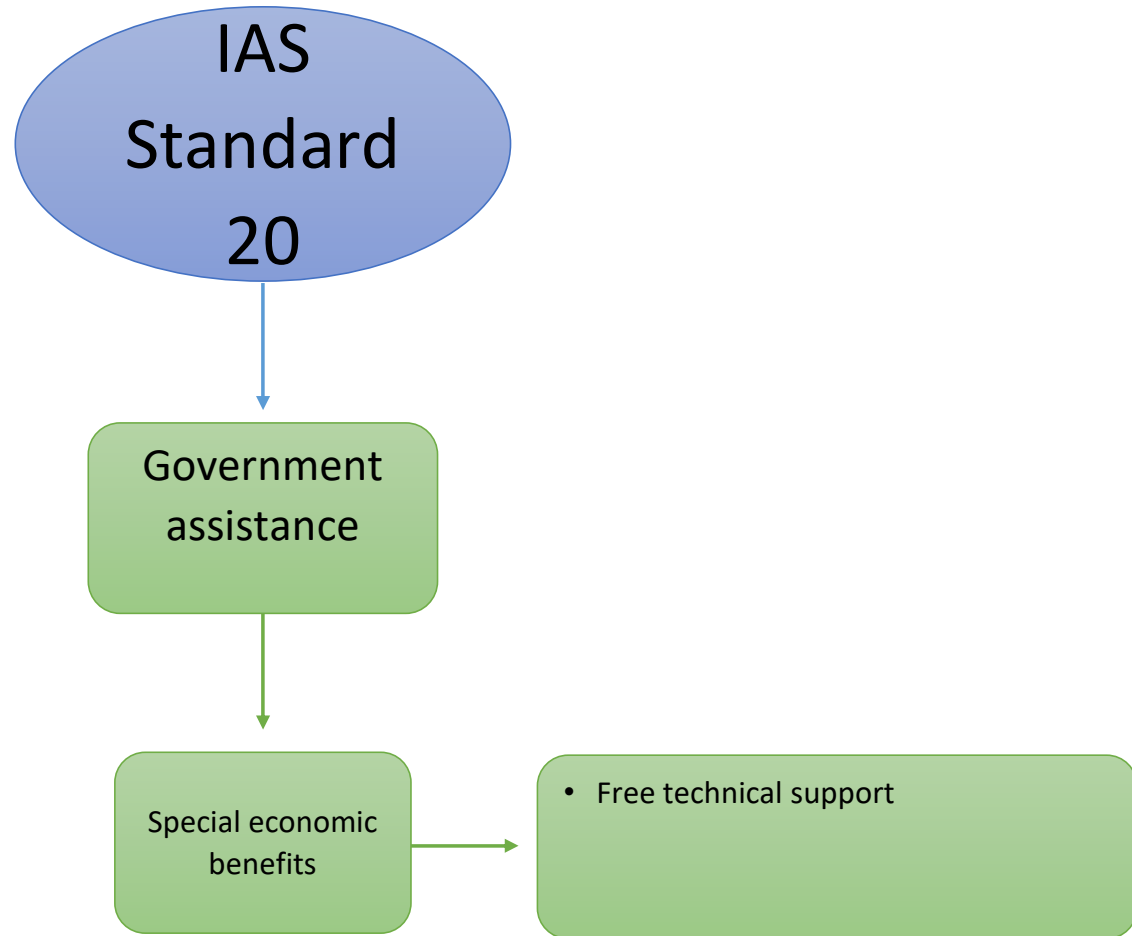
EXAMPLE – GOVERNMENT GRANTS RELATED TO INCOME

<p style="text-align: center;">Statement of Profit & Loss (Year 1) CU Other Income Alternative</p>	<p style="text-align: center;">Statement of Profit & Loss (Year 1) CU Deduct From Related Expense Alternative</p>
<p><u>Operating Expenses</u> Environmental Expenses (200,000)</p> <p><u>Other Income</u> Government Grants 125,000</p>	<p><u>Operating Expenses</u> Environmental Expenses (75,000)</p> <p><u>Other Income</u> -</p>

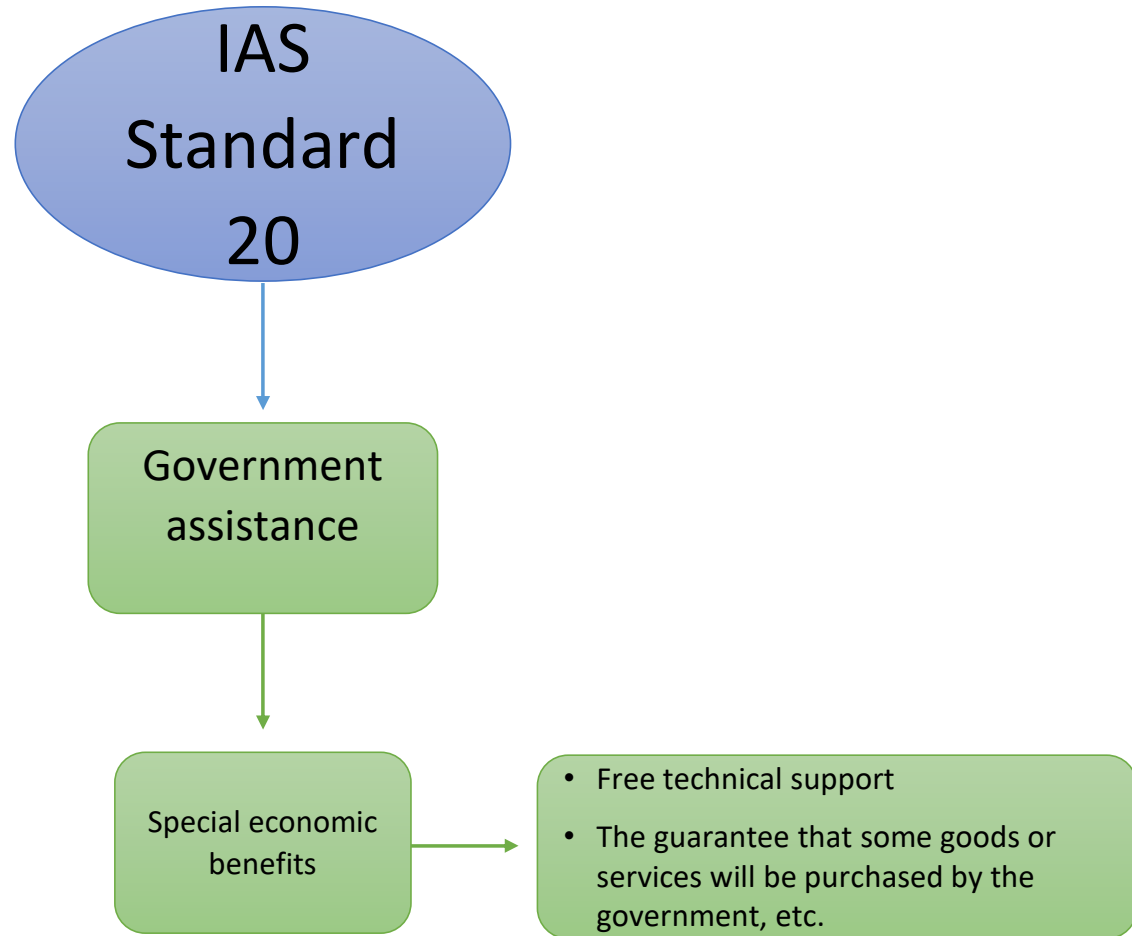
GOVERNMENT ASSISTANCE



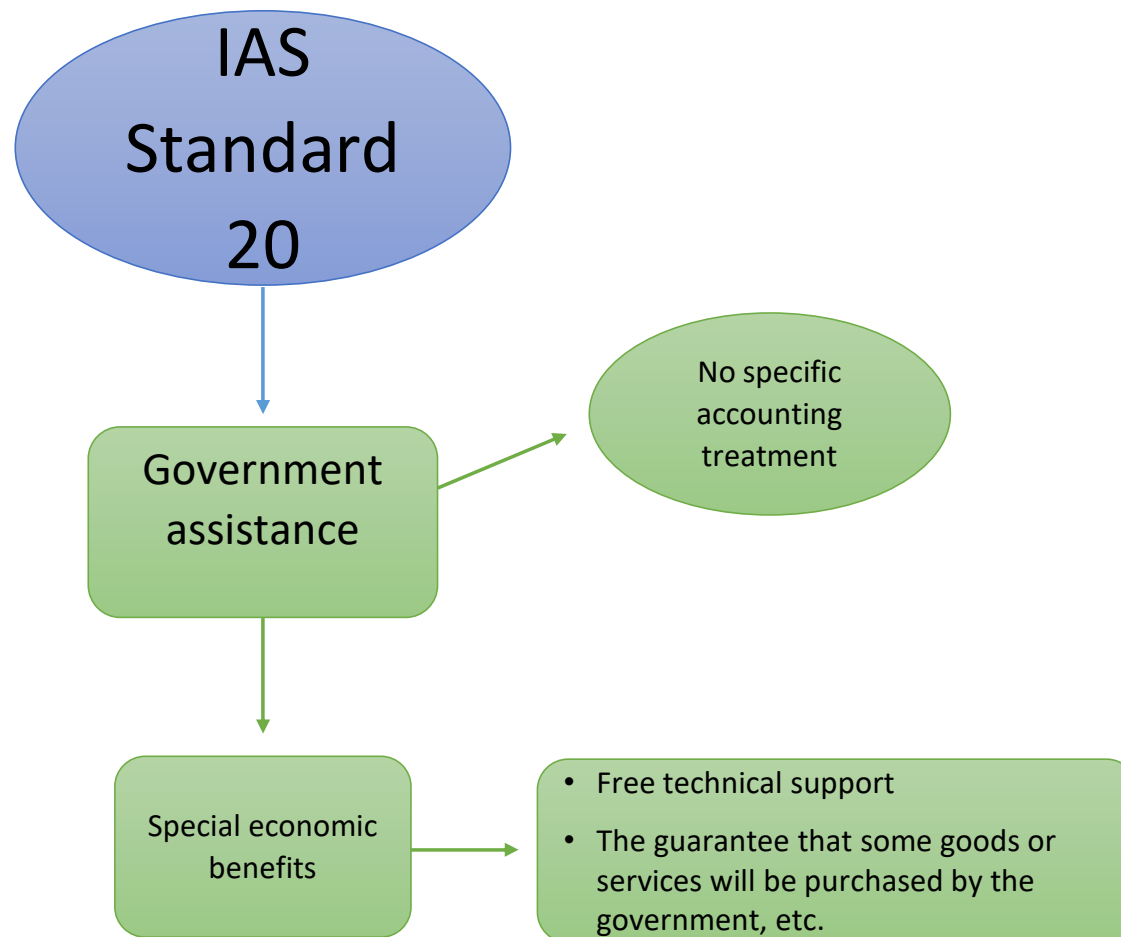
GOVERNMENT ASSISTANCE



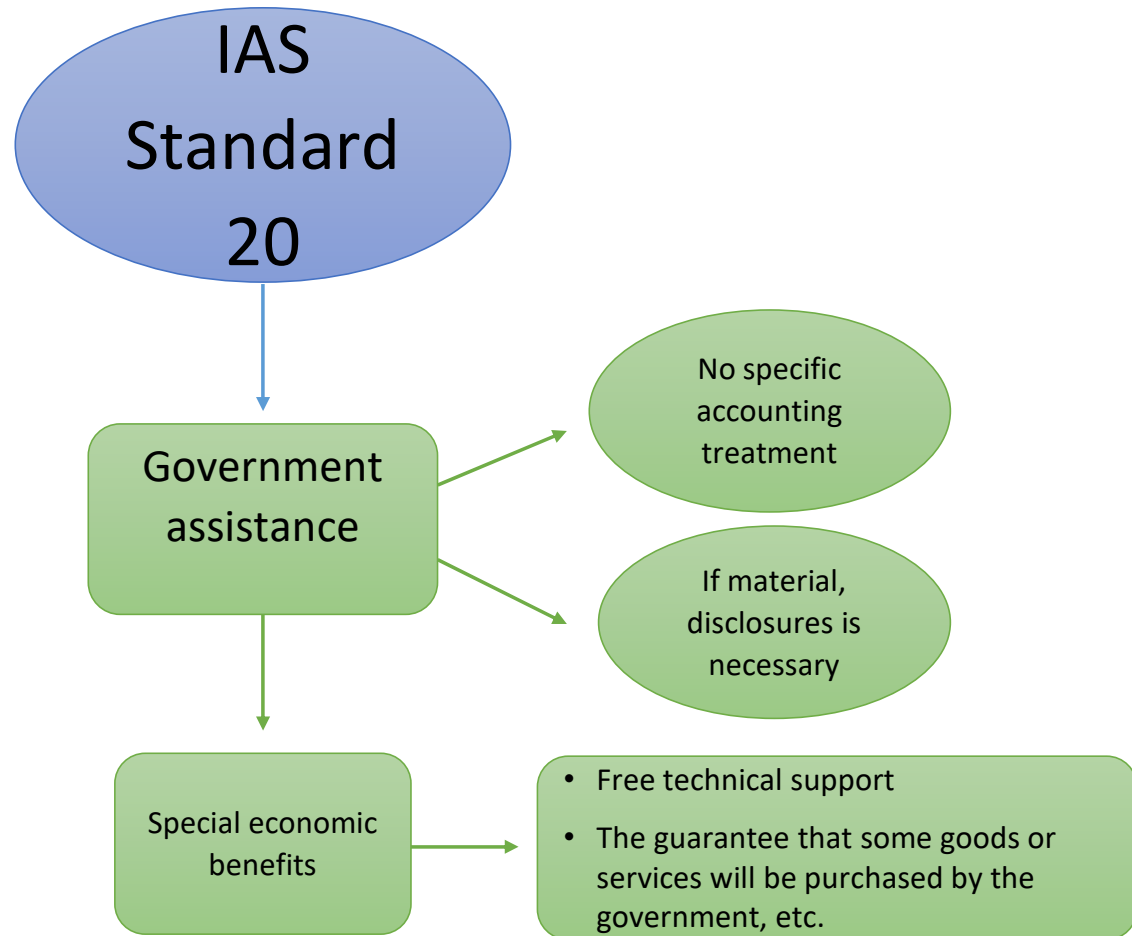
GOVERNMENT ASSISTANCE



GOVERNMENT ASSISTANCE



GOVERNMENT ASSISTANCE



DISCLOSURES

- An entity should disclose:

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- An entity should disclose:
- Accounting policies adopted for government grants. Also the method of presentation of these grants in the statements must be disclosed (presentation as deferred income or deducted from book value of the asset);

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- Type, amount and duration of government grants and other government assistances the entity directly benefits from and

DISCLOSURES

- An entity should disclose:
- Accounting policies adopted for government grants. Also presentation method of these grants in the statements must be disclosed (presentation as deferred income or deducted from book value of the asset);
- Type, amount and duration of government grants and other government assistances directly benefited by the entity and
- Conditions that are not fulfilled for government assistance that are reported in the financial statements and other conditions.

RECAPUTILATIVE EXAMPLE

At the beginning of 2021 an entity purchased a plant for CU 500,000. Its expected useful life is 10 years. The residual value of the plant at the end of its useful life is expected to be zero. The entity will apply the straight-line method of depreciation. The entity received a government grant of CU 400,000.

RECAPUTILATIVE EXAMPLE

At the beginning of 2021 an entity purchased a plant for CU 500,000, its expected useful life is 10 years. The residual value of the plant at the end of its useful life is expected to be zero. The entity will apply the straight-line method of depreciation. The business received a government grant of CU 400,000,

Required:

- Prepare the journal entries for 2021 and show the effect on statement of financial position and statement of profit & loss using the deferred income alternative.
- Prepare the journal entries for 2021 and show the effect on statement of financial position and statement of profit & loss deducting from related asset alternative.

RECAPUTILATIVE EXAMPLE – DEFERRED INCOME

$$\text{Yearly Depreciation} = \frac{\text{Book Value} - \text{Residual Value}}{\text{Useful Life}} = \frac{\text{CU } 500.000 - 0}{10 \text{ years}} = \text{CU } 50,000$$

RECAPUTILATIVE EXAMPLE – DEFERRED INCOME

$$\text{Yearly Depreciation} = \frac{\text{Book Value} - \text{Residual Value}}{\text{Useful Life}} = \frac{\text{CU } 500.000 - 0}{10 \text{ years}} = \text{CU } 50,000$$

$$\text{Yearly Amount of Income} = \frac{\text{CU } 400,000}{10 \text{ years}} = \text{CU } 40,000$$

RECAPUTILATIVE EXAMPLE – DEFERRED INCOME

Dr.	PP&E (ASSETS)	500,000	
Cr.	BANK (ASSETS)		500,000

Dr.	BANK (ASSETS)	400,000	
Cr.	DEFERRED INCOME (LIABILITIES)		400,000

RECAPUTILATIVE EXAMPLE – DEFERRED INCOME

Dr.	PP&E (ASSETS)	500,000	
Cr.	BANK (ASSETS)		500,000

Dr.	BANK (ASSETS)	400,000	
Cr.	DEFERRED INCOME (LIABILITIES)		400,000

Dr.	DEPRECIATION EXPENSE – EQUIPMENT (P&L)	50,000	
Cr.	ACCUMULATED DEPRECIATION (ASSETS)		50,000

RECAPUTILATIVE EXAMPLE – DEFERRED INCOME

Dr.	PP&E (ASSETS)	500,000	
Cr.	BANK (ASSETS)		500,000
Dr.	BANK (ASSETS)	400,000	
Cr.	DEFERRED INCOME (LIABILITIES)		400,000
Dr.	DEPRECIATION EXPENSE – EQUIPMENT (P&L)	50,000	
Cr.	ACCUMULATED DEPRECIATION (ASSETS)		50,000
Dr.	DEFERRED INCOME (LIABILITIES)	40,000	
Cr.	OTHER INCOME – GOVERNMENT GRANTS (P&L)		40,000

RECAPUTILATIVE EXAMPLE – DEFERRED INCOME

Statement of Profit & Loss (2021) CU (Deferred Income Alternative)	
<u>Operating Expenses</u>	
Depreciation Expenses	(50,000)
<u>Other Income</u>	
Government Grants	40,000

RECAPUTILATIVE EXAMPLE – DEFERRED INCOME

Statement of Profit & Loss (2021) CU (Deferred Income Alternative)	
<u>Operating Expenses</u>	
Depreciation Expenses	(50,000)
<u>Other Income</u>	
Government Grants	40,000

Statement of Financial Position At the End of 2021 CU (Deferred Income Alternative)			
Assets		Lia.&OE	
PP&E	500,000	Deferred Income	360,000
Acc.Dep.	(50,000)		

RECAPUTILATIVE EXAMPLE – DEDUCTING FROM RELATED ASSETS

$$\textit{Book Value} = \textit{Cost} - \textit{Grant Amount} = \textit{CU} 500,000 - \textit{CU} 400,000 = \textit{CU} 100,000$$

RECAPUTILATIVE EXAMPLE – DEDUCTING FROM RELATED ASSETS

$$\textit{Book Value} = \textit{Cost} - \textit{Grant Amount} = \textit{CU 500,000} - \textit{CU 400,000} = \textit{CU 100,000}$$

$$\textit{Yearly Depreciation} = \frac{\textit{Book Value} - \textit{Residual Value}}{\textit{Useful Life}} = \frac{\textit{CU 100,000} - 0}{10 \textit{ years}} = \textit{CU 10,000}$$

RECAPUTILATIVE EXAMPLE – DEDUCTING FROM RELATED ASSETS

Dr.	PP&E (ASSETS)	500,000	
Cr.	BANK (ASSETS)		500,000

Dr.	BANK (ASSETS)	400,000	
Cr.	PP&E (ASSETS)		400,000

RECAPUTILATIVE EXAMPLE – DEDUCTING FROM RELATED ASSETS

Dr.	PP&E (ASSETS)	130,000	
Cr.	BANK (ASSETS)		130,000

Dr.	BANK (ASSETS)	90,000	
Cr.	PP&E (ASSETS)		90,000

Dr.	DEPRECIATION EXPENSE – EQUIPMENT (P&L)	10,000	
Cr.	ACCUMULATED DEPRECIATION (ASSETS)		10,000

RECAPUTILATIVE EXAMPLE – DEDUCTING FROM RELATED ASSETS

Statement of Profit & Loss	
(2021)	
CU	
(Deduct From Related Alternative)	
<u>Operating Expenses</u>	
Depreciation Expenses	(10,000)
<u>Other Income</u>	
Government Grants	-

RECAPUTILATIVE EXAMPLE – DEDUCTING FROM RELATED ASSETS

Statement of Profit & Loss (2021) CU (Deduct From Related Alternative)	
<u>Operating Expenses</u>	
Depreciation Expenses	(10,000)
<u>Other Income</u>	
Government Grants	-

Statement of Financial Position At the End of 2021 CU (Deduct From Related Alternative)		
Assets		Lia.&OE
PP&E	100,000	
Acc.Dep.	(10,000)	



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