

Introduction and Invitation to Comment

The International Accounting Standards Board proposes to amend IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* to conform terminology used by IAS 20 to the equivalent defined or more widely used terms.

The Board invites comments on the proposed amendments. It would particularly welcome answers to the question set out below. Comments are most helpful if they indicate the specific paragraph, contain a clear rationale and, when applicable, provide a suggestion for alternative wording.

The Board is not requesting comments on matters in IAS 20 not addressed in the Exposure Draft.

Question

Do you agree with the proposal to conform terminology used by IAS 20 to the equivalent defined or more widely used terms? If not, why?

Proposed amendments to IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*

In the Standard, paragraphs 2, 12-18, 20-22, 26, 27, and 32 are amended (new text is underlined, deleted text is struck through).

Scope

- 2 This Standard does not deal with:
- ...
- (b) government assistance that is provided for an entity in the form of benefits that are available in determining taxable ~~income~~ profit or tax loss, or are determined or limited on the basis of income tax liability. Examples of such benefits are ~~(such as~~ income tax holidays, investment tax credits, accelerated depreciation allowances and reduced income tax rates);
- ...

Government grants

- ...
- 12 **Government grants shall be recognised as ~~income~~ in profit or loss on a systematic basis over the periods necessary to match them with in which the entity recognises as expenses the related costs for which they the grants are intended to compensate, on a systematic basis. They shall not be credited directly to shareholders' interests.**
- 13 There are two broad approaches ~~may be found~~ to the accounting treatment of for government grants: the capital approach, under which a grant is recognised outside profit or loss ~~credited directly to shareholders' interests~~, and the income approach, under which a grant is ~~taken to income~~ recognised in profit or loss over one or more periods.
- 14 Those in support of the capital approach argue as follows:
- (a) government grants are a financing device and should be dealt with as such in the ~~balance sheet~~ statement of financial position rather than be ~~passed through the income statement~~ recognised in profit or loss to offset the items of expense ~~which that~~ they finance. ~~Since~~ Because no repayment is expected, ~~they~~ such grants should be ~~credited directly to shareholders' interests~~ recognised directly in equity; and
- (b) it is inappropriate to recognise government grants in ~~the income statement~~ profit or loss, ~~since~~ because they are not earned but represent an incentive provided by government without related costs.

- 15 Arguments in support of the income approach are as follows:
- (a) ~~since~~ because government grants are receipts from a source other than shareholders, they should not be ~~credited directly to shareholders' interests recognised directly in equity~~ but should be recognised as income in profit or loss in appropriate periods;
 - (b) government grants are rarely gratuitous. The entity earns them through compliance with their conditions and meeting the envisaged obligations. ~~Therefore they should therefore~~ be recognised as income in profit or loss over the periods in which the entity recognises as expenses the related and matched with the associated costs for which the grant is intended to compensate; and
 - (c) ~~as~~ because income and other taxes are ~~charges against income~~ expenses, it is logical to deal also with government grants, which are an extension of fiscal policies, in ~~the income statement~~ profit or loss.
- 16 It is fundamental to the income approach that government grants should be recognised as income in profit or loss on a systematic and rational basis over the periods in which the entity recognises as expenses the necessary to match them with the related costs for which the grant is intended to compensate. ~~Income~~ Recognition of government grants in profit or loss on a receipts basis is not in accordance with the accrual accounting assumption (see IAS 1 *Presentation of Financial Statements*) and would ~~only~~ be acceptable only if no basis existed for allocating a grant to periods other than the one in which it was received.
- 17 In most cases the periods over which an entity recognises the costs or expenses related to a government grant are readily ascertainable, ~~and~~ ~~t~~Thus grants in recognition of specific expenses are recognised as income in profit or loss in the same period as the relevant expense. Similarly, grants related to depreciable assets are usually recognised as income in profit or loss over the periods and in the proportions in which depreciation on those assets is charged.
- 18 Grants related to non-depreciable assets may also require the fulfilment of certain obligations and would then be recognised as income in profit or loss over the periods that which bear the cost of meeting the obligations. As an example, a grant of land may be conditional upon the erection of a building on the site and it may be appropriate to recognise ~~it~~ the grant as income in profit or loss over the life of the building.
- ...
- 20 **A government grant that becomes receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the entity with no future related costs shall be recognised as income in profit or loss of the period in which it becomes receivable.**
- 21 In some circumstances, a government grant may be awarded for the purpose of giving immediate financial support to an entity rather than as an incentive to undertake specific expenditures. Such grants may be confined to ~~an individual a~~ particular entity and may not be available to a whole class of beneficiaries. These

circumstances may warrant recognising a grant ~~as income~~ in profit or loss of ~~in~~ the period in which the entity qualifies to receive it, with disclosure to ensure that its effect is clearly understood.

- 22 A government grant may become receivable by an entity as compensation for expenses or losses incurred in a previous period. Such a grant is recognised as ~~income~~ in profit or loss of the period in which it becomes receivable, with disclosure to ensure that its effect is clearly understood.

...

Presentation of grants related to assets

...

- 26 One method ~~sets up~~ recognises the grant as deferred income ~~that which~~ is recognised as ~~income~~ in profit or loss on a systematic and rational basis over the useful life of the asset.

- 27 The other method deducts the grant in ~~arriving at~~ calculating the carrying amount of the asset. The grant is recognised as ~~income~~ in profit or loss over the life of a depreciable asset ~~by way of~~ as a reduced depreciation charge.

...

Repayment of government grants

- 32 A government grant that becomes repayable shall be accounted for as a ~~revision to an~~ change in accounting estimate (see IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*). Repayment of a grant related to income shall be applied first against any unamortised deferred credit ~~set up~~ recognised in respect of the grant. To the extent that the repayment exceeds any such deferred credit, or ~~when~~ re no deferred credit exists, the repayment shall be recognised immediately ~~as an expense~~ in profit or loss. Repayment of a grant related to an asset shall be ~~recorded~~ recognised by increasing the carrying amount of the asset or reducing the deferred income balance by the amount repayable. The cumulative additional depreciation that would have been recognised in profit or loss to date ~~as an expense~~ in the absence of the grant shall be recognised immediately as an expense in profit or loss.

...

Basis for Conclusions on Proposed Amendments to IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*

This Basis for Conclusions accompanies, but is not part of, the draft amendments.

Defined terms

- BC1 The Board identified that IAS 20 uses some terms that are inconsistent with defined terms or with more widely used terms for equivalent items in other standards. The Board notes that the consistency of the standards would be improved if the terms used by IAS 20 were changed to the equivalent defined or more widely used terms.
- BC2 The Board identified the use of the following terms in IAS 20 instead of the terms defined or more commonly used in other standards:
- ‘taxable income’ instead of ‘taxable profit or tax loss’;
 - ‘recognised as income’ instead of ‘recognised in profit or loss’; and
 - ‘revision to an accounting estimate’ instead of ‘change in accounting estimate’.
- The Board proposes to address this inconsistency by replacing these terms with the defined or more commonly used terms.
- BC3 Other minor changes have been made to improve the standard’s readability without changing the meaning. This includes deletion of the statement in paragraph 12 that grants shall not be credited directly to shareholders’ interests. This statement is unnecessary because paragraph 12 states that government grants shall be recognised in profit or loss.

Proposed consequential amendments to introduction to IAS 41 Agriculture

The following amendments to the introduction to IAS 41 are necessary in order to ensure consistency with the revisions to IAS 20. In the amended paragraphs, new text is underlined and deleted text is struck through.

IN6 IAS 41 requires ~~that~~ an unconditional government grant related to a biological asset measured at its fair value less estimated point-of-sale costs to be recognised in profit or loss as income when, and only when, the government grant becomes receivable. If a government grant is conditional, including ~~when~~ a government grant requires an entity not to engage in specified agricultural activity, an entity should recognise the government grant in profit or loss as income when, and only when, the conditions attaching to the government grant are met. If a government grant relates to a biological asset measured at its cost less any accumulated depreciation and any accumulated impairment losses, the entity applies IAS 20 Accounting for Government Grants and Disclosure of Government Assistance ~~is applied~~.

Proposed consequential amendments to IAS 41 Agriculture

The following amendments to IAS 41 are necessary in order to ensure consistency with the revisions to IAS 20. In the amended paragraphs, new text is underlined and deleted text is struck through.

Government grants

- 34 An unconditional government grant related to a biological asset measured at its fair value less estimated point-of-sale costs shall be recognised in profit or loss as income when, and only when, the government grant becomes receivable.
- 35 If a government grant related to a biological asset measured at its fair value less estimated point-of-sale costs is conditional, including ~~when~~ a government grant requires an entity not to engage in specified agricultural activity, an entity shall recognise the government grant in profit or loss as income when, and only when, the conditions attaching to the government grant are met.
- 36 Terms and conditions of government grants vary. For example, a government grant may require an entity to farm in a particular location for five years and require the entity to return all of the government grant if it farms for ~~less~~ fewer than five years. In this case, the government grant is not recognised in profit or loss as income until the five years have passed. However, if the government grant allows part of the government grant to be retained based on the passage of time, the entity recognises the government grant in profit or loss as income on a time proportion basis.

...

Proposed consequential amendments to Basis for Conclusions on IAS 41 Agriculture

The following amendments to the Basis for Conclusions on IAS 41 are necessary in order to ensure consistency with the revisions to IAS 20. In the amended paragraphs, new text is underlined and deleted text is struck through.

Basis for Conclusions

This appendix, which was prepared by the IASC Staff but was not approved by the IASC Board, summarises the Board's reasons for:

- (a) *initiating and proposing an International Accounting Standard on agriculture; and*
- (b) *accepting or rejecting certain alternative views.*

Individual Board members gave greater weight to some factors than to others.

This appendix has not been revised by the IASB, except that, for consistency with other IFRSs, the terms 'point-of-sale costs' and 'estimated point-of-sale costs' have been replaced by 'costs to sell'¹. Additionally the term 'as income' has been replaced by 'in profit or loss' in the context of the recognition of government grants, for consistency with other IFRSs.

In the Standard and its accompanying documents, the terms 'point-of-sale costs' and 'estimated point-of-sale costs' are replaced by 'costs to sell'. Additionally the term 'as income' has been replaced by 'in profit or loss' in the context of the recognition of government grants.

The term 'point-of-sale costs' is replaced where it appears in the Basis for Conclusions as follows:
heading above paragraph B22, paragraphs B22-B25 and B82.

The term 'estimated point-of-sale costs' is replaced where it appears as follows:

Introduction – paragraphs IN2-IN6

Standard – paragraphs 5, 12-14, 26-28, 30-32, 34, 35, 38, 40, 48, 50 and 51

Appendix – paragraph A1 and Illustrative Examples 1 and 2

Basis for Conclusions – paragraphs B22, B24-B26, B34, B36, B38, B41, B45, B63, B73, B78 and B82

The term 'as income' is replaced where it appears as follows:

Introduction – paragraph IN6

Standard – paragraphs 34-36

Basis for Conclusions – paragraphs B63, B65-B66, B68, B70 and B82

Government grants

¹ The additional text proposed by the Annual Improvement relating to the terms 'point-of-sale costs' and 'estimated point-of-sale costs' are included on this page of the Exposure Draft but are not shown as underlined.

B63 The Standard requires that an unconditional government grant related to a biological asset measured at its fair value less estimated point-of-sale costs ~~should~~ be recognised in profit or loss as income when, and only when, the government grant becomes receivable. If a government grant is conditional, including ~~when~~ a government grant requires an entity not to engage in specified agricultural activity, an entity ~~should~~ shall recognise the government grant in profit or loss as income when, and only when, the conditions attaching to the government grant are met.

...

B65 IAS 20 requires that government grants ~~should~~ not be recognised until there is reasonable assurance that:

- (a) the entity will comply with the conditions attaching to them; and
- (b) the grants will be received.

IAS 20 also requires that government grants ~~should~~ be recognised in profit or loss on a systematic basis as income over the periods ~~necessary to match them with~~ in which the entity recognises as expenses the related costs ~~that for which the grants they~~ are intended to compensate, ~~on a systematic basis~~. In relation to the presentation of government grants related to assets, IAS 20 permits two methods—~~setting up~~ recognising a government grant as deferred income or deducting the government grant from the carrying amount of the asset.

B66 The latter method of presentation—deducting a government grant from the carrying amount of the related asset—is inconsistent with a fair value model in which an asset is measured ~~and presented~~ at its fair value. Using the deduction from carrying value approach, an entity would first deduct the government grant from the carrying amount of the related asset and then measure that asset at its fair value. In effect, an entity would recognise a government grant in profit or loss as income immediately, even for a conditional government grant. This conflicts with the requirement in IAS 20 that government grants ~~should~~ not be recognised until there is reasonable assurance that the entity will comply with the conditions attaching to them.

...

B68 E65 proposed that, if an entity receives a government grant in respect of a biological asset that is measured at its fair value and the grant is unconditional, the entity should recognise the grant in profit or loss as income when the government grant becomes receivable. E65 also proposed that, if a government grant is conditional, the entity should recognise it in profit or loss as income when there is reasonable assurance that the conditions are met.

...

B70 The Board considered two alternative approaches:

- (a) an entity should recognise a conditional government grant in profit or loss as income when it is probable that the entity will meet the conditions attaching to the government grant; and

- (b) an entity should recognise a conditional government grant in profit or loss as income when the entity meets the conditions attaching to the government grant.

...

Summary of changes to E65

B82 The Standard made the following principal changes to the proposals in E65:

...

- (j) E65 proposed that an entity should recognise a conditional government grant in profit or loss as income when there is reasonable assurance that the conditions are met. The Standard requires that a conditional government grant related to a biological asset measured at its fair value less estimated point-of-sale costs, including ~~when~~ a government grant requires an entity not to engage in specified agricultural activity, ~~should~~ be recognised in profit or loss as income when, and only when, the conditions attaching to the government grant are met. The Standard also indicates that IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* is applied to a government grant related to a biological asset measured at its cost less any accumulated depreciation and any accumulated impairment losses (paragraphs 34, 35 and 37).

...