IAS - 20

Accounting for Government Grants and Disclosure of Government Assistance

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International Accounting Standard No 20 (IAS 20)

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The International Accounting Standard reformatted replaces the originally approved by the Council in November 1982. It is presented in accordance with the format adopted in the International Accounting Standards in 1991 onwards. Although no substantive changes have been made on the original text has been changed in some cases the terminology in order to adapt to the current uses of the IASC.

In May 1999, IAS 10 (revised 1999), 'Events After the Balance Sheet Date', amended paragraph 11. The modified text will be in force when the IAS 10 (revised 1999), i.e. for annual financial statements covering periods beginning on or after January 1, 2000.

In January 2001, IAS 41, Agriculture, amended paragraph 2. The modification of the text will be effective for financial statements covering annual periods beginning on or after January 1, 2003.

The emission of SIC which has links with IAS 20, these are the:

• SIC-10, government assistance - No specific on Operational Activities.

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The normative part of this Statement, which appears in bold italics, it must be understood in the context of the explanations and guidelines for implementing them and in line with the Preface to International Accounting Standards. It is not intended that international accounting standards are applied in the case of non-significant (see Paragraph 12 of the Prologue).

Scope

1. **The Standard deals with accounting and disclosure about government grants, as well as the disclosures about other forms of aid.**

2. The Standard does not address:

   (a) the special problems that appear in the accounting for government grants in financial statements to reflect the effects of changes in prices, or information of a similar nature;

   (b) aid which is granted to the company in the form of benefits to materialize when calculating the results for tax purposes or determined or merely on the basis of tax liabilities (such as tax exemptions, tax credits for investment; accelerated depreciation and reduced rates);

   (c) shares of Public Administration in the ownership of the company;

   (d) government grants covered by IAS 41, Agriculture.

Definitions

3. The following terms are used in this Standard with the meanings specified below:

   With the <u>designation of government</u> will refer both to the administration of government itself and to government agencies and similar bodies, whether local, regional, national or international.

   <u>Aid</u> are actions by the public sector with the aim of providing economic benefits to a specific company or type of business, selected under certain criteria. It is not aid, for the purpose of this Standard, the benefits that occur indirectly on businesses by actions on the general conditions of trade or industry, such as the provision of infrastructure in developing areas or imposing trade restrictions to competitors.

   <u>Government grants</u> are assistance from the public sector in the form of resource transfers to a company in return for compliance, future or past, of certain conditions relating to their farming activities. This excludes those forms of aid to which it is reasonable to assign a value, as well as transactions with the government that cannot be distinguished from other normal operations of the enterprise.

   <u>Grants related to assets (or capital)</u> grant of which are government grants means that the recipient should buy, build or acquire any other form of fixed assets. They can also set additional conditions restricting the type or location of assets, or during the exercises which are to be acquired or maintained.

Grants related to income (or exploitation) are government grants other than those that relate to assets.

Condoms loans are those where the lender agrees to waive the reimbursement, under certain conditions.

Fair value is the amount for which an asset could be exchanged between a buyer and a seller interested and informed, in a free transaction.

4. Public supports are many forms and may vary both in the nature of assistance provided, as in the conditions for granting them. The purpose of this aid may be to encourage the company to undertake a certain action, which normally would not have undertaken not to count them.

5. For the company, the fact of receiving public aid can be significant as to the preparation of financial statements, for two reasons: first, whether the resources have been transferred, it must find an appropriate method of accounting for the transfer; in Secondly, it is desirable to provide an indication of the extent to which the company has benefited from the aid during the year. All this facilitates the comparison of the financial statements of the company with those of other prior periods, and even with those of other companies.

6. Government grants are sometimes known by other names, such as subsidies, transfers or premiums.

Official grants

7. **Government grants, including non-monetary valued at fair value, should not be recognized until there is no assurance that prudent:**

   (a) the company will comply with the conditions attached to their enjoyment, and

   (b) will receive the grants.

8. A government grant will not be recognized as such until there is a reasonable assurance that the company will comply with the conditions attached to it, and that, therefore, receive in default. The mere fact of receiving the subsidy is not a conclusive evidence that the conditions attached to it, have been or will be met.

9. The specific form of receiving the grant does not affect the accounting method to adopt in connection with it. Thus, the subsidy is counted equally whether received in cash or as a reduction of debt held with the government.

10. A loan condone, from the public sector, is treated as a grant when there is reasonable assurance that the company will fulfill the terms demanded for cancellation of same.

11. Once recognized government grant, if the contingent asset or contingent liabilities related to it will be treated in accordance with IAS 37, Provisions, contingent liabilities and contingent assets.

12. **Government grants should be recognized as income on a systematic basis, over the years to compensate them for costs related. We received in respect of such subsidies will not be counted directly in equity.**

13. For the accounting treatment of government grants can be considered two methods: the method of capital, under which subsidies are accounted directly into the accounts of shareholders' equity, and the method of income, according to which the grants are charged against the results one or more exercises.

14. Those who advocate the method of capital argue that:

    (a) government grants are a financial resource, and these should be recognized as such in the balance, rather than be transferred to the income to offset expenditure items which have funded. Since we do not expect their return, they must be accounted for directly in equity, and

    (b) it is inappropriate to recognize government grants through the income statement, because it does not have been generated by the company, but they represent an incentive provided by the public sector without having regard to cost.

15. As arguments in defense of the method of income, and therefore against the method of capital, include:

    (a) since government grants are received from a source other than the owners, should not be counted directly in equity, but recognized within the appropriate exercises, through the income statement;

    (b) government grants are rarely free; the company is entitled to after they fulfill certain conditions and subject to certain obligations required. Therefore, the grants are to be the income and offset the costs associated with them, and

    (c) as income tax and other taxes are considered charges against the outcome, and these are expressed in the income statement is logical to try the same way for government grants because they are another consequence of tax policies.

16. It is essential to implement the method of income; government grants are recognized in the income statement on a systematic and rational throughout the exercises needed to fill related costs. The recognition of government grants at the time of charging the same, does not agree with the hypothesis of accruals (see IAS 1, Presentation of Financial Statements), and can only be acceptable when there is no other basis, to distribute Grant, other than the mere consideration of the moment in which one receives.

17. In most cases, the years in which companies have to recognize the costs or expenses related to government grants can be set easily, and so, grants that cover specific expenses can be the results in the same year that the costs involved. In a similar vein, the grants related to depreciable assets are usually recognized as income in the same exercises and in the same proportions in which endows the amortization of such assets.

18. The grants related to depreciable assets may also require compliance with certain obligations, and then be recognized as income in the years to bear the costs required to comply with such obligations. For example, a grant for land to be made dependent on

the construction of a building on them, and it might be appropriate to bring results over the lifetime of that building.

19. Sometimes, the grants are received as part of a package of financial aid or tax, and it is necessary to get them to comply with a number of conditions. In such cases, we require careful identification of the conditions that give rise to costs and expenses to determine the years in which subsidies will be charged as income. It may be appropriate to distribute part of the grants on a consistent basis and part under another.

20. **Any government grant to receive in compensation for expenses or losses already incurred, either for the purpose of providing financial support to the institution immediately, without further costs related revenue is recognized as the year they become due.**

21. Under certain circumstances, a government grant can be awarded for the purpose of giving immediate financial support to the entity, rather than as an incentive to pursue outlays specific. Such subsidies can be targeted to a specific entity, not a specific category of beneficiaries. These circumstances can justify the consideration of the subsidies as income in the period in which the entity meets the conditions to receive, which will disclose the relevant information to ensure that its impact is clearly understood.

22. Government grants may be payable by the entities, according to expenditure or losses incurred in previous years. These grants are recognized as income in the period in which may be required, and disclosed the relevant information to ensure that its impact is clearly understood.

Non-monetary grants

23. Government grants may take the form of transfers of non-monetary assets such as land or other resources for use by the company. In such circumstances, it is customary to determine the fair value of each non-cash and account for both the grant, as each asset by a corresponding fair value. It is sometimes still an alternative procedure consisting of grants and reflects the assets related to amounts symbolic.

Treatment of grants related to assets (or capital)

24. **Government grants related to assets (or capital), including non-monetary valued at fair value, it should be presented in the balance sheet, well recognized as part of deferred income, deductions well as the value of assets with which relate.**

25. Are considered acceptable alternatives for the submission of grants (or appropriate parts of them) related assets, two different methods of presentation in the financial statements.

26. One of the methods reflected as deferred income subsidies, which are recognized as income from the different exercises on a systematic and rational, over the life of the related assets.

27. The other method is to deduct the value of each grant for which the asset has been accounted for. The grants are recognized in the income throughout the lifetime of retail

activity by the annual depreciation of each asset.

28. The acquisition of assets and the receipt of subsidies related to them could cause major movements in the cash flows of the company. For this reason, and in order to show the gross investment in assets, such movements are often presented as separate line items in the statement of cash flows, regardless of whether or not subsidies are deducted from the assets with which relate, for purposes of presentation in the balance.

Treatment of subsidies related to income (or farm)

29. The grants related to income (or holding), are sometimes more like an income in the income statement, either as a separate heading or under general descriptions such as "Other income"; alternatively, they can appear as deductions from expenses which are related.

30. Those who advocate the first method argue that it is inappropriate to compensate for revenue and expenditure, and that the separation of subsidies and expenditures for easier comparison with other expenses not covered by the grants. In favor of the second method is argued that companies would not have incurred the expenses in question do not have subsidies, and therefore the presentation may be misleading if they are not offsetting spending and subsidies.

31. Both methods are considered acceptable for the treatment of subsidies related to income (or farm). For a proper understanding of the financial statements, it may be necessary to disclose the existence of subsidies. In addition, it is usually adequate and appropriate to disclose the effect that subsidies have on any item of income or expenditure, which requires separate presentation.

Repayment of government grants

32. **Any grant that becomes repayable should be treated as a revision to an accounting estimate (see IAS 8 Accounting policies, changes in accounting estimates and errors). The return of a grant related to income, or exploitation, must return, first, any deferred income recorded in connection with the grant. To the extent that the repayment exceeds the amount of that deferred income, or if it does not exist, the counterpart of the reimbursement will be an immediate charge to income. The return of a grant-related assets, or capital, has registered as having an increased contribution amount of the asset in question, or reducing the balance of the income deferred by the amount of the sum to repay. The cumulative depreciation that may have been additionally charged so far, in the absence of the subsidy is required to bear results immediately.**

33. The circumstances that have led to repayment of grants related to assets (or capital), may require consideration of possible further deterioration in the amounts of assets, once the returns.

Public aid

34. While have been excluded from the definition of government grants, in paragraph 3 of this standard, there are certain modes of public aid to which they cannot be reasonably assign a value, and others in the form of transactions with the government that no can

be distinguished from normal business operations of the company.

35. Examples of aid that cannot be reasonably valued are the technical assistance services or commercial, and the provision of guarantees by the public sector. An example of public support, which cannot be distinguished from normal business operations of the company, is any policy of supplies induced by the public sector, which is the direct cause of a portion of the sales of the entity. The existence of benefits in such cases can be unquestionable, but any attempt to separate the commercial activities of public support could be arbitrary.

36. The peculiarities of the benefit, in the above examples may need to disclose information about the nature, scope and duration of aid, if necessary, in order to correct understanding of the financial statements.

37. The loans at low interest rates or none are forms of aid, but the economic benefits derived from them are not quantified by the imputation of interest.

38. For this Standard, public support from the public sector does not include the provision of infrastructure to improve the network of communication and transportation, nor the provision of better means, for example, or a network of irrigation ditches, provided that such facilities are available for the benefit of the entire local community.

Information Disclosure

39. Information must be disclosed on the following:

(a) the accounting policies adopted in conjunction with government grants, including the methods of presentation adopted in the financial statements;

(b) the nature and scope of government grants recognized in the financial statements, as well as an indication of other forms of aid, of which have directly benefited companies; and

(c) unfulfilled conditions and other contingencies relating to public aid have been accounted for.

Transitional provision

40. Any company that adopts this standard for the first time, you should:

(a) comply with the demands contained in it in terms of information disclosure, where applicable, and

(b) proceed to either of the following actions:

(i) adjust its financial statements through a change in accounting policy in accordance with IAS 8 Accounting policies, changes in accounting estimates and errors, or

(ii) implement the provisions contained in this standard only to subsidies or grants to parties reimbursed or receive after the effective date of the

same.

Effective Date

41. **The International Accounting Standard is effective for financial statements covering periods beginning on or after January 1 1984.**