MODULE INSTRUCTORS

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Topics to be covered

- 1.1 Apply IAS 10 to report events after reporting period.
- 1.2 Apply IFRS 10 and IFRS 3 in preparation of financial reports of a group
- 1.3 Apply IFRS 11 to Account for Joint Arrangements
- 1.4 Apply IAS 28 to Account for Investment in Associate and Joint ventures
- 1.5 Apply IFRS 12 to Account for disclosure of interests in Other Entities
- 1.6 Apply IAS 20 to record, analyze and report transactions relating to Government Grant and Government Assistance
- 1.7 Apply IAS 23 in recognizing borrowing costs

Mode of delivery and advice

- Lectures
- Tutorials
- Access of materials on elearning (everyone must register in a class)
- Class attendance should be at least 75% to succeed in this module
- Taking notes from what is demonstrated in a lecture is crucial for this module (Slides are only a summary)

ASSESSMENT

- ASSIGNMENT(S) 16%
- TUTORIALS 4%
- TEST -20%
- END OF SEMESTER EXAM 60%

TOPIC 1: IAS 20: ACCOUNTING FOR GOVERNMENT GRANTS AND DISCLOSURE OF GOVERNMENT ASSISTANCE

INTRODUCTION

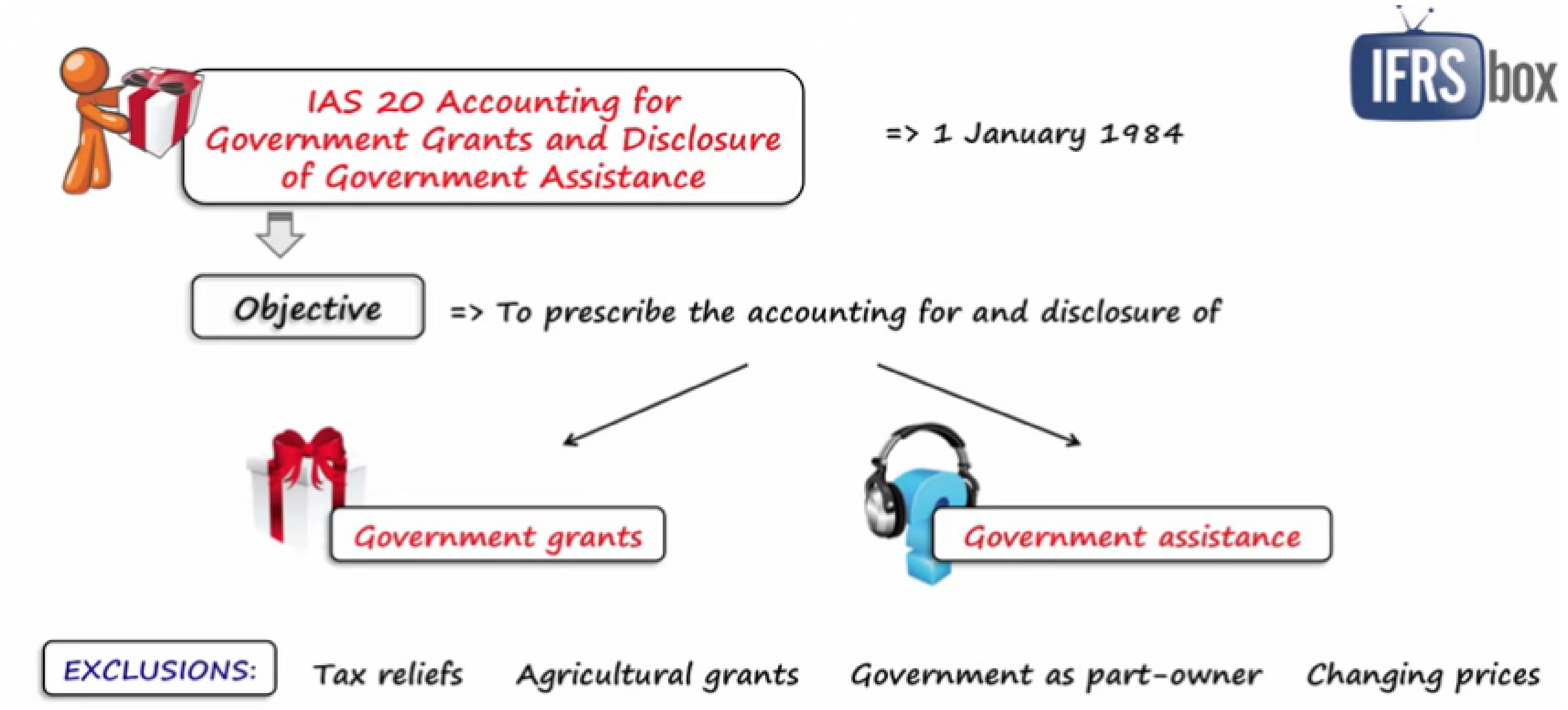
Traditionally there has been a significant amount of ‘government money’ available for businesses to:

- help with capital expenditure
- stimulate business growth through technological innovation
- support the export of goods and services
- recruit and train new and current employees

- **Effective date:** 1 January 1984
- **What it does:**
  - It ***defines government grants, government assistance***, government, grant related to assets, grants related to income and forgivable loans.
  - It states ***conditions for recognition of grants and measurement*** of non-monetary government grants.
  - It outlines ***presentation rules*** for:
    - Grants related to assets;
    - Grants related to income.
  - It describes how to deal with ***repayments*** of government grants.
  - It sets the ***disclosures*** in respect of government grants and assistance.

IAS 20 Accounting for Government Grants and Disclosure of Government Assistance

International Accounting Standard 20



IAS 20 *ACCOUNTING FOR GOVERNMENT GRANTS AND DISCLOSURE OF GOVERNMENT ASSISTANCE*

Key definitions:

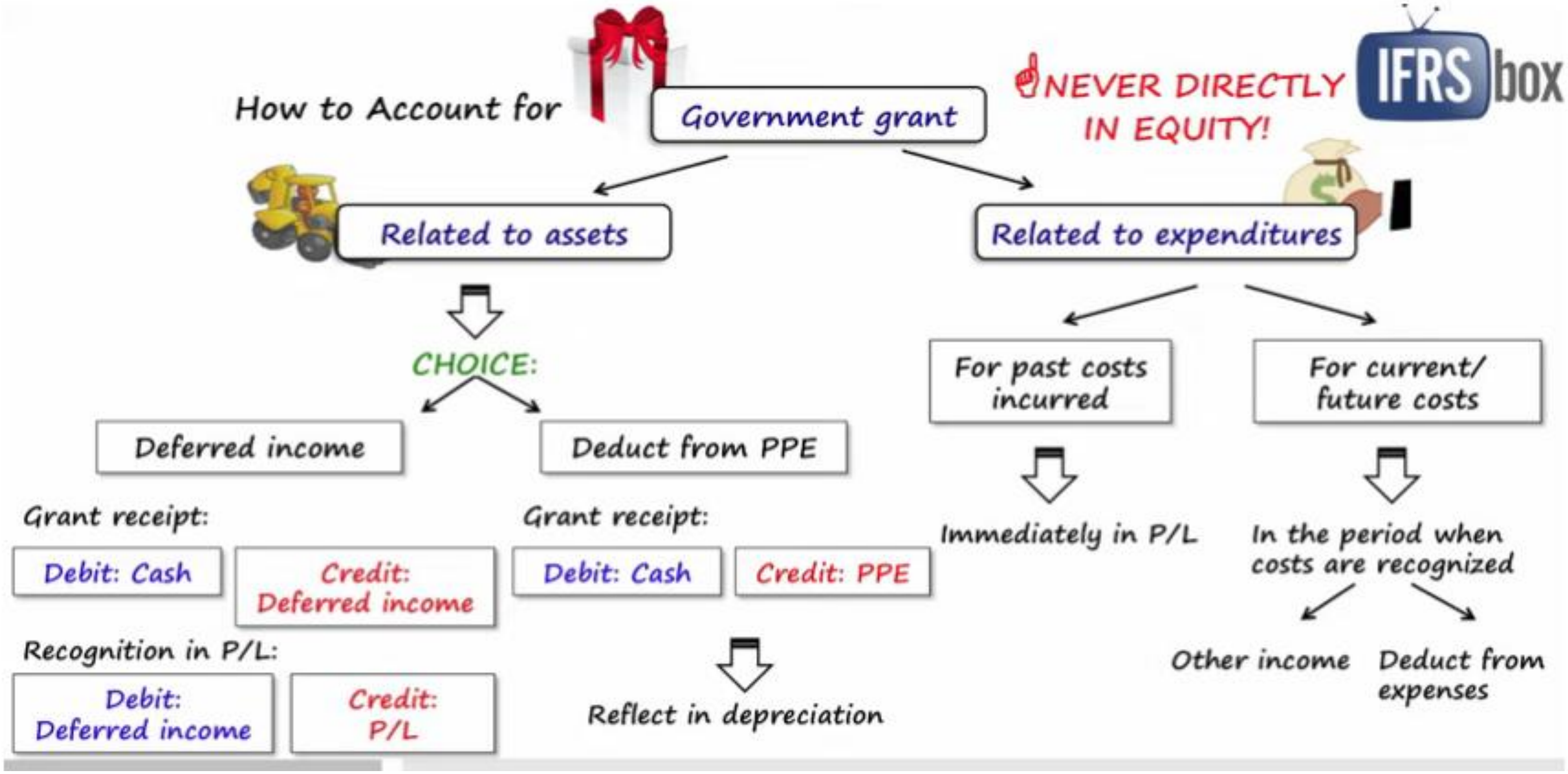
- ***Government*** – includes local and national agencies
- ***Government grants*** – assistance in the form of transfers of resources in return for past or future compliance with conditions relating to operating activities
- ***Government assistance*** – action designed to provide economic benefits when qualifying criteria are met

General principles

- Government grants should ***not*** be recognised in SPLOCI until there is reasonable assurance that:
  - Entity will comply with conditions
  - Grants will be received
- Grants should be recognised in SPLOCI 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
- Government grants should ***not*** to be credited to equity
- Government grants relating to past expenses or losses, or for immediate financial support, should be taken to SPLOCI

IAS 20 Accounting for Government Grants and Disclosure of Government Assistance

International Accounting Standard 20



Grants related to income

IAS 20 allows two possible treatments:

1. Present as a credit in SPLOCI, either separately or under a general heading, such as ‘other income’, by debiting bank and crediting income; ***or***
2. Deduct from the related expense, by debiting bank and crediting expense.

e.g. training costs

Disclosure may be necessary for proper understanding of the financial statements

Grants related to income

In 2020 a company incurred training expenses of TZS500,000 and received a grant towards 10% of this cost.

Requirement

How should the grant be accounted for under the two methods allowed in IAS 20?

Grants related to income

Method (i):	**TZS**
Gross Profit	**X**
plus: Other Income	**50,000**
	X
Less: Expenses	
Training Expenses	**(500,000)**
Net Profit	**X**
Method (ii):	**TZS**
Gross Profit	**X**
Less: Expenses	
Training Expenses	
(500,000-50,000)	**(450,000)**
Net Profit	**X**

Grants related to assets

For example, certain categories of capital expenditure on PPE

Credit grant to revenue in SPLOCI – P/L over the useful life of the asset to which it relates by:

1. Reducing the cost of the PPE by the amount of the grant and depreciating the 'net' cost; (ie **Deducting the grant in arriving at the carrying value of the asset, in which case the grant is recognised in income over the life of the asset by way of a reduced depreciation charge.**) ***or***

2. Treating the amount of the grant as a deferred credit in SFP, a portion of which is transferred to SPLOCI – P/L annually over the life of the **asset(ie Present the grant as deferred income which is recognised as income on a systematic and rational basis over the useful life of the asset) .**

- The profits recorded under both approaches will be exactly the same in each financial period.

EXAMPLE

- Rahara Ltd purchased a piece of equipment for TZS600,000 on the 1st January 2021. The equipment is expected to have an economic life of 5 years and will have no residual value. Depreciation is calculated on a straight-line basis over the life of the asset. The company received a government grant of TZS 200,000 towards the purchase of the equipment. The financial year end of the company is December 31st each year

Required:

Show the relevant extracts from the financial statements for the years ended 31/12/21 & 31/12/22 under each of the two allowable methods of presentation.

Method 1: Set up a deferred grant income account.

This involves opening a deferred grant income account when the grant is received:

Dr Bank TZS 200,000

Cr Deferred grant income account TZS 200,000

A portion of the deferred grant income is transferred to the Income Statement as income, each year over the useful life of the asset. In this example (TZS 200,000/5years) TZS 40,000 will be transferred to the Income Statement each year. At the end of December 2019 the remaining balance in the deferred grant income account is (TZS 200,000 – TZS 40,000) TZS160,000 and this must be recorded as a liability in the balance sheet. This liability must be split between non-current liabilities (TZS120,000) and current liabilities (TZS40,000). At the end of December 2020 two years deferred income will have been transferred to the Income Statement and the remaining balance in the deferred grant income account is

(TZS200,000 - TZS40,000 - TZS40,000) TZS120,000. This balance must then be split between noncurrent liabilities (TZS80,000) and current liabilities (TZS40,000).

Income Statement Extract of Rahara Ltd for the year ended:

	31/12/21	31/12/22
Depreciation (TZS600,000/5 years)	(120,000)	(120,000)
Deferred grant income	40,000	40,000

Balance Sheet extract of Rahara Ltd as at:

	31/12/21	31/12/22
	TZS	**TZS**
Non-current Asset		
Equipment	480,000	360,000
Non-Current Liabilities		
Deferred grant income	120,000	80,000
Current Liabilities		
Deferred grant income	40,000	40,000

Deducting the grant in arriving at the carrying value of the asset

Under this method the cost of the asset of TZS600,000 is reduced by the value of the grant of TZS200,000 to give an in initial carrying value of the asset of TZS400,000. This will result in a reduced annual depreciation charge of (TZS400,000/5 years) TZS80,000.

Income Statement Extract of Rahara Ltd for the year ended:

	31/12/21	**31/12/22**
	TZS	**TZS**
Depreciation (TZS400,000/5 years)	(80,000)	(80,000)

Balance Sheet extract of Rahara Ltd as at:

	31/12/21	**31/12/22**
	TZS	**TZS**
Non-current Asset		
Equipment	*320,000	**240,000

* NBV of equipment at 31/12/21 is [400,000 - 80,000] 320,000.

** NBV of equipment at 31/12/22 is [400,000 - 80,000- 80,000] 240,000.

2: Grants related to assets

Company A purchases a machine for TZS120,000. It received a grant towards 20% of the cost of the machine. The machine has an expected life of 3 years with an expected nil residual value. Profit for each year is TZS100,000 (before depreciation).

Requirement

How should the grant be accounted for under the two methods allowed in IAS 20?

Grants related to assets

Method (i) - Reducing the cost of the asset:

SPLOCI – P/L	Year 1	Year 2	Year 3
	TZS	TZS	TZS
Profit before depn	100,000	100,000	100,000
Depreciation	(32,000)*	(32,000)	(32,000)
Profit	68,000	68,000	68,000

*(120,000 - 24,000) ÷ 3

SFP	Year 1	Year 2	Year 3
	TZS	TZS	TZS
NCA at Cost	96,000	96,000	96,000
Accumulated Depn	32,000	64,000	96,000
Net Book Value	64,000	32,000	-

Method (ii) - Treating the grant as a deferred credit:

SPLOCI – P/L	Year 1	Year 2	Year 3
	TZS	TZS	TZS
Profit before grant & depn	100,000	100,000	100,000
Depreciation	(40,000)	(40,000)	(40,000)
Grant	8,000	8,000	8,000
Profit	68,000	68,000	68,000

SFP	Year 1	Year 2	Year 3
	TZS	TZS	TZS
Non-current asset (cost)	120,000	120,000	120,000
Accumulated depreciation	40,000	80,000	120,000
Net book value	80,000	40,000	-
Non-current liabilities			
Deferred Y - govt grants	8,000	0	0
Current liabilities			
Deferred Y - govt grants	8,000	8,000	Nil
Closing balance	16,000	8,000	-

3 Changing method

CUISINE Limited acquired certain items of equipment at a cost of TZS100,000 during the year ended 31 December 2020 for which the company received a government grant of 20%. The new accountant has recorded these items in PPE at the net cost to CUISINE. The equipment has a useful life of four years.

Requirement

Illustrate the alternative method for recording the equipment in accordance with IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*.

	Current Treatment	Alternative Treatment	Adjustment
	TZS	TZS	TZS
Equipment	80,000	100,000	20,000
Depreciation (1/4)	(20,000)	(25,000)	5,000
	60,000	75,000	

Grant received: 20% x TZS100,000 = TZS 20,000

		DR	CR
		TZS	TZS
DR	Equipment	20,000	
DR	Depreciation (SPLOCI – P/L)	5,000	
CR	Capital grant reserve		20,000
CR	Equipment acc. Depreciation		5,000
DR	Capital grant reserve	5,000	
CR	SPLOCI – P/L		5,000

Recording PPE at ‘net’ cost is acceptable under IAS 20. The grant is deducted from the asset, and recognised as income each year through the reduced depreciation charge. This creates the same impact as the deferred income approach. The approach adopted should applied consistently and disclosed in the accounting policies.

Repayment of grants

- A grant becomes repayable should be treated as a revision of an accounting estimate
- If ***income-related grant***:
  - Apply against deferred income, with any excess being expensed

    Dr Unamortised deferred credit
    Dr SPLOCI – P/L
    Cr Bank
- If ***asset-related grant***:
  - Increase carrying value of the asset (and expense depreciation that would have been incurred or decrease deferred income

    Dr Asset or Unamortised deferred income
    Cr Bank

DISCLOSURES

1. Accounting policy including methods of presentation
2. Nature and extent of recognised grants
3. Indication of other forms of assistance from which the entity has directly benefited
4. Unfulfilled conditions and other contingencies for recognised government assistance