

## SPECIFIC ITEMS

### SECTION 3800

#### government assistance

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#### PURPOSE AND SCOPE

- .01 This Section establishes standards for accounting for government assistance. Various levels of government in Canada have adopted assistance programs designed to influence the amount and direction of business activity. The number, variety and extent of these programs have resulted in a need for guidance on the recipient's accounting for such government assistance.
- .02 Experience has shown that programs adopted by governments to influence business activity are continually changing. Accordingly, this Section deals with broad categories of government assistance rather than specific programs. Loans having normal commercial characteristics from governments and their agencies are not considered to be "government assistance" for the purposes of this Section. Accelerated tax write-offs or tax rate reductions that are available to businesses generally or to broad sectors of business, such as small businesses or manufacturing and processing businesses, are also not within the scope of this Section. Guidance as to the accounting treatment of the effects of such measures is given in INCOME TAXES, Section 3465.

#### DEFINITION

- .03 The following term is used in this Section with the meaning specified:
- Government assistance** refers to governmental actions that provide specific assistance to an individual enterprise in order to influence business decisions on matters such as investment, hiring, plant location, etc.

#### APPROACH TO ACCOUNTING FOR GOVERNMENT ASSISTANCE

- .04 Two broad approaches, the capital approach and the income approach, have been suggested to deal with the question of accounting for government assistance.
- .05 The capital approach requires that government assistance be treated as a capital transaction and credited to contributed surplus.
- .06 Those favouring the capital approach argue as follows:

- (a) Government assistance is a "financing" device since it reduces the amount of capital required through loans and issuance of share capital to finance certain expenditures, and does not reduce the assets employed in the business.
  - (b) Government assistance programs are selective and reflect government policies that will change from time to time. Therefore, it is inappropriate to reflect the government assistance in income during a period of time when the relevant policies may have changed.
  - (c) Government assistance is not earned but is a gratuitous payment.
- .07 The income approach requires that government assistance be credited to income in the following ways, depending upon its nature:
- (a) direct increases in revenues, or reductions in expenses;
  - (b) reduced depreciation and amortization charges based on reduced asset costs; or
  - (c) amortization of deferred credits.
- .08 Those favouring the income approach argue as follows:
- (a) Receipt of government assistance confers a benefit on a business and its owners, whether or not such assistance was anticipated. Benefits received by a business, other than transactions with its shareholders, ought to be reflected in income over an appropriate period of time.
  - (b) Reported results ought to reflect the benefits of government assistance received, which generally offset costs incurred, recognize efforts expended or compensate for restraints imposed by the conditions of the assistance.
  - (c) The income statement ought to reflect the results of operations after taking into account all factors that bear on the profitability of the enterprise. Government assistance is one such factor.
  - (d) Government assistance is not a gratuitous payment in the absolute sense. There are usually conditions attaching to its receipt and, therefore, it must be "earned" by complying with those conditions.
- .09 Although government assistance may well have "financing" characteristics, its receipt nevertheless confers a benefit on an enterprise that ought to be reflected in income sooner or later. This Section adopts the view that arguments in favour of the income approach are more persuasive. Therefore, this Section provides that government assistance will affect income in current or future accounting periods.

#### **ECONOMIC SUBSTANCE**

- .10 An enterprise examines the economic circumstances surrounding its entitlement to government assistance in order to determine the appropriate accounting treatment, including the timing of the recognition of the benefits.
- .11 In many cases, the accounting treatment for government assistance will be readily apparent (for example, assistance towards current expenses). However, the appropriate accounting for some forms of government assistance is not readily apparent. For example, government assistance may be provided because of factors such as high labour costs, excessive start-up costs or high transportation costs but the amount of the assistance may be calculated by reference to fixed asset expenditures. In these circumstances, the assistance is related to the period(s) in which such expenses are incurred. On the other hand, assistance may be logically related to fixed assets even though it may not be calculated by reference to them.
- .12 In some cases, the receipt of government assistance relates to a combination of items (for example, fixed asset acquisitions and high labour costs). In such cases, the components would be accounted for according to their nature, in accordance with this Section.
- .13 *Government assistance shall be analyzed and the resulting components accounted for in accordance with this Section.*
- .14 The fact that an enterprise may elect to apply the amount of government assistance against its income tax liability does not change the economic substance of the assistance. The method of payment chosen does not affect the accounting for the benefits obtained under a particular government assistance program.
- .15 Assistance may be received from a government that holds an equity position in an enterprise. When the assistance is provided by the government by virtue of its position as a shareholder, it is credited to contributed surplus (see EQUITY, Section 3251, and CAPITAL TRANSACTIONS, Section 3610). In contrast, when assistance is unrelated to the government's position as a shareholder, it is accounted for in accordance with this Section.

#### **ASSISTANCE RELATED TO NON-CAPITAL ITEMS**

##### **Current expenses and revenues**

- .16 Many government programs provide for the reimbursement of certain current eligible expenses. Similarly, an enterprise may receive direct payments from the government to supplement selling prices. Since these types of assistance are related to current expenses or revenues, they are logically included in the determination of net income for the period.
- .17 *Government assistance toward current expenses or revenues shall be included in the determination of net income for the period.*
- .18 The presentation of government assistance in the income statement will depend on circumstances. The alternatives available are to show expenses net of assistance or to show the assistance as a deduction from aggregate expenses or as revenue.

### **Expenses of future periods**

- .19 Some types of government assistance are received or receivable in a period but relate to expenses that will be incurred in future periods. It would not be appropriate to apply all of the assistance to the expenses in the current period if subsequent accounting periods will continue to bear relevant expenses.
- .20 *When government assistance relates to expenses of future accounting periods, the appropriate amounts shall be deferred and amortized to income as related expenses are incurred.*

### **ASSISTANCE RELATED TO CAPITAL EXPENDITURES**

#### **Acquisition of fixed assets**

- .21 Some government programs provide for assistance toward the acquisition of fixed assets. The net outlay is charged to income over the useful life of the related fixed assets.
- .22 *Government assistance towards the acquisition of fixed assets shall be either:*
- (a) *deducted from the related fixed assets with any depreciation calculated on the net amount; or*
  - (b) *deferred and amortized to income on the same basis as the related depreciable fixed assets are depreciated.*

#### **Remission of excise or sales taxes**

- .23 Some government assistance programs provide for a remission of excise or sales taxes related to capital expenditures on compliance with the requirements of a specific program. Such remissions reduce the cost of the assets and shall be accounted for as fixed asset cost reductions.

### **FORGIVABLE LOANS**

- .24 A forgivable loan is a type of government assistance drawn up in the form of a loan that is forgiven on condition that the "borrower" continues to meet certain requirements specified at the time it was granted. The Board has concluded that, in view of the intention of the government to forgive the loan, there is, in substance, no difference between a forgivable loan and a grant to which there is attached a contingent liability for repayment. Accordingly, accounting for forgivable loans is guided by this Section. The loan shall be recognized as a grant when the enterprise becomes entitled to receive it and not at the time such loans are forgiven.
- .25 *When an enterprise becomes entitled to receive a forgivable loan, it shall be accounted for in the same manner as a grant. The appropriate accounting treatment shall be based on this Section.*

### **ADDITIONAL AREAS**

#### **Accrual of government assistance**

- .26 Each government assistance program establishes the conditions under which grant payments will be made to an enterprise. For example, a reimbursement of current expenses may not be received until after the completion of the period in which such expenses are incurred, partial payment may be made during the period of construction of a fixed asset or no payment may be made until after the asset is put into use. Provided there is reasonable assurance that the enterprise has complied and will continue to comply with the conditions for receipt of the government assistance, the accrual basis of accounting for the assistance is appropriate.
- .27 *The appropriate portion of the estimated total of government assistance to be received shall be accrued in the accounts, provided there is reasonable assurance that the enterprise has complied and will continue to comply with all the conditions.*

#### **Repayment of government assistance**

- .28 Even though there is a basic presumption inherent in most government assistance programs that the assistance will not be repaid, the programs may stipulate conditions under which an enterprise may be required to repay the assistance in whole or in part. When circumstances arise that indicate that repayment will be required, an economic event has occurred that shall be accounted for prospectively.
- (a) When the cost of fixed assets was reduced by the original receipt of the assistance, the cost of the assets shall be increased by the applicable repayment. The effect on depreciation shall be accounted for prospectively.
  - (b) When the original receipt of government assistance relating to fixed assets was treated as a deferred credit, the unamortized balance of the deferred credit shall be adjusted by the applicable repayment. Future amortization shall be based on the resulting balance.
  - (c) When the original receipt of government assistance was related to expenses of future periods and was treated as a deferred credit, the unamortized balance of the deferred credit shall be adjusted by the applicable repayment. Future amortization shall be based on the resulting balance when the deferred credit has not been eliminated. Any excess of repayment over the unamortized balance shall be reflected in the current income statement.
  - (d) When the original receipt of government assistance was applied to reduce expenses or increase revenues, any repayment thereof shall be reflected in the current income statement.
- .29 *The liability to repay government assistance shall be accounted for in the period in which conditions arise that will cause government assistance to be repayable.*

#### **Unanticipated government assistance**

.30 Occasionally, an enterprise becomes eligible to receive government assistance in a period subsequent to the occurrence of the events to which the assistance relates. For example, assistance might be received as compensation for flood damage when legislation is enacted in a subsequent period. When unanticipated assistance relates to expenditures made or losses incurred in prior periods, the assistance shall be accounted for in the period when the estimate is first made.

**DISCLOSURE**

.31 *The following disclosure of government assistance shall be made:*

- (a) *with respect to assistance received and receivable in the current period:*
  - (i) *the amount thereof;*
  - (ii) *the amounts credited directly to income, deferred credit or fixed assets;*
  - (iii) *the relevant terms and conditions applicable to the assistance; and*
  - (iv) *the amount of any contingent liability for repayment;*
- (b) *with respect to assistance received in prior periods for which any contingent liability for repayment exists:*
  - (i) *the amount of the contingent liability; and*
  - (ii) *the relevant terms and conditions applicable to the assistance;*
- (c) *with respect to government assistance that has been accounted for as a deferred credit in accordance with paragraphs 3800.20 or 3800.22(b), the amortization method used including the amortization period or rate; and*
- (d) *with respect to a forgivable loan:*
  - (i) *the unforgiven balance; and*
  - (ii) *an explanation of the terms and conditions relating to its forgiveness.*

.32 A number of government assistance programs provide for assistance by other than direct payments to enterprises (for example, remission of excise or sales taxes, reduced interest on loans, forgiven realty taxes, reduced lease payments and free technical assistance). Disclosure of these forms of government assistance is not required.

**EFFECTIVE DATE**

.33 This Section applies to annual financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier application is permitted.

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