FASB INVITATION TO COMMENT

Issued: June 13, 2022
Comments Due: September 12, 2022

Accounting for Government Grants by Business Entities

Potential Incorporation of IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, into Generally Accepted Accounting Principles

Comments should be addressed to:

Technical Director
File Reference No. 2022-002

Financial Accounting Standards Board

Notice to Recipients of This Invitation to Comment

The Board invites feedback on all matters in this Invitation to Comment until September 12, 2022. Interested parties may submit comments in one of three ways:

- Using the electronic feedback form available on the FASB website at Exposure Documents Open for Comment
- Emailing comments to director@fasb.org, File Reference No. 2022-002
- Sending a letter to "Technical Director, File Reference No. 2022-002, FASB, 401 Merritt 7, PO Box 5116, Norwalk, CT 06856-5116."

All comments received are part of the FASB's public file and are available at www.fasb.org.

A copy of this Invitation to Comment is also available at www.fasb.org.

FASB FINANCIAL ACCOUNTING STANDARDS BOARD®

Invitation to Comment

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Purpose of This Invitation to Comment

The purpose of this Invitation to Comment (ITC) is to solicit broad stakeholder feedback on the recognition, measurement, and presentation requirements of IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*. Specifically, the FASB staff would like to understand whether the requirements of IAS 20 as it relates to the accounting for government grants represent a workable solution for improving generally accepted accounting principles (GAAP) in the U.S. financial reporting environment for business entities.[1] The FASB staff would like to understand whether:

1. The requirements, including the scope and definition of the terms *government* and *government grants*, are understandable and operable in the U.S. financial reporting environment
2. The requirements improve comparability in the accounting for government grants by business entities that apply GAAP
3. Any suggested changes should be made to the provisions of IAS 20 as it relates to the accounting for government grants (and the reasons for those suggested changes)
4. The requirements provide decision-useful information to investors and other allocators of capital (herein referred to as "investors")
5. Any current practice issues arise when applying the government grant accounting requirements in IAS 20?

In November 2021, the FASB issued disclosure guidance in Accounting Standards Update No. 2021-10, *Government Assistance (Topic 832): Disclosures by Business Entities about Government Assistance*. Therefore, the questions in this ITC do not seek specific input on the government assistance disclosure requirements of IAS 20. In addition, because Subtopic 958-605, Not-for-Profit Entities—Revenue Recognition, provides guidance on the accounting by not-for-profit entities for grants received from governmental entities, the questions in this ITC do not seek specific input on the guidance for not-for-profit entities.

This ITC is a staff document prepared at the direction of the FASB chair in which the Board does not express any preliminary views. Responses to the questions in this ITC will help inform the Board as it considers whether to add a project to its technical agenda on recognition, measurement, and presentation of government grants for business entities.

[1] Throughout this Invitation to Comment, references to accounting for government grants are intended to refer solely to the accounting by business entities.

Background

GAAP does not provide specific authoritative guidance on how business entities should recognize, measure, and present grants received from a government. In the absence of specific guidance, many but not all business entities analogize to the guidance in IAS 20. Stakeholders have observed that the lack of specific guidance on the recognition and measurement of government grants has created diversity in practice.

Because of the lack of specific topical authoritative guidance on how business entities should account for a grant received from the government, the FASB considered whether to add a project on the accounting for government grants in 2014, but ultimately decided to add a project to its agenda that focused on developing disclosure requirements for the broader category of government assistance.

In November 2015, the Board issued the proposed Accounting Standards Update, *Government Assistance (Topic 832): Disclosures by Business Entities about Government Assistance*. Although stakeholders supported the effort to increase the transparency of government assistance, many respondents urged the Board to expand the project to include recognition, measurement, and presentation guidance. The Board decided to continue to focus on disclosure requirements and addressed feedback received during redeliberations.

However, on the basis of concerns raised during external review related to the proposed scope of the guidance and potential costs of implementing the proposed amendments (particularly as they relate to the broader category of government assistance) the Board directed the staff to conduct additional outreach on the expected costs and benefits. In 2021, the Board considered the additional feedback and decided that to improve the operability of the proposed amendments and provide decision-useful information to investors in a timely manner, the scope of the proposed amendments should be narrowed to transactions with a government that an entity recognizes and measures by applying a grant or contribution accounting model by analogy (for example, a grant model using the provisions of IAS 20 or a contribution model within Subtopic 958-605 on not-for-profit entities—revenue recognition).

The amendments in Update 2021-10 require business entities to disclose the following information in annual reporting periods for transactions with a government that are accounted for by applying a grant or a contribution accounting model by analogy:

1. Information about the nature of the transactions and the related accounting policy used to account for the transactions

2. The line items on the balance sheet and income statement that are affected by the transactions, and the amounts applicable to each financial statement line item
3. Significant terms and conditions of the transactions, including commitments and contingencies.

Those disclosures are generally consistent with the disclosures in IAS 20, but also require entities to disclose the balance sheet and income statement line items (and applicable amounts) that are affected by transactions with a government. That information is not explicitly required by IAS 20.

Even with the disclosure requirements established in Update 2021-10, the lack of specific guidance has continued to be highlighted as an area for potential improvement by stakeholders following the significant increase in government grants as part of the global response to the COVID-19 pandemic.

In June 2021, the FASB issued the Invitation to Comment, *Agenda Consultation* (2021 ITC*).* As part of that process, the 2021 ITC asked stakeholders whether the Board should pursue a project on the recognition and measurement of government grants and, if so, whether the Board should leverage an existing grant or contribution accounting model (such as the model in IAS 20 or Subtopic 958-605) or develop a new accounting model. In addition, the 2021 ITC asked stakeholders what types of government grants should be included within the scope of a potential project (for example, whether the scope should be narrow or broad).

Feedback on the 2021 ITC varied across stakeholders. Some stakeholders observed that the lack of specific guidance on the recognition and measurement of government grants has created diversity in practice and suggested that the Board provide accounting guidance for government grants to enhance comparability. The feedback on the relative priority of the project was mixed. Respondents that were in favor of prioritizing the project indicated that the COVID-19 pandemic highlighted the need for specific guidance. Those respondents that did not support prioritizing a project indicated that there is no pervasive need to provide guidance because companies are able to apply other guidance by analogy.

Approximately three-quarters of respondents that provided specific feedback on the accounting for government grants in the 2021 ITC, including investors, practitioners, preparers, and state certified public accounting societies, preferred that the Board leverage the existing accounting model in IAS 20. No respondents suggested that the Board create a new model for the recognition and measurement of government grants for business entities because there was concern that the expected costs incurred to create a new model may outweigh the expected benefits because practical models already exist.

To overcome challenges on defining which types of government grants would be included in the scope of potential guidance, some stakeholders suggested that the Board provide recognition, measurement, and presentation guidance for a specific subset of transactions that are widely understood as government grants, such as cash grants. They noted that addressing the recognition, measurement, and presentation for a specific subset of government grants may be a first step and represent an achievable improvement.

A few respondents recommended either a phased or incremental approach for standard setting in this area so that a standard could be achieved in a timely manner. All those respondents that advocated for a phased approach favored an initial phase that would address a narrow scope.

In response to feedback received on the 2021 ITC, the FASB chair added a project, Accounting for Government Grants, Invitation to Comment, to the research agenda in December 2021. The purpose of the research project is to solicit additional feedback through this ITC on whether certain requirements in IAS 20 related to the accounting for government grants should be incorporated into GAAP. The research project is focused solely on the accounting for government grants as it is included in IAS 20 (paragraphs 7–33) and not the broader category of government assistance that is included in IAS 20 (paragraphs 34–38). That is, this ITC seeks feedback on the subset of government activity referred to in IAS 20 as government grants.

International Accounting Standards Board (IASB) Activities

In April 2001, the IASB adopted IAS 20, which had originally been issued by the International Accounting Standards Committee in April 1983. IAS 20 applies to the accounting and disclosure of government grants and the disclosure of other forms of government assistance. The distinction between government grants and other forms of government assistance is important because the recognition, measurement, and presentation guidance applies only to government grants, while disclosures are required for both government grants and other forms of government assistance. Government grants (sometimes referred to as subsidies, subventions, or premiums) are a specific form of government assistance.

In March 2021, the IASB published its Request for Information, *Third Agenda Consultation*. As part of that document, the IASB asked stakeholders for feedback on the priority of various potential projects, including feedback on IAS 20. Certain stakeholders, most of them standard setters, questioned certain aspects of IAS 20, including the existence of an accounting policy choice to present grants related to income separately, as gross income, or as an offset to a related expense. On the basis of feedback received from respondents on the Request for Information, the IASB has tentatively decided not to include government grants on their list of topics to be discussed in the future.

Questions for Respondents

Individuals and organizations are invited to comment on all matters in this ITC, particularly on the issues and questions that are specifically asked in this document. While it would be helpful to receive feedback on all the questions in this ITC, respondents need not comment on all issues. Comments are most helpful if they identify and clearly explain the issue or question to which they relate.

The following questions relate to the requirements in IAS 20 as it relates to government grant accounting (versus other portions of IAS 20 that address government assistance) and are broken down into categories. The lead-in information in each category of questions includes a brief summary of the relevant guidance; however, the FASB staff encourages all stakeholders to read the full text of IAS 20 in conjunction with these questions (see Appendix A).

Overall

Question 1 (All Respondents): GAAP does not have specific topical authoritative guidance on the accounting for government grants by business entities. Should the FASB consider incorporating into GAAP the guidance in IAS 20 as it relates to the accounting for government grants? If yes, what aspects of IAS 20 related to recognition, measurement, and/or presentation should be incorporated and why?

Question 2 (Preparers/Practitioners):

a. What type of government grants do you (or the companies you audit) receive?
b. How do you (or the companies you audit) recognize, measure, and present government grants received? Do you (or the companies you audit) apply IAS 20 by analogy or another model?
c. What issues or challenges, if any, have arisen (or do you anticipate would arise) in the application of IAS 20 as it relates to government grants?

Question 3 (Investors):

a. Are government grants a key aspect of your analysis of an entity's financial performance? Please explain why or why not. What types of grants do those entities receive and how do you use that information?
b. Do you currently receive sufficient information about the impact of government grants on an entity's financial results? Please explain why or why not.
c. If there is diversity in how government grants are accounted for, would disclosure of the different models be sufficient or would your analysis benefit from a single model?

Definition of a Government

Paragraph 3 of IAS 20 indicates that the term *government* refers to a government, government agencies, and similar bodies, whether local, national, or international.

Question 4 (All Respondents): Is the definition of the term *government* in IAS 20 understandable and operable, and if not what changes would need to be made to make it operable?

Scope

The recognition, measurement, and presentation guidance in IAS 20 applies to government grants, which are defined in paragraph 3 of IAS 20 as assistance by a government in the form of transfers of resources to an entity in return for past or future compliance with certain conditions relating to the operating activities of the entity. The IAS 20 definition of government grants excludes portions of the broader category of government assistance, including government assistance that cannot reasonably have a value placed upon it and transactions with a government that cannot be distinguished from the normal trading transactions of the entity.[2]

Paragraph 10 of IAS 20 states that a forgivable loan is treated as a government grant when there is reasonable assurance that the entity will meet the terms for forgiveness of the loan (see Question 20). Questions 21 and 22 include a discussion of below-market interest rate loans from a government.

Paragraph 2 of IAS 20 includes the following scope exceptions to the entirety of the standard (government grants as well as government assistance):

1. Government assistance that is provided for an entity in the form of benefits that are available in determining taxable profit or loss or are determined or limited on the basis of income tax liability. Examples of such benefits are tax holidays, investment tax credits, accelerated depreciation allowances, and reduced income tax rates.
2. Government grants covered by IAS 41, *Agriculture.*
3. Grants in financial statements that reflect the effect of changing prices.
4. Government participation in the ownership of the entity.

Question 5 (Preparers/Practitioners): What operability or auditing concerns or constraints, if any, have arisen (or do you anticipate would arise) in applying both of the following:

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[2]See also SIC Interpretation 10, *Government Assistance—No Specific Relation to Operating Activities.*

a. The definition of government grants (paragraph 3 of IAS 20)
b. The scope exceptions (paragraph 2 of IAS 20)?

Please also describe the nature and magnitude of costs in applying the definition of government grants and the scope exceptions, differentiating between one-time costs and recurring costs.

Question 6 (Preparers/Practitioners): Are there challenges associated with determining whether certain forms of government assistance cannot reasonably have a value placed upon them? Please describe. Could those challenges be overcome with the use of examples?

Question 7 (Preparers/Practitioners): Is the guidance clear and understandable on how to determine when a transaction with a government cannot be distinguished from the normal trading transactions of an entity? Could those challenges be overcome with the use of examples?

Question 8 (Investors): Does the definition of government grants in IAS 20 include the types of transactions with a government that are most important in your analysis of an entity? If not, what other types of transactions with a government are a key aspect of your analysis of an entity's financial performance, and how do you use that information in your analysis?

Recognition and Measurement

Guidance on recognition and measurement of government grants (except for nonmonetary grants noted in questions 15 and 16 and repayment of government grants noted in question 24) is included in paragraphs 7–22 of IAS 20.

Paragraph 7 in IAS 20 states that government grants cannot be recognized in income until there is reasonable assurance that a recipient will both:

1. Comply with the conditions associated with the grant
2. Receive the grant.

Paragraph 12 of IAS 20 indicates that a government grant will be recognized in profit or loss on a systematic basis over the periods in which an entity recognizes as expenses the related costs for which the grant is intended to compensate.

Paragraph 13 of IAS 20 describes two approaches for accounting for government grants in IAS 20, depending on whether the grant relates to assets or income:

1. **Grants related to assets:** Government grants whose primary condition is that an entity qualifying for them should purchase, construct, or otherwise acquire long-term assets. Other conditions also may be attached that restrict the type or location of the assets or the periods during which they are to be acquired or held. Grants related to

depreciable assets are usually recognized in profit or loss over the periods and in the proportions in which depreciation expense on those assets is recognized.

2. **Grants related to income:** Government grants other than those related to assets.

Paragraph 19 of IAS 20 indicates that grants are sometimes received as part of a package of financial or fiscal aid to which several conditions are attached. In such cases, entities need to carefully identify the conditions giving rise to costs and expenses that determine the periods over which the grant will be earned.

Question 9 (Preparers/Practitioners): Are the recognition and measurement requirements in paragraphs 7–22 of IAS 20 operable and understandable? Please describe the nature and magnitude of costs and any operability or auditing concerns on applying those requirements, differentiating between one-time costs and recurring costs.

Question 10 (Preparers/Practitioners): Is the guidance operable in paragraph 19 of IAS 20 on identifying the conditions that give rise to costs and expenses to determine the periods over which a grant will be earned? Please explain why or why not.

Question 11 (Preparers/Practitioners): Should there be different accounting requirements for grants related to assets and grants related to income? If yes, is the distinction between the types of grants clear?

Question 12 (Preparers/Practitioners): What are the challenges, if any, associated with determining the timing and pattern of the recognition of a government grant, or what do you anticipate they would be? Please explain.

Question 13 (Preparers/Practitioners):

a. The term *reasonable assurance* is not defined in IAS 20. How is the application of reasonable assurance interpreted in practice or how do you anticipate the application would be interpreted in practice? Do you have concerns about the operability of determining reasonable assurance? Please explain.
b. Topic 606, Revenue from Contracts with Customers, indicates that one of the criteria that must be met for an entity to account for a contract with a customer is that it is probable that the entity will collect substantially all the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer (see paragraph 606-10-25-1(e)). Would a similar probability threshold as that noted in paragraph 606-10-25-1(e) be a workable solution to apply the guidance in either paragraph 7(a) or 7(b) of IAS 20 for determining reasonable assurance?

Question 14 (Investors): Does recognition of a government grant in income once an entity has reasonable assurance that the entity will (a) comply with the conditions associated with the grant and (b) receive the grant result in decision-useful information for your analysis of grants received from a government? If you believe another threshold would be more appropriate (for example, waiting until the entity has complied with all the conditions associated with a grant), please describe your preferred threshold and explain why it would provide more decision-useful information.

Question 15 (Investors): Is comparability of information about government grants received by business entities and not-for-profit entities important in your decision making (for example, in industries such as hospital systems in which otherwise similar entities may be for profit or not for profit)? Please explain why or why not.

Nonmonetary Government Grants

Paragraph 23 of IAS 20 indicates that a government grant in the form of a transfer of a nonmonetary asset (such as land or other resources) for use by an entity can be measured either at fair value or at a nominal amount.

Question 16 (Preparers/Practitioners): Which measurement approach has been applied (or do you anticipate would be applied) to account for nonmonetary government grants received? If only one measurement approach was permitted, which measurement approach would you prefer?

Question 17 (Investors): Which measurement approach (fair value or a nominal amount of $1) provides the most decision-useful information in your analysis of nonmonetary government grants and why?

Presentation

Paragraphs 24–31 of IAS 20 describe the standard's presentation requirements. IAS 20 permits entities to elect gross or net presentation on the balance sheet and/or income statement depending on whether the grant relates to assets or income.

Grant Related to	Gross Presentation	Net Presentation
Asset	Recognize as deferred income and amortized over the useful life of the asset.	Deducted from the carrying amount of the asset, effectively treating it as part of the acquisition cost of the asset.
Income	Recognize separately from the related expense (for example, as other income).	Presented in the same line item as the related expense.

Question 18 (Preparers/Practitioners): For grants related to assets and grants related to income, which presentation requirements have been applied or do you anticipate would be applied given the option to elect gross or net presentation? Please explain why. Are grants related to assets fundamentally different than grants related to income since acquired assets are recorded on a cost-accumulated basis?

Question 19 (Preparers/Practitioners): IAS 20 does not provide guidance on where in the statement of cash flows an entity should present the cash inflows from the receipt of cash grants. How are government grants presented in the statement of cash flows or how do you anticipate they would be presented?

Question 20 (Investors):

a. Is consistency in the presentation of government grants important in your analysis of an entity's financial results? How does/would the optionality in IAS 20 (for a gross or net presentation on the balance sheet and/or income statement with disclosure in the footnotes of amounts received) affect the usefulness of financial information on government grants in an entity's financial statements? Please provide specific examples.
b. Do the required disclosures on pages 2–3 of this ITC about an entity's accounting policies and the line items on the balance sheet and income statement that are affected by a government grant provide sufficient information about whether government grants are presented gross or net?
c. Looking at the chart above, do you prefer gross presentation or net presentation, or are you indifferent to (a) grants related to assets and (b) grants related to income? If your preferences differ between (a) and (b), please explain why.

Forgivable Loans

Paragraph 10 of IAS 20 indicates that a forgivable loan from a government is treated as a government grant when there is reasonable assurance that an entity will meet the terms for forgiveness of the loan, which aligns the accounting of a grant with repayment conditions with a grant structured as a forgivable loan.

Question 21 (Preparers/Practitioners): Is the accounting guidance in IAS 20 on forgivable loans clear and understandable? Please explain why or why not.

Question 22 (Investors): Would comparability in the accounting for forgivable loans and grants subject to repayment provide decision-useful information? Please explain why or why not.

Loans with below-Market Interest Rates

Paragraph 10A of IAS 20 states that the benefit of a government loan at a below-market interest rate is treated as a government grant. The loan should be recognized and measured in accordance with IFRS 9, *Financial Instruments*. The benefit of the below-market interest rate should be accounted for in accordance with IAS 20 and measured as the difference between the initial carrying value of the loan (its fair value) determined in accordance with IFRS 9. Under GAAP, loans that are not initially measured at fair value are initially measured at cost, which includes transaction costs. As a result, the benefit of a below-market interest rate loan from a government would not be recognized under GAAP.

Question 23 (Preparers/Practitioners):

a. Should the FASB consider making changes to GAAP that would require the benefit of a below-market interest rate loan from a government to be accounted for as a government grant, similar to the guidance in IFRS 9?
b. How frequently do you (or the companies you audit) receive loans with below-market interest rates from a government?
c. If the FASB requires recognition of the benefit of a below-market interest rate loan from the government, should such accounting be extended to other forms of government lending such as government guarantees and/or government-facilitated lending programs?

Question 24 (Investors):

a. What information about a below-market interest rate loan would be decision useful? Would the estimated fair value of the benefit of a below-market interest rate loan from a government provide you with decision-useful information? Why or why not, and if decision useful how would you use that fair value information?

b. Do you currently receive sufficient information to understand how loans with a below-market interest rate would affect an entity's financial performance? For reference, disclosures are included in Topic 470, Debt (see Sections 470-10-50 and 470-10-S50).

Contingent Liabilities and Contingent Assets

Paragraph 11 of IAS 20 states that once a government grant is recognized, any related contingent liability or contingent asset is treated in accordance with IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*. GAAP has specific guidance on how to account for contingencies in Topic 450, Contingencies.

Question 25 (Preparers/Practitioners):

a. What issues or challenges, if any, have arisen (or do you anticipate would arise) when accounting for contingent assets and/or contingent liabilities relating to government grants in applying IAS 37?
b. What issues or challenges, if any, have arisen (or do you anticipate would arise) when accounting for contingent assets and/or contingent liabilities relating to government grants in applying Topic 450 instead of IAS 37?

Repayment of Government Grants

Paragraph 32 of IAS 20 indicates that a government grant that becomes repayable should be accounted for as a change in accounting estimate in accordance with IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*. GAAP has specific guidance on how to account for changes in accounting estimates in Subtopic 250-10, Accounting Changes and Error Corrections—Overall.

Question 26 (Preparers/Practitioners):

a. Has your organization (or your clients) had to repay a government grant? If yes, please describe the type of grant and reason for repayment.
b. What issues or challenges, if any, have arisen (or do you anticipate would arise) when accounting for a repayment of a government grant by applying Subtopic 250-10 (instead of IAS 8)?

Other

Question 27 (All Respondents): Are there any other areas relating to IAS 20 and the accounting for government grants that the FASB should consider? Please explain.

Appendix—IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*

IAS 20

Accounting for Government Grants and Disclosure of Government Assistance

In April 2001 the International Accounting Standards Board adopted IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*, which had originally been issued by the International Accounting Standards Committee in April 1983.

Other Standards have made minor consequential amendments to IAS 20. They include IFRS 13 *Fair Value Measurement* (issued May 2011), *Presentation of Items of Other Comprehensive Income* (Amendments to IAS 1) (issued June 2011), IFRS 9 *Financial Instruments* (Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39) (issued November 2013) and IFRS 9 *Financial Instruments* (issued July 2014).

CONTENTS

from paragraph

INTERNATIONAL ACCOUNTING STANDARD 20
ACCOUNTING FOR GOVERNMENT GRANTS AND DISCLOSURE OF GOVERNMENT ASSISTANCE

FOR THE BASIS FOR CONCLUSIONS, SEE PART C OF THIS EDITION

International Accounting Standard 20 *Accounting for Government Grants and Disclosure of Government Assistance* (IAS 20) is set out in paragraphs 1–48. All the paragraphs have equal authority but retain the IASC format of the Standard when it was adopted by the IASB. IAS 20 should be read in the context of the Basis for Conclusions, the *Preface to IFRS Standards* and the *Conceptual Framework for Financial Reporting*. IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

International Accounting Standard 20
Accounting for Government Grants and Disclosure of Government Assistance[1]

Scope

1 **This Standard shall be applied in accounting for, and in the disclosure of, government grants and in the disclosure of other forms of government assistance.**

2 This Standard does not deal with:

(a) the special problems arising in accounting for government grants in financial statements reflecting the effects of changing prices or in supplementary information of a similar nature.

(b) government assistance that is provided for an entity in the form of benefits that are available in determining taxable profit or tax loss, or are determined or limited on the basis of income tax liability. Examples of such benefits are income tax holidays, investment tax credits, accelerated depreciation allowances and reduced income tax rates.

(c) government participation in the ownership of the entity.

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

Definitions

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

Government **refers to government, government agencies and similar bodies whether local, national or international.**

Government assistance **is action by government designed to provide an economic benefit specific to an entity or range of entities qualifying under certain criteria. Government assistance for the purpose of this Standard does not include benefits provided only indirectly through action affecting general trading conditions, such as the provision of infrastructure in development areas or the imposition of trading constraints on competitors.**

Government grants **are assistance by government in the form of transfers of resources to an entity in return for past or future compliance with certain conditions relating to the operating activities of the entity. They exclude those forms of government assistance which cannot reasonably have a**

1 As part of *Improvements to IFRSs* issued in May 2008 the Board amended terminology used in this Standard to be consistent with other IFRSs as follows: (a) 'taxable income' was amended to 'taxable profit or tax loss', (b) 'recognised as income/expense' was amended to 'recognised in profit or loss', (c) 'credited directly to shareholders' interests/equity' was amended to 'recognised outside profit or loss', and (d) 'revision to an accounting estimate' was amended to 'change in accounting estimate'.

value placed upon them and transactions with government which cannot be distinguished from the normal trading transactions of the entity.[2]

Grants related to assets **are government grants whose primary condition is that an entity qualifying for them should purchase, construct or otherwise acquire long-term assets. Subsidiary conditions may also be attached restricting the type or location of the assets or the periods during which they are to be acquired or held.**

Grants related to income **are government grants other than those related to assets.**

Forgivable loans **are loans which the lender undertakes to waive repayment of under certain prescribed conditions.**

Fair value **is the 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. (See IFRS 13** ***Fair Value Measurement*****.)**

4 Government assistance takes many forms varying both in the nature of the assistance given and in the conditions which are usually attached to it. The purpose of the assistance may be to encourage an entity to embark on a course of action which it would not normally have taken if the assistance was not provided.

5 The receipt of government assistance by an entity may be significant for the preparation of the financial statements for two reasons. Firstly, if resources have been transferred, an appropriate method of accounting for the transfer must be found. Secondly, it is desirable to give an indication of the extent to which the entity has benefited from such assistance during the reporting period. This facilitates comparison of an entity's financial statements with those of prior periods and with those of other entities.

6 Government grants are sometimes called by other names such as subsidies, subventions, or premiums.

Government grants

7 Government grants, including non-monetary grants at fair value, shall 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.

8 A government grant is not recognised until there is reasonable assurance that the entity will comply with the conditions attaching to it, and that the grant will be received. Receipt of a grant does not of itself provide conclusive evidence that the conditions attaching to the grant have been or will be fulfilled.

2 See also SIC-10 *Government Assistance—No Specific Relation to Operating Activities*.

9 The manner in which a grant is received does not affect the accounting method to be adopted in regard to the grant. Thus a grant is accounted for in the same manner whether it is received in cash or as a reduction of a liability to the government.

10 A forgivable loan from government is treated as a government grant when there is reasonable assurance that the entity will meet the terms for forgiveness of the loan.

10A The benefit of a government loan at a below-market rate of interest is treated as a government grant. The loan shall be recognised and measured in accordance with IFRS 9 *Financial Instruments*. The benefit of the below-market rate of interest shall be measured as the difference between the initial carrying value of the loan determined in accordance with IFRS 9 and the proceeds received. The benefit is accounted for in accordance with this Standard. The entity shall consider the conditions and obligations that have been, or must be, met when identifying the costs for which the benefit of the loan is intended to compensate.

11 Once a government grant is recognised, any related contingent liability or contingent asset is treated in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

12 Government grants shall be recognised in profit or loss 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.

13 There are two broad approaches to the accounting for government grants: the capital approach, under which a grant is recognised outside profit or loss, and the income approach, under which a grant is 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 statement of financial position rather than be recognised in profit or loss to offset the items of expense that they finance. Because no repayment is expected, such grants should be recognised outside profit or loss.

(b) it is inappropriate to recognise government grants in profit or loss, 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) because government grants are receipts from a source other than shareholders, they should not be recognised directly in equity but should be recognised 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. They should therefore be recognised in profit or loss over the periods in which the entity recognises as expenses the related costs for which the grant is intended to compensate.

(c) because income and other taxes are expenses, it is logical to deal also with government grants, which are an extension of fiscal policies, in profit or loss.

16 It is fundamental to the income approach that government grants should be recognised in profit or loss on a systematic basis over the periods in which the entity recognises as expenses the related costs for which the grant is intended to compensate. 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 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. Thus grants in recognition of specific expenses are recognised in profit or loss in the same period as the relevant expenses. Similarly, grants related to depreciable assets are usually recognised in profit or loss over the periods and in the proportions in which depreciation expense on those assets is recognised.

18 Grants related to non-depreciable assets may also require the fulfilment of certain obligations and would then be recognised in profit or loss over the periods that 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 the grant in profit or loss over the life of the building.

19 Grants are sometimes received as part of a package of financial or fiscal aids to which a number of conditions are attached. In such cases, care is needed in identifying the conditions giving rise to costs and expenses which determine the periods over which the grant will be earned. It may be appropriate to allocate part of a grant on one basis and part on another.

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 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 a particular entity and may not be available to a whole class of beneficiaries. These circumstances may warrant recognising a grant in profit or loss of 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 in profit or loss of the period in which it becomes receivable, with disclosure to ensure that its effect is clearly understood.

Non-monetary government grants

23 A government grant may take the form of a transfer of a non-monetary asset, such as land or other resources, for the use of the entity. In these circumstances it is usual to assess the fair value of the non-monetary asset and to account for both grant and asset at that fair value. An alternative course that is sometimes followed is to record both asset and grant at a nominal amount.

Presentation of grants related to assets

24 Government grants related to assets, including non-monetary grants at fair value, shall be presented in the statement of financial position either by setting up the grant as deferred income or by deducting the grant in arriving at the carrying amount of the asset.

25 Two methods of presentation in financial statements of grants (or the appropriate portions of grants) related to assets are regarded as acceptable alternatives.

26 One method recognises the grant as deferred income that is recognised in profit or loss on a systematic basis over the useful life of the asset.

27 The other method deducts the grant in calculating the carrying amount of the asset. The grant is recognised in profit or loss over the life of a depreciable asset as a reduced depreciation expense.

28 The purchase of assets and the receipt of related grants can cause major movements in the cash flow of an entity. For this reason and in order to show the gross investment in assets, such movements are often disclosed as separate items in the statement of cash flows regardless of whether or not the grant is deducted from the related asset for presentation purposes in the statement of financial position.

Presentation of grants related to income

29 Grants related to income are presented as part of profit or loss, either separately or under a general heading such as ‘Other income’; alternatively, they are deducted in reporting the related expense.

29A [Deleted]

30 Supporters of the first method claim that it is inappropriate to net income and expense items and that separation of the grant from the expense facilitates comparison with other expenses not affected by a grant. For the second method it is argued that the expenses might well not have been incurred by the entity if the grant had not been available and presentation of the expense without offsetting the grant may therefore be misleading.

31 Both methods are regarded as acceptable for the presentation of grants related to income. Disclosure of the grant may be necessary for a proper understanding of the financial statements. Disclosure of the effect of the grants on any item of income or expense which is required to be separately disclosed is usually appropriate.

Repayment of government grants

32 A government grant that becomes repayable shall be accounted for as a 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 recognised in respect of the grant. To the extent that the repayment exceeds any such deferred credit, or when no deferred credit exists, the repayment shall be recognised immediately in profit or loss. Repayment of a grant related to an asset shall be 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 in the absence of the grant shall be recognised immediately in profit or loss.

33 Circumstances giving rise to repayment of a grant related to an asset may require consideration to be given to the possible impairment of the new carrying amount of the asset.

Government assistance

34 Excluded from the definition of government grants in paragraph 3 are certain forms of government assistance which cannot reasonably have a value placed upon them and transactions with government which cannot be distinguished from the normal trading transactions of the entity.

35 Examples of assistance that cannot reasonably have a value placed upon them are free technical or marketing advice and the provision of guarantees. An example of assistance that cannot be distinguished from the normal trading transactions of the entity is a government procurement policy that is responsible for a portion of the entity's sales. The existence of the benefit might be unquestioned but any attempt to segregate the trading activities from government assistance could well be arbitrary.

36 The significance of the benefit in the above examples may be such that disclosure of the nature, extent and duration of the assistance is necessary in order that the financial statements may not be misleading.

37 [Deleted]

38 In this Standard, government assistance does not include the provision of infrastructure by improvement to the general transport and communication network and the supply of improved facilities such as irrigation or water reticulation which is available on an ongoing indeterminate basis for the benefit of an entire local community.

Disclosure

39 **The following matters shall be disclosed:**

(a) the accounting policy adopted for government grants, including the methods of presentation adopted in the financial statements;

(b) the nature and extent of government grants recognised in the financial statements and an indication of other forms of government assistance from which the entity has directly benefited; and

(c) unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

Transitional provisions

40 **An entity adopting the Standard for the first time shall:**

(a) comply with the disclosure requirements, where appropriate; and

(b) either:

(i) adjust its financial statements for the change in accounting policy in accordance with IAS 8; or

(ii) apply the accounting provisions of the Standard only to grants or portions of grants becoming receivable or repayable after the effective date of the Standard.

Effective date

41 This Standard becomes operative for financial statements covering periods beginning on or after 1 January 1984.

42 IAS 1 (as revised in 2007) amended the terminology used throughout IFRSs. In addition it added paragraph 29A. An entity shall apply those amendments for annual periods beginning on or after 1 January 2009. If an entity applies IAS 1 (revised 2007) for an earlier period, the amendments shall be applied for that earlier period.

43 Paragraph 37 was deleted and paragraph 10A added by *Improvements to IFRSs* issued in May 2008. An entity shall apply those amendments prospectively to government loans received in periods beginning on or after 1 January 2009. Earlier application is permitted. If an entity applies the amendments for an earlier period it shall disclose that fact.

44 [Deleted]

45 IFRS 13, issued in May 2011, amended the definition of fair value in paragraph 3. An entity shall apply that amendment when it applies IFRS 13.

46 *Presentation of Items of Other Comprehensive Income* (Amendments to IAS 1), issued in June 2011, amended paragraph 29 and deleted paragraph 29A. An entity shall apply those amendments when it applies IAS 1 as amended in June 2011.

47 [Deleted]

48 IFRS 9, as issued in July 2014, amended paragraph 10A and deleted paragraphs 44 and 47. An entity shall apply those amendments when it applies IFRS 9.