

SREERAM COACHING POINT

AS – 12
Accounting for
Government Grants

www.sreeramcoachingpoint.com

044 2814 2616 / 3296 4602

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MEANING OF GOVERNMENT GRANT

- a. Assistance by government
- b. In cash or kind to an enterprise
- c. For past or future compliance with certain conditions

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AS – 12 IS NOT APPLICABLE TO

1. Government assistance other than in the form of Government Grant

Example: Tax holiday in backward area, tax exemption in notified area etc.

2. Government participation in ownership of enterprise

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ACCOUNTING FOR GOVERNMENT GRANT

Government Grant may be in the form of cash or kind

Grant in the form of Kind:

- a. Concessional Rate: Record at acquisition cost
- b. Free of cost: Record at nominal value

Grant in the form of Cash for:

- a. Specific Fixed Assets
- b. Revenue
- c. Promoters Contribution

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GRANT IN THE FORM OF CASH FOR SPECIFIC FIXED ASSETS

Treatment: 1

Reduce the cost of asset and provide depreciation for revised figure. If government grant equals cost of asset, record the asset at nominal value

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Treatment: 2

Defer the government grant received. If it is a depreciable asset, allocate such grant to income (P&L) over the period in the proportion in which depreciation is charged

If it is a non-depreciable asset, allocate such grant to income over the same period over which the cost of meeting the obligation is charged to income. Alternatively such amount may be transferred to Capital Reserve also.

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GRANT IN THE FORM OF CASH RELATING TO REVENUE

Treatment: 1

Show it in income side as “Other income” in P & L account

Treatment: 2

Deduct such amount from related expenses in P & L account

GRANT IN THE FORM OF CASH IN NATURE OF PROMOTERS CONTRIBUTION

Such amount is to be credited to “Capital Reserve”. This amount is neither Distributed as Dividend nor considered as deferred income. It is included as a part of shareholder’s fund

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REFUND OF GOVERNMENT GRANT

When conditions attached to that grant has not been fulfilled, grants become refundable.

When government grant is refunded, pass reverse entries.

Note: If government grant was deferred earlier and if deferred credit balance does not exists, P & L account shall be adjusted.

When Government Grant becomes refundable, it should be accounted for as an extraordinary item as per AS-5