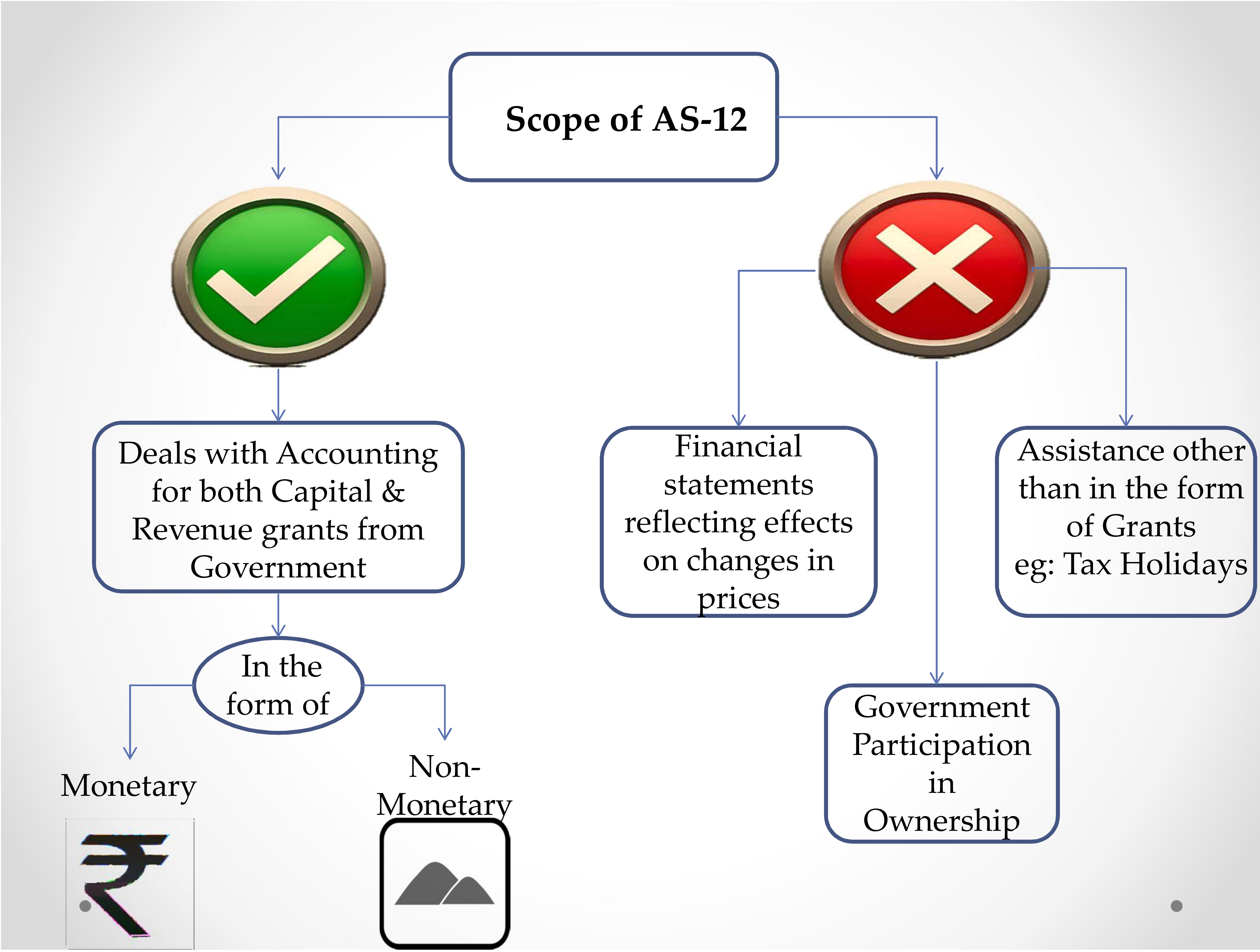
AS 12 : ACCOUNTING FOR GOVERNMENT GRANTS

Effective From Accounting Periods commencing on or after


Scope of AS-12
Deals with Accounting for both Capital & Revenue grants from Government
In the form of
Monetary
Non-Monetary
Financial statements reflecting effects on changes in prices
Government Participation in Ownership
Assistance other than in the form of Grants
eg: Tax Holidays

=

Reasonable assurance that enterprise will **comply with such conditions** attached

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Reasonable certain that **Ultimate collection** will be made for such Earned grants

Accounting Treatment for Government Grants

Capital Approach

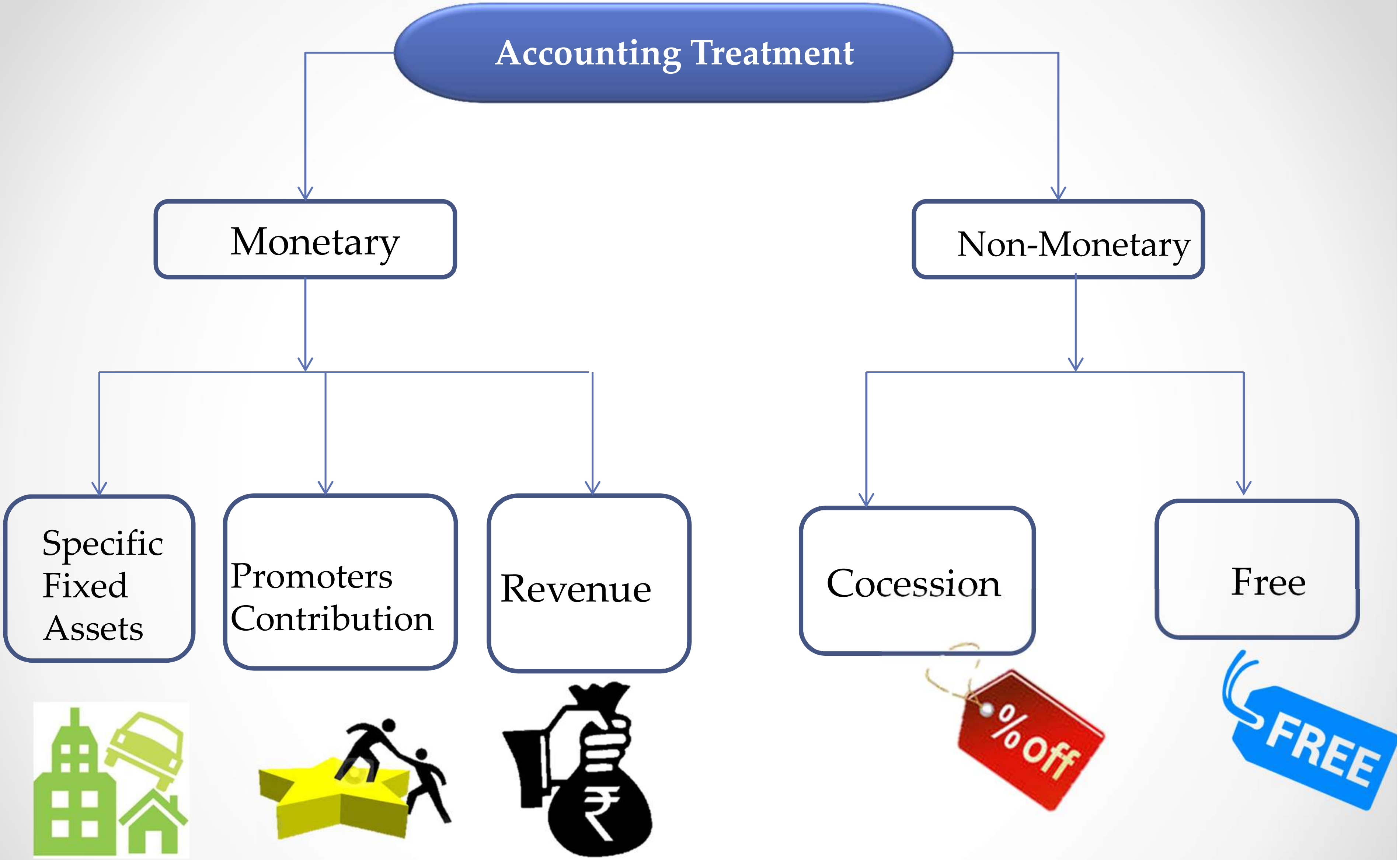
Grants which are in the nature of Promoters Contribution or proportion of total investment Eg: Fixed Assets

Treated as a part of Share Holders Funds

Income/Revenue Approach

Grants to meet certain expense/Reimbursement Eg: Medical Expenses

Grant is taken as income over 1 or more periods


Accounting Treatment
Monetary
Non-Monetary
Specific Fixed Assets
Promoters Contribution
Revenue
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Free
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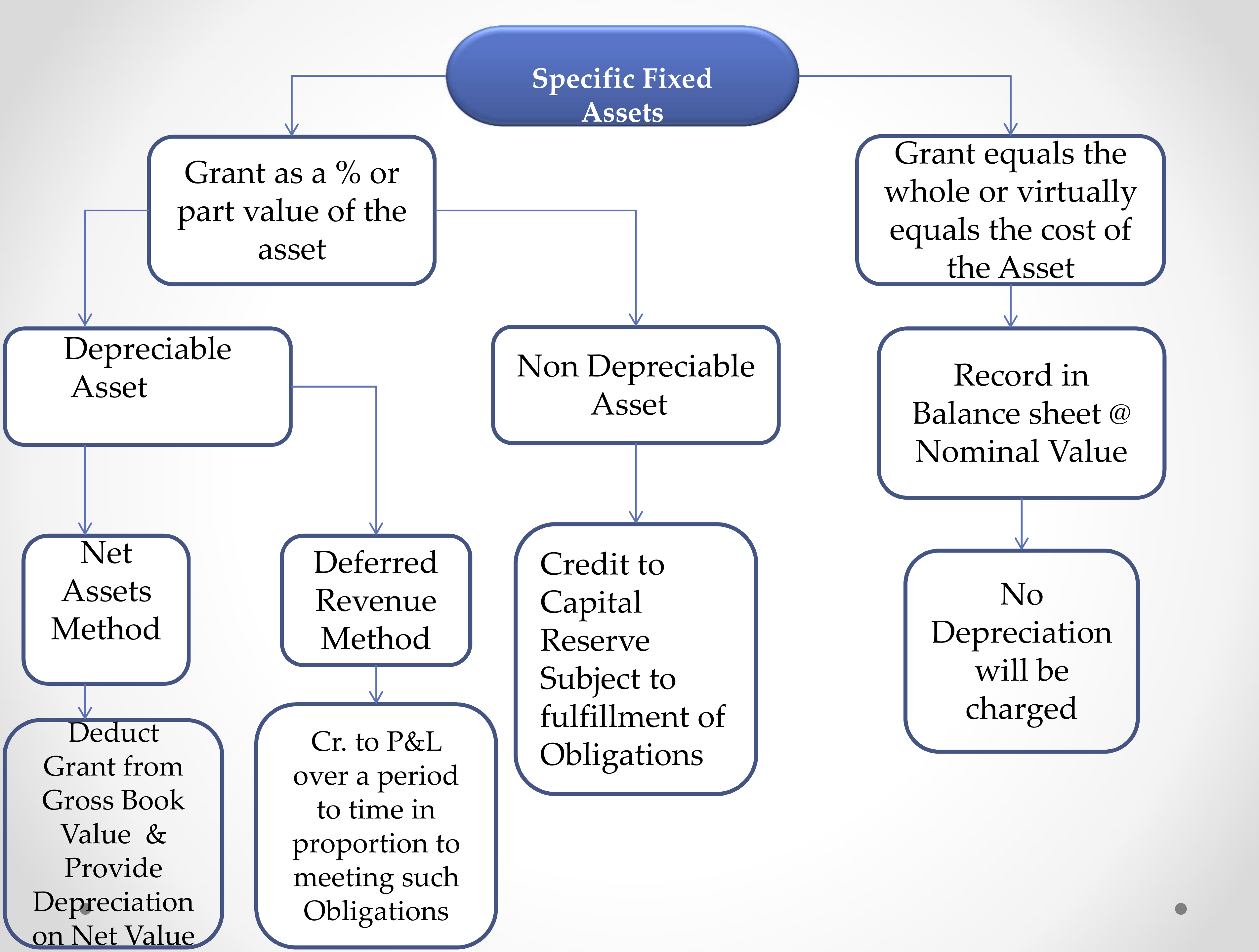
FREE



Specific Fixed Assets
Grant as a % or part value of the asset
Grant equals the whole or virtually equals the cost of the Asset
Depreciable Asset
Non Depreciable Asset
Record in Balance sheet @ Nominal Value
Net Assets Method
Deferred Revenue Method
Credit to Capital Reserve Subject to fulfillment of Obligations
No Depreciation will be charged
Deduct Grant from Gross Book Value & Provide Depreciation on Net Value
Cr. to P&L over a period to time in proportion to meeting such Obligations

Promoters Contribution

For Example, A company is established in SEZ and Government as a support contributing ,say 20% of the Total investment value

- Capital Approach
- It should be Treated as Shareholders Funds
- Accounting Treatment : Credit to capital Reserve

Revenue

Grant Should be recorded in Profit&Loss Account on a Systematic basis.

For Example, Government given funds of Rs.1,00,000 to provide medicines in a campaign for a period of ……..

1 Year

Credit to P&L in the year of receipt of Grant

More than 1 year, say 5 Years

Assuming that expenses are incurred evenly

1,00,000 ÷ 5years = 20,000 per year

Assuming that expenses are incurred Un-evenly

Recognise on Original basis

Non-Monetary

- Concession / Discounted
  - Record at Actual / Acquisition Value
- Free
  - Nominal Value Say,Rs.100 or its multiples

Refund of Govt. Grants

Revenue Nature

- First Apply against unammortised credit
- Balance will be Charged to p&l

Specific Fixed Assets

Increase Book Value

Depreciation should be provided prospectively on the revised value

Reduce from Capital Reserve

Reduce Deffered income balance

- First Apply against unammortised credit
- Balance will be Charged to p&l

Promoter's contribution

- Reduce from Capital Reserve

- Accounting Policy adopted for Government grants

- Method of presentation of Grants in Financial Statements

- Nature & Extent of Government grant recognised in Financal Statements Including grants recorded at Nominal value

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