Lecture # 2	Overall Lecture 42

Example: Grant related to income

A company receives a cash grant of Rs. 30,000 on 31 December Year 0.

The grant is towards the cost of training young apprentices, and the training programme is expected to last for 18 months from 1 January Year 1.

Actual costs of the training were Rs. 50,000 in Year 1 and Rs. 25,000 in Year 2.

The grant would be accounted for as follows:

At 31 December Year 0 the grant would be recognised as a liability and presented in the statement of financial position split between current and non-current amounts. Rs. 20,000 (12 months/18 months ×Rs. 30,000) is current and would be recognised in profit for Year 1.The balance is non-current.

At the end of year 1 there would be a current balance of Rs. 10,000 (being the non-current balance at the end of Year 0 reclassified as current) in the statement of financial position. This would be recognised in profit in Year 2.

Extracts from the financial statements are as follows:

Statement of financial position (extracts)

	31 December Year 0	31 December Year 1	31 December Year 2
Current liabilities			
Deferred income	20,000	10,000	–
Non-current liabilities			
Deferred income	10,000	–	–

Statement of profit or loss (extracts)

Method 1		
Training costs	(50,000)	(25,000)
Government grant received	20,000	10,000
Method 2		
Training costs (50,000 – 20,000)	30,000	
Training costs (25,000 – 10,000)		15,000

REPAYMENT OF GOVERNMENT GRANTS

A government grant might become repayable by the entity (e.g. when the entity fails to meet the underlying conditions for the grant).

Method of Accounting

When a government grant becomes repayable it is accounted for as a change in accounting estimate (*IAS 8: Accounting policies, changes in accounting estimates and errors*).

REPAYMENT OF A GRANT RELATED TO INCOME

- Repayment of a grant related to income is applied in the first instance against any ***unamortised deferred credit*** recognised in respect of the grant.
- If repayment exceeds any such deferred credit any excess is recognised immediately in ***profit or loss***.

Net J.E
Unamortised Derferred Income
P&L (Bal)
    Cash

REPAYMENT OF A GRANT RELATED TO AN ASSET

Accounting for a repayment of a grant related to an asset depends on ***how it was accounted for originally***.

- Under **Method 1** if grant was **CREDITED TO THE ASSET ACCOUNT**, its repayment is recognised by increasing the carrying amount of the asset.

  Asset **Dr** ,
      Cash **Cr**   with full amount **repaid**

  In Method 1 The **cumulative ADDITIONAL depreciation** that would have been recognised in profit or loss to date in the absence of the grant must be **recognised IMMEDIATELY in profit or loss**.

- Under **Method 2 if** the grant was **CREDITED TO A DEFERRED GRANT INCOME**, its repayment is recognised by reducing the deferred income balance by the amount repayable.

  Deferred Income (remaining bal) **Dr**, P&L **Dr** (Balancing), Cash **Cr** with full amount repaid

Net J.E (Method 2 i.e Credited to Deferred Grant Income)
Unamortised Derferred Income
P&L (Bal)
    Cash

IMPAIRMENT INDICATOR: circumstances giving rise to repayment of the grant might indicate the possible impairment of the new carrying amount of the asset.

Class Work: Example 5,6 (RISE BOOK)

Example 5 (AMENDED)

On 1.1.2018 X limited received a cash grant of Rs. 500,000 towards the cost of employing an environmental impact analyst on a new project for a 5 year period.
The grant is repayable in full if the project is not completed.
The analyst was employed and the project commenced on 1.1.18 **for Rs. 130,000 per annum.**
On 1.1.20 the project was abandoned and the grant became repayable in full.

Required:

Pass journal entries for grant and its repayment along with expenditure under two method.
(1) Netting off with Expense
(2) Grant recorded as other Income.

Home Work: PS-1,2,4