



International Accounting Standards Board (IASB)

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The IASB is the independent standard-setting body of the IFRS Foundation.

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Amendments to IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*

Project Updates are provided for the information and convenience of constituents who wish to follow the IASB's deliberations. All conclusions reported are tentative and may be changed as the project develops.

Introduction

This project report is structured as follows:

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Objective

1. The objective of the project is to amend IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* to improve the information provided to users of financial statements by:
 - a. eliminating inconsistencies with the *Framework*, in particular the recognition of a deferred credit when the entity has no liability; and
 - b. eliminating options that can reduce the comparability of financial statements and understate the assets controlled by an entity.

Next steps

2. The project has been deferred since February 2006 (see below for [project history](#)). The Board will continue to monitor progress in other related projects to determine the appropriate timing for activating work on the project.

Background

3. IAS 20 provides guidance on recognising, measuring and disclosing government grants and disclosing other forms of government assistance. 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 value placed upon them and transactions with government which cannot be distinguished from the normal trading transactions of the entity.

Reasons for amending IAS 20

4. The Board has many reservations about the requirements of IAS 20, in particular:
 - The recognition requirements of IAS 20 often result in accounting that is inconsistent with the *Framework*. For example, the requirement in paragraph 12 to recognise grants ‘as income over the periods necessary to match them with the related costs which they are intended to compensate’ can result in an entity recognising an amount in the statement of financial position as a deferred credit when the entity has no liability.
 - As well as being inconsistent with the *Framework*, the recognition requirements of IAS 20 are also inconsistent with more recent pronouncements of standard-setting bodies relating to either non-reciprocal transfers in general or, more specifically, government grants. For example, [FASB Statement No. 116 Accounting for Contributions Received and Contributions Made](#) (SFAS 116), whilst exempting government grants to business entities from its scope, provides an accounting model that can be applied to government grants and that is consistent with the *Framework*. In Australia, [UIG Abstract 11 Accounting for contributions of, or contributions for the acquisition of, non-current assets](#), whilst specifying a different treatment for contributions subject to conditions than SFAS 116, is also consistent with the *Framework*. International Public Sector Accounting Standard 23 *Revenue from Non-Exchange Transactions (Taxes and Transfers)* is also based on principles that are consistent with the *Framework*.
 - IAS 20 contains numerous options. For example, an entity that receives a grant to finance the acquisition of an item of property, plant or equipment is entitled to deduct the grant from the carrying amount of that item, and an entity that receives a non-monetary grant is permitted to measure the asset and the grant at a nominal amount rather than fair value. In addition to reducing the comparability of financial statements, these particular options in IAS 20 result in understatement of the assets controlled by the entity and do not provide the most relevant information to users of financial statements.

Initial project scope

5. The Board initially concluded that it should undertake a limited scope project to improve IAS 20. The Board noted that it would be best placed to undertake a fundamental reconsideration of the accounting for government grants (and other non-reciprocal transfers) once it had made progress with its [Revenue Recognition project](#). However, the Board was concerned that leaving IAS 20 in its present form in the

short term would have an unfortunate affect on countries adopting IFRSs that either (a) have already issued standards for government grants that are consistent with the IASB *Framework* or (b) have no specific requirements and require entities to follow conceptual frameworks similar to the IASB's. It would result in entities in these countries, after first adopting IFRSs, applying accounting that would be less consistent with the *Framework* than the accounting that they previously used.

6. The Board also understood that some of its partner standard-setters in countries that were adopting IFRSs were particularly concerned about the effect of applying the requirements of IAS 20 to the financial statements of public sector benefit entities (otherwise known as not-for-profit entities in the public sector). The Board understood that if it left IAS 20 in its present form, these standard-setters would be likely to specify different accounting requirements to those in IAS 20 (that would be more consistent with the *Framework*) for public sector benefit entities. The Board noted that this would result in an unfortunate and avoidable difference between reporting requirements by public sector benefit entities and profit oriented entities.

Project history: tentative decisions to date

7. In **February 2004**, the Board tentatively decided to amend IAS 20 by applying the accounting model for government grants contained in IAS 41 to all government grants. At present, the model in IAS 41 applies only to biological assets measured at fair value less estimated point-of-sale costs and grants that require entities not to engage in specified agricultural activity. In contrast to IAS 20, recognition of a government grant as income in accordance with IAS 41 depends on whether the grant is conditional and, if so, when the conditions are satisfied. Hence, the objective in IAS 41 is to recognise the obligations the entity has until conditions are satisfied, rather than to match the grant with the expenses it is intended to compensate or the acquisition costs of assets that it is used to finance.
8. In **July 2004**, the Board discussed some issues that arose from incorporating into IAS 20 the IAS 41 model.

Distinguishing between unconditional and conditional grants

9. IAS 41 distinguishes between unconditional and conditional grants. An unconditional grant is recognised as income when the grant becomes receivable; a conditional grant when the condition is satisfied. IAS 41, however, contains little guidance about what is meant by unconditional or conditional in this context. Therefore the Board decided to define a condition for the purposes of revised IAS 20 as a stipulation that entitles government to the return of the granted resources if a specified event either occurs or does not occur. The Board also noted that any such stipulation should have commercial substance to be regarded as a condition.

Recognition of grant as an asset or as a reduction in a liability

10. IAS 41 specifies when a government grant is recognised as income. It does not specify when the transfer of resources from government is recognised. Therefore, the Board decided to specify that an entity should recognise a government grant as an asset at the earlier of (i) having an unconditional right to receive the government grant (regardless of whether there are conditions attached to retaining the grant) and (ii) receiving the government grant. The Board decided that if the grant involves government waiving repayment of all or part of a liability, the reduction in liability should be recognised when the liability is discharged or cancelled.

Definition of a government grant

11. A government grant is defined in IAS 20 as a transfer of resources "in return for past or future compliance with certain conditions relating to the operating activities of the entity". The Board observed that in an accounting model that distinguishes between

conditional and unconditional grants, the use of the word 'conditions' in this definition could be confusing. Therefore, the Board decided to delete the phrase 'in return for past or future compliance with certain conditions relating to the operating activities of the entity' from the definition of a government grant. The Board also decided to provide additional guidance in the amended Standard to clarify which transactions with government meet the definition of a grant.

Conflict with IAS 39

12. IAS 20 explains that loans at nil or low interest rates are forms of government assistance, but the benefit of the reduced loan is not treated as a government grant. Similarly, a government may guarantee an entity's borrowing, but IAS 20 does not treat the benefit of the guarantee as a government grant. The Board noted that these requirements of IAS 20 conflict with IAS 39 *Financial Instruments: Recognition and Measurement* because IAS 39 requires financial liabilities to be measured initially at fair value. Therefore, the Board decided to delete the references to loans at nil or low interest rates and guarantees from paragraphs 35 and 37 of IAS 20.

Impairment

13. The Board decided that entities that receive a government grant in connection with the acquisition of an asset should be required to test that asset for impairment in accordance with IAS 36 *Impairment of Assets* on its initial recognition. The Board also decided to clarify that any recognised liability arising from conditions attaching to the grant should be included in the same cash-generating unit as the acquired asset.

Transition requirements for the amendments to IAS 20

14. The Board decided to propose retrospective application in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. However, it decided to ask constituents to provide details of circumstances in which this requirement would cause difficulties.
15. In [February 2006](#) the Board reviewed the status of the project and decided to defer work on the project until further progress is made in related projects (in particular, the project to amend IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*).
16. The Board affirmed its view that IAS 20 is inconsistent with the *Framework* and that there is a need to update the Standard. However, the Board also noted some concerns about the conceptual basis of the government grant model in IAS 41, particularly in its treatment of conditional grants.
17. The Board noted that its work in other projects, in particular its project to amend IAS 37, might yield insights into the appropriate treatment of obligations arising in conditional grants and, hence, enable it to develop a more robust model for accounting for government grants.
18. In **December 2007** the Board discussed the accounting for government grants in the context of a proposal to activate work on its [Emissions Trading Schemes project](#). The Board decided to activate the emissions project, but decided to limit the scope of the project to the issues that arise in accounting for emissions trading schemes, rather than addressing broadly the accounting for all government grants (which would have involved activating the IAS 20 project). The Board will continue to monitor progress in related projects to determine the appropriate timing for activating work on the IAS 20 project.

Contact information

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