

IFRS Today

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EPISODE TRANSCRIPT

COVID-19 – Accounting for government assistance

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Brian

Hello - I'm Brian O'Donovan and I'm joined today by Julia LaPointe. We work together in KPMG's International Standards Group and today we want to talk about how to account for government assistance under IFRS.

Julia

Thanks Brian. So the topic of government assistance has definitely been keeping us very busy these days! Obviously in response to COVID-19 we're seeing governments around the world implementing massive new programmes and we're receiving more questions than I think we ever have about the accounting for all of this government assistance.

Brian

Yes I've been staggered by the sheer extent and scale of the government programmes. They range from millions to billions to trillions. It really is unprecedented – across geographies, and across sectors.

Julia

I agree. I think what's unique about these programmes is that they impact such a wide range of companies and it's really different from the grants that we would normally see in the past, which tend to target a specific industry or company. And now many companies are asking: how do I account for this assistance?

So the first step is about finding the right guidance. Clients have been asking me: should this particular bit of government assistance be accounted for as a government grant under IAS 20?

Brian

Yes, and there is actually a specific IFRS Standard on accounting for grants – and that's IAS 20. Now, this is a real Cinderella standard. It's always been there, sitting quietly in the corner, not getting very much attention at all. But everybody's thinking about it now. Many companies are engaging with IAS 20 for the very first time, to account for some really big numbers.

Julia

I have to say I feel like I've also been getting to know IAS 20 much better these days, and I think what I've found is that there are three key steps to think about that will ultimately drive the accounting.

- The first one is, what is the right bit of accounting guidance? Is IAS 20 even the right standard to be looking at?
- Second, if it *is* a government grant under IAS 20, when do I first account for it?
- And lastly, how do I recognise the grant in the P&L?

So I think it would be useful if we spend a little bit of time on each of those steps and what we've been seeing.

Brian

Yes, so the first step is about finding the right guidance. Clients have been asking me: should this particular bit of government assistance be accounted for as a government grant under IAS 20?

Julia

I think the answer is: maybe; maybe not.

Sometimes assistance is accounted for under other standards.

So if a government changes the tax rate or extends the carry forward period for losses, that's all just part of the income tax accounting.

Brian

Yes. And if a company is manufacturing – I don't know, protective equipment – and supplying it to government, and that's just what the company does, that's not a grant either. It's just revenue.

Julia

So I think the key takeaway here is that even though it might be clear that I'm receiving an economic benefit from the government, it's not necessarily accounted for as a grant.

IAS 20 has a specific threshold for recognising a grant. It says that you have to have 'reasonable assurance' that you will get the grant and meet the conditions attached to it.

Brian

Yes – but we are here to talk at least in part about grants. I think we only need to change the fact pattern, change the example a little bit and we *will* find grants.

So suppose government pays a subsidy to a manufacturer to encourage it to change its production process and supply protective equipment to a private sector nursing home – well that's probably a grant.

Julia

Another example of a grant that we've seen in many countries are these wage subsidy or furlough programmes that are aimed at helping companies retain their employees and cover personnel expenses during the crisis.

Brian

Yes – now that's really common at the moment, isn't it? So I think that what we're seeing is that some things are grants, some aren't. And some are a bit of both: It's not an all-or-nothing assessment. Now if I think about some of the government actions to provide below-market rate loans or forgivable loans, you know they will often involve some loan accounting and perhaps a bit of grant accounting as well.

Julia

Okay, so clearly there are a lot of types of assistance that are grants, and for these grants the second step is to determine: when do I first account for it?

Brian

Yes, and IAS 20 has a specific threshold for recognising a grant. It says that you have to have 'reasonable assurance' that you will get the grant and meet the conditions attached to it.

Julia

So that's what the standard tells us, but I know the bigger question that we usually get is "What does 'reasonable assurance' actually mean?"

Brian

And that's a really important question. And that phrase has been in the standard for all of my working life.

Julia

And I think actually all of my *entire* life!

In assessing whether the grant will be received, I think it's important to really understand the legislative process, since this can be quite different in each country.

Brian

Touché! So I wish I could give a more precise answer as to exactly what it means. But the fact is reasonable assurance is not a defined term: it's not used in other standards, and there's no examples or much explanation at all in IAS 20 as to what it means.

Personally, I think it must mean a threshold at least as high as 'probable,' but I know some people only feel comfortable applying a much higher threshold. Now we could see regulators weighing in on this.

Julia

I think that's very helpful context and I think we would both agree that this is an area that will often require some judgement. So in assessing whether the grant will be received, I think it's important to really understand the legislative process, since this can be quite different in each country. And some governments we're seeing are even departing from their normal processes to get these relief packages passed as quickly as possible. So it might not be as simple as just looking to whether or not the legislation has been passed.

Brian

And all of that is really just focusing on the government's performance: now a company has to think about its *own* performance as well – will it comply with the conditions attached to the grant?

Again this can be quite a challenging assessment, particularly for a new grant programme where there's no established practice – no real track record.

Julia

I agree – I think evaluating this reasonable assurance threshold may be quite challenging, but assuming that I've passed that test, does this mean that I have a grant in my P&L?

Brian

Well, as you said earlier, Julia: maybe; maybe not.

You know, we don't talk a lot these days about matching in financial accounting. But IAS 20, it's been around for a long time, it really is an out-and-out *matching* standard. So if you have a grant that's funding a specific expense, then that grant goes to P&L to *match* that expense. If a grant is funding an asset, it goes to P&L to *match* depreciation of that asset.

On the other hand, some grants aren't really there to fund anything in particular – they're just there to support the business. Now, a grant that provides immediate financial support goes to P&L immediately.

There are lots of decisions to be made at the level of the financial statements about how you will incorporate grants – lots to think about if you are applying IAS 20 for the first time.

Julia

This matching concept you've described – it sounds pretty straightforward on the face of it, but sometimes we see in practice that it can actually be a bit tricky. So, one example is the wage subsidy programmes that I mentioned earlier. In that case, the grant compensates for personnel costs, but if a company normally capitalises some of those costs into the cost of an asset like PP&E [property, plant and equipment], then it may need to recognise some of the grant over a longer period to make sure they're matching the grant with the related expense.

Brian

Yes, that is a tricky one.

So we've been talking up to now essentially about accounting. Companies also need to think about presentation. I'm always surprised by the number of different presentation options available in IAS 20. There are lots of decisions to be made at the level of the financial statements about how you will incorporate grants – lots to think about if you are applying IAS 20 for the first time.

Julia

So on top of all of these presentation decisions, I think there are some actions that companies should be taking right now when it comes to government assistance.

- So it's important to understand the different forms of assistance that you are receiving.
- To map that assistance against the relevant accounting guidance to make sure that you're applying the right standard.
- Then if it is a government grant, make sure you're recognising it in the P&L at the right time.

Brian

That's right, and all of that is in the context of ensuring that the financial statements clearly communicate the impact of all of this government assistance to your stakeholders.

And one last action – if you want to learn more you can type 'KPMG IFRS' into your browser and you'll be taken to our [COVID-19 financial reporting resource centre](#).

Julia

So that centre has more information on the accounting for government assistance but of course this isn't the only topic that we've been dealing with – there are many other COVID-19 related accounting issues – and that page has lots of detailed information on all of those other issues as well.

Brian

Thanks Julia, and thank you everyone for listening.

Julia

Yes – thank you.

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