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How do you account for different forms of government assistance?

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What's the issue?

To address the challenges posed by climate-related risks, governments around the world are introducing various measures to help companies reduce carbon emissions. These measures include programmes financing the move to new, greener technologies.

Government assistance that meets the definition of a government grant is accounted for under the specific requirements of IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*.

If a company receives government assistance, then it determines how to account for that assistance by asking the following questions.

- Does the assistance meet the definition of a government grant?
- When should the grant be recognised?
- How should the grant be measured and presented in the financial statements?

Companies that have not received government grants previously may need to develop new accounting policies and procedures. They may also need to apply significant judgement when assessing whether they will comply with the relevant conditions set out in government assistance programmes.

Getting into more detail

Identifying government grants

IFRS® Standards include specific accounting requirements for government assistance in the form of a government grant. Therefore, companies need to consider the distinction between government grants and other forms of assistance carefully. IAS 20 defines a government grant as a transfer of resources in return for past or future compliance with certain conditions relating to the operating activities of the company.

Government grants exist in many forms. For example, companies may receive grants in the form of emissions certificates, land for green projects, forgivable loans, below-market interest rate loans, waiver of expenses, investment tax credits and other subsidies. However, government assistance in the form of benefits that are available when determining taxable profit or tax loss, or are determined on the basis of a company's income tax liability, are not in the scope of IAS 20. *[Insights 4.3.10]*

"Significant judgement may be required to determine when and how to recognise government assistance programmes aiming to address the adverse impacts of climate-related risks."

Accounting for government grants

A company recognises a government grant when it has reasonable assurance that it will comply with the relevant conditions and the grant will be received. This may

require judgement, particularly when governments introduce new programmes that may require new legislation, or for which there is little established practice for assessing whether the conditions for receiving a grant are met.

If the conditions are met, then a company recognises government grants in profit or loss on a systematic basis and in line with its recognition of the expenses that the grants are intended to compensate. Companies need to consider the conditions associated with the grant carefully to determine whether it compensates expenses already incurred or future costs. *[Insights 4.3.40]*

Measurement and presentation of government grants depends on the nature of the grant and the company's accounting policies. The accounting policy considerations for different types of grants are as follows.

Grant	Example	Accounting consideration
In the form of non-monetary assets	Emissions certificates or land for green projects	Whether to measure these assets at nominal amount or fair value *[Insights 4.3.50]*
Related to assets	Grant for a purchase of new, greener machinery	Whether to present these assets net or gross – i.e. whether to deduct the grant from the cost of the asset or present it separately as deferred income to be amortised over the useful life of the asset *[Insights 4.3.130]*
Related to income	Waiver of expenses	Whether to present the grant net or gross – i.e. whether to offset the grant against the related expenditure, or to present it either separately or under a general heading such as 'Other income' *[Insights 4.3.140]*

Government loans for climate-related initiatives

A government may provide a loan at a below-market interest rate for a qualifying climate-related initiative – e.g. to a start-up in the renewable energy sector. A company generally accounts for the benefit of a government loan at a below-market interest rate as a government grant under IAS 20; it accounts for the loan under IFRS 9 *Financial Instruments*. The benefit (i.e. the government grant) is measured as the difference between the fair value of the loan on initial recognition and the amount received.

In some cases, a government may provide a loan that will be forgiven if certain conditions are met. A forgivable loan is treated as a government grant only when there is reasonable assurance that the company will meet the terms for forgiveness of the loan. Otherwise, the loan is recognised as a liability. The assessment of whether cash received from a government meets the definition of a forgivable loan under IAS 20 requires careful consideration of all facts and circumstances.

Disclosures

Companies need to provide clear and robust disclosures about climate-related government assistance that they receive. In doing so, they apply the disclosure requirements in the applicable standards. For example, if a company receives a

government loan at a below-market interest rate, then it provides the disclosures required by IAS 20 as well as those required by IFRS 7 *Financial Instruments: Disclosures*.

Under IAS 20, a company discloses the following information about climate-related government assistance:

- the nature and extent of government grants recognised in the financial statements and an indication of other forms of government assistance from which it has benefited directly;
- the accounting policy adopted, including the presentation in the financial statements; and
- unfulfilled conditions and other contingencies in relation to the government assistance recognised. *[IAS 20.39]*

Local regulators may supplement the disclosure requirements in IAS 20 with more detailed local guidance.

Additional disclosures explaining the company's use of government assistance may also be needed under IAS 1 *Presentation of Financial Statements*. For example, the significant judgement applied in determining whether a government grant compensates expenses already incurred or future expenses may need to be disclosed because it impacts the timing of income recognition from the government grant. *[IAS 1.122]*

For more guidance on disclosure of climate-related matters see **Have you disclosed the impacts of climate-related matters clearly?**

Actions for management to take now

- Prepare an inventory of each form of climate-related government assistance that the company receives or hopes to receive.
- Develop relevant accounting policies, focusing on when the climate-related government assistance is recognised and how it is measured, noting that the recognition date may differ for different forms of government assistance.
- Provide clear and robust disclosures, especially of the key judgements and estimates affected by climate-related matters.
- Ensure consistency of assumptions used in relevant areas of the company's financial statements and that they are in sync to the extent appropriate with information related to climate-related risks discussed elsewhere in the annual report. Consider providing additional explanations in the annual report where inconsistencies arise.
- Consider guidance issued by a local regulator.

References to 'Insights' mean our publication **Insights into IFRS**

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