

## **Ind AS 20: Accounting treatment of grant received for building structure of dams and canal system**

### **Query**

A Company say, X Ltd. is a government owned entity which is engaged in the business of building dams, irrigation structures and canal systems. For the purpose of storage of water in dams, the company need to acquire the land under the Land Acquisition Act in order to build the structure. X Ltd. received a grant from the government authorities for this purpose and acquired the land.

As per the sanction letter, the grant is to be used only for the purpose of either land acquisition or construction of dams, canal system. X Ltd. has not made any disclosure in the books whether the government has released the grant as shareholders contribution or as a grant for entire structure of dams and canal system.

Accordingly X Ltd. capitalized the above land acquired as non-depreciable asset in its books of accounts and the related grant is disclosed as reserves as part of equity. Whether the accounting treatment adopted by X Ltd. is correct? X Ltd. has adopted the Indian Accounting Standard (Ind AS) for the preparation of its books of account.

### **Answer**

The answer to above query can be accessed by analyzing the provisions contained in Ind AS 20 *Accounting for Government Grants and Disclosure of Government Assistance*.

In above case, as per Ind AS 20 there can be two aspects in respect of government grant whether the funds are received as shareholder's contribution in the ownership of entity or in nature of government grant for construction of dams or canal system. Thus, if the grant is in nature of shareholders contribution then, in compliance to provisions stated in the standard, the grant should not be accounted as income in the books rather the same should be disclosed under the head equity as 'capital reserve'.

However, if funds are considered as government grant then, in compliance to Para 12 of the standard, the government grant should be recognized in the statement of profit or loss in a systematic basis over the period in which entity recognizes the related expense for which the grant is released. Accordingly, the grant should be recognized over the life of the dams and canal system which are created on land. Also, as per para 9, the recognition of grant is not affected by the manner in which the grant is received.

Thus the grant should be recognized in the books on the basis of above principles and the land should be capitalized in the books if only if it meets the criteria as mentioned in Ind AS 16 *Property, Plant and Equipment*.

### **References**

- EAC opinion Query 21, Volume 38
- Opinion finalized on 23 July 2018
- Ind AS 20 and Ind AS 16

### **Relevant Extracts**

#### **Relevant para of Ind AS 20**

*12. Government Grants shall be recognised in profit or loss on a systematic basis over the periods in which the entity recognises as expenses the related costs for which the grants are intended to compensate.*

*14 Those in support of the capital approach argue as follows:*

*(a) government grants are a financing device and should be dealt with as such in the balance sheet rather than*

*be recognised in profit or loss to offset the items of expense that they finance. Because no repayment is expected, such grants should be recognised outside profit or loss.*

*(b) it is inappropriate to recognise government grants in profit or loss, because they are not earned but represent an incentive provided by government without related costs.*

*15 Arguments in support of the income approach are as follows:*

*(a) because government grants are receipts from a source other than shareholders, they should not be recognized directly in equity but should be recognised in profit or loss in appropriate periods.*

*(b) government grants are rarely gratuitous. The entity earns them through compliance with their conditions and meeting the envisaged obligations. They should therefore be recognised in profit or loss over the periods in which the entity recognises as expenses the related costs for which the grant is intended to compensate.*

*(c) because income and other taxes are expenses, it is logical to deal also with government grants, which are an extension of fiscal policies, in profit or loss.*

*18. Grants related to non-depreciable assets may also require the fulfilment of certain obligations and would then be recognized in profit or loss over the periods that bear the cost of meeting the obligations. As an example, a grant of land may be conditional upon the erection of a building on the site and it may be appropriate to recognise the grant in profit or loss over the life of the building.*

*23. A government grant may take the form of a transfer of a nonmonetary asset, such as land or other resources, for the use of the entity. In these circumstances, the fair value of the nonmonetary asset is assessed and both grant and asset are accounted for at that fair value.*

*(Source: Taxmann.com)*