

TREASURY ANALYSIS – INTERNATIONAL ACCOUNTING STANDARDS

AASB 120 “Accounting for Government Grants and Disclosure of Government Assistance” replaces part of AAS 15 / AASB 1004 “Revenue”

Major impacts of changes – *for-profit entities only*

- *For-profit entities* will be subject to either the current AASB 120 or a proposed revised AASB 120, based on the approach in AASB 141 *Agriculture*.
- Treasury’s preference is to mandate early adoption of a revised AASB 120, based on AASB 141. However, because a revised AASB 120 is not yet available, for-profit entities have been instructed to apply the current AASB 120, until otherwise advised.
- Impacts of current AASB 120:
 - Grants must be recognised as income on a systematic basis over the periods necessary to match them with the related costs they are intended to compensate.
 - Grants related to the acquisition or construction of an asset must be presented as deferred income.
- Impacts of the proposed revised AASB 120, based on AASB 141:
 - If a government grant is conditional, an entity must recognise the government grant as income when, and only when, the conditions attaching to the grant are met.
 - Time may be a condition and grants may be recognised on a time basis.
- Both of these alternatives may delay revenue recognition compared to previously, where grants were recognised when controlled (i.e. normally on receipt).

Key features of current AASB 120

Scope

- *For-profit entities* apply AASB 120. This standard replaces the material on contributions of assets in the previous AASB 1004 *Revenue* and UIG Abstract 11 *Accounting for Contributions of, or Contributions for the Acquisition of, Non-Current Assets*.

Definition

- *Government grants* are defined as 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, but excludes certain government assistance, including transactions that cannot be distinguished from the normal trading transactions of the entity (para 3). This implies that ‘grants’ are not *agreements for the provision of goods and services* (see separate *Treasury Analysis* on AASB 1004 and ED 125 for this term).

Recognition

- Government grants must not be recognised as income until there is reasonable assurance both, that the entity will *comply with the conditions* attaching to them, and the grant will be received (para 7).
- Government grants must be recognised as income over the periods necessary to *match them with the related costs* which they are intended to compensate on a systematic basis (para 12). For example, grants related to depreciable assets are usually recognised as income to match the related depreciation expense over the useful life of the asset (para 17).
- A government grant that becomes receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support with no future related costs must be recognised as income of the period in which it becomes receivable (para 20).
- Non-monetary government grants (e.g. land) must be recognised at fair value (para 23).

Presentation

- Government grants related to assets (i.e. grants whose primary condition is that the entity must purchase, construct or acquire long term assets), including non-monetary grants, must be presented in the balance sheet as deferred income (i.e. liability) (para 24). The grant is then recognised as income on a systematic and rational basis over the useful life of the asset (para 26).
- Grants related to income are presented as a credit in the income statement (para 29).

Repayment of Government grants

- A government grant that becomes repayable must be accounted for as a revision to an estimate under AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*. Repayment of a grant related to an asset must be recognised by reducing the deferred income liability (para 32).

Disclosure (para 39)

- Accounting policy adopted for government grants.
- Nature and extent of government grants recognised and an indication of other forms of government assistance from which the entity has directly benefited.
- Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

Key features of proposed revised AASB 120 (based on AASB 141)

Background

- *For-profit entities* may be impacted by the current review of IAS 20 by the IASB. The IASB has indicated that the current IAS 20 is inconsistent with its Framework. It therefore intends to amend it, based on the approach for grants in IAS 41 *Agriculture*. While not mandatory for 2005/06, a revised AASB 120 may be available for early adoption. Treasury's preference is to mandate early adoption of a revised AASB 120, based on AASB 141. However, because a revised AASB 120 is not yet available, for-profit entities have been instructed to apply the current AASB 120, until otherwise advised.

Definition & recognition of grants under AASB 141

- *Government grants* are defined consistently with AASB 120 (see above).
- An *unconditional government grant* must be recognised as income when, and only when, the grant becomes receivable (para 34).
- If a government grant is *conditional*, an entity must recognise the government grant as income when, and only when, the conditions attaching to the grant are met (para 35).
- *Time* may be a condition and grants may be recognised on a time basis (para 36). For example, where a grant agreement requires an entity to meet a certain condition for a particular time period or else return the grant, the grant is not recognised as income until the time period has passed. However, an entity must recognise a grant on a time proportion basis where it is permitted to retain the grant based on the passage of time.

Main differences compared to previous Australian requirements

Recognition of government grants

- Both the current and proposed revised AASB 120 will potentially delay revenue recognition compared to previously (i.e. by adopting a matching approach in the current AASB 120 or by recognising revenue only once conditions are satisfied in the proposed revised AASB 120). Previously, under AASB 1004 and UIG Abstract 11, contributions of assets (including government grants) were recognised as revenue when, among other things, they were controlled (i.e. normally on receipt) and not recognised as a liability unless or until a condition was breached and the grant was repayable.

Other differences

- *Repayment of contributions* – The current AASB 120 requires a government grant that becomes repayable to be treated as a revision of an accounting estimate in accordance with AASB 108 (para 32). In contrast, UIG 11 requires a liability and an expense to be recognised in the reporting period in which a present obligation to repay the government grant arises. The section on grants in AASB 141 does not address this issue.
- *Additional disclosures* – The current AASB 120 includes additional disclosures, including disclosure of other forms of government assistance that the entity has directly benefited from.

Impact on the public sector

- The impact on the public sector of the treatment of grants is currently uncertain because:
 - The requirements for *for-profit entities* (AASB 120) and *not-for-profit entities* (AASB 1004) are different; and
 - There are two different potential scenarios for both *for-profit entities* (i.e. current AASB 120 or a proposed revised AASB 120, based on AASB 141) and *not-for-profit entities* (i.e. AASB 1004 or ED 125 proposals), depending on whether proposed amendments can be early adopted.

Refer separate *Treasury Analysis* on AASB 1004 for *not-for-profit entities*.

- In Treasury's view, the proposed amendments to AASB 120 (based on AASB 141) and AASB 1004/AAS 29 (based on ED 125) will result in a similar outcome, assuming that:
 - most 'grants' are not agreements for the provision of goods and services; and
 - 'time' can be a condition under both AASB 141 and ED 125.

If so, in general terms, *both* ED 125 and AASB 141 delay revenue recognition until conditions are met.

Policy and Implementation issues

- *Early adoption* – Because a revised AASB 120 is not yet available, for-profit entities have been instructed to apply the current AASB 120, until otherwise advised.
- *Reviewing grant agreements* – Agencies need to review their grant agreements to assess the potential impacts of *both* the current AASB 120 *and* the proposed revised AASB 120 (based on AASB 141). Either approach may result in the recognition of deferred income on first time adoption, where a grant recognised as revenue under previous requirements does not meet the AASB 120 recognition criteria.

This summary has been written in general terms and is intended for general reference only. Agencies should review the contents of the AASB Standard to determine its application in particular circumstances.

SUMMARY OF POLICY, IMPLEMENTATION & SYSTEM ISSUES
AASB 120 “ACCOUNTING FOR GOVERNMENT GRANTS AND DISCLOSURE OF GOVERNMENT ASSISTANCE”
TREASURY & AGENCIES

	Issue	Treasury Policy		System/ Implementation Issue	GFS Issues	Total State Sector Issues
		Mandate Option	Additional guidance			
1	Early adoption – of proposed revised AASB 120 based on AASB 141 approach	X No, adopt current AASB 120, until otherwise advised.		√		√
2	Review grant agreements - – on first time adoption may result in recognition of deferred income where a grant recognised as revenue under previous requirements does not meet the AASB 120 recognition criteria.			√		√