PAPER OF THE ACCOUNTING ADVISORY FORUM
GOVERNMENT GRANTS
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This document deals with Accounting for Government Grants. It has been prepared by the Accounting Advisory Forum (Forum) as an advisory document to the Commission. The views expressed in this document do not necessarily represent a Commission's official position.

The Forum is an advisory body of experts from the main parties interested in accounting in the European Union. The Forum is not a standard-setting body. Its main function is to advise the Commission on accounting matters and possible ways to facilitate further harmonisation. The members of the Forum are invited on a personal basis. Their opinions, as expressed in this document, do not commit the organisations by whom they have been nominated, nor do they reflect the unanimous view of all the members.

The purpose of this publication is to stimulate discussions among standard-setters, preparers, users and auditors of accounts in Member States on the subject of Accounting for Government Grants. The document examines the various possibilities for furthering the presentation of comparable and equivalent information within the context of the Accounting Directives.
EXECUTIVE SUMMARY

The EC Accounting Directives do not contain specific provisions on the accounting for and disclosure of government assistance, although some general principles are laid down in the Fourth Directive (78/660/EEC) which may provide some guidance.

In the European Union, different approaches are used in practice in Member States. In particular, differences can be noted with regard to the presentation in the balance sheet, where both the gross method and the net method of presentation are commonly used. In order to improve comparability with regard to accounting for government grants, the document makes the following recommendations on income recognition, presentation and disclosure:

RECOGNITION OF INCOME

A government grant should not be recognised in the profit and loss account before the conditions attaching to the grant have been fulfilled.

Government grants should be recognised in the profit and loss account over the financial years necessary to match them with the related costs.

A government grant that becomes receivable by an enterprise as compensation for expenses or losses incurred in a previous period or for the purpose of giving immediate financial support to an enterprise rather than as an incentive to undertake specific investments, should be recognised in the profit and loss account in the year in which it becomes receivable, as an extraordinary item when appropriate, with appropriate disclosures so as to ensure that its effect is clearly understood.

PRESENTATION

Two methods of presentation in the balance sheet of grants related to assets are commonly used in EU Member States: (i) the gross method, whereby the grant is accounted for as deferred income and (ii) the net method, whereby the grant is deducted in arriving at the carrying amount of the asset.

The document concludes that preference should be given to the gross method, although the net method should also be allowed. If the net method is used, it is recommended that additional disclosures are made in order to make the two methods comparable.

When the gross method is used, the deferred grant should be presented separately on the liability side of the balance sheet between capital and reserves on the one hand and provisions on the other (when the horizontal layout of the balance sheet is used) or between capital and reserves on the one hand and accruals and deferred income on the other (when the vertical layout of the balance sheet is used). In the profit and loss account, the gradual release of the deferred grant should be presented separately under 'other operating income'.

For the presentation in the profit and loss account of grants related to income, the amount of the grants can be presented as a credit (gross method), or be deducted from the related
expenses (net method). Preference is given to the gross method. When the net method is used, the amount of the grants should be disclosed in the notes.

**OTHER ASPECTS**

A government grant that becomes repayable because certain conditions have not been fulfilled gives rise to a revision of an accounting estimate and not to a prior period adjustment.

**DISCLOSURE**

Disclosures are recommended for the following matters:

- the accounting policy adopted for government grants, including the methods of presentation adopted in the accounts;
- the nature and amounts of grants recognised in the accounts and other forms of government assistance from which the enterprise has directly benefited;
- unfulfilled conditions and other contingencies attaching to government assistance that has been recognised;
- if the net method for grants related to assets is used: the amount of the grants, the related accumulated depreciation and the depreciation for the financial year as part of the asset movement schedule.

**COMPARISON WITH IAS 20**

The recommendations made in this document are to a large extent in line with IAS 20 - Accounting for Government Grants and Disclosure of Government Assistance. The main difference with this Standard is that, where IAS 20 does not include a benchmark method, the Forum recommends the gross method as the preferred method, with additional disclosures to be made when the net method is used.
INTRODUCTION

1. In many countries, governments give assistance to enterprises as part of a particular stimulation policy. The forms of government assistance vary both in the nature of the assistance and in the conditions which are usually attached to it.

2. Government assistance can have a material impact on the assets, liabilities, financial position and income of an enterprise. The way this assistance is accounted for and the extent of disclosure about the assistance can therefore be significant when preparing annual and consolidated accounts.

3. The EC Accounting Directives do not contain specific provisions on accounting for and disclosure of government assistance, although some general principles are laid down, for example in art. 31 of the Fourth EC Company Law Directive (78/660/EEC), which provide some guidance.

4. The general approach in the various EU Member States is similar in as far as the recognition of income is concerned. The matching principle finds an overall application. With respect to balance sheet presentation less harmony exists, as grants are either accounted for as deferred income or directly deducted from the acquisition price of the related asset. Furthermore, in the case of deferred income different positions are used to show the grants: equity, liabilities or between equity and liabilities. The approaches in the various EU Member States are set out in Annex I.

5. In the light of the call for the presentation of comparable and equivalent information as laid down in the fifth preamble of the Fourth Directive:

"Whereas the different methods for the valuation of assets and liabilities must be co-ordinated to the extent necessary to ensure that annual accounts disclose comparable and equivalent information."

this document examines the various possibilities with respect to guidance on accounting for government assistance in the European Union.

DEFINITIONS

6. The following items are used in this document with the meanings specified:

Government assistance is action by government designed to provide an economic benefit specific to an enterprise or range of enterprises qualifying under certain criteria. Government assistance for the purpose of this document does not include benefits provided only indirectly through action affecting general trading conditions, such as the provision of infrastructure in development areas or the imposition of trading constraints on competitors. Neither does it include benefits that are available in determining taxable income or are determined or limited on the basis of income tax liability.

Government grants are assistance by government in the form of transfers of resources to an enterprise in return for past or future compliance with certain conditions relating to the operating activities of the enterprise. 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 enterprise.

Grants related to assets are government grants whose primary condition is that an enterprise qualifying for them should purchase, construct or otherwise acquire long-term assets. Subsidiary conditions may also be attached restricting the type or location of the assets or the periods during which they are to be acquired or held.

Grants related to income are government grants other than those related to assets.

Other forms of government assistance and grants include:

- certain 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 enterprise. Examples of assistance that cannot reasonably have a value placed upon them are free technical or marketing advice and the provision of guarantees. An example of assistance that cannot be distinguished from the normal trading transactions of the enterprise is a government procurement policy that is responsible for a portion of the enterprise's sales. The existence of the benefit might be unquestioned but any attempt to segregate the trading activities from government assistance could well be arbitrary.

- Loans at nil or low interest rates. They are a form of government assistance.

ACCOUNTING TREATMENT OF GOVERNMENT GRANTS

Capital approach versus income approach

7. Two broad approaches may be found to the accounting treatment of government grants: the capital approach, under which a grant is credited directly to capital and reserves, and the income approach, under which a grant is taken to income over one or more accounting periods.

8. 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 passed through the profit and loss account to offset the items of expense which they finance. Since no repayment is expected, they should be credited directly to capital and reserves.

(b) It is inappropriate to recognise government grants in the profit and loss account, since they are not earned but represent an incentive provided by government without directly related and defined costs.

9. Arguments in support of the income approach and therefore against the capital approach are as follows:

(a) Since government grants are receipts from a source other than shareholders, they should not be credited directly to capital and reserves but should be recognised in the profit and loss account in appropriate periods.
(b) Government grants are rarely gratuitous. The enterprise earns them though compliance with their conditions and meeting the envisaged obligations. They should therefore be taken to income and matched with the associated costs which the grant is intended to compensate.

(c) As income taxes and other taxes are charges against income, it is logical to deal also with government grants, which are an extension of fiscal policies, in the profit and loss account.

10. Examination of the above arguments and of the current practice in the various Member States (Annex I) shows that the income approach is generally considered the more satisfactory treatment.

Recognition of income

11. Paragraph 31 (1)(d) of the Fourth Directive states that "account must be taken of income and charges relating to the financial year, irrespective of the date of receipt or payment of such income or charges". The Fourth Directive applies to annual accounts. However, the Seventh EC Company Law Directive (83/349/EEC) declares the same principle applicable to consolidated accounts (par. 29 (1)). That principle, called accrual principle, implies that government grants be recognised in the profit and loss account on a systematic basis over the financial years necessary to match them with the related costs. Income recognition of government grants on a receipt basis is not in accordance with the accrual accounting assumption and would only be acceptable if no basis existed for allocating a grant to financial years other than the one in which it was received.

12. In most cases the financial years over which an enterprise recognises the costs or expenses related to a government grant are readily ascertainable and thus grants in relation to specific expenses are taken to income in the same year as the relevant expense. Similarly, grants related to depreciable assets are usually allocated to income over the years and in the proportions in which depreciation on those assets is charged.

13. Grants related to non-depreciable assets may also require the fulfilment of certain obligations. In these cases it would be appropriate to allocate the grant to income over the financial years in which the cost of discharging the obligations are incurred. 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 take it to income over the life of the building.

14. Grants are sometimes received as part of a package of financial or fiscal aids to which a number of conditions are attached. In such cases, care is needed in identifying the conditions giving rise to costs and expenses which determine the financial years over which the grant will be earned. It may be appropriate to allocate part of a grant on one basis and part on another.

15. In certain circumstances, a government grant may be awarded for the purpose of giving immediate financial support to an enterprise rather than as an incentive to undertake specific expenditures. Such grants may be confined to an individual enterprise and may not be available to a whole class of beneficiaries. These circumstances may warrant taking the grant to income in the year in which the enterprise qualifies to receive it, as an extra-ordinary item if appropriate, with disclosure to ensure that its effect is clearly understood.
16. A government grant may become receivable by an enterprise as compensation for expenses or losses incurred in a previous financial year. Such a grant is recognised in the income statement of the year in which it becomes receivable, as an extra-ordinary item if appropriate, with disclosure to ensure that its effect is clearly understood.

17. A government grant should not be recognised in the profit and loss account before the conditions attaching to the grant are satisfied. Where the retention of a grant is subject to complying with conditions the grant may be recognised as income while those conditions continue to be satisfied. In these cases it may be necessary to recognise a contingency for eventual repayment of the grant in the event of non-fulfilment of the conditions. Where a grant may be received once a set of conditions are satisfied the grant should not be recognised as income before the conditions have been met.

18. A loan from government which is subject to remittance under specific conditions is treated as a government grant when there is reasonable assurance that the enterprise will meet the terms for remission of the loan.

19. A government grant may take the form of a transfer of a non-monetary asset, such as land or other resources, for the use of the enterprise. In these circumstances it is usual to assess the fair value of the non-monetary asset and to account for both grant and asset at that fair value. An alternative course that is sometimes followed is to record both asset and grant at a nominal amount.

20. Once a government grant is recognised, any related contingency would be treated like a contingency or event occurring after the balance sheet date.

Presentation in the balance sheet of grants related to assets

21. Two methods (the gross and the net method) of presentation in the balance sheet of grants (or the appropriate portion) related to assets are now mainly applied in the EU Member States (Annex I).

22. Under the gross method the grant is accounted for as deferred income which is recognised in the profit and loss account on a systematic basis over the useful life of the asset.

23. Under the net method the grant is deducted in arriving at the carrying amount of the asset. The grant is recognised in the profit and loss account over the life of a depreciable asset by way of a reduced depreciation charge.

24. Those who support the net method argue as follows:

(a) Investment decisions are made on a net-of-grant basis as the market value of the asset decreases because other companies have access to the same grants.

(b) The total cost of the asset, i.e. on a net-of-grant basis, is regarded as a measure of the sacrifice made by a purchaser.

(c) The gross method would lead to capitalisation of unrealised gains if the deferred income is treated as an item with characteristics close to capital and reserves.
25. Arguments in support of the gross method and therefore against the net method are as follows:

(a) Acquisition cost in the sense of the Fourth Directive is the price paid plus expenses incidental thereto (art. 35 (2)). Therefore deducting the grant from the invoice price is inconsistent with this definition.

(b) The Fourth Directive prohibits in Article 7 the set-off between asset and liability items, which would rule out the net method. Moreover, article 15(3)(a) of the Fourth Directive requires companies to disclose the purchase price or production cost of fixed assets before any value adjustment.

(c) The reader must be able to identify the impact of market forces separately from impact of government interventions, as well as the policy of the enterprise towards using government incentives.

(d) Financial theory makes a clear distinction between sources of funds and uses; therefore the sources and uses should not be set-off.

(e) The gross method provides a better insight in the return on capital.

(f) The existence of two different relationships: that between the enterprise and the supplier on the one hand and that between the enterprise and the government on the other hand.

26. Based on the reasoning above preference is given to the gross method, although the net method would be allowed too. However, on application of the net method some additional disclosures should be made in the notes on the accounts in order to make the gross and net methods comparable (see para 37(d)).

27. When the gross method is used the deferred grants should be presented separately on the liability side of the balance sheet. The Fourth Directive does not mention grants separately in its layouts of the balance sheet, but provides the possibility, in art. 4 (1), to make a more detailed subdivision and to add new items if their contents are not covered by any of the items prescribed by the layouts. Several possibilities exist to present deferred grants:

- under capital and reserves (with a separate heading)
- under creditors (accruals and deferred income)
- between capital and reserves on the one hand, and provisions on the other (with a separate heading)
- between provisions and creditors (with a separate heading)
- under deferred income as a separate item.

28. It is generally felt that a grant deferral is neither a proper part of capital and reserves nor a part of liabilities. The grant deferral should not be part of capital and reserves for the reasons set out in the paragraphs 7 to 10 of this document and as the income effect could only flow through to capital and reserves as the grant is amortised through the profit and
loss account. As the grant deferral flows through to capital and reserves through amortisation it should not be treated as a liability. Examination of the above arguments seems to indicate that deferred grants should be presented as follows:

- as a separate item between capital and reserves on the one hand and provisions on the other with an appropriate heading if the format of art. 9 Fourth Directive is applied;

- as a separate item between accruals and deferred income on the one hand and capital and reserves on the other with an appropriate heading if the format of art. 10 Fourth Directive is applied.

Presentation in the profit and loss account of grants related to assets

29. Under the net method amortised deferred grants are included in the depreciation charge. If the gross method is used the amortisation amount of the deferred grant would be presented as a separate item under the heading 'other operating income'.

Presentation of grants related to income

30. Grants related to income are sometimes presented as a credit in the profit and loss account, either separately or under a general heading (gross method); alternatively, they are deducted in reporting the related expense (net method).

31. Supporters of the first method claim that it is inappropriate to net income and expense items (article 7 of the Fourth Directive) and that separation of the grant from the expense facilitates comparison with other expenses not affected by a grant. For the second method it is argued that the expenses might well not have been incurred by the enterprise if the grant had not been available and presentation of the expense without offsetting the grant may therefore be misleading.

32. Examination of the above arguments results in a preference for the gross method, although the net method is allowed too. However, if the net method is applied, the amount of the government grants should be disclosed in the notes on the accounts in order to make the gross and the net methods comparable.

Repayment of government grants

33. Government grants sometimes become repayable because certain conditions are not fulfilled. A government grant that becomes repayable gives rise to a revision of an accounting estimate and not to a prior period adjustment.

34. Repayment of a grant related to an asset is recorded as follows:

- if the gross method has been applied, the deferred income balance of the grant is reduced by the amount repayable; to the extent that the repayment exceeds any such deferred income, the repayment is charged immediately to income;

- if the net method has been applied, the carrying amount of the asset should first be increased by the amount repayable prior to making adjustments to cumulative depreciation. Any additional depreciation which would have been charged in the absence of the grant should be charged immediately to income.
35. Circumstances giving rise to repayment may require consideration to be given to the possible impairment of the increased carrying amount of the asset on the application of the net method. As a consequence of this it may be necessary to effect an extraordinary write down of the net value of the asset in order to reflect its economic value to the business.

36. Repayment of a government grant related to income is applied first against any unamortised deferred credit set up in respect of the grant. To the extent that the repayment exceeds any such deferred credit, or where no deferred credit exists, the repayment is charged immediately to income.

**DISCLOSURE**

37. The following matters should be disclosed:

(a) the accounting policy adopted for government grants, including the methods of presentation adopted in the accounts;

(b) the nature and amounts of government grants recognised in the accounts and an indication of other forms of government assistance from which the enterprise has directly benefited; and

(c) unfulfilled conditions and other contingencies attaching to government assistance that has been recognised;

(d) if the net method of accounting for government grants related to assets has been applied the amount of government grants and the related accumulated amortisation and the amortisation for the financial year should be shown as part of the movements schedule as required by Article 15 of the Fourth Directive.
ANNEX I

LEGAL AND OTHER REQUIREMENTS ON ACCOUNTING FOR GOVERNMENT GRANTS

1. Accounting and disclosure requirements on government grants included in the law

Accounting and disclosure requirements regarding government grants are not specifically addressed by the law in the following countries:

- Denmark
- Ireland
- Italy
- Luxembourg
- Netherlands
- Spain
- United Kingdom

Ireland

Although the treatment of grants is not directly covered by the law, the notes to the formats (format note 8; Item C 9) to the Companies (Amendment) Act, 1986 require that:

"The amount in respect of Government grants, that is to say, grants made by or on behalf of the Government, included in this item shall be shown separately in a note to the accounts unless it is shown separately in the balance sheet”.

The following gives a summary of the legal requirements in the countries in which the treatment of government grants is addressed by the law.

Belgium

In accordance with the Royal Decree of 8 October 1976 concerning the annual accounts of companies, as amended in 1991, capital grants must be recorded partly in capital and reserves under a separate heading 'Capital Grants' and partly under 'Deferred Taxes'. The provision for deferred taxes consist of the deferred tax charges relating to these grants, which in accordance with the Belgian tax regulations, are taken to the profit and loss account at the same rate as the depreciation of the related fixed asset. In this way, the balance sheet gives a more adequate view of the composition of the company's capital and reserves.

The amounts recorded under these two headings are progressively taken to the profit and loss account, at the same rate as the depreciation rate adopted for the related fixed assets.

If the fixed assets are disposed of, or taken out of service, before the end of the depreciation period, the remaining balance of the capital grant is released.
Those grants that do not meet the criteria for qualifying as capital grants (like for instance operating or export grants) are directly taken to the profit and loss account, and dependent on their nature, recorded in operating or financial income.

**France**

In France, commercial law does not address the accounting treatment of grants. Article 13 of the decree of November 29, 1983 specifies that investment grants must be separately disclosed in the balance sheet as a component of stockholders’ equity. The General Accounting Plan states that an investment grant should be either deferred and amortised over the estimated useful life of the related asset or credited to income when it is granted.

The tax rules on investment grants are similar. The method selected for financial purposes should also be applied to determine taxable income. As a consequence, it would not be permitted to account for an investment grant as income for financial reporting purposes and as a deferred credit for tax purposes.

According to the layouts of accounts prescribed by the General Accounting Plan, grants designed to compensate for an expense are shown in the income statement as operating income. The portion of an investment grant credited to income is considered as an extraordinary item.

Accounting for grants in consolidated accounts is not addressed by the regulations applying to this category of accounts. The consolidated balance sheet layout suggested by the General Accounting Plan does not refer to investment grants, either as a component of stockholders’ equity or as deferred income.

**Germany**

In Germany, for subventions and grants the option is offered either to deduct them from the cost of acquisition or production or to amortise them through creation of a liabilities item; it is doubtful whether the new legislation still allows the latter option for limited company (Kapitalgesellschaften) entities. For grants, repayment of which is subject to certain conditions, it has to be borne in mind that under certain conditions (for instance the company makes a profit or a project is subsidised provided it is likely to be successfully completed) they carry an obligation to enter them as liabilities.

**Greece**

In the law in Greece, it is stated that capital grants must be recorded in the accounts as cash or receivable on the one hand and as reserves on the other at the time when it is certain that they will be received. They are transferred from the reserve account to the income statement over the useful life of the related assets on the same basis as the related assets are depreciated.

**Portugal**

The Portuguese Official Chart of Accounts - Plano Oficial de Contabilidade, approved by a Decree law of 29 November 1989, distinguishes between three types of grants:

a) Grants with the aim of reducing costs or increasing income are treated as income, provided there are no doubts that they are related to the current accounting period.
b) Grants associated with fixed assets are treated as deferred income and recognised as income as far as the corresponding depreciation is accounted for.

c) Exceptionally, other grants not included in the above types may be accounted for as an increase in equity in the form of reserves.

**United Kingdom**

The legal provisions do not specifically address accounting for government grants. However, the following provisions are considered to have the effect of prohibiting enterprises to which the legislation applies from accounting for grants made as a contribution towards expenditure on fixed assets by deducting the amount of the grant from the purchase price or production costs of the related asset. Paragraph 17 of Schedule 4 of the Companies Act 1985 requires that, subject to any provision for depreciation or diminution in value, the amount to be included in the balance sheet in respect of any fixed asset shall be its purchase price or production cost. Paragraph 26(1) states that the purchase price of an asset shall be determined by adding to the actual price paid any expenses incidental to its acquisition.

2. **Rules issued by other standard setting bodies on accounting for government grants**

Accounting for government grants is not addressed by other standard setting bodies in the following countries:

- Belgium
- Denmark
- France
- Greece
- Ireland
- Italy
- Luxembourg
- Portugal
- Spain

The following gives a summary of the requirements in the countries where accounting for government grants is addressed by standard setting bodies apart from the law:

**Germany**

From the point of view of the tax law the Income Tax Directive 1984 section 34 par. 1 offers an option either directly to include grants in the profit and loss account or to deduct them from the acquisition or production cost. Allowances, for instance under the Law regulating Investment Allowances or section 19 Berlin Förderungs Gesetz are not subject to taxation and are directly included in income and consequently the acquisition or production cost will not be reduced.
Grants which are to be set off against subsequent payments (for instance prepayments made by future tenants which will be credited to rental payments, advances to be used for the acquisition of tools and models which will be set off against future orders), are commitments subscribed by the company (prepayments received) which have to be entered on the liabilities side.

Netherlands

The Dutch Council for Annual Reporting (CAR) has issued a recommendation with respect to government grants.

The following grants are covered:

- Operating grants (exploitatiesubsidies)
- Investment grants (investeringssubsidies)
- Financing facilities (financieringsfaciliteiten)
- Development credits (ontwikkelingskredieten)

- It is not acceptable to credit that grant immediately to equity.
- Operating grants should be credited to the same year as the subsidised costs are charged to, or to the year in which the operation loss occurs.
- Investment grants must either be accounted for under liabilities in the form of an equalisation account or be deducted from the capitalised amount itself.
- The equalisation account should be included neither under equity nor under provisions.
- The equalisation account should be amortised on a systematic basis taking into account the accounting treatment of the investment.
- In the case of a financing facility only the credit should be recorded under liabilities. Where it appears after some years that the amount need not be paid back the credit should be treated as an investment grant. The amount related to previous years should be recorded as an extraordinary profit.
- Where the repayment of the development credit depends on the financial results of the subsidised project, the amount of unpaid credit must be deducted from development costs. The balance should be recorded in the balance sheet as an intangible asset.
- The notes should contain the following information:
  - the type of grants and facilities obtained,
  - the accounting treatment in the annual accounts,
  - the amount,
  - the system of allocation to future years where an equalisation account is used for the recording of the grant,
- the contingent financial liabilities related to the development credit.

**United Kingdom**

SSAP 4 deals with accounting for government grants. Grants should be recognised in the profit and loss account so as to match them to the expenditure to which they are intended to contribute. In order to comply with the prudence concept, a grant should not be recognised until the year of its receipt or where the conditions of the receipt have been complied with and there is reasonable assurance that the grant will be received. Unless there is persuasive evidence to the contrary, grants should be assumed to contribute towards the expenditure which is the basis of the payment. Grants should be recognised in the profit and loss account so as to match the grant with the cost of achieving any specified objectives. This may mean that the grant will not necessarily be recognised in equal amounts over the period to which it related.

Until 1990 SSAP 4 allowed for the gross and the net method to be applied. After its revision it still allows both methods, but indicates that the net method may be considered to conflict with the provisions of the Companies Act 1985 (as referred to in section 1) so that enterprises to which this act applies would have to apply the gross method.

3. **Recommendations on accounting for government grants issued by national professional bodies**

In the following countries the national professional bodies have not issued any recommendations or rules on accounting for governments grants:

- Belgium
- France
- Greece
- Luxembourg
- Netherlands
- Portugal
- Spain
- United Kingdom

For the Netherlands it should be noted that NIVRA participates in the CAR (Council for Annual Reporting) and does therefore not issue any recommendations on annual reporting itself.

In the United Kingdom SSAP 4 was developed by the accounting profession (ASC - Accounting Standards Committee). However, the ASC is now replaced by the Accounting Standards Board (ASB) which is a regulatory body independent of the accounting profession. ASB has adopted all SSAPs.
The following gives a summary of the recommendations on the treatment of governments grants issued by national professional bodies.

**Denmark**

According to Accounting Standard No. 2 "Disclosure of Accounting Policies", the following should be stated in the section on accounting policies regarding government grants related to e.g. product development, investment etc.: "The extent of grants received and committed together with criteria for revenue recognition in the profit and loss account and recording in the balance sheet."

However, in Denmark, the Danish Institute of State Authorised Public accountants (FRS) publishes IASs and provides them with a preface. The preface to IAS 20 states that in the opinion of FRS, the provisions of IAS 20 are in accordance with Danish accounting practice and the Danish Annual Accounts Act.

**Germany**

The technical opinion HFA 1/1984 "Accounting treatment of grants" distinguishes between the accounting treatment of non refundable grants and of grants the repayment of which is required under certain conditions. It states that under certain conditions direct and complete recognition of non-refundable grants at the time at which they are granted is not permitted. Immediate recognition would result in a distortion of results of both current and future periods. Exceptions to this rule are explicitly stated.

The claim for a grant has to be treated as debt receivable if at the balance sheet date the company has fulfilled the formal conditions attached to the allowance of such grant and if the unconditional approach has been obtained prior to the finalisation of the annual accounts.

If a grant is refundable a liability should be recognised only if it is certain or expected that the refund will have to be made.

As regards recognition of investment subventions and allowances, a distinction has to be made between :

- the possibility to deduct them from acquisition/production cost and

- the possibility to include them under an item on the liability side.

Expense allowances in the profit and loss account have to be recognised under the caption "other revenue". In principle it is not permitted to offset them against expenses.

If the repayment of subventions granted is financed solely from future profits of the company, the conditional repayment obligation has to be recognised as a liability in the year in which the profits have been made.

**Ireland**

SSAP4 "The accounting treatment of government grants" provides guidance on the treatment and disclosure of grants. This requires that grants relating to fixed assets should be credited to revenue over the expected life of the asset. This is achieved by treating the amount of the grant as a deferred credit, a portion of which is transferred annually.
Italy

The professional bodies recommend three methods of accounting for government grants:

a) to include the grants as part of the net capital, with provision for the related taxes, unless the taxation is postponed indefinitely;

b) to reduce the cost of acquisition of plant and equipment by the amount of the grants.

c) to consider the grant as deferred income to be credited to the profit and loss account over the life of the asset and, accordingly, produce the same net result that would be obtained if method b) would have been applied.

4. Practice

The following summaries per country show how government grants are accounted for in practice and which disclosures are made in practice.

Belgium

Practice follows the requirements set by law as mentioned in section 1.

Denmark

According to Danish accounting principles government grants received are credited to the profit and loss account on a systematic basis over the periods necessary to ensure that the grants correspond with the costs to be compensated for. Grants pertaining to assets are disclosed in the balance sheet either as accrued income or as a reduction in the carrying amount of the asset.

According to the Danish Accounting principles the notes on the annual accounts should disclose essential government grants or other kinds of government subsidy that are important to an assessment of the result and financial position of a company.

France

Practice follows the requirements regarding the annual accounts set by law as mentioned in section 1. In consolidated accounts, investment grants are often reclassified as deferred income in the balance sheet and are no longer shown as a component of stockholders' equity.

As previously indicated, grants are shown separately in the accounts as investment grants or as a component of operating income. They cannot be offset against the related asset or expense. In this context, disclosing additional information in notes is not considered necessary. In the consolidated accounts, materiality considerations often result in no specific mentions of grants in the accounts themselves, or in the notes.

Germany

As regards recognition of investment subventions and allowances, companies use both methods mentioned:

- the option to deduct them from acquisition/production cost and;
- the option to include them under an item on the liability side.

The disclosures are made in line with the recommendations issued by the national professional bodies as discussed in section 3.

Greece

Practice follows the requirements set by law as mentioned in section 1.

Grants that have not yet been recognised in the profit and loss account must be shown separately on the liability side of the balance sheet under the general title "grants for fixed assets”.

Ireland

Practice follows the requirements of SSAP 4 and the Companies (Amendment) Act as mentioned in section 1 and 3.

It is normal for companies to disclose the accounting policy adopted in accounting for government grants. It is also normal for the notes to the accounts to disclose the contingency attaching to the possible repayment of grants together with details of any restriction attaching to distributions for amounts credited to the profit and loss account.

Italy

Usually grants are represented as part of net capital. Information disclosed concerns the nature and extent of government grants recognised and the accounting policy.

Luxembourg

In practice all accounting methods currently applied in the USA, the UK, France and Germany may also be applied in Luxembourg as there are no uniform standards. However, due to the fact that for tax purposes the net method is applied, most of the companies follow the net method in the annual and consolidated accounts as well.

Netherlands

Investment grants are usually accounted for in the form of an equalisation account. In some instances they are recorded as a tax facility (flow through method).

Operating grants are deducted from the subsidised costs.

Development credits are recorded under long term liabilities in the balance sheet.

Where government grants are material the following is disclosed :

- accounting treatment (policy)
- in the case of a development credit the conditions for repayment

Portugal
In practice government grants are accounted for in line with IAS 20 which is recommended by the Portuguese standard setting body (Comissão de Normalização Contabilística).

**Spain**

Grants are not credited directly to net equity. Normally the gross method is applied.

The following information is disclosed in practice: nature, due date and general conditions.

**United Kingdom**

Under the revised standard SSAP 4 (July 1990), companies may no longer deduct the amount of the grant from the cost of the asset to which it relates. It must, therefore, always be treated as a deferred credit. Entities other than companies are still permitted under the standard to reduce the cost of the asset by the amount of the grant (thereby reducing the annual depreciation charge).

The usual disclosures for government grants are:

- the accounting policy adopted
- deferred credits in respect of grants included in the balance sheet
- the total of grants credited to the profit and loss account
- potential liability to repay grants in specified circumstances
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(1) Tax law.
(2) Investment subsidy WIR may be accounted for as a tax facility.
(3) To be shown as a component of stockholders equity.