COVID-19 | How should companies account for different forms of government assistance?

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What's the issue?

Governments around the world are taking a broad range of actions to provide assistance to companies in the current conditions caused by the COVID-19 coronavirus pandemic.

Under IFRS® Standards, the accounting for government assistance depends on the nature of the assistance. The requirements of the standards differ significantly on when to recognise that assistance and how to measure it. Companies therefore need to identify which specific standard applies to determine the appropriate accounting.

Getting into more detail

The accounting treatment of some common forms of government assistance is as follows. This list is not exhaustive.

Government grants

A **government grant** is a transfer of resources in return for past or future compliance with certain conditions relating to a company's operating activities. A company applies IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* to account for government grants.

Under IAS 20, 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. A company recognises a government grant in profit or loss on a systematic basis and in line with its recognition of the expenses that the grant is intended to compensate. *[Insights 4.3.40]*

Income taxes

Government assistance in the form of benefits that may impact a company's taxable profit or its income tax liability – e.g. tax reliefs for certain types of income, additional tax deductions, a reduced tax rate or an extended period to use tax losses carried forward – are generally accounted for under IAS 12 *Income Taxes*, not IAS 20.

For example, if a government amends income tax legislation to reduce corporate tax rates, then a company recognises and measures the effect of the amendment in accordance with the detailed requirements of IAS 12. This includes considering whether any deferred tax assets are **recoverable**. A company accounts for the change in tax rate only when the amendment to the legislation is enacted or substantively enacted. *[Insights 3.13.480]*

Accounting for government assistance will differ significantly depending on its nature and type – e.g. whether it is a grant, loan, tax benefit or guarantee. Identifying the specific accounting requirements that apply will be crucial.

Government ownership interests

Government participation in the ownership of a company is not itself in the scope of IAS 20. For example, if a government acquires an ownership interest in a subsidiary, then the parent company applies IFRS 10 *Consolidated Financial Statements* to assess whether it should continue to consolidate the subsidiary or, if appropriate, to account for a disposal or partial disposal.

If a government provides support to a company and is also a shareholder in that company, then the company needs to assess whether the government is acting in its capacity as shareholder or as government. This will determine how the company accounts for the government support. *[Insights 4.3.10]*

Supplies of goods and services

Transactions with governments that cannot be distinguished from the normal trading activities of a company are not government grants.

For example, if a company supplies goods or services to a government that are an output of its ordinary activities, then it will generally apply IFRS 15 *Revenue from Contracts to Customers*. This will include accounting for revenue only when the **contract existence** criteria in IFRS 15 are met.

Government loans and guarantees

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 in accordance with IFRS 9 *Financial Instruments*. The benefit that is the government grant is measured as the difference between the fair value of the loan on initial recognition and the amount received.

To account for government assistance in the form of a guarantee from the government for loans from financial institutions, in our view an entity should choose an accounting policy, to be applied consistently, based on the gross or the net approach. If an entity applies the gross approach to government assistance, then the guarantee is accounted for as a separate government grant under IAS 20. If an entity applies the net approach to government assistance, then it is considered part of the unit of account in determining the fair value of the loan.

Disclosure

Companies 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 and those required by IFRS 7 *Financial Instruments: Disclosures*. If a government is also a shareholder, then additional related party disclosures may be required under IAS 24 *Related Party Disclosures*.

Additional disclosures explaining the company's use of government assistance may also be needed under IAS 1 *Presentation of Financial Statements*.

Actions for management to take now

- Prepare an inventory of each form of government assistance that the company receives or hopes to receive.
- Determine which standard will apply to each form of government assistance, noting that more than one standard may apply to some transactions.
- Develop relevant accounting policies, focusing on when the government assistance is recognised and how it is measured, noting that the recognition date may be different for different forms of government assistance.
- Prepare draft disclosures as required by each relevant standard.
- Consider the need for overarching disclosures about the company's use of government assistance and the impact of measures taken by governments in its assessment of **going concern**.

References to 'Insights' mean our publication **Insights into IFRS** home.kpmg/ifrs-covid19

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