

**Urgent Issues Group**

**Interpretation 110**

July 2004

# **Government Assistance – No Specific Relation to Operating Activities**



**Australian Government**

**Australian Accounting  
Standards Board**

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## **PREFACE**

### **Reasons for Issuing UIG Interpretation 110**

The Australian Accounting Standards Board (AASB) is implementing the Financial Reporting Council's policy of adopting the Standards of the International Accounting Standards Board (IASB) for application to reporting periods beginning on or after 1 January 2005. The AASB has decided it will continue to issue sector-neutral Standards, that is, Standards applicable to both for-profit and not-for-profit entities, including public sector entities. Except for Standards that are specific to the not-for-profit or public sectors or that are of a purely domestic nature, the AASB is using the IASB Standards as the "foundation" Standards to which it adds material detailing the scope and applicability of a Standard in the Australian environment. Additions are made, where necessary, to broaden the content to cover sectors not addressed by an IASB Standard and domestic, regulatory or other issues.

The same approach applies to UIG pronouncements. This Interpretation is part of the set of Australian equivalents to each International Accounting Standard (IAS), International Financial Reporting Standard (IFRS) and Interpretation of the IASB (collectively defined by the IASB as IFRSs). This set includes UIG Interpretations that correspond to the IASB Interpretations originated by the International Financial Reporting Interpretations Committee (IFRIC) or the former Standing Interpretations Committee (SIC).

### **Main Features of this Interpretation**

This Interpretation is applicable to annual reporting periods beginning on or after 1 January 2005. To promote comparability among the financial reports of Australian entities, early adoption of this Interpretation is not permitted.

Application of this Interpretation will begin in the first annual reporting period beginning on or after 1 January 2005 in the context of adopting all Australian equivalents to IFRSs. The requirements of Accounting Standard AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*, the Australian equivalent of IFRS 1 *First-time Adoption of International Financial Reporting Standards*, must be observed. AASB 1 requires prior period information, presented as comparative information, to be restated as if the requirements of this Interpretation had always applied. This differs from previous Australian requirements where changes in accounting policies did not require the restatement of the income statement and balance sheet of the preceding period.

This Interpretation applies when an entity applies AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance*. Therefore, it

applies only in respect of for-profit entities. The Interpretation clarifies that government assistance provided to an entity for operating in certain regions or industry sectors is a government grant that is subject to the requirements of AASB 120. This means, for example, that the government assistance cannot be recognised directly in equity.

### **Comparison with Superseded Requirements**

Accounting Standards AASB 1004 and AAS 15 *Revenue* required the revenue arising from contributions of assets to an entity to be recognised when the entity had gained control of the contribution or the right to receive the contribution and the general probability and reliable measurement recognition criteria were satisfied. These requirements were reflected in UIG Abstract 11 *Accounting for Contributions of, or Contributions for the Acquisition of, Non-Current Assets*. UIG Interpretation 110 introduces more specific requirements, based on AASB 120, for accounting by for-profit entities for general government assistance, such as the systematic recognition of grants as income over the periods necessary to match them with the costs that they are intended to compensate.

## **COMPARISON WITH INTERNATIONAL PRONOUNCEMENTS**

UIG Interpretation 110 is equivalent to Standing Interpretations Committee Interpretation SIC-10 *Government Assistance – No Specific Relation to Operating Activities*, issued by the IASB. Paragraphs that have been added to this Interpretation (and do not appear in the text of the equivalent SIC Interpretation) are identified with the prefix “Aus”, followed by the number of the relevant SIC paragraph and decimal numbering.

Entities that comply with Interpretation 110 will simultaneously be in compliance with SIC-10.

International Public Sector Accounting Standards (IPSASs) are issued by the Public Sector Committee of the International Federation of Accountants. There is no specific IPSAS dealing with accounting for non-exchange transactions, such as government grants, at present.

## **URGENT ISSUES GROUP**

### **INTERPRETATION 110**

#### ***GOVERNMENT ASSISTANCE – NO SPECIFIC RELATION TO OPERATING ACTIVITIES***

#### **ISSUE**

1. In some countries government assistance to entities may be aimed at encouragement or long-term support of business activities either in certain regions or industry sectors. Conditions to receive such assistance may not be specifically related to the operating activities of the entity. Examples of such assistance are transfers of resources by governments to entities which:
  - (a) operate in a particular industry;
  - (b) continue operating in recently privatised industries; or
  - (c) start or continue to run their business in underdeveloped areas.
2. The issue is whether such government assistance is a “government grant” within the scope of Accounting Standard AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance* and, therefore, should be accounted for in accordance with this Standard.

#### **CONSENSUS**

3. **Government assistance to entities meets the definition of government grants in AASB 120, even if there are no conditions specifically relating to the operating activities of the entity other than the requirement to operate in certain regions or industry sectors. Such grants shall therefore not be credited directly to equity.**

#### **Application**

- Aus3.1 This Interpretation applies when AASB 120 applies. AASB 120 applies only in relation to for-profit entities.**
- Aus3.2 This Interpretation applies to annual reporting periods beginning on or after 1 January 2005.**

**Aus3.3 This Interpretation shall not be applied to annual reporting periods beginning before 1 January 2005.**

**Aus3.4 The requirements specified in this Interpretation apply to the financial report where information resulting from their application is material in accordance with AASB 1031 *Materiality*.**

## **DISCUSSION**

4. AASB 120.3 defines government grants as assistance by the 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. The general requirement to operate in certain regions or industry sectors in order to qualify for the government assistance constitutes such a condition in accordance with AASB 120.3. Therefore, such assistance falls within the definition of government grants and the requirements of AASB 120 apply, in particular paragraphs 12 and 20, which deal with the timing of recognition as income.

Date of SIC's Consensus: [Deleted by the UIG]

Effective Date of SIC-10: [Deleted by the UIG]

## **REFERENCES**

### ***Australia***

The Urgent Issues Group discussed Issues Paper UIG/SIC 04/1 "Adoption of Various SIC Interpretations in Australia" in relation to this Interpretation at its meeting on 18 March 2004.

Accounting Standard AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance*

### ***International Accounting Standards Board***

International Accounting Standard IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*

Standing Interpretations Committee Interpretation SIC-10 *Government Assistance – No Specific Relation to Operating Activities*