

Staff FAQs – Accounting for Government Support

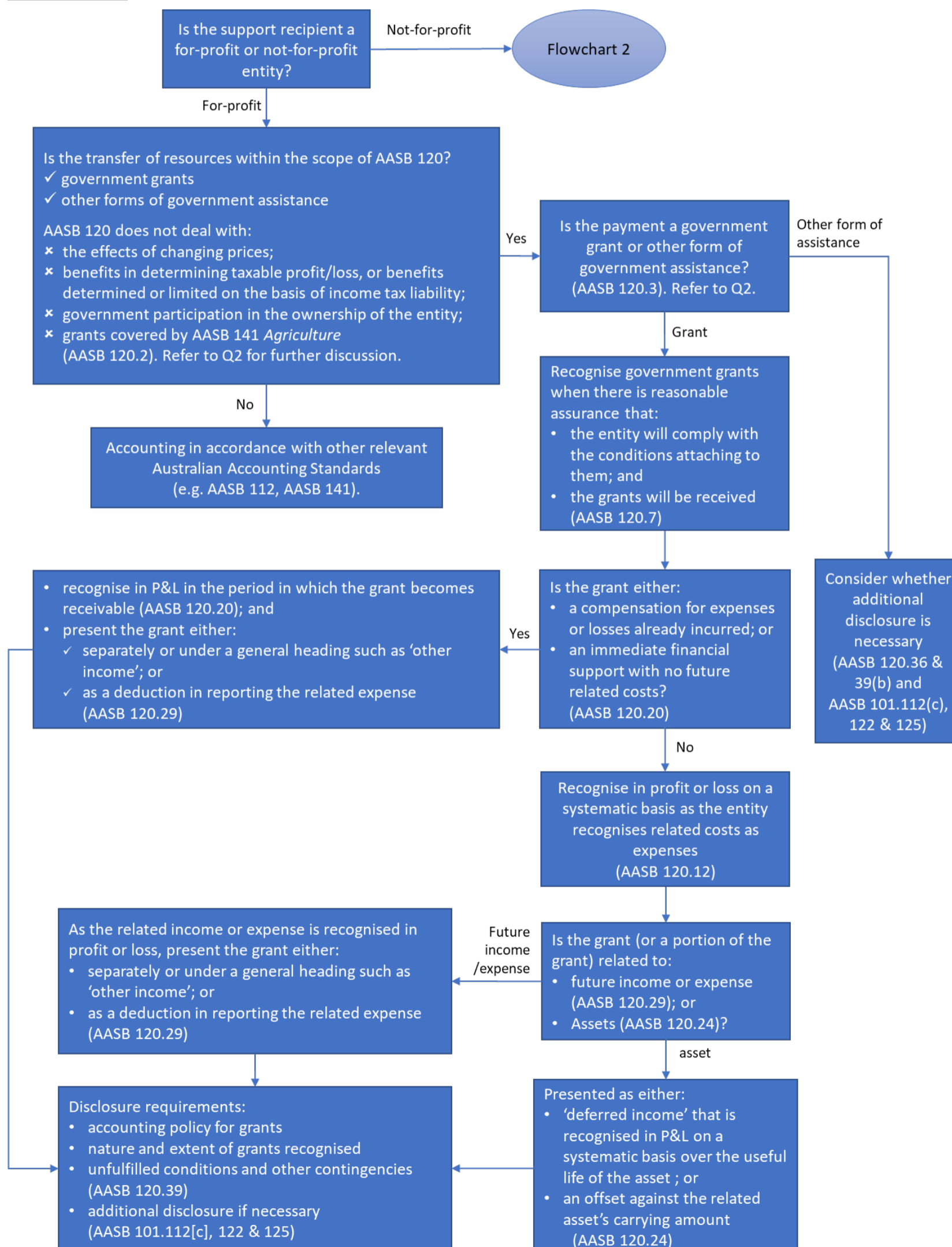
Introduction

To stimulate the economy in response to the COVID-19 pandemic, governments are providing a range of financial support to entities. The financial support can take various forms, such as wage subsidies, fee waivers, loan forgiveness, rent concessions, tax benefits and/or temporary cash payments. Refer to the [Appendix](#) for links to government COVID-19 Support Packages.

The accounting for such government support varies depending on numerous factors, such as whether the entities are for-profit or not-for-profit entities and the nature of—and conditions attached to—such support packages. An entity needs to assess whether it receives recognisable economic benefits in the form of the transfer of assets or the forgiveness of liabilities. The guidance in the FAQs assumes that, where an entity is receiving a transfer of resources, that it should be the party recognising the resources. However, an assessment of facts and circumstances may be necessary to determine whether this is appropriate if the entity is required to transfer the resources received to third parties as a condition of the government support.

For many entities, accounting for government support of this nature will not be something encountered previously. The purpose of these Staff FAQs is to remind entities of the various Standards that may be applicable.

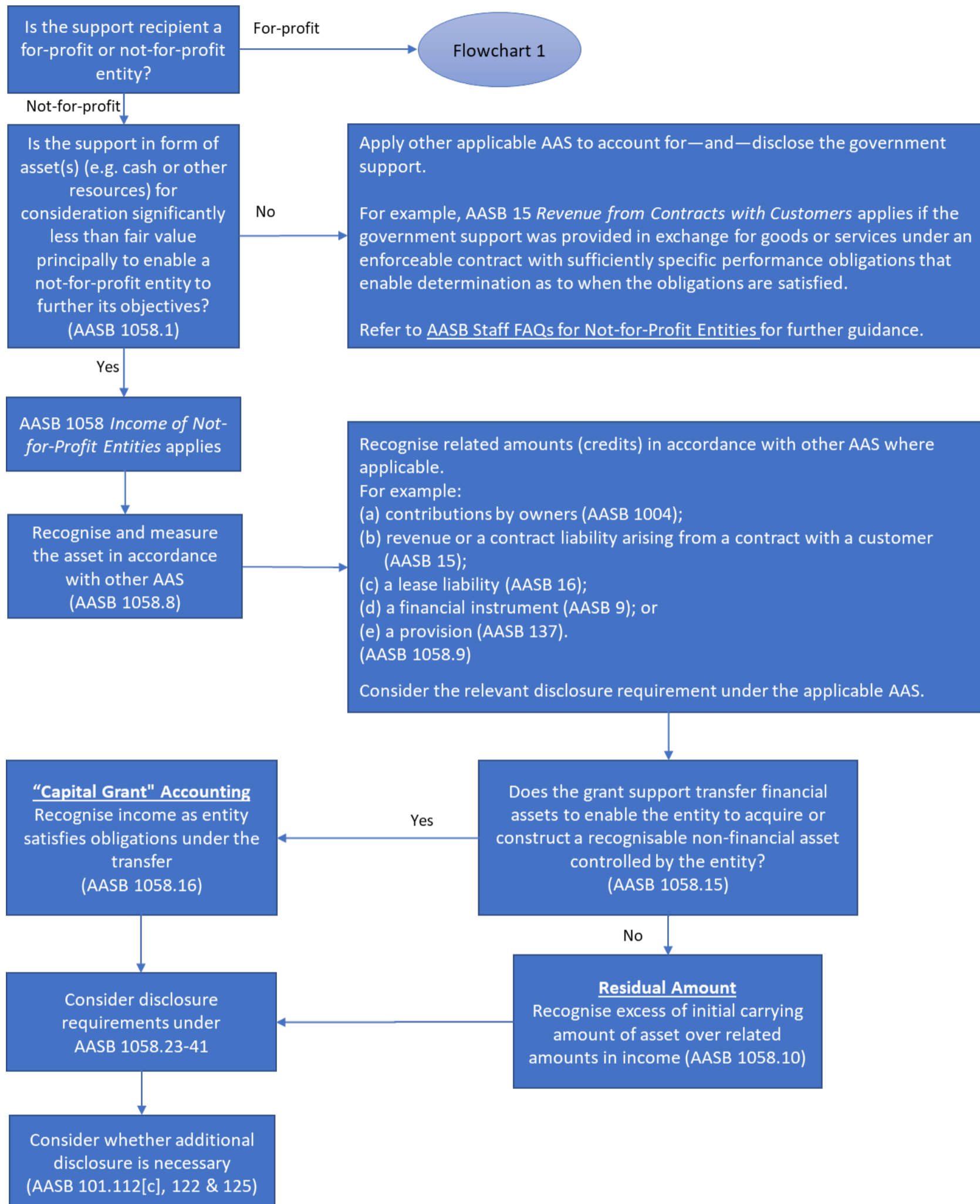
Flowchart 1



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Flowchart 2

(adapted from AASB 1058 Application Guidance, paragraph B1, Chart 1)



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SECTION 1: FOR-PROFIT ENTITIES

Q1: Scope – is the government support within the scope of AASB 120?

For-profit entities should consider whether government support is within the scope of AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance*.

Government support would be within the scope of AASB 120 if it meets either or both of the following definitions (see AASB 120 paragraph 3):

- **Government assistance** – action by government designed to provide an economic benefit specific to an entity or range of entities qualifying under certain criteria. This excludes 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;
- **Government grants** – 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. They exclude those forms of government assistance which cannot reasonably have a value placed upon them and transactions with government that cannot be distinguished from the normal trading transactions of the entity. See Interpretation 110 *Government Assistance—No Specific Relation to Operating Activities*.

These definitions are illustrated in the following tables.

- **Government Grants (AASB 120 paragraphs 3, 7-11 and AASB Interpretation 110 paragraph 1)**

AASB 120 Requirements	Examples
Assistance by government in the form of transfers of resources (financial or non-financial) to an entity;	<ul style="list-style-type: none"> • Cash transfers to compensate for operating expenses (e.g. salaries and wages) or lost income; • Transfer of non-financial assets; • Reduction of liability to the government; • Forgivable loans, if there is reasonable assurance the entity will meet forgiveness conditions. (AASB 120 paragraphs 7, 9,10)
Certain past or future conditions relating to the operating activities of the entity;	<ul style="list-style-type: none"> • Conditions to transfer the asset (or part thereof) to a third party, such as employees; • Conditions to operate in a certain way or in certain regions or industries. (AASB Interpretation 110 paragraph 1)
Can reasonably have a value placed on them; and	<ul style="list-style-type: none"> • Free technical or marketing advice, or the provision of guarantees may not meet the definition (refer to Government Assistance below). (AASB 120 paragraph 3)
Can be distinguished from the normal trading activities of the entity.	<ul style="list-style-type: none"> • A government policy responsible for the procurement of the entity's goods or services would not meet the definition (refer to Government Assistance). (AASB 120 paragraph 3)

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- **Other Government Assistance (AASB 120 paragraphs 3, 34–38)**

AASB 120 definition	Examples
Action designed to provide an economic benefit specific to an entity or range of entities that is not a government grant; and	<p>Other forms of government assistance are excluded from the definition of government grants, for example:</p> <ul style="list-style-type: none"> • Government assistance that cannot reasonably have a value placed upon it: <ul style="list-style-type: none"> ○ free technical or marketing advice; ○ provision of guarantees. • Transactions with government that cannot be distinguished from the normal trading transactions of the entity: <ul style="list-style-type: none"> ○ a government procurement policy that is responsible for a portion of the entity's sales. <p>(AASB 120 paragraph 34 & 35)</p>
Provided directly to the entity.	<ul style="list-style-type: none"> • Does not include benefits provided indirectly through action affecting general trading conditions, such as the provision of infrastructure in development areas or the imposition of trading constraints on competitors. <p>(AASB 120 paragraph 3)</p>

The following types of government support are not accounted for under AASB 120:

Out of scope of AASB 120	Examples	Relevant Standard or Guidance
Government support provided in the form of benefits available in determining taxable profit or tax loss.	<ul style="list-style-type: none"> • Accelerated tax depreciation • Write-off of assets for tax purposes 	<p>AASB 112 <i>Income Taxes</i> Temporary differences may arise or change where the tax base changes. (AASB 112 paragraphs 15&24)</p>
Government participation in ownership of the entity	<ul style="list-style-type: none"> • Transfer of cash in exchange for equity 	<p>AASB 132 <i>Financial Instruments: Presentation</i> Recognise cash and equity. (AASB 132 paragraphs 11, 15-16)</p>
Resource transfer by Government in capacity of a customer in exchange for goods/services	<ul style="list-style-type: none"> • Transfer of cash in exchange for goods/services 	<p>AASB 15 <i>Revenue from Contracts with Customers</i> Recognise revenue when (or as) the entity satisfies a performance obligation. (AASB 15 paragraph 31)</p>
Government grants related to biological assets measured at fair value less cost to sell, that are covered by AASB 141 <i>Agriculture</i>	<ul style="list-style-type: none"> • Grants for growing specified crops • Grants requiring an entity not to engage in specified agricultural activities 	<p>AASB 141 <i>Agriculture</i></p> <ul style="list-style-type: none"> • Unconditional government grant is recognised in profit or loss when the grant becomes receivable; (AASB 141 paragraph 34) • Conditional government grant is recognised in profit or loss when the conditions attached to the grant are met. (AASB 141 paragraph 35)

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Entities need to assess whether government assistance provided in relation to rental payments falls within the scope of AASB 120. For example, assistance provided by the government to a lessor (e.g. to compensate for lost rental income) would be within the scope of AASB 120. Similarly, assistance provided to a lessee (e.g. to subsidise the rent expense) where the government is not the lessor in the lease arrangement would also fall within the scope of AASB 120. However, for assistance provided to a lessee where the government is the lessor in the lease arrangement, neither AASB 120 nor AASB 16 *Leases* clearly address such circumstances. As a result, entities must consider all facts and circumstances when determining the substance of the support provided to determine whether the assistance only relates to the lease agreement or is outside the normal trading transactions of the entity, including whether the assistance results in a change to the original terms and conditions of the lease agreement.

Q2: Is the accounting different between government grants and other forms of government assistance?

Government support that meets the definition of government grants under AASB 120 is recognised in the financial statements in accordance with AASB 120 (see Q4 below). However, certain forms of government assistance that cannot reasonably have a value placed upon it or transactions with government that cannot be distinguished from the normal trading transactions of the entity are not recognised separately.

AASB 120 paragraph 36 suggests that, for government assistance that is not recognised separately, the significance of the benefit may be such that an entity should disclose the nature, extent and duration of the assistance so that the financial statements are not misleading. In addition, AASB 120 paragraph 39(b) requires an entity to disclose an indication of other forms of government assistance from which the entity has directly benefited.

Q3: The government support meets the definition of a government grant. When do I recognise it?

AASB 120 paragraph 7 specifies that government grants are not recognised until there is reasonable assurance that the following criteria will be satisfied:

Criterion	Examples of reasonable assurance
The entity will comply with the conditions attached to a grant; and	<ul style="list-style-type: none">• Management is committed to fulfil the conditions and has the access to and the ability to use all necessary resources to meet the conditions, such as employees, raw materials, and financing
The grant will be received.	<ul style="list-style-type: none">• Approval or confirmation from government that the entity's application is successful or eligibility is verified• Management considers that the entity meets the eligibility criteria (for example, as per previous circumstances) and there is no indication of a change in government policy

Some grants relating to COVID-19 may require an entity to re-qualify for support at short intervals. Where this is the case, entities should recognise only the amounts that meet the recognition criteria above.

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Q4: When and how does the entity recognise government grants in profit or loss?

AASB 120 paragraph 12 specifies that government grants are 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. AASB 120 paragraph 29 explicitly allows entities to present in profit or loss grants that are related to income either separately or under a general heading such as ‘Other income’ or else as a deduction in reporting the related expense.

Management must apply judgement to determine the most appropriate basis of allocation of a grant to profit or loss. As an example, if the purpose of the grant is to keep employees in jobs, a systematic basis of recognition in profit or loss may reflect the recognition of the related employee benefits as an expense (AASB 120 paragraphs 16-19).

A government grant with no future related costs or that is to compensate for expenses already incurred is recognised in profit or loss when it becomes receivable (AASB 120 paragraph 20).

Grants related to the acquisition of an asset are presented in the statement of financial position under either of the following methods, as an accounting policy choice (AASB 120 paragraphs 24-27):

- as deferred income that is recognised in profit or loss on a systematic basis over the useful life of the asset; or
- deducted in calculating the carrying amount of the asset, so that the grant is recognised in profit or loss over the life of a depreciable asset as a reduced depreciation expense.

Q5: How to account for a grant if it becomes repayable?

AASB 120 paragraph 32 requires a government grant that becomes repayable to be accounted for prospectively as a change in accounting estimates in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*.

Type of grant	Accounting for repayment
Grants related to income	<ul style="list-style-type: none"> • apply the repayment first against any unamortised deferred credit and then recognise any excess in profit or loss.
Grants related to assets that have initially been recognised as deferred income	<ul style="list-style-type: none"> • apply the repayment by reducing the deferred income balance
Grants related to assets that have initially been recognised by reducing the carrying amount of the related asset	<ul style="list-style-type: none"> • apply the repayment by increasing the carrying amount of the asset; and • recognise in profit or loss the cumulative additional depreciation that would have been recognised in P&L to date in the absence of the grant repaid.

Q6: What disclosure is required for government support?

Given the unprecedented impacts on entities, clear and tailored disclosure about any form of material government assistance received and conditions attached, it is important to ensure that the financial statements are not misleading and to provide users with the information they need for making decisions.

Government support	Disclosure requirements
Government assistance	<ul style="list-style-type: none"> • an indication of other forms of government assistance from which the entity has directly benefited; and (AASB 120 paragraph 39(b))

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	<ul style="list-style-type: none">the nature, extent and duration of the assistance, when the government assistance is of such significance that disclosure is necessary so that the financial statements may not be misleading. (AASB 120 paragraph 36)
Government grants	<ul style="list-style-type: none">the accounting policy adopted for government grants, including the methods of presentation adopted in the financial statements;the nature and extent of government grants recognised in the financial statements; andunfulfilled conditions and other contingencies attaching to government assistance that have been recognised. (AASB 120 paragraph 39)

Q7: Are any other disclosures required?

AASB 101 *Presentation of Financial Statements* paragraphs 122 and 125 specify the disclosures required on the significant judgements and estimates that management has made in applying the entity's accounting policies.

AASB 101 paragraph 31 requires entities to consider whether to provide additional disclosure when compliance with the specific requirements in Australian Accounting Standards are insufficient to enable users of financial statements to understand the impact of particular transactions or other events and conditions.

AASB 101 paragraph 112(c) further requires disclosure of information in the notes that is not presented elsewhere in the financial statements but is relevant to an understanding of any of them.

It is essential that entities critically assess the disclosures provided in accordance with AASB 120 or other Standards that deal with other aspects of government support.

SECTION 2: NOT-FOR-PROFIT ENTITIES

Q8: Scope – which Standards are relevant to government support?

Not-for-profit entities should consider whether a government support arrangement is within the scope of AASB 15, AASB 1058 or another applicable Standard.

Question 4 of the updated [AASB Staff FAQs for Not-for-Profit Entities](#) (published on the AASB website) provides a flowchart with step-by-step guidance on when a not-for-profit entity's revenue would be within the scope of either AASB 15 or AASB 1058.

Other Standards may be applicable in particular circumstances. For example, like for-profit entities, not-for-profit entities account for government support provided in the form of tax benefits in accordance with AASB 112. Not all government support provided in relation to taxation is accounted for under AASB 112. For example, government support that is not in the form of benefits available in determining taxable profit or tax loss, or based on income tax liability, but is provided upon lodging a return (such as a Business Activity Statement) is not within the scope of AASB 112.

Unlike for-profit entities, not-for-profit entities are required to account for government grants related to a biological asset in accordance with AASB 1058 rather than AASB 141 *Agriculture* (per paragraph Aus38.1 of AASB 141).

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Q9: How should government support be accounted for?

Flowchart 2 of these Staff FAQs illustrates how to account for government support that is within the scope of AASB 1058.

For government support that is within the scope of AASB 1058, a not-for-profit entity recognises the asset received from the government by applying the requirements of other accounting Standards, such as AASB 9 *Financial Instruments*, AASB 16, AASB 116 *Property, Plant and Equipment* and AASB 138 *Intangible Assets*.

The entity then considers whether there are any amounts relating to the asset received that should be recognised as contributions by owners, increases in liabilities, decreases in assets or revenue ('related amounts') in accordance with other Australian Accounting Standards (AASB 1058 paragraph 9). Subject to an exception for "capital grants", the entity recognises income in profit or loss for the excess of the initial carrying amount of the asset over the related amounts recognised (AASB 1058 paragraph 10).

AASB 1058 provides an exception for the accounting for transfers that enable an entity to acquire or construct a recognisable non-financial asset to be controlled by the entity. Such transfers are commonly known as "capital grants", although that term is not used in AASB 1058. Under a government capital grant, the government in substance transfers a recognisable non-financial asset to a not-for-profit entity. As a result, the entity recognises a liability for the excess of the initial carrying amount of the financial asset received over any related amounts recognised in accordance with AASB 1058 paragraph 9, and recognises income in profit or loss when (or as) the entity satisfies its obligations under the transfer (AASB 1058 paragraphs 15-17).

For government support that is within the scope of AASB 15, a not-for-profit entity recognises revenue when (or as) the entity satisfies a performance obligation by transferring a promised good or service (i.e. an asset) to the government and/or third-party beneficiaries. An asset is transferred by the entity when (or as) the government and/or third-party beneficiaries obtains control of that asset (AASB 15 paragraph 31). Further guidance on whether revenue should be recognised over time or at a point in time can be found in the flowcharts in Question 5 in the [AASB Staff FAQs for Not-for-Profit Entities](#).

In addition, the AASB Staff FAQs for not-for-profit entities provide further guidance in the form of illustrative examples and additional Q&As to help entities to determine the appropriate accounting.

Q10: Presentation – can grant income be presented net against the related expense?

AASB 101 paragraph 32 prohibits an entity from offsetting income and expenses, unless required or permitted by an Australian Accounting Standard. Unlike AASB 120, which explicitly permits net presentation of grants, neither AASB 15 nor AASB 1058 requires or permits the offsetting of revenue or income against the associated expenses.

AASB 15 paragraph 46 requires the entity to recognise as revenue the amount of the transaction price that is allocated to a performance obligation when (or as) the performance obligation is satisfied. AASB 1058 paragraph 10 requires income to be recognised in profit or loss without offsetting (subject to the capital grants exception).

Q11: What disclosure is required under AASB 1058 for government support?

Similar to for-profit-entities, clear and tailored disclosure about any form of material government support received and the conditions attached is important to ensure that the financial statements are not misleading and to provide users the information they need for decision making. Disclosing sufficient information will enable users of financial statements to understand the effects of

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government support received for consideration that is significantly less than the fair value of the asset received principally to enable the entity to further its objectives.

In addition to disclosures required by other applicable Australian Accounting Standards for assets and liabilities recognised in relation to government grants, AASB 1058 paragraph 26 requires entities to disclose income recognised during the period, disaggregated into categories that reflect how the nature and amount of income (and the resultant cash flows) are affected by economic factors.

Additional disclosures are required under AASB 1058 paragraphs 31-36 for capital grants:

- opening and closing balances of financial assets and associated liabilities arising from capital grants;
- income recognised during the period arising from the reduction of the associated liabilities;
- information about obligations under the capital grants, including a description of when the obligations are typically satisfied;
- a qualitative or quantitative explanation of when the liability for unsatisfied obligations is expected to be recognised as income (note: this disclosure is not required for entities preparing GPFS under Tier 2 Reduced Disclosure Requirements [RDR]);
- for obligations satisfied over time: (a) the methods used to recognise income, and (b) an explanation why the methods used are appropriate (note: (b) is not required for entities applying RDR); and
- significant judgements and changes in judgements made in determining the timing and amount of income recognition, including the timing of the satisfaction of the obligations under capital grants.

AASB 1058 paragraph 37 also encourages entities to disclose information about externally imposed restrictions, such as an explanation of the judgements used in determining whether funds are restricted, and restricted and unrestricted amounts within assets, equity and comprehensive income.

Q12: What additional disclosures should be considered?

Like for-profit entities, not-for-profit entities must assess the disclosures provided in accordance with the applicable accounting standards that are relevant to accounting for the government support and consider whether additional disclosure is required under AASB 101.

- AASB 101 paragraphs 122 and 125 specify the disclosure required on the significant judgements and estimates that management has made in applying the entity's accounting policies;
- AASB 101 paragraph 31 requires additional disclosure when compliance with the specific requirements in Australian Accounting Standards are insufficient to enable users of financial statements to understand the impact of particular transactions, other events and conditions; and
- AASB 101 paragraph 112(c) further requires disclosure of information in the notes that is not presented elsewhere in the financial statements but is relevant to an understanding of any of them.

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SECTION 3: ILLUSTRATIVE EXAMPLE **(for not-for-profit entities)**

Fact pattern

Due to the COVID-19 pandemic, a not-for-profit entity (an income tax-exempt entity) receives a wage subsidy in the form of cash payments from the government for a specified period. The subsidy is receivable fortnightly, if eligibility criteria for the subsidy are met for the latest fortnightly period. Once paid, the subsidy is not refundable. The government intends that the support will help businesses to keep paying their employees and help people to retain their jobs.

The entity receives the government support for its own benefit even though it transfers the cash payment in full to the eligible employees.

The entity notes the government support does not involve the transfer of goods or services. Accordingly, the entity concludes the government support is not within the scope of AASB 15 and instead would be accounted for under AASB 1058 as cash received for consideration to the government, which is significantly less than fair value to enable the entity to further its objectives. In this case, the grant assists the not-for-profit entity to further its objectives by subsidising the costs of employing its existing staff during the COVID-19 crisis.

Accounting treatment

The not-for-profit entity recognises an asset on the receipt of cash from the government or when the eligibility criteria for the subsidy are met.

The entity also recognises any related amounts arising under other Australian Accounting Standards in accordance with AASB 1058. As the entity did not identify any related amounts in this scenario, the entire amount of the subsidy for the latest fortnightly period is recognised as income upon the recognition of the asset.

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APPENDIX A: LINKS TO COVID-19 GOVERNMENT SUPPORT

Source	Link
Australian Government	https://treasury.gov.au/coronavirus/businesses
State and Territory Governments	Australian Capital Territory Government website <ul style="list-style-type: none"> ▪ https://www.covid19.act.gov.au/economic-support/support-for-business
	New South Wales Government website <ul style="list-style-type: none"> ▪ https://www.nsw.gov.au/covid-19/businesses-and-employment ▪ Supporting NSW Guide
	Northern Territory Government website <ul style="list-style-type: none"> ▪ https://nt.gov.au/industry/support-for-business/programs-and-initiatives
	Queensland Government website <ul style="list-style-type: none"> ▪ https://www.business.qld.gov.au/
	South Australian Government website <ul style="list-style-type: none"> ▪ https://www.treasury.sa.gov.au/Growing-South-Australia/stimulus-measures-to-support-businesses-and-the-community-impacted-by-covid-19
	Victorian Government website <ul style="list-style-type: none"> ▪ https://www.business.vic.gov.au/disputes-disasters-and-succession-planning/coronavirus-covid-19/coronavirus-business-support
	Western Australian Government website <ul style="list-style-type: none"> ▪ https://www.wa.gov.au/organisation/department-of-the-premier-and-cabinet/covid-19-coronavirus-business-and-industry-advice#financial-relief