PwC Reporting*InBrief*

Amendments to Ind AS 20, Accounting for Government Grants and Disclosure of Government Assistance

In brief

The Ministry of Corporate Affairs (MCA) notified the Companies (Indian Accounting Standards) Second Amendment Rules, 2018 (the 'Rules') on 20 September 2018. The Rules amend Ind AS 20 *Accounting for Government Grants and Disclosure of Government Assistance* to allow entities the option of recording non-monetary government grants at a nominal amount and presenting government grants related to assets by deducting the grant from the carrying amount of the asset. An entity shall apply these amendments for annual periods beginning on or after 1 April 2018. The Rules also include consequential amendments to other Ind AS.

This *In brief* provides an overview of the amendments notified by the Rules and our insights on practical application of the amendments.

Key amendments

Ind AS	Nature of amendment
Ind AS 20	Prior to the Rules, Ind AS 20 required that government grant related to assets shall be presented by setting up the grant as deferred income. Further, the standard also stated that non-monetary grant shall be recognised at fair value. The Rules amend Ind AS 20 and provide the following alternatives to entities: (i) Government grant related to assets can also be presented by deducting the grant from the carrying amount of the asset. (ii) Non-monetary grant can be recognised at a nominal amount. These amendments align Ind AS 20 with IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance* issued by the International Accounting Standards Board.
Ind AS 12, *Income Taxes*	Consequential amendment has been made to state that deferred tax is not required to be recognised in respect of non-taxable government grant where the grant is deducted from carrying amount of asset.
Ind AS 16, *Property, Plant and Equipment*	Consequential amendment has been made to state that carrying amount of an item of PP&E may be reduced by government grants in accordance with Ind AS 20.
Ind AS 38, *Intangible Assets*	Consequential amendment has been made to state that intangible asset acquired free of charge or for a nominal amount, by way of government grant, may be recognised at fair value or a nominal amount.

FAQs

1. Is it permissible to early adopt the amendments to Ind AS 20?

Response:
The Rules state that an entity *shall* apply these amendments for the annual periods beginning on or after 1 April 2018. Accordingly, it would not be permissible to early adopt the amendments before the applicability date.

2. How should change in presentation of asset related grant be accounted?

Response:
A change in presentation of asset related grant is a change in accounting policy. As per Ind AS 8, *Accounting Policies, Changes in Accounting Estimates and Errors,* an entity should apply accounting policies consistently from one period to the next. A voluntary change in accounting policy is permitted only if the change results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the entity's financial position, financial performance or cash flows.

The Rules do not contain any transition provision. Accordingly, an entity which elects to change its accounting policy of presentation of asset related government grant should retrospectively apply the change in accounting policy i.e. it should adjust all comparative amounts to show the results and financial position of comparative periods as if the new policy had always been applied. The financial statements should include the disclosures required by Ind AS 8 relating to change in accounting policy. A third balance sheet as at the beginning of the preceding period shall also be presented, if the restatement has a material effect on the information in the balance sheet as at that date.

3. Are there any disclosures required for financial statements for the year ended 31 March 2018 which are yet to be issued?

Response:
Paragraph 30 of Ind AS 8 states that when an entity has not applied a new Ind AS that has been issued but is not yet effective, the entity shall disclose this fact and known or reasonably estimable information relevant to assessing the possible impact that application of the new Ind AS will have on the entity's financial statements in the period of initial application. In complying with paragraph 30 of Ind AS 8, an entity considers disclosing:
(a) the title of the new Ind AS;
(b) the nature of the impending change or changes in accounting policy;
(c) the date by which application of the Ind AS is required;
(d) the date as at which it plans to apply the Ind AS initially; and
(e) either:
(i) a discussion of the impact that initial application of the Ind AS is expected to have on the entity's financial statements; or
(ii) if that impact is not known or reasonably estimable, a statement to that effect.

The above disclosures aim to enable the user to assess the possible effect of the new Ind AS or Ind AS amendment on the entity's financial statements. Management will need to apply judgement in determining whether a new Ind AS or Ind AS amendment is expected to have a material effect for disclosure purposes. The assessment of materiality should consider the effect both on previous transactions and financial position and on reasonably foreseeable future transactions. Where a new Ind AS or Ind AS amendment provide options that could have an effect on the entity such as election of the option to recognise non-monetary government grant at a nominal amount, the entity should disclose its expectation on the use of option. Entities should consider these disclosures, even if the new Ind AS or Ind AS amendment is issued after the balance sheet date but before the date of approval of the financial statements for issue.

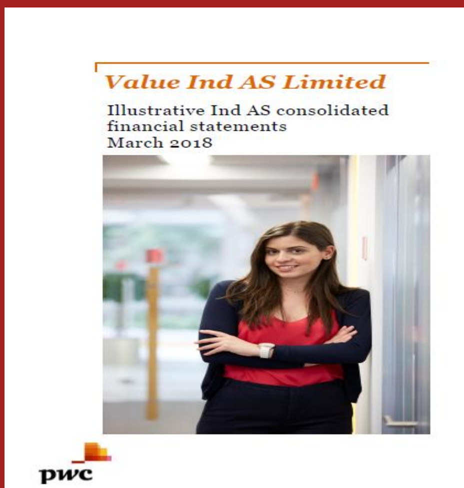
4. Will the Rules have any impact on entities transitioning to Ind AS for the first time?

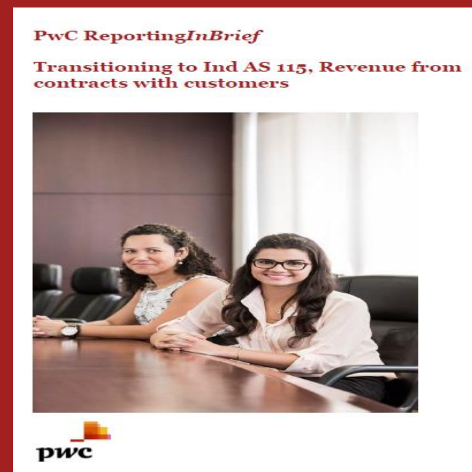
Response:
Prior to the Rules, Ind AS 20 did not allow the option to present asset related grant by deducting the grant from the carrying amount of the asset. Accordingly, a first-time adopter had to recognise asset related government grant by setting up deferred income on the date of transition. Further, Ind AS 101, *First-time adoption of Ind AS* did not provide any exemption in this regard and therefore entities had to retrospectively apply the requirements of Ind AS 20. The Rules now allow entities to present asset related government grant by deducting the grant from carrying amount of the asset which is consistent with previous Indian GAAP. Accordingly, entities transitioning to Ind AS could continue with the similar presentation of asset related government grant followed under the previous Indian GAAP.

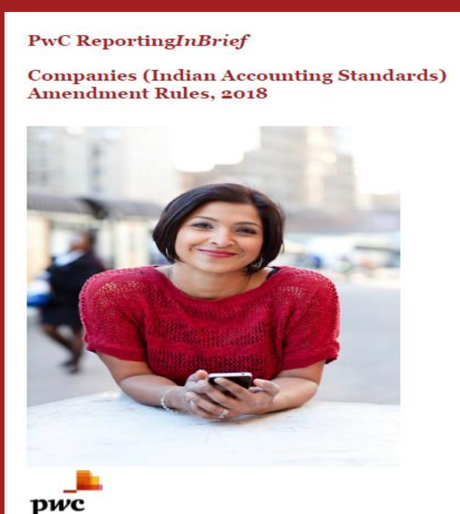
The takeaway

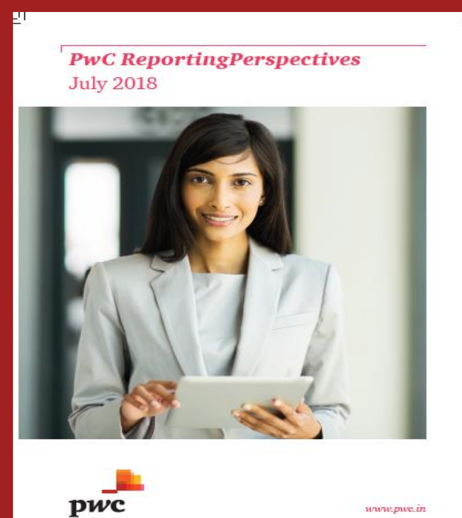
The Rules notify amendments to Ind AS 20. Entities now have an option to present asset related government grant as deduction from the carrying amount of the asset and measure non-monetary government grant at a nominal amount. These amendments align Ind AS 20 with IAS 20 and is a welcome initiative.

Previous publications









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