

ED NASCO 17

“Accounting for Government Grants and Disclosure of Government Assistance”

General provisions

Purpose of Standards

1. This Standard has been prepared in accordance with the Accounting Law of Azerbaijan Republic and is based on International Accounting Standard 10 Events after the Balance Sheet Date

Objective

2. The Objective of this Standard is to prescribe the accounting treatment and disclosure requirements of grants and assistance received by enterprises

Scope

3. This Standard will be applied by all types of commercial enterprise that prepare financial statements in accordance with Article 10 of the Accounting Law of the Azerbaijan Republic, taking into account the additional provisions contained in the Explanations and Recommendations on its Application
4. In the case of contradictions between effective normative-legal Acts on accounting regulation and this National Accounting Standard, the National Accounting Standard should be applied.
5. This Standard shall be applied in accounting for, and disclosure of, government grants and in the disclosure of other forms of government assistance.
6. This Standard does not deal with:
 - (b) government assistance that is provided for an entity in the form of benefits that are to be included in taxable income or are determined or limited on the basis of income tax liability;
 - (c) government participation in the ownership of the entity;

Definitions

7. The following terms are used in this Standard with the meanings specified:

Government refers to government, government agencies and similar bodies whether local, national or international.

Government assistance is an action by government designed to provide an economic benefit specific to an entity or range of entities qualifying under certain criteria. Government assistance for the purpose of this Standard 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.

Government grants are 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 which are part of the normal trading transactions of the entity.¹

Grants related to assets are government grants whose primary condition is that an entity 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.

Forgivable loans are loans which the lender undertakes to waive repayment of under certain prescribed conditions.

8. Government grants are sometimes called by other names such as subsidies, subventions, or premiums. The name ascribed to the government grant is irrelevant and all receipts from government should be assessed in terms of the definition of government grant to establish if the receipts are to fall within that definition

Government Grants

9. Government grants, including non-monetary grants at fair value, shall not be recognised until there is reasonable assurance that:
 - (a) the entity will comply with the conditions attaching to them; and
 - (b) the grants will be received.
10. Receipt of a grant does not of itself provide conclusive evidence that the conditions attaching to the grant have been or will be fulfilled.
11. The manner in which a grant is received does not affect the accounting method to be adopted in regard to the grant. Thus a grant is accounted for in the same manner whether it is received in cash or as a reduction of a liability to the government.
12. A forgivable loan from government is treated as a government grant when there it is reasonable to expect that the entity will meet the terms for forgiveness of the loan.
13. Once a government grant is recognised, any related contingent liability or contingent asset is treated in accordance with NASCO 11 *Provisions, Contingent Liabilities and Contingent Assets*.
14. Government grants shall be recognised as income over the periods necessary to match them with the related costs which they are intended to compensate, on a systematic basis. They shall not be credited directly to shareholders' interests.
15. Income recognition of government grants on a receipts basis is not in accordance with the accrual accounting assumption (see NASCO 1 *Presentation of Financial Statements*) and would only be acceptable if no other basis existed for allocating a grant to periods other than the one in which it was received.
16. The periods over which an entity recognises the costs or expenses related to a government grant are readily ascertainable and thus grants in recognition of specific expenses are recognised as income in the same period as the relevant expense. Similarly, grants related to depreciable assets are to be recognised as income over the periods and in the proportions in which depreciation on those assets is charged.
17. If a grant related to a non-depreciable asset also requires the fulfilment of certain obligations, income is to be recognised as income over the periods which bear the cost of meeting the obligations. 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 recognise it as income over the life of the building.

18. When grants are received as part of a package of financial or fiscal aids to which a number of conditions are attached, they must still be recognized as income in the periods in which the costs and expenditures that gave rise to the grants arise. Enterprises will have to identify the major conditions that will be used in the allocation of such grants.
19. A government grant that is receivable as compensation for past expenses or losses or for the purpose of giving immediate financial support to the entity with no future related costs shall be recognised as income of the period in which it becomes receivable.
20. If a government grant may be receivable by an entity as compensation for expenses or losses incurred in a previous period. Such a grant is recognised as income of the period in which it becomes receivable, with disclosure to ensure that its effect is clearly understood.

Non-monetary government grants

21. A government grant may be in the form of a non-monetary asset, such as land or other resources, for the use of the entity. In these circumstances the fair value of the non-monetary asset is to be established and the enterprise is to account for both grant and asset at that fair value.

Presentation of grants related to assets

22. Government grants related to assets, including non-monetary grants at fair value, shall be presented in the balance sheet by setting up the grant as deferred income.
23. In setting up the grant as deferred income, income is recognized on a systematic and rational basis over the useful life of the asset.
24. The purchase of assets and the receipt of related grants can cause major movements in the cash flow of an entity. For this reason and in order to show the gross investment in assets, such movements are to be disclosed as separate items in the cash flow statement. Income from grants is to be disclosed in the cash flow statement as "Cash proceeds from special purpose financing".

Presentation of grants related to income

25. Grants related to income are to be presented as a credit in the income statement under the general heading of 'Other income'.
26. Disclosure of the effect of the grants on any item of income or expense which is required to be separately disclosed is required.

Repayment of government grants

27. A government grant that becomes repayable shall be accounted for as a revision to an accounting estimate (see NASCO 12 *Accounting Policies, Changes in Accounting Estimates and Errors*). Repayment of a grant related to income shall be 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 shall be recognised immediately as an expense. Repayment of a grant related to an asset shall be recorded by reducing the deferred income balance by the amount repayable.

28. Circumstances giving rise to repayment of a grant related to an asset may require consideration to be given to the possible impairment of the new carrying amount of the asset.

Government assistance

29. The disclosure of the nature, extent and duration of the government assistance that cannot be quantified is necessary in order that the financial statements may not be misleading.
30. Loans at nil or low interest rates are a form of government assistance. The benefit is not quantified by the imputation of interest. Such assistance is to be disclosed by Note only.
31. In this Standard, government assistance does not include the provision of infrastructure by improvement to the general transport and communication network and the supply of improved facilities such as irrigation or water reticulation which is available on an ongoing indeterminate basis for the benefit of an entire local community.

Disclosure

32. The following matters shall be disclosed:
- (a) the accounting policy adopted for government grants, including the methods of presentation adopted in the financial statements;
 - (b) the nature and extent of government grants recognised in the financial statements and an indication of other forms of government assistance from which the entity has directly benefited; and
 - (c) unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

Transitional provisions

Effective date

33. This Standard becomes operative for financial statements covering periods beginning on or after 1 January XXXX