

## CONCEPTUAL APPROACHES CONCERNING GOVERNMENT GRANTS (ROMANIAN CASE STUDY)

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**Abstract:** This paper is a study of government grants, highlighting the theoretical and practical aspects related to International Accounting Standard IAS 20 - Accounting for Government Grants and Disclosure of Government Assistance. We aimed to deepen and develop the essential elements of the standard, such as: definitions, scope, fundamental approach, classification and reimbursement arrangements also government grants, conducting practical studies. To provide more complex informations, we referred to the law, according to accounting regulations EU directives approved by the OMPF 3055/2009, because government grants must be applied legally, providing a clear and accurate image of cash received by the entity as assistance government.

The methodology adopted followed the general theoretical and especially practical issues concerning funding through grants ...

**Key words:** government, government grants, government assistance, IAS 20

### INTRODUCTION

To get an overview and to understand the mechanism of grant funds and programs need to know the context that generated them. As we know, funds are allocated only Member States, through its regional policy, cohesion aimed EU states.

Cohesion policy is grounded in the Treaty of Amsterdam, with the objective of EU strengthen economic and social cohesion. More specifically, art. 158 of the Treaty states as a precondition for cohesion in the EU harmonization process, specifying the intention to minimize disparities between developed and less-favored regions, including rural areas.

The standard aim to outline functionality of government grants in accounting activities is **IAS 20** "Accounting for Government Grants and Disclosure of Government Assistance".

### Government subsidies content

Accounting issues related to government grants and government assistance, including grants loans, are being addressed through **IAS 20**<sup>1</sup> "Accounting for Government Grants and Disclosure of Government Assistance", issued in April 1983 and applicable on or after 1 January 1984. This standard addresses the accounting treatment and disclosure of entities receiving grants, assistance and government loans.

### THEORETICAL BACKGROUND

#### Definitions<sup>2</sup>

□ *Government* is government agencies and similar bodies, whether local, national or international.

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<sup>1</sup> According to IAS 20 - Accounting for Government Grants and Disclosure of Government Assistance, taken from International Financial Reporting Standards - IFRS 2011, translation lb. CECCAR Romanian published with permission IASCF.

<sup>2</sup> ec.europa.eu – International Accounting Standard 20 –Accounting for Government Grants and Disclosure of Government Assistance, EC staff consolidated version as of 6 June 2012, for information purposes only.

□ *Government grants* are assistance by government in the form of transfers of resources to an entity in return for compliance, past or present, of certain conditions relating to the operating activities of the entity.

□ *Government assistance* is action by government, in order to provide an economic benefit specific to an entity or range of entities qualifying under certain criteria.

### *Scope*<sup>3</sup>

Reflect transactions involving the transfer of government resources in favor of entities predetermined certain criteria on its own operating activities. In addition to the standard application of the accounting and presentation of government grants, it is applied to represent forms of government assistance.

**IAS 20** (related interpretation *SIC 10 - Government Assistance*) does not address<sup>4</sup>:

- The special problems arising the accounting for government grants in financial statements reflecting the effects of changing prices or in supplementary information of a similar nature;

- Government assistance that is provided for an entity in the form of benefits that are available in determining taxable profit or tax loss, or are determined or limited on the basis of tax liabilities;

- Government participation in the ownership of the entity;

- Government grants covered by IAS 41 - Agriculture.

Government grants have two approaches: an approach from the point of view of capital, according to which a grant is credited directly to shareholders and a related to income approach, under which the grant is included in income over the accounting period. According to these approaches are presented and detailed in the figure below, the types of government grants.

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<sup>3</sup> [www.ifrs.org](http://www.ifrs.org) – 1 January 2012

<sup>4</sup> [www.iasplus.com](http://www.iasplus.com)

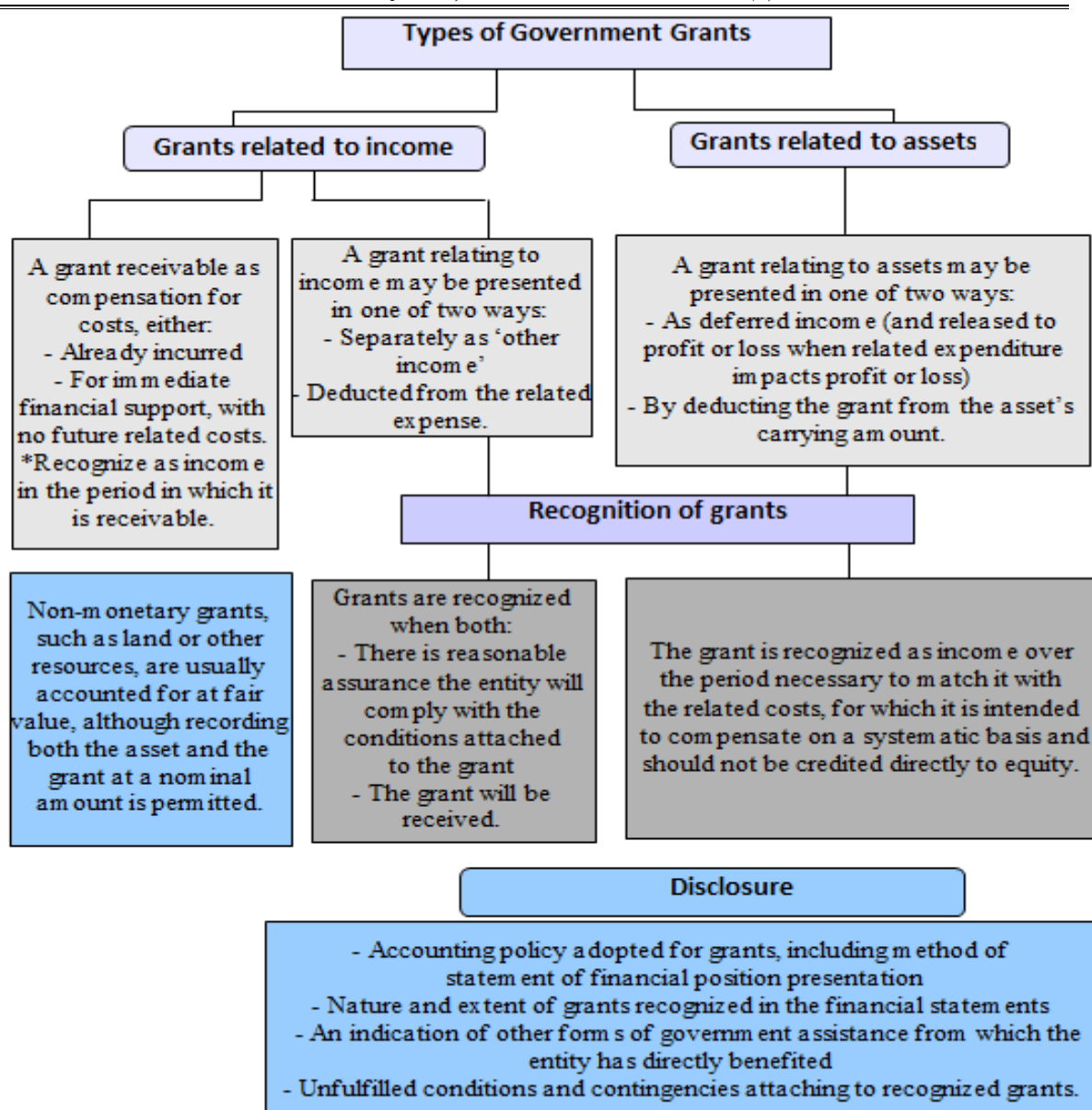


Figure no. 1 - Types of government grants and disclosure

Source: processing after BDO International<sup>5</sup>

Once a government grant is recognized, any related contingent liability (any contingent asset) is treated under IAS 37 - Provisions, Contingent Liabilities and Contingent Assets.

*Reimbursement grant*

- Reimbursement grant related to income shall be applied to any credit, amount is recognized immediately in profit or loss.

- Reimbursement grants related to assets should be recognized by increasing the carrying amount of the asset or reducing the deferred income balance by the amount repayable.

An entity that adopts this Standard for the first time must:

a. respect the provisions of accounting disclosure;

b either - to adjust the financial statements to reflect the change in accounting policy in accordance with IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors.

<sup>5</sup> www.bdointernational.com – 1 January 2013

- apply the accounting provisions of the Standard only to grants or portions of grants becoming receivable or repayable after the effective date of the standard.

We also have taken into account the legislation, according to section 236 of the accounting regulations compliant with Directive IV EEC, approved by OMPF 3055/2009, where operating grants are recognized as income in appropriate periods related costs which the grant are to offset. If it receives grant related expenses not yet incurred, these grant received is not income in the period in which they were received, but for the future years.

### CASE STUDIES

Given the theoretical concepts discussed above we perform case studies which show the entity's accounting records carried relating to the grants by applying the approved accounts of OMPF 3055/2009, accounting harmonized with EU directives.

I. *Entity X receiving the 6.000 RON sum of ten graduates through employment (employer receives a grant of 600 RON / graduate).*

Method of recording for these grants is as follows:

- a. Recording unemployment insurance contribution payable by the employer  
 $6000 \text{ RON} * 3\% = 180 \text{ RON}$

“Contribution for unemployment benefits”	=	“Contribution to the unemployment fund unity”	180
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- b. Registration of amount received for each graduate employee 600

“Government grants”	=	“Income from operation subsidies for paying the staff”	
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- c. The deduction of grant due from the contribution due to the latter

$$600 \text{ RON} * 3\% = 18 \text{ RON}$$

“Contribution to the unemployment fund unity”	=	“Government grants”	18
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- d. Collection of refunds over the next period of AJOFM/AMOFM

“Balances with banks in RON”	=	“Government grants”	6000
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The amount received by the employer for graduates employed as art. 80 of Law 76/2002, is regarded as exploitation subsidy expense is related to the following classification graduates earned by employees at work.

This grant is recognized as income operation.

We mention the fact that employers who employ permanent graduates of educational institutions for each graduate will receive a monthly depending on their level of education, the following grants:

- a) 1 minimum gross salary country into force employment for graduates of lower secondary school or school of arts and crafts;
- b) 1.2 minimum gross salaries country into force employment for graduates of upper secondary or post-secondary education;

c) 1.5 minimum gross salaries country into force employment for university graduates.

II. Entity X receives at the beginning of 2013 investment subsidies for the purchase of technological equipment in the amount of 200.000 RON, of which:

- Government grants in percentage of 60%, the amount of 120.000 RON;
- Contributions at the rate of 40%, the amount of 80.000 RON.

Note that the duration of use of the equipment is 10 years, and depreciation is calculated linearly.

Continue to perform the following accounting records:

- a. Registration of grant
- |                     |   |                                     |         |
|---------------------|---|-------------------------------------|---------|
| “Government grants” | = | “Government grants for investments” | 120.000 |
|---------------------|---|-------------------------------------|---------|
- b. Registration of grant cashing
- |                              |   |                     |         |
|------------------------------|---|---------------------|---------|
| “Balances with banks in RON” | = | “Government grants” | 120.000 |
|------------------------------|---|---------------------|---------|
- c. Registration of equipment purchased
- |                                                                            |   |                   |         |
|----------------------------------------------------------------------------|---|-------------------|---------|
| “Technological equipment”<br>(machinery, equipment, and installation work) | = | “Asset providers” | 200.000 |
|----------------------------------------------------------------------------|---|-------------------|---------|
- d. Registration of paying suppliers
- |                   |   |                              |         |
|-------------------|---|------------------------------|---------|
| “Asset providers” | = | “Balances with banks in RON” | 200.000 |
|-------------------|---|------------------------------|---------|
- e. Registration of monthly amortization of equipment
- 200.000 RON / 10 years / 12 months = 1.666,66 RON/month
- |                                                   |   |                                                       |          |
|---------------------------------------------------|---|-------------------------------------------------------|----------|
| “Operating expenses for depreciation of property” | = | “Depreciation of plant, vehicles, animals and groves” | 1.666,66 |
|---------------------------------------------------|---|-------------------------------------------------------|----------|
- f. Registration of income of grant
- 1.666,66 x 60% = 999,99 RON
- |                                     |   |                                 |        |
|-------------------------------------|---|---------------------------------|--------|
| “Government grants for investments” | = | “Income from investment grants” | 999,99 |
|-------------------------------------|---|---------------------------------|--------|

Grants related to assets are those grants whose primary condition is that the grant beneficiary entity to buy, build or acquire assets.

From the case studies elaborated above can be seen:

- Subsidy received in full before incurring expenses to be recognized as income after expenses borne;
- Expenses are covered by amortization expenses,

Please note that, upon receipt of subsidies is particularly important to include these grants in revenues. Tax authorities seek way at book value arising from the receipt grant, because it depends on the mode of payment of tax for these amounts.

## CONCLUSIONS

We believe that the standard IAS 20, the accounting treatment approach and also by disclosure of the entity will solve all issues encountered level accountant relating to grants, government assistance and government loans.

This standard outlines the common approach in accounting work everything that government funds. We can say that these subsidies received, the entity is helped to develop their own business, having an important role in the economic development of the region in which the entity is located.

So it is necessary application and enforcement of IAS 20, as it shows clear and accurate image of the subsidy amount received by the entity in order to the economic smooth functioning.

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