

**Statement of
Financial Accounting Standards
No. 29**

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Translated by

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**Accounting for Government Grants and Disclosure of
Government Assistance**

I Introduction

- (1) This Statement establishes accounting standards for government assistance.
- (2) This Statement should be applied in accounting for various forms of government assistance (including grants) to enterprises, excluding the following:
 - (a) government encouragement and reward in the form of tax incentives such as tax reduction and exemption, income tax credits, accelerated depreciation and reduced income tax rates; and
 - (b) government investment in enterprises.

II Definitions

- (3) The definitions of the terms used in this Statement are as follows:
 - (a) Government: government, government agencies, government-owned businesses and other similar organizations whether local, national, or international.
 - (b) Government assistance: in order to encourage an enterprise to engage in a certain activity, government provides economic benefits to qualified enterprises. The so-called "economic

benefits” do not include government action to affect general trading situations so that an enterprise obtains indirect benefits, and normal trading transactions between government and enterprise. Examples of the former are government construction of infrastructure facilities or government trade sanctions on competitors

Government assistance includes government grants and other forms of assistance. The latter includes:

- (i) Government assistance of which value cannot be reasonably measured. For example, government provides free technology, market information and government guarantees.
 - (ii) Transactions between enterprise and government arising from government policies. For example, government procurement policy committing to purchase products from enterprise. Such government assistance makes the enterprise profitable but it is difficult to distinguish government assistance from the trading activities.
 - (c) Government grants: government assistance by transferring resources to an enterprise, but do not include government assistance which cannot be reasonably evaluated and transactions between enterprise and government arising from government policies.
- In practice, government grants often has many other terms, such as donations, gifts, subsidies, sponsorships, aids, subventions, and incentive awards.
- (d) Government grants related to assets: government grants whose primary condition requires an enterprise to purchase or acquire long-term assets. The attached conditions may constrain the types, locations, rights of transfer, and holding or acquisition period of the assets.

- (e) Grants related to income: any other government grants other than those related to assets.
- (f) Forgivable loans: loans that are waived by government because an enterprise has met the conditions for such government assistance.
- (g) Non-monetary government grants: non-monetary assets (such as land or other resources) transferred by a government to an enterprise for its use.
- (h) Fair value: the amount for which two informed and willing parties are to exchange asset or settle obligation during the normal course of transaction.

III Explanation

- (4) Government assistance takes many different forms based upon its nature and condition. Its purpose is to encourage an enterprise to engage in a certain activity. Without the government assistance as an incentive, an enterprise may not engage in such activity.
- (5) When an enterprise receives government assistance, it may result in a shifting of assets. In order to fairly present the extent of benefits received from government assistance during the enterprise’s accounting period, so that the financial statements of the enterprise can be compared with those of previous periods and those of other enterprises, the accounting standards and related disclosures for government assistance are warranted.
- (6) The way in which an enterprise receives government grants does not affect the accounting method for such government grants. Thus, whether in forms of asset acquisition or debt forgiveness, the same accounting method should be applied.
- (7) When an enterprise can reasonably assure that it will meet the related terms for forgiveness of a government loan, such forgivable

loan is treated as a government grant.

- (8) Because government grants are not resources from stockholders, it is inappropriate to directly credit stockholders' equity. Instead, it should be recognized as revenues in appropriate periods. Moreover, since an enterprise generally must meet the various conditions for government grants and to fulfill the related obligations, therefore, according to the matching principle, the government grants received by an enterprise along with the related costs incurred must be recognized concurrently. Furthermore, as the taxes paid to government by an enterprise are treated as expense in income statement, so should the government grants received by an enterprise be treated as revenue in the income statement.
- (9) The fact that an enterprise has received government grants is not enough to prove that the enterprise has met or will meet the related conditions of such government grants. Therefore, the government grants should not be recognized until the enterprise has reasonable assurance that the related conditions for the government grants are met and the government grants will be received.
- (10) In certain situations, a government grant may be intended as immediate financial support to an enterprise, rather than as encouragement for an enterprise to undertake certain expenditures. Moreover, the enterprise need not incur any future related costs for such government grant. In this case, since the enterprise is considered to have complied with the related conditions, it can recognize the government grant as revenue when it has reasonable assurance that the government grant can be received. If such revenue meets the conditions for extraordinary income, then it should be listed as an extraordinary item with proper disclosures.
- (11) A government grant may be compensation for past expenses or losses incurred by an enterprise. Moreover, the enterprise need not incur any related future cost for such government grant. In this case, since the enterprise is considered to have complied with the related conditions, it can recognize the government grant as revenue when it has reasonable assurance that the government grant can be received. If such revenue meets the conditions for extraordinary income, then

it should be listed as an extraordinary item with proper disclosures.

- (12) Government grants related to assets should be presented in financial statement either as deferred revenue or as a contra-account to the carrying amount of related assets.
- (13) The government grants related to income that are realized should be recognized as revenue for the period. They are presented as government grant revenue or other revenue; alternatively, they are deducted from related expense. The government grants that are not yet realized should be presented as deferred revenue.

Those who support the separate presentation of government grants as income assert that the separation of the government grants from the related expenses makes it easier to compare with other expenses not affected by a government grant. As such, government grants are not offset against related expenses.

Those who support the presentation of government grants as a deduction from the related expenses assert that, without such grant, an enterprise might not have incurred such expenses. Thus, the financial statement may be misleading if such government grants are not presented as a reduction from related expenses.

IV Accounting standards

Government grants

Recognition of government grants

- (14) An enterprise receiving government grants should not recognize such grants in its financial statements until it has reasonable assurance that both of the following conditions will be met:
- (a) the enterprise can comply with the terms related to the government grants; and
 - (b) the grants will be received.

- (15) The government grants that are in accordance with the rules specified in the preceding paragraph should be recognized as revenue in a rational and systematic way over the periods when related costs are expected to incur, rather than be directly credited to retained earnings. But if there is no rational and systematic way available to recognize such government grants, then the amount of government grants should be recognized in full when received.
- (16) The government grants related to assets that are in accordance with the rules specified in Paragraph 14 should be recognized as deferred revenue. If the government grants are related to depreciable assets, they should be recognized as revenue over the economic lives and in the proportions in which depreciation expenses on those assets are charged. If the government grants are not related to depreciable assets and if the government require an enterprise to fulfill certain obligations, the enterprise should recognize such government grants over the periods and in the proportions in which the related costs are incurred by the enterprise to fulfill the obligations. For example, a government donates a piece of land to an enterprise and requires the enterprise to construct a building on this land. Such government grant should be recognized as revenue over the economic life of the building.
- (17) The government grants related to income that are in accordance with the rules specified in Paragraph 14 should be recognized as revenue in a rational and systematic way over the periods when the related costs are expected to be incurred. However, the government grants that are not realized yet should be presented as deferred revenue.
- (18) If government grant is intended to compensate for the expenses or losses that an enterprise has incurred, or are intended as immediate financial support, and if the enterprise need not incur any future related costs, the enterprise can recognize the government grant as revenue in full amount when it has reasonable assurance that the government grant can be received. If such revenue meets the conditions for extraordinary income, then it should be listed as an extraordinary item with proper disclosures.

- (19) After a government grant is recognized, any related contingencies should follow the rules specified in the Statements of Financial Accounting Standards No. 9, *Contingencies and Subsequent Events*.
- (20) The receipt of non-monetary government grant should be measured at its fair value.

Presentation of government grants related to assets

- (21) Government grants related to assets, including non-monetary government grants measured at fair value, should be presented in balance sheet either as deferred revenue or as the contra-account of related assets. Once a presentation method is chosen, it should be consistently applied.
- (22) The presentation of government grants in income statement should be matched with the presentation of such government grants in balance sheet, either as other revenue or as a reduction of depreciation expense.
- (23) The cash flows resulting from the purchase of asset and the receipt of related grant, regardless of whether or not the grant is deducted from the asset in the presentation of balance sheet, should be separately presented in statement of cash flows as cash outflows of investing activity for the purchase of the asset and cash inflows for the receipt of the grant.

Presentation of government grants related to income

- (24) If government grant related to income is realized, it should be presented in income statement as government grant revenue or other revenue; alternatively, it is presented as a reduction of related expenses and appropriately disclosed in the financial statements. Moreover, the effects of government grants on revenue or expense should be separately disclosed. Once a presentation method is chosen, it should be consistently applied. If government grant related to income is not realized yet, it should be presented in balance sheet as deferred revenue.

Repayment of government grants

- (25) When a government grant related to an asset becomes repayable, it should be debited to deferred government grant revenue. The cumulative under recognition of depreciation expense or over recognition of grant revenue in prior years due to government grant should be immediately recognized in full as an expense upon repayment of such government grant. When a government grant related to income becomes repayable, it should be first applied against any unamortized deferred government grant revenue. If the repayment exceeds deferred revenue or if there is no deferred revenue, the amount of repayment over deferred revenue should be immediately recognized as an expense.

Other forms of government assistance

- (26) Government assistance of which value cannot be reasonably measured and transactions with government due to government policies need not be recognized as revenue or a reduction of expense by an enterprise. Nevertheless, they should be disclosed in the footnotes to financial statements.
- (27) Government loans at zero or low interest rate are a form of government assistance and should be disclosed in the footnotes to financial statements. But the benefit of imputed interest may not be recognized.

Disclosures in the financial statements

- (28) The following items should be disclosed in the financial statements:
- (a) the accounting policy for government grants, including the presentation methods for the financial statements;
 - (b) the nature, extent, unfulfilled conditions and other contingencies of the government grants that have been recognized in financial statements; and

- (c) the nature, extent, time period, unfulfilled conditions and other contingencies of the other government assistance that has directly benefited the enterprise.

V Notes

- (29) For government assistance that was prior to the effective date and was not accounted for in accordance with this Statement, no retroactive restatement is necessary.
- (30) This Statement was issued on June 24, 1999 and shall be effective for financial statements with fiscal years ending on or after December 31, 2000. Early adoption is encouraged.

The provisions of this Statement need not be applied to immaterial items.