The Reflection of the Governmental Subsidies According to IAS 20 in Accountancy

Violeta ISAI
violeta.isai@yahoo.com
Dunarea de Jos University of Galati

Abstract. The governmental subsidies refer to the assistance given to a company by the government in exchange of respecting some conditions regarding the operation activities. They can be: afferent to the assets, incomes or unredeemable loans. The regulation of the subsidies by IAS 20 Standard contains the recognition norms of the subsidies, except the cases of: price changes, periods of exemption from the profit tax, value reductions regarding the accelerated depreciation or the governmental involvement in the company’s leadership.

Keywords: governmental assistance, subsidies, unredeemable loans, depreciable assets, delayed income.

JEL Code: F32

1. Introduction

In subsidies represent sums received from the government, with unredeemable character, used by companies for investments or for the current activities. They are registered in accounting as incomes systematically recognized, in the periods when the afferent expenses are made.

2. Aspects regarding the definition and the applicability area

We define governmental assistance as the actions undertaken by the government in order to offer economic benefits specific to a company that accomplishes certain criteria.

We do not refer to: the insurance of the substructure in the development areas, imposing some commercial constraints to the competitive companies, offering some facilities that must be available for the whole community (for example: irrigation systems, sewerage etc.), governmental transactions that cannot be separated from the company’s commercial transactions. In this context, the company may benefit of governmental subsidies under the form of resource transfers in exchange of some conditions concerning the operation activity.

These subsidies may have different forms:

a. Subsidies afferent to the assets - they represent subsidies whose main condition is buying or building some assets on a long term for the beneficiary company. There can also be secondary conditions, such as: the acquisition or holding period, the asset type or its position.

b. Subsidies afferent to the incomes – they contain all the governmental subsidies, except those afferent to the assets.

c. Unredeemable loans – there are loans for which the creditor (the government) engages itself to exempt the debtor (the company) from their redemption if the debtor accomplishes certain established conditions.
The governmental subsidies are recognized in accountancy if there is the guarantee that the company will respect the conditions of their granting and the sums will be received. The governmental subsidies are acknowledged as incomes while they are connected to the costs they are to counterbalance.

The accounting approach regarding the subsidies can be made:
- from the point of view of the beneficiary company capital, as the subsidy serves directly to the shareholders’ interest;
- from the point of view of the income, as the subsidy is included to incomes along more financial exercises (years).

The second approach has more arguments in its favor, such as:
- as the governmental subsidies represent an entry from a source other than the shareholders, they mustn’t be directly credited to their interests, but considered as income in the respective periods;
- as the governmental subsidies require the accomplishment of some conditions in exchange, they must be acknowledged as income in order to correlate them to the costs they are to counterbalance;
- as the income is accounted for the profit and loss account, it is logical that the governmental subsidies, which represent an extension of the fiscal policy, should have the same destination.

The period of the subsidy acknowledgement as income is usually the same as the period of the afferent expense logging.

3. The reflection way in accountancy

1. The reflection in accountancy of the subsidies registered to incomes

The accounting registrations will be:

\[
\begin{align*}
\text{Year 1, \ldots, n} & \quad \text{445} = 741 \\
\text{„Subsidies”} & \quad \text{„Incomes from operation subsidies”} \\
\text{and} & \\
\text{5121} & \quad \text{445} \\
\text{„Accounts in RON banks”} & \quad \text{„Subsidies”}
\end{align*}
\]

The subsidy passed to incomes is registered in the first formulae and calculated as it follows:

\[
\frac{\text{Total subsidies} \times \text{The costs of the respective year regarding the granting condition}}{\text{Total costs regarding the granting condition}}
\]

The subsidy collected as such from the state budget for the respective year is registered in the second formulae.

The sums from the two accounting formula do not coincide, but on a whole period, there is the difference between the overall collected subsidy and the total cost imposed by the granting condition (for example: personnel costs imposed by the government in order to create new jobs as a condition to grant the subsidy).
If the sum collected exceeds the subsidy passed to incomes in the first years (year 1 to year N-1), the difference will be registered as an income in advance:

- the passing of the subsidy to incomes:
  \[ \text{Subsidies} = 445 \]
  \[ \text{Incomes from operation subsidies} = 741 \]

- the collection of a larger sum of money:
  \[ \text{Accounts in RON Banks} = 5121 \]
  \[ \text{The collected sum} = \% \]

Obviously that the difference will be registered as income in the next year:

\[ \text{Incomes registered in advance} = 741 \]

\[ \text{Incomes from operation subsidies} = 472 \]

4. The reflection of the assets depreciation subsidies in accountancy is made during the assets' depreciation.

We will have:

- the acknowledgement of the subsidy collection right according to the contracts and agreements signed with the financial institution:
  \[ \text{Subsidies} = 445 \]
  \[ \text{Subsidies for investments} = 131 \]

- the acquisition of the fixed means, for which the company benefits of subsidy, at a higher price of acquisition than the subsidy that is to be collected:
  \[ \text{Technical equipments, means of transport, animals and plantations} = 213 \]
  \[ \text{Building providers} = 404 \]

- the collection of the subsidy by account in the sum stipulated in the contract:
  \[ \text{Accounts in RON banks} = 5121 \]
  \[ \text{Subsidies} = 445 \]

- the settlement of the debt towards the building provider:
  \[ \text{Building providers} = 404 \]
  \[ \text{Accounts in RON banks} = 5121 \]

- the registration of the fixed means depreciation depending on the acquisition cost (the entry value), the utility period (in years) and the depreciation method applied:
  Year 1, ..., Year n:
  \[ \text{Operation expenses regarding the immobilizations' depreciation} = 6811 \]
  \[ \text{The depreciation of the equipments, means of trasport, animals and plantations} = 2813 \]
• the acknowledgment of the income afferent to the subsidy that is determined according to the relation:

\[
\frac{\text{Subsidy value}}{\text{The depreciation period of the fixed means}}
\]

\begin{align*}
131 & = 7584 \\
\text{„Subsidies for investments”} & \text{„Incomes from the subsidies for investments”}
\end{align*}

The annual income

Observation: In the cases of the subsidies for unredeemable assets (for example sites), they are known as incomes in the periods that confirm the cost of carrying out some obligations imposed by the investor to the company.

In the case of receiving a subsidy for the acquisition of a site, the condition of having a building on that site may be taken into consideration and the subsidy is considered as income while using the respective building.

5. The reflection of the subsidies collected under the form of setting off the expenses or losses in the previous periods in accountancy.

In this case, the consideration of the subsidy as income is done when it is to be collected. A frequent situation is the employees’ dismissal, when the social protection imposes the granting of a guarantee to cover the expenses with the refunding payments given to the dismissed personnel.

The accounting registrations will be:

• the refunding payments due to the personnel in the year N:

\begin{align*}
6458 & = 462 \\
\text{„Other expenses regarding the insurances and social protection”} & \text{„Different creditors”}
\end{align*}

• the payment of the employees by means of the pay desk:

\begin{align*}
462 & = 5311 \\
\text{„Different creditors”} & \text{„The pay desk in RON”}
\end{align*}

• the right of collecting the subsidy is registered in the year N+1 (usually smaller), as a consequence of carrying out the conditions of granting the refunding payments:

\begin{align*}
445 & = 7415 \\
\text{„Subsidies”} & \text{„Incomes from operation subsidies for insurances and social protection”}
\end{align*}

• the collection of the subsidy using the account:

\begin{align*}
5121 & = 445 \\
\text{„Accounts in the RON banks”} & \text{„Subsidies”}
\end{align*}

The governmental subsidies that are afferent to the incomes which are to be received as compensation for expenses or losses during the respective year (for example, calamities) without future afferent costs, are considered an income while becoming debts, being registered as extraordinary incomes:
"Subsidies" = 771

"Incomes from subsidies for extraordinary events and others that are similar"

Respectively the collection:
5121 = 445

"Accounts in RON banks" = "Subsidies"

4. The reflection of the currency less governmental subsidies in accountancy usually refers to sites or other resources that are transferred to the company in order to be used. In this case, the site is registered, respectively the subsidy at the right value, respectively the sum for which the asset may be willingly exchanged between two parts, within a transaction having the cost objectively established. We will have:

211 = 131

"Sites and site disposal" = "Subsidies for investments"

6. The governmental subsidies redemption

It is registered when the company receives a subsidy that is calculated depending on an estimated cost of the works (for example, environment works) and the sum that isn’t used, calculated depending on the real cost must be redeemed. Percentage penalties from the value of the subsidy are gathered when the redemption is not in time.

The registrations will be:
- the emphasis of the right to receive the subsidy at the estimated sum:
  445 = 741
  "Subsidies" = "Incomes from operation subsidies"

- the collection of the subsidy at this sum:
  5121 = 445
  "Accounts in RON banks" = "Subsidies"

- the establishment of the appropriate subsidy depending on the real cost of the works and the calculation of the unused subsidy which is redeemed:
  6588 = 5121
  The unused subsidy
  "Other operation expenses" = "Accounts in RON banks"

- the settlement of the penalty for the late redemption of the unused subsidy:
  6581 = 5121
  "Damages, fines and penalties" = "Accounts in RON banks"

The unused redeemed subsidy determines the increase of the asset’s net accounting increase while the supplementary depreciation is passed immediately to expenses. There is also the possibility to reduce the sold for the income registered in advance with the respective redeemed sum for the redeemed subsidy.

Observation: In the case of the subsidies for assets, the redemption of the subsidy is made:

131 = 5121

"Subsidies for investments" = "Accounts in RON banks"
Observation: The governmental subsidies redemption may also occur if the company doesn’t respect the conditions previously established with the investor (for example: the embezzlement of some equipments acquired by means of governmental subsidy before the term).

7. The presentation way in balance

In the case of the subsidies afferent to the assets, the subsidy is considered as an income in advance, the depreciation is calculated at the gross cost of the asset while the delayed income is registered as an element of distinct incomes. On the one hand, it appears at the “incomes in advance” post in the patrimony balance, on the other hand as a right to collect the subsidy (debt).

There is also the possibility to deduct the subsidy from the gross value of the asset, the result being its net accounting value (in this case, the subsidy is considered as income while using the asset, by emphasizing an expense reduced with the redemption.

In the Profit and Loss Account, the subsidies are registered at incomes in order to correlate with the costs at the “Other incomes by operation” post.

In the case of the subsidies afferent to the incomes, the subsidies appear in the Profit and Loss Account at the “Other incomes by operation” post, as gross incomes and at the “Subsidies afferent to the net turnover” post.

There is also the possibility that the subsidies connected to incomes to be deducted from the afferent expenses (raw materials, materials, other external expenses, personnel, insurance and social protection, interests etc.).

If the subsidies cover already suffered losses without future afferent costs, they appear as extraordinary incomes in the Profit and Loss Account.

8. The immobilizations acquisitions from subsidies

The subsidies regarding the assets represent the subsidies that can be granted only if the company buy or built immobilized assets.

The subsidy and the assets are in reflected accounting at the right value. They contain also the donations for investments and the material and immaterial immobilizations found as surplus at the goods stock taking. The subsides for assets, at the right value, are reflected in accounting as subsidies for investments and are recognized in balance as incomes registered in advance. These incomes will be registered in the Profit and Loss Account, when the expenses with the depreciation are made, at the assets’ cassation or at the assets’ sale.

- For example, we have a company that receive a subside for building and endowing a production hall.

In accordance with the project, the investment’s value contains:

- 370.000 RON (100.000E) the hall’s value
- 185.000 RON (50.000E) the equipments’ value, necessary for the endow of the production hall, while don’t require assembly.

We will have in accounting:

- the collection of the subsidy in Euro:
The redemption of a subsidy regarding an asset is reflected in accounting by the reduction an asset is reflected in accounting by the reduction of the income registered in advance, with the redeemable sum. If the redeemable sum exceeds the income, or if this income doesn’t exist, the surplus, or the entire redeemed value, is recognized immediately as an expense in the Profit and Loss Account.

For example, on 30.06.2008, we have a company which bought an equipment for 80.000 RON, with TVA 19%. For the equipment’s acquisition, the company received a governmental subsidy of 50.000 RON. The economical utilization length is 4 years.

Because the company didn’t respect any conditions established by the government, on 01.10.2008, it must return 95% of the subsidy’s value. We will have in accounting:

- the acquisition of the equipment from the building provider:
  \[
  \begin{align*}
  \% & = 404 & \text{Building providers} & 80.000 \\
  2131 & & \text{Technical equipments} & 15.200 \\
  4426 & & \text{TVA for acquisitions} & 15.200
  \end{align*}
  \]

- the collection of the subsidy in RON:
  \[
  \begin{align*}
  5121 & = 131 & \text{Subsidies for investments} & 50.000 \\
  \end{align*}
  \]

- the registration of the depreciation for: July, August and September:
6811 = 2813 1.667/month

“Expenses regarding the immobilizations’ depreciation” “The depreciation of equipments” (1.667 \times 3 = 5.000 RON)

- the passing of the subsidy to incomes, correlated to the weight of the subsidy in the asset’s cost.

\[
\begin{align*}
131 & = 7584 \\
& 1.042 \\
	ext{“Subsidies for investments”} & \text{“Incomes from subsidies for investments”} \\
\frac{1.667 \times 50.000}{80.000}
\end{align*}
\]

- during the three months we have: 1.024 \times 3 = 3.126 RON

- the repayment of 95% from the subsidy, on 01.10.2008:

\[
\begin{align*}
\% & = 5121 \\
& 47.500 (50.000 \times 95\%) \\
131 & = 46.874 (50.000 - 3.126) \\
& \text{“Accounts in RON banks”} \\
6588 & = 625 (47.500 - 46.874) \\
& \text{“Other operation expenses”}
\end{align*}
\]

9. Conclusions

In the category of subsidies we have the proper subsidies and also the unredeemable loans. By IAS 20 Standard, the subsidies represent received sums or sums to receive by companies in exchange to respect certain conditions. They include two categories: subsidies afferent to the assets and subsidies afferent to the incomes. In the first case, the income from subsidies sets off the expenses regarding the immobilizations’ depreciation, and in the second case, other expenses made by the company in a certain period.

References

4. Violeta Isai – Contabilitate financiară, EDP, București, 2003