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Regulation of the Ministry of Finance on the
“Establishment of the Guidelines of the Accounting Standards Board”
Note 12
In force from: 01.01.2018
Applicable to the accounting periods, starting on 01.01.2017 or later.

ASBG 12 GOVERNMENT GRANTS

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OBJECTIVE AND BASIS FOR PREPARATION

1. The objective of this Accounting Standards Board's guideline ASBG 12 "*Government Grants*" is to prescribe rules for the recognition of government grants in the financial statements prepared in accordance with the Estonian financial reporting standard (hereinafter also *financial statement*). Estonian financial reporting standard is a body of financial reporting requirements directed at the public and based on the internationally accepted accounting and reporting principles, which principal requirements are established by the Accounting Act and which is specified by a regulation of the minister responsible for the area established on the basis of subsection 34 (4) of the Accounting Act (hereinafter *guideline of the Standards Board* or for short *ASBG*).

2. ASBG 12 is based on IFRS for SMEs section 24 "*Government Grants*" and concepts defined in section 2 "*Concepts and Pervasive Principles*". The guideline contains references to the specific paragraphs of IFRS for SMEs that the requirements of the guideline are based on. The comparison of ASBG 12 with IFRS for SMEs is presented in clause 18. In areas where ASBG 12 does not specify a particular accounting policy but that are covered by IFRS for SMEs, it is recommended to abide by the accounting policy described in IFRS for SMEs.

SCOPE

3. ***ASBG 12 "Government Grants" shall be applied when accounting for grants in the financial statements of the recipient of grant.***

4. ASBG 12 is applied first and foremost upon accounting for government grants in the financial statements of the recipient entities. Within the meaning of this guideline, government means the government of the Republic of Estonia as well as of a foreign country, a local authority, government agency, local or international organisation, who gives government grants (incl. the European Structural and Investment Funds). The principles described in this guideline shall also be applied to account for other government grants to the extent that this guideline is not in conflict with the other guidelines regulating this accounting area and it ensures true and fair presentation.

5. ASBG 12 shall not be applied to:

- (a) mediated assistance in the financial statements of organisations and entities mediating government grant;
- (b) in accounting for intra-group business transactions and transfer of resources of accounting entities regulated by the public sector financial accounting and reporting guidelines (incl. state accounting entities and local government bodies).

DEFINITIONS

6. In this guideline, the terms and definitions shall have the following meaning:

Government grants are government assistance in the form of transfers of certain resources and which are received if an entity's business activities meet certain predetermined criteria. Government grants exclude government assistance whose value cannot be determined reliably (for example, state warranties and free consultations offered by government agencies) and transactions entered into with the public sector under normal conditions. (IFRS for SMEs 24.1, 24.2)

Grants related to assets are government grants whose primary condition is that an entity qualifying for them should purchase, construct or otherwise acquire certain non-current assets. Grants related to assets may contain additional conditions, for example the schedule for acquiring non-current assets, type of non-current assets to be acquired, their location and the period during which they are held.

Grants related to operations are grants not related to assets.

Fair value is the amount for which an asset could be exchanged or a liability settled in a transaction between knowledgeable, willing and independent parties in arm's length transactions. (IFRS for SMEs 2.34 (b))

RECOGNITION OF GOVERNMENT GRANTS

Grants related to operations

9. Grants related to operations are recorded as income, when:

- (a) *their receipt is practically certain; and*
- (b) *substantial conditions related to government grants have been met. (IFRS for SMEs 24.4).*

10. Grants received before the revenue recognition criteria are satisfied, are recognised as a liability on the balance sheet. (IFRS for SMEs 24.4 (c)) Such liability shall be recognised on the balance sheet as current or non-current depending on when conditions attaching to the grant are met.

11. Conditions attaching to the grant are not considered substantial, if the cost of meeting the obligations is minimal and the risk that these are not met, practically non-existent. For example, the obligation to keep all documents related to government grants for five years is not a substantial condition (as it does not constitute significant costs and the risk that the entity is unable to comply with it, is very low), therefore, upon meeting the other conditions, the entity does not need to wait for five years to account for the revenue from government grant.

Example 1 – Recognition of operating expenses of government grants

An entity receives 50,000 euros from a respective fund of the European Union for the support of certain agricultural activities in a particular location for the next five years.

How to recognise this government grant related to agricultural production in case:

- (a) all of the grant is required to be returned if the entity does not meet the criteria set for the grant over the next five years;
- (b) the grant needs to be returned on a time proportion basis for the period during which the entity did not meet the criteria set for the grant.

In the books, the government grant is recorded as follows:

- (a) upon receipt, the amount of the government grant is recognised as deferred income. A government grant is recognised as income only after all conditions related to it have been met (i.e. not before five years);
- (b) the government grant received is recognised as income on a time proportion basis for the period during which the conditions were met (i.e. 10 000 euros per year provided the conditions have been met).

Grants Related to Assets

12. *For grants related to assets, an entity must choose one of the following accounting methods (the selected accounting method shall be applied consistently to all grants related to assets):*

(a) gross method - assets acquired using grants shall be recognised at cost on the balance sheet (the cost of an asset obtained free of charge is its fair value) and accounted for based on ASBG 5 “Property, Plant and Equipment and Intangible Assets”; grants received for acquiring assets shall be recognised as income after criteria specified in clause 9 have been met.

(b) net method - assets acquired using grants shall be recognised at net cost on the balance sheet - i.e. at cost of assets less grants received to acquire the assets (the cost of assets obtained free of charge is zero). Acquired assets shall subsequently be measured based on ASBG 5 “Property, Plant and Equipment and Intangible Assets”.

13. Government grants related to assets may be received as a direct monetary grant or for example, as a payment of invoices related to the purchase of a certain asset by the organisation granting assistance. The technical issues related to giving the grants do not influence the accounting.

14. Regardless of which of the previously described methods the entity chooses, the outflows relating to the acquisition of non-current assets and the inflows relating to government grants shall be recognised separately in the cash flow statement.

Example 2 – Recognition of non-monetary government grants

An entity received a production facility as a non-monetary government grant. With the help of experts, the entity's management estimated the fair value of the production facility as 250 000 euros. The remaining useful life of the building is 30 years. No future conditions resulted from the grant.

Depending on the selected accounting policy (see clause 12), the grant shall be recognised at the date of delivering the building under one of the following methods.

Gross method

D	Constructions	250,000
C	Income from grant	250,000

The building shall be depreciated over 30 years as normal, similar to purchased non-current assets.

Net method

The cost of the building received is zero and it is accounted for off balance sheet.

Example 3 – Recognition of monetary government grants

An entity acquires a non-current asset in the amount of 400,000 euros to be used in production and 50% of its cost is compensated for by the European Union support fund. The condition of the grant is that the entity continues its production activities in the same field and location during the next five years.

In the books, the grant is recognised as follows:

Gross method

Acquisition of non-current assets:

D	Machinery and equipment	400,000
C	Cash	400,000

Upon the receipt of the grant:

D	Cash	200,000
C	Deferred income related to the grant	200,000

After conditions of the grant are met, i.e. after five years:

D	Deferred income related to the grant	200,000
C	Income from grant	200,000

Net method

Acquisition of non-current assets:

D	Machinery and equipment	400,000
C	Cash	400,000

Upon the approval of the compensation application by the organisation granting the aid:

D	Receivables from grant	200,000
C	Machinery and equipment	200,000

Upon the receipt of the grant:		
D	Cash	200,000
C	Receivables from grants	200,000
In the financial statements, economic benefit related to the grant is recognised as a decrease of the depreciation charge over the useful life of the acquired equipment.		

Repayment of Government Grants

15. *Repayment of government grants shall be recognised in the period when the entity became aware of the need for repayment.*

16. In case the entity has already recognised a government grant as income during a certain time period (because according to the management's estimate the entity had met the conditions attached thereto), but in subsequent periods it become evident that the means received via a government grant need to be repaid, the impact of the repayment shall be recognised as expense in the period in which the need for a repayment became evident (i.e. the comparative information from the previous period shall not be adjusted).

17. Repayment of grants related to assets (incl. non-monetary grants) if the grants were recognised under the net method based on sub-clause 12 (b) shall be recognised as follows: the carrying amount of non-current assets shall be increased up to the amount that would be the non-current asset's residual value at the time of repayment if it had initially been recognised at cost. If it is insufficient to cover the repayable amount, the portion exceeding it shall be recognised as an expense of the period.

COMPARISON WITH IFRS FOR SMES

18. The general rules for government grants prescribed in ASBG 12 are in compliance with accounting policies of section 24 of IFRS for SMEs, except with regard to grants related to assets, for which IFRS for SMEs does not offer the choice to recognise grants under the net method. In the Board's opinion, the net method is also acceptable as grants related to assets could be viewed as reimbursement of the cost of a non-current asset by the provider of the government grant, therefore, the cost of the non-current asset for the reporting entity is lower by the grant received.