

How can we accounting for government grant if it vested by the way of estate land?

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Introduction

Green Tea Factory Limited is a well established, branded tea production company in Sri Lanka. It's main business operations are carrying on the business of treating, curing, processing, manufacturing tea and cultivate, grow, manage and superintend tea plantations. Further, Company is a tea factory which is manufacturing teas by using self-constructed machines and it was caused to more profitability to the company due to minimization of related costs.

Green Tea Factory Limited possesses 15 acres of estate land vested by government in 2006 for Rs.600,000 and had not been disclosed in the Financial Statements due to oversight. The 15 acres of land amounted only for Rs.600,000 is a grant received by the government. But, when it was received, they had been recorded as normal transaction of land purchased. Then the company wishes to correct this error in the financial statements from year 2011. It is the retrospective application according to LKAS 8, Paragraph 22, Accounting Policies, Changes in Accounting Estimates and Errors.

Discussion of the Issue

In LKAS 20, paragraph 7 says, government grants, including non-monetary grants at fair value, shall not be recognized until there is reasonable assurance that the entity will comply with the condition attaching to them and the grant will be received. It is obvious that when market determined prices or values available grant shall be recognized at fair value less cost to sell. Then the company has been recognized it at cost when it was received. Therefore land value is understated and thereby, financial position also understated. Further, from year 2006 they were not recognized deferred income portion in every year. Therefore income also understated. From 2006 we cannot be reliable with figures represent in the statement of financial position and comprehensive income related to grant. Decisions are made on these financial statements can be misled due to non-portray of the actual scenarios.

Conclusions and Recommendations

Accordingly it is recommended to recognize this property in the financial statements at a nominal value as at the date transition crediting government grants simultaneously and adjust for its fair value subsequently in 2013. It is clearly mentioned in the separate paragraph in LKAS 20, Accounting for Government Grants and Disclosure of Government assistance to overcome above issue.

"A government grant may take the form of a transfer of a non-monetary asset, such as land or other resources, for the use of the entity. In these circumstances it is usual to assess

the fair value of the non-monetary asset and to account for both grant and asset at that fair value. An alternative course that is sometimes followed is to record both asset and grant at a nominal amount.” (Paragraph 23 - LKAS20)

After recognizing land at fair value and deferred income, then a problem will arise, how to recognize grant in profit or loss. Because land is not depreciated, there is no any basis for that. It also mentioned in one of the paragraphs in the same standard. It is extracted below.

“Grant related to non-depreciable asset may also require the fulfillment of certain obligation and would then be recognized in profit or loss over the periods that 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 recognize the grant in profit or loss over the life of the building.” (Paragraph 18 - LKAS20)

Finally, company has been built a building on that land and it is depreciated over 15 year. Then we recommended recognize the grant in profit or loss over the 15 years simultaneously.