

Educational material 13

**APPLICATION OF IFRS STANDARDS IN LIGHT OF THE
CORONAVIRUS DISEASE (COVID-19) UNCERTAINTY
Government Grants – IAS 20**

Issued May 2020

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Disclaimer

Please note that every effort has been made to ensure that the advice given in this educational material is correct. Nevertheless, that advice is given purely as guidance to members of SAICA to assist them with particular problems relating to the subject matter of the educational material, and SAICA will have no responsibility to any person for any claim of any nature whatsoever that may arise out of, or relate to, the contents of this educational material.

1. Introduction

This educational material issued by SAICA's Accounting Practices Committee (APC) is prepared for educational purposes, highlighting the requirements within IFRS that are relevant for entities considering how the pandemic affects their accounting, for financial periods ending after 31 December 2019 with a specific focus on IAS 20 – Accounting for Government Grants and Disclosure of Government Assistance (IAS 20).

Entities are reminded to consider the impact of events related to COVID-19 on both interim and annual financial statements.

This guidance does not change, remove nor add to, the requirements in IFRS. It is intended to support the sound, consistent and robust application of requirements in IFRS. It is of importance that IFRS is applied consistently on the basis of the most robust reasonable and supportable assumptions in the current environment.

2. Government Grants – Application of IAS 20

IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* shall be applied in **accounting for, and in the disclosure of, government grants** and in the **disclosure of other forms of government assistance**.

Definitions:

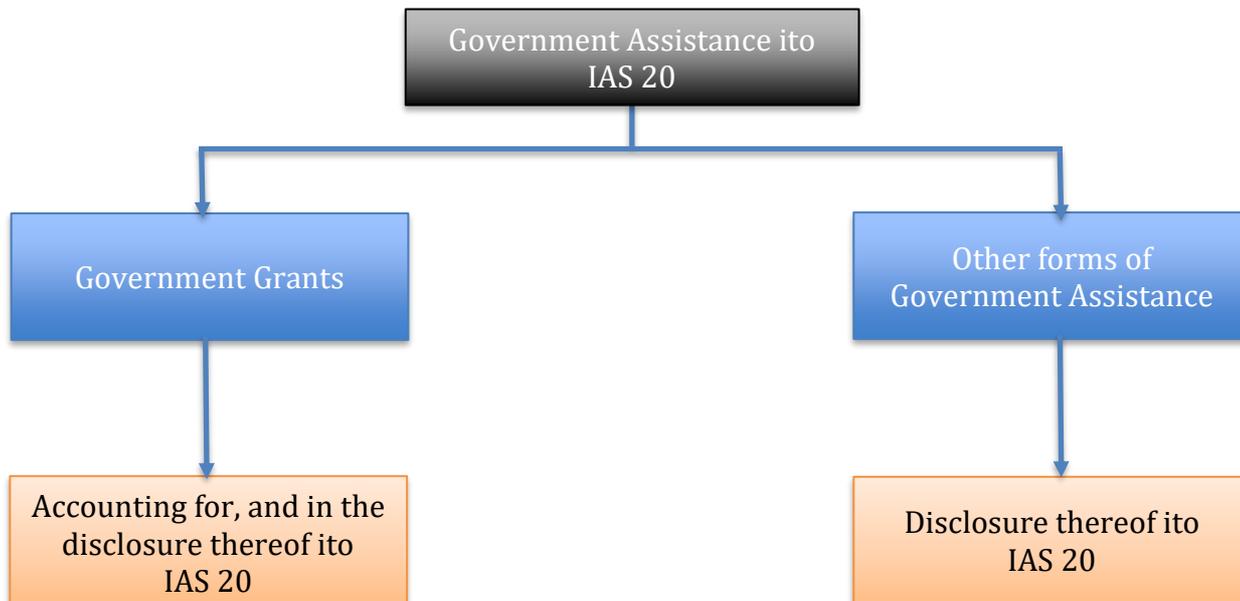
IAS 20, paragraph 3 defines the following terms:

Government refers to government, government agencies and similar bodies whether local, national or international.

Government assistance is action by government designed to provide an economic benefit specific to an entity or range of entities qualifying under certain criteria. Government assistance for the purpose of this Standard does not include benefits provided only indirectly through action affecting general trading conditions, such as the provision of infrastructure in development areas or the imposition of trading constraints on competitors.

Government grants are assistance by government in the form of transfers of resources to an entity in return for past or future compliance with certain conditions relating to the operating activities of the entity. They exclude those forms of government assistance which cannot reasonably have a value placed upon them and transactions with government which cannot be distinguished from the normal trading transactions of the entity.

Therefore:



Background:

The COVID-19 pandemic is affecting major economic and financial markets. Virtually all industries are facing economic challenges associated with the responses (lockdowns, etc.) to address it.

As the pandemic ensues globally and locally, entities are experiencing a cross-functional impact on their business relating to financial reporting, operational concerns and supply chain management. The continuation of these circumstances could result in an even broader economic downturn that could have a prolonged negative impact on an entity.

In light of this economic downturn, the presidency announced and outlined a significant Government social and economic spending plan to buffer the effects of the COVID-19 pandemic on South Africa. Some of these measures are*:

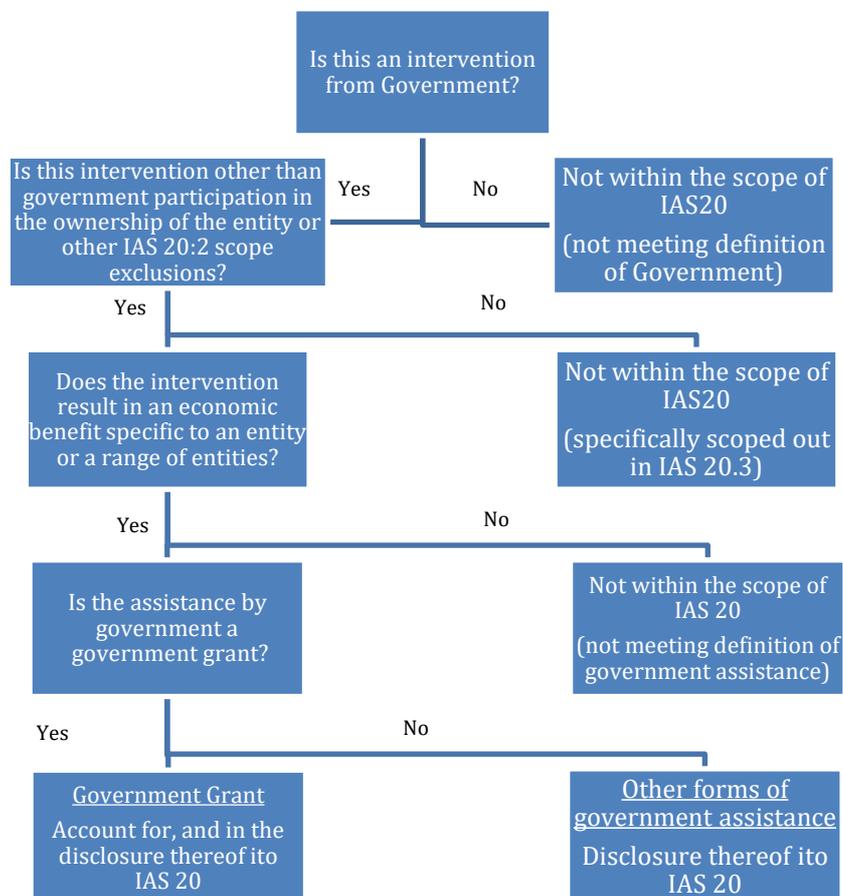
- spending on protective equipment for healthcare workers, additional ventilators, staffing, medicine, field hospitals and community screening;
- funding for municipalities for the provision of emergency water supplies, sanitising public transport facilities as well as feeding and housing the homeless;
- funding towards new grants, grant top-ups and other measures to relieve social distress;
- funding for the protection of jobs and job creation;
- funding via the UIF for workers whose employers cannot pay wages;
- funding to assist spaza shop owners and small businesses;
- a loan guarantee scheme to small and medium sized business from the banks, National Treasury and SA Reserve Bank;
- A tax relief scheme for distressed businesses via deferred payment plans; and

- taxpayers who donate to the Solidarity Fund will be able to claim 10% as a percentage of their taxable income.

**Please note that this is not an exhaustive list and the detailed terms and conditions of each and its related accounting treatment have not been included and assessed within this document. Entities should determine the details of any of these measures separately and consider the guidance produced in this document to the individual government intervention to determine the appropriate accounting treatment.*

Accounting considerations:

As a result of these and other measures implemented by the Government in an attempt to buffer the social and economic effects of COVID-19, these measures may result in accounting consequences for entities. Preparers should consider the following decision tree to determine whether these measures represent a government grant or other government assistance within the scope of IAS 20.



Application of the decision tree:

1) Is this an intervention from Government?

IAS 20:3 states Government refers to government, government agencies and similar bodies whether local, national or international.

Entities should consider the source of the intervention in determining whether any related funding or intervention is *directly* from the government.

For example, relief interventions received from the Oppenheimer COVID-19 relief fund will not represent a government intervention even though they are welcomed by government. Similarly, entities should consider whether similar bodies which may be considered as independent of government, meet the definition per IAS 20:3.

2) Is this intervention other than government participation in the ownership of the entity or other IAS 20:2 scope exclusions?

If Government provides relief to an entity and is also a shareholder in that company, the entity needs to assess whether the government is acting in its capacity as shareholder or as Government in providing the intervention. Any interventions deemed to be provided by the Government in their capacity as shareholder, such as participation in the ownership of the entity, are outside the scope of IAS 20. [IAS 20:2]

Additionally government assistance provided to an entity in the form of benefits that are available in determining taxable profit or loss or that are determined or limited on the basis of income tax liability (such as income tax holidays, investment tax credits, accelerated depreciation allowances and reduced income tax rates) are also outside the scope of IAS 20.

Judgement should be applied by preparers in determining the nature of the intervention provided by Government to determine whether any scope exclusion would apply.

3) Does the intervention result in an economic benefit specific to an entity?

Government assistance is action by government designed to provide an economic benefit specific to an entity or range of entities qualifying under certain criteria. [IAS 20:3]

Entities should consider whether any related government intervention will result in a direct economic benefit. Should any intervention not result in a direct benefit to an entity, this is not government assistance for the purposes of IAS 20 and should not be accounted for in terms of IAS 20.

Further, in IAS 20, government assistance does not include the provision of infrastructure by improvement to the general transport and communication network and the supply of improved facilities such as irrigation or water reticulation which is available on an ongoing indeterminate basis for the benefit of an entire local community. [IAS 20:38]

In assessing and understanding whether there is a direct economic benefit as a result of the Government intervention, entities should analyse the detailed terms and conditions of the interventions provided by Government. In analysing the detailed terms and conditions preparers should consider whether they are receiving the economic benefit in their own capacity (i.e. principal) or on behalf of the ultimate recipient (i.e. agent).

For example#:

- Employers may assist employees in applying for UIF relief from the UIF which will result in payments made directly to employees for any loss in salary during this COVID-19 lockdown period. This will not result in direct economic benefit to the entity.

#The application of this example has been expanded on further below against the decision tree.

4) Is the assistance by government a government grant?

Government grants are assistance by government [*government assistance added*] in the form of transfers of resources to an entity in return for past or future compliance with certain conditions relating to the operating activities of the entity. [IAS 20:3]

Further, the following forms of government assistance are not classified as government grants:

- those that cannot reasonably have a value placed upon them (e.g. free technical or marketing advice or export credit guarantees); and
- transactions with government that are indistinguishable from the normal trading transactions of the entity (e.g. a government procurement policy that is responsible for a significant part of the entity's sales).

SIC-10 addresses the classification of government assistance that is not specifically related to the operating activities of the entity (e.g. transfers of resources by governments to entities that operate in a particular industry). The SIC Interpretation concludes that government assistance to an entity will meet the definition of government grants even if there are no conditions specifically relating to the operating activities of the entity other than the requirement to operate in certain regions or industry sectors. Such grants should therefore be accounted for under IAS 20. [SIC-10:3]

5) Applying the requirements of IAS 20

A government grant is not recognised until there is reasonable assurance that: [IAS 20:7]

- the entity will comply with the conditions attaching to it; and
- the grant will be received. Receipt of a grant is not of itself conclusive evidence that the conditions attaching to the grant have been or will be fulfilled.

Once entities satisfy the requirements of IAS 20:7, Government grants should be recognised in profit or loss on a systematic basis over the periods in which the entity recognises as expenses the related costs for which the grants are intended to compensate. [IAS 20:12]

In some instances, a government grant may be receivable as compensation for expenses or losses already incurred in a previous accounting period. Alternatively, a grant may be receivable for the purpose of giving immediate financial support to the entity with no future related costs. In such circumstances, the grant is recognised in profit or loss in the period in which it becomes receivable, with disclosures provided to ensure the effect is understood. [IAS 20: 20-21]

The receipt of the government assistance or government grant by an entity may be significant for the preparation of the financial statements for two reasons. Firstly, if resources have been transferred, an appropriate method of accounting for the transfer must be found. Secondly, it is desirable to give an indication of the extent to which the entity has benefited from such assistance during the reporting period. This facilitates comparison of an entity's financial statements with those of prior periods and with those of other entities. [IAS 20:5]. IAS 20 paragraph 39 requires the disclosure of:

- a. [...];
- b. the nature and extent of government grants recognised in the financial statements and an indication of other forms of government assistance from which the entity has directly benefited; and
- c. unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

Illustrative example on application of decision tree

Please note the following examples are for illustrative purposes only and does not remove the need for entities to perform a detailed analysis and understanding of the specific terms and conditions of any government arrangement or intervention.

1) Covid-19 Temporary Employee / Employer Relief Scheme (“TERS”)

Fact Pattern

Company A is a retailer of sporting goods. As a result of the COVID-19 pandemic, Company A was required to adhere to the lockdown announced by the President and closed its stores for the duration of this period. As a result of the lockdown enforced and its working capital situation, Company A cannot afford to pay its employees during this period and has required its employees to take annual leave during this period or unpaid leave. All employees have chosen to take annual leave during this period.

As a result of high level of temporary closures and cash flow impacts on employees during this lockdown period, a directive was issued by the Minister of Employment and Labour. This Directive has the following detail:

- It will only apply should an employer as a direct result of Covid-19 pandemic close its operations or part of its operations for a 3 month or lesser period and as a result cannot pay or pay the full amount of employees’ salaries during the period;
- Benefits may only be received under this directive if the total of the benefit together with any additional payment by the employer in any period is not more than the remuneration that the employee would ordinarily have received for working during that period;
- The benefit is separate from the Unemployment Insurance Fund’s (“UIF”) normal benefits and can be applied by the employee directly or an employer may apply for and on behalf of its affected employees;
- The benefits will only pay for the cost of salary for the employees during the temporary closure of the business operations;
- There is a cap on the maximum amount to be paid and a minimum amount that can be earned by employees based on their respective salary amounts;
- Should an employer apply on behalf of its employees, no amount paid by the UIF to an employer under the terms of the directive that is required to be paid, in turn, to an employee will fall into the general assets of the employer. Employer’s however are allowed to set off any amount received from the UIF in respect of that employee’s COVID-19 benefit against the amount paid to the employee in respect of annual leave provided that the employee is credited with the proportionate entitlement to paid annual leave in the future; and
- Employers can also pay employees based on the directive and set off the payments with the UIF benefit received.

Thus Company A has applied on behalf of its employees for relief under this directive and has elected to set-off amounts received from the UIF against annual leave paid to its employees.

Company A is a private company and does not have any shareholding from any sphere of the government.

Application of fact pattern to decision tree

1.1. Is this an intervention from government?

As noted above, the directive was issued by the Minister of Employment and Labour in terms of Regulation 10(8) issued by the Minister of Cooperative Governance and Traditional Affairs in terms of section 27(2) of the Disaster Management Act, 2002.

Therefore this requirement is met as it is an intervention by Government.

1.2. Is this intervention other than government participation in the ownership of the entity or other IAS 20:2 scope exclusions?

Company A is a private company and does not have any shareholding from any sphere of the government. Thus this requirement is not met as this intervention is not received from the Government in their capacity as a shareholder.

In addition this intervention does not represent any further scope exclusion per IAS 20:2.

1.3. Does the intervention result in an economic benefit specific to an entity?

Company A receives income from the UIF which it has used to set-off against annual leave paid to employees. However as noted under the detailed terms and conditions of the directive, the income or benefit has to be passed on directly or indirectly to the employee. Company A is required to reinstate any leave taken by the employee for amounts set-off against leave paid and any amounts paid received by Company A do not constitute general assets of Company A as these have to be paid over to its employees if it makes applications on their behalf. Thus this requirement is not met as Company A is acting as an agent for its employee's in this regard as the ultimate benefit or income accrues to its employees.