

Government grants

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(earlier application is permitted)

Recommendation

Definition

- 1 A government grant is compensation provided by a public institution for services provided or expenses incurred in the course of an entity's operating activities. Through this, the entity receives a specific economic benefit.
 - 2 Government grants can be related to assets or related to income. Alternative names for government grants are, for example, contributions, allowances, compensation, financial assistance, premiums or subsidies.
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Recognition, valuation and disclosure

- 3 Government grants are recognised when there is reasonable assurance that the entity complies with any conditions attached to the grant and the value can be estimated reliably.
 - 4 Government grants related to assets must either be offset against the asset or allocated to deferred income. In the year of initial recognition, government grants related to assets must be presented separately in the statement of changes in fixed assets or elsewhere in the notes if they are offset (net method). The deferred income is recognised in profit or loss over the useful life of the asset.
Non-monetary government grants related to assets (e.g. land) must be measured at fair value at the time of initial recognition.
 - 5 Government grants related to income must be recognised in profit or loss according to plan over the periods in which the entity recognises the related expenses.
They are presented in the income statement either separately or under the heading 'Other operating income'. In objectively justified cases and if doing so does not result in a misleading presentation, government grants may be offset against the corresponding expenses.
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Repayment obligations

- 6 If, contrary to the original assumption, a government grant becomes repayable, this fact must be accounted for as a change in accounting estimate.

Presentation in the cash flow statement

- 7 Government grants related to income are part of the cash flow from operating activities and must be presented separately in the cash flow statement or in the notes. Government grants related to assets and any related repayments must be presented as gross amounts in the cash flow from investing activities.

Disclosure

- 8 An entity must disclose the accounting principles applied in regard to government grants in the notes to the financial statements. The following information must also be disclosed:
- the nature and extent of the recognised government grants;
 - the fair value of non-monetary government grants related to income, where such value can be measured;
 - notes on government grants related to assets or related to income whose value cannot be measured;
 - information about other forms of government grants which provide a benefit to the entity, such as guarantees or the interest component of subsidised loans;
 - information about conditions that are yet to be fulfilled, other contingencies and repayment obligations in connection with government grants.

Explanations

ad paragraph 1

- 9 Compensation for services or expenses can be direct or indirect. Compensation is indirect when it is passed on through one or more intermediary entities (e.g. forwarded payments).
- 10 Government grants can be monetary or non-monetary. Non-monetary government grants are, for example, the provision of land, reduced rents or guarantees.
- 11 Benefits provided in the form of or effects resulting from taxes, government charges or levies do not fall within the scope of this recommendation.

ad paragraph 2

- 12 Government grants related to assets are government grants whose primary condition is that the entity should purchase, construct or otherwise acquire long-term assets in order to qualify for them.
- 13 Government grants related to income are government grants other than those related to assets. This also includes the interest component of subsidised loans.

ad paragraph 3

- 14 Receipt of a government grant does not in itself provide conclusive evidence that the conditions attached to the government grant have been fulfilled.

ad paragraph 4

- 15 Deferred income can be both short-term and long-term. Where appropriate, a designation other than deferred income can be used.
- 16 Government grants must be recognised in the same period as the related expenses. The deferred income from government grants related to assets is recognised in profit or loss over the useful life of the asset as a reduction of the depreciation charges. Alternatively, it can also be disclosed separately as income from government grants related to assets.
- 17 When measuring the fair value of non-monetary government grants, explanations regarding the bases used to determine the fair values must be provided in the notes.
- 18 Due to the special characteristics of the activities of charitable non-profit organisations which apply Swiss GAAP FER 21, for these entities, government grants related to assets are recognised and disclosed in accordance with the provisions of Swiss GAAP FER 21.

ad paragraph 5

- 19 Due to the special characteristics of the activities of charitable non-profit organisations which apply Swiss GAAP FER 21, for these entities, government grants related to income are recognised and disclosed in accordance with the provisions of Swiss GAAP FER 21.
- 20 Where government grants are presented as net amounts in the income statement, the gross amounts must be disclosed in the notes.

ad paragraph 6

21 If a government grant related to assets has been offset against the asset (net method), the repayment amount must be added to the carrying amount of the asset and simultaneously recorded under other liabilities. The cumulative additional depreciation required on the asset that has been increased by the repayment amount must be immediately recorded as an expense.

If the government grant related to assets has been recorded as deferred income (gross method), the repayment amount is transferred from deferred income to other liabilities. The difference between the deferred income amount remaining after the transfer and the amount of deferred income that would have resulted if the repayment amount had been deducted from the original government grant must be immediately recorded as an expense.

ad paragraph 8

22 Explanations regarding non-monetary government grants in the form of goods, services or benefits in kind must be provided in the notes and the value of the received benefits must be disclosed.

23 The determination of the value as well as the valuation methodology applied and key assumptions made in regard to non-monetary government grants must be disclosed.

Note: This Recommendations is published in German, French, Italian and English. Any interpretation is governed by the German version.