

2.3 Government and Non-Government Grants

- 10.1.2.5 The Code (following IFRS 1) requires local authorities to classify and account for grants and contributions and donated assets in their opening IFRS balance sheet (1 April 2009) in accordance with section 2.3 of the Code (see also IAS 20 and IPSAS 23). Accounting for capital grants and contributions and donated assets through the Comprehensive Income and Expenditure Statement once any condition(s) have been met is a change of accounting policy that will require authorities to restate their opening balances in respect of grants and contributions, and donated assets.

The Code requires authorities to implement the revised accounting for grants and contributions retrospectively, i.e. as if they has always accounted for grants and contributions following the requirements of the Code. Authorities will need to restate transactions in relation to grants and contributions to present restated comparative balance sheets as at 1 April 2009 and 31 March 2010, and to present a comparative Comprehensive Income and Expenditure Account for 2009/10.

Authorities would have maintained an account for unapplied grants under the SORP; this was included in the liabilities section of the balance sheet. In this guidance, this account is referred to as the Grants Unapplied Account (liabilities).

The Code requires authorities to maintain an account for unapplied grants (referred to in the Code as the Capital Grants Unapplied Account); as the grants will have been recognised in the Comprehensive Income and Expenditure Statement, this account will be included in the usable reserves section – i.e. the bottom half - of the balance sheet. In this guidance, this account is referred to as the Capital Grants Unapplied Account (reserves) to make the distinction between this account and the account recognised under the SORP clearer.

When accounting for grants and contributions, authorities will need to assess whether a condition is outstanding in considering if the grant or contribution should be recognised as income. Authorities should note the following guidance in the Code:

- 2.3.2.12 A grant, contribution or donated asset may be received subject to a condition that it be returned to the transferor if a specified future event does or does not occur (for example, a grant may need to be returned if the authority ceases to use the asset purchased with that grant for a purpose specified by the transferor). In these cases, a return obligation does not arise until such time as it is expected that the condition will be breached and a liability is not recognised until that time. Such conditions do not prevent the grant, contribution or donated asset being recognised as income in the Comprehensive Income and Expenditure Statement.

Where conditions are outstanding, the creditor account used for grants and contributions is the Capital Grants Receipts in Advance. The creditor account used for donated assets where a condition is outstanding is the Donated Assets Account.

In many cases, the accounting arrangements for revenue grants will not have changed from those in the SORP 2009; no restatements of revenue grants are required in these cases. However, this may not be the case where revenue grants were being held on the balance sheet and matched to expenditure. The general principles that should be applied to revenue grants is set out in the Code as follows:

- 2.3.2.7 Grants and contributions, including donated assets, shall not be recognised until there is reasonable assurance that:

the authority will comply with the conditions attached to them,
and

the grants or contributions will be received.

- 2.3.2.8 Grants and contributions relating to capital and revenue expenditure shall be accounted for on an accruals basis, and recognised immediately in the comprehensive Income and Expenditure Statement as income, except to the extent that the grant or contribution has a condition(s) (as opposed to restrictions) that the authority has not satisfied.

Where a revenue grant meets the recognition criteria set out in paragraph 2.3.2.7 of the Code, it should be recognised in the Comprehensive Income and Expenditure Statement immediately unless there is a condition (as opposed to a restriction) that the authority has not satisfied. A condition arises where the grant must be returned to the grantor if not used as set out in the terms of the grant. Where the terms of the grant set out how it must be used but do not require the grant to be returned to the grantor where the terms are not complied with, this is a restriction and the grant should be recognised in the Comprehensive Income and Expenditure Statement immediately. Further guidance on conditions and restrictions can be found in Module 2, paragraphs C4 – C6 of the Guidance Notes.

The accounting treatment for restating revenue grants is set out in Appendix A to this guidance.

Step 1 - Restate Opening IFRS Balance Sheet as at 1 April 2009

- 10.1.2.6 Any balances on the Government Grants Deferred Account (or equivalent) shall be transferred to the Capital Adjustment Account.

Any balances on the Government Grant Deferred Account (and Contributions Deferred Account where authorities maintain a separate account) will represent income which is not subject to a condition; these amounts have already been used to fund capital expenditure. Applying the Code retrospectively, these amounts would have been recognised in the Comprehensive Income and Expenditure Statement by 31 March 2009, and reversed out to the Capital Adjustment Account. On transition to the Code, the entries required to adjust the 31 March 2009 Balance Sheet figure in the 1 April 2009 Opening IFRS Balance Sheet are:

<i>Dr Government Grants Deferred Account Cr Capital Adjustment Account</i>

- 10.1.2.7 Grants and contributions unapplied at 1 April 2009 shall be reviewed to ascertain whether there are any conditions attached to the grant or contribution. Where there is no such condition, the grant or contribution shall be transferred to the Capital Grants Unapplied Account. Where a condition has yet to be satisfied, the grant or contribution shall be transferred to the Capital Grants Receipts in Advance.

Grants and contributions unapplied at 1 April 2009 may or may not have conditions attached to them. The definition of a condition requires that there is a possibility that the grant or contribution might have to be returned to the donor; if there is a requirement to use the grant or contribution for a particular purpose, but the grant or contribution does not need to be returned to the donor if it is not used as specified, this is a restriction rather than a condition. In such cases, the grant or contribution should be transferred to the Capital Grants Unapplied Account (reserves). See also Module 2, paragraphs C4 – C6 of the Guidance Notes.

Where no conditions exist, the accounting entries required to restate the 1 April 2009 balance sheet are:

*Dr Grants Unapplied Account (liabilities)
Cr Capital Grants Unapplied Account (reserves)*

Where conditions exist, the accounting entries required to restate the 1 April 2009 balance sheet are:

*Dr Grants Unapplied Account (liabilities)
Cr Capital Grants Receipts in Advance*

The SORP Guidance Notes recommended that where grants and contributions were received in advance of expenditure taking place, and where grant conditions had yet to be met and sums remained potentially repayable, advances should have been recorded as creditors. Where authorities have followed this treatment, the creditor accounts used should be transferred to or consolidated with the Capital Grants Receipts in Advance (which should be shown in the liabilities section – i.e. the top half - of the balance sheet). The entries required would be:

*Dr Creditors
Cr Capital Grants Receipts in Advance*

- 10.1.2.8 If the authority had previously recognised a creditor in respect of a donated asset, that creditor shall be transferred to the Donated Assets Account (where conditions remained to be satisfied) or to the Capital Adjustment Account (where all conditions had been satisfied by 1 April 2009).

Donated assets were generally accounted for as government grants under the SORP. In most cases, the asset would have been recognised on the balance sheet and the related credit would have been made to the Government Grants Deferred Account. In these cases, no further action is required as the balance on the Government Grants Deferred Account will have been transferred to the Capital Adjustment Account as part of the adjustment required by paragraph 10.1.2.6.

If conditions were attached to a donation (for example, where a piece of land was donated, with a condition that it was developed for a particular purpose or returned to the donor), a creditor would previously have been recognised in respect of the donated asset. If the condition was still outstanding at 1 April 2009, the creditor should be transferred to the Donated Assets Account (which should be shown in the liabilities section – i.e. the top half - of the balance sheet):

*Dr Creditors
Cr Donated Assets Account*

If the conditions had been satisfied by 1 April 2009, the creditor should previously have been transferred to the Government Grants Deferred Account (and would then have been transferred to the Capital Adjustment Account as part of the adjustment required by paragraph 10.1.2.6); where this did not happen, the creditor should be transferred to the Capital Adjustment Account:

*Dr Creditors
Cr Capital Adjustment Account*

Step 2 - Restate Comparative Figures for 2009/10

- 10.1.2.9 Grant and contributions, and donated assets recognised in the Government Grants Deferred Account (or equivalent) during 2009/10 shall be recognised in the Comprehensive Income and Expenditure Statement and transferred to the Capital Adjustment Account.

Grants and contributions received and applied during 2009/10

Grants and contributions received and applied during 2009/10 would, under the SORP, have been credited initially to the Grants Unapplied Account (liabilities), then transferred to Government Grants Deferred Account. In some cases, part or all of the balance transferred to the Government Grants Deferred Account may have been amortised to service revenue accounts in the Income and Expenditure Account (and reversed out in the Statement of Movement on the General Fund Balance to the Capital Adjustment Account). Under the Code treatment, these grants would have been recognised as income in the Comprehensive Income and Expenditure Statement, and then transferred to the Capital Adjustment Account (with the transfer included in the Movement in Reserves Statement). Note that the 2010/11 edition of the Best Value Accounting Code of Practice requires capital grant income to be recognised along with general grants outside the net cost of services. The entries required to restate the 2009/10 transactions are as follows:

Dr Service revenue accounts (in Surplus or deficit)
Cr Government Grants Deferred Account
Dr Capital Adjustment Account
Cr General Fund (in the Movement in Reserves Statement)

To reverse any amortisation carried out under the SORP, and the subsequent transfer to the Capital Adjustment Account to comply with the capital control regime.

Dr Government Grants Deferred Account
Cr Grants Unapplied Account (liabilities)
Dr Grants Unapplied Account (liabilities)
Cr Grant income in the Comprehensive Income and Expenditure Statement

To reverse the transactions carried out under the SORP and credit the income to the Comprehensive Income and Expenditure Account

Dr General Fund (in the Movement in Reserves Statement)
Cr Capital Adjustment Account

To reflect the transfer of the grant to the Capital Adjustment Account to comply with the capital control regime.

[See Example A in the spreadsheet]

Grants and contributions applied in 2009/10 but received in previous years (with no outstanding conditions)

Transfers to the Government Grants Deferred Account may also have been made under the SORP in 2009/10 in respect of grants and contributions received (with no conditions) in previous years but applied in 2009/10. The balances in respect of these grants and contributions will already have been transferred out of the Grants Unapplied Account (liabilities) to the Capital Grants Unapplied Account (reserves) when restating the 1 April 2009 Balance Sheet (see the first set of transactions under 10.1.2.7 above). In some cases, part or all of the balance transferred to the Government Grants Deferred Account may have been amortised to service revenue accounts in the Income and Expenditure Account (and reversed out in the Statement of Movement on the General Fund Balance to the Capital Adjustment Account).

The following entries will be required to restate these grants and contributions in the 2009/10 accounts:

*Dr Service revenue accounts (in Surplus or deficit)
Cr Government Grants Deferred Account
Dr Capital Adjustment Account
Cr General Fund (in the Movement in Reserves Statement)*

To reverse any amortisation carried out under the SORP, and the subsequent transfer to the Capital Adjustment Account to comply with the capital control regime.

*Dr Government Grants Deferred Account
Cr Grants Unapplied Account (liabilities)*

To reverse the transfer under the SORP to the Government Grants Deferred Account

*Dr Capital Grants Unapplied Account (reserves)
Cr Capital Adjustment Account*

To show the application of the unapplied grant to fund capital expenditure

[See Example B in the spreadsheet]

Grants and contributions received prior to 2009/10 where conditions were satisfied in 2009/10

Grants and contributions received prior to 1 April 2009 may have had conditions attached that were not satisfied until 2009/10. Balances in respect of these grants and contributions will have been transferred out of the Grants Unapplied Account (liabilities) to the Capital Grants Receipts in Advance when restating the 1 April 2009 Balance Sheet (see the second set of transactions under 10.1.2.7 above).

Where the conditions were satisfied during 2009/10, the grant or contribution should have been transferred to the Grants Unapplied Account (liabilities) under the SORP. The creditor account debited as part of this transfer would need to be transferred to, or consolidated with the Capital Grants Receipts in Advance.

Where the grant or contribution was applied to fund capital expenditure during 2009/10, the grant or contribution would have been transferred to the Government Grants Deferred Account. In some cases, part or all of the balance transferred to the Government Grants Deferred Account may have been amortised to service revenue accounts in the Income and Expenditure Account (and reversed out in the Statement of Movement on the General Fund Balance to the Capital Adjustment Account).

The following entries will be required to restate these grants and contributions in the 2009/10 accounts:

*Dr Service revenue accounts (in Surplus or deficit)
Cr Government Grants Deferred Account
Dr Capital Adjustment Account
Cr General Fund (in the Movement in Reserves Statement)*

To reverse any amortisation carried out under the SORP, and the subsequent transfer to the Capital Adjustment Account to comply with the capital control regime.

*Dr Government Grants Deferred Account
Cr Grant income in the Comprehensive Income and Expenditure Statement*

To recognise the income once the condition has been met

*Dr General Fund (in the Movement in Reserves Statement)
Cr Capital Adjustment Account*

To show the application of the unapplied grant to fund capital expenditure

*Dr Capital Grants Receipts in Advance
Cr Creditors*

The balance on the Creditors account would have been transferred to Capital Grants Receipts in Advance in step 1 (see 10.1.2.7). When the conditions were met in 2009/10, under the SORP the transfer to the Grants Unapplied Account (liabilities) would have been made from the Creditors account rather than Capital Grants Receipts in Advance; the balance on the two accounts therefore needs correcting or consolidating

[See Example C in the spreadsheet]

Where the grant or contribution had not been applied to fund capital expenditure at 31 March 2010, the following entries will be required to restate these grants and contributions in the 2009/10 accounts:

*Dr Grants Unapplied Account (liabilities)
Cr Creditors*

To reverse the entries, carried out under the SORP to recognise the satisfaction of the condition, that are not required under the Code

*Dr Capital Grants Receipts in Advance
Cr Grant income in the Comprehensive Income and Expenditure Statement*

To recognise income once the condition has been satisfied

*Dr General Fund (in the Movement in Reserves Statement)
Cr Capital Grants Unapplied Account (reserves)*

To reflect the transfer of the grant to the Capital Grants Unapplied Account (reserves) to comply with the capital control regime.

[See Example D in the spreadsheet]

- 10.1.2.10 Grants and contributions received but unapplied during 2009/10 shall be reviewed to ascertain whether there are any conditions attached to the grant or contribution. Where there is no such condition, the grant or contribution shall be recognised in the Comprehensive Income and Expenditure Account and transferred to the Capital Grants Unapplied Account.

Where a grant or contribution was received (but not applied) in 2009/10 that had a condition attached, and that grant or contribution was credited to a creditor account, that account should be transferred to (or consolidated with) the Capital Grants Receipts in Advance. The entries required would be:

*Dr Creditors
Cr Capital Grants Receipts in Advance*

In other cases, a grant or contribution received but not applied in 2009/10 would have been credited to the Grants Unapplied Account (liabilities) under the SORP. These amounts will need to be reviewed to ascertain whether there are any unsatisfied conditions attached to the grant or contribution. The following entries will be required to restate the 2009/10 accounts.

Grants and contributions received in 2009/10 where no outstanding conditions remained as at 31 March 2010 but the grants and contributions had not been applied to fund expenditure

Under the Code, the grants and contributions should be recognised as income in the Comprehensive Income and Expenditure Statement, and transferred to the Capital Grants Unapplied Account (reserves). The entries required are as follows:

*Dr Grants Unapplied Account (liabilities)
Cr Grant income in the Comprehensive Income and Expenditure Statement*

To reflect the income in the Comprehensive Income and Expenditure Statement.

*Dr General Fund (in the Movement in Reserves Statement)
Cr Capital Grants Unapplied Account (reserves)*

To reflect the transfer of the grant to the Capital Grants Unapplied Account (reserves) to comply with the capital control regime.

[See Example E in the spreadsheet]

Grants and contributions received in 2009/10 where outstanding conditions remain as at 31 March 2010

The grants and contributions should be recognised in the Capital Grants Receipts in Advance. The entries required are as follows:

*Dr Grants Unapplied Account (liabilities)
Cr Capital Grants Receipts in Advance*

- 10.1.2.11 If the authority had recognised a creditor in respect of a donated asset during 2009/10, that creditor shall be reviewed to ascertain whether there are any conditions attached to the donated asset. Where there is no such condition, the donated asset shall be recognised in the Comprehensive Income and Expenditure Statement and transferred to the Capital Adjustment Account. Where there is an unsatisfied condition, the creditor shall be transferred to the Donated Assets Account.

Where the authority concludes that the condition remains unsatisfied, the accounting entries required to restate the balance sheet as at 31 March 2010 are:

*Dr Creditors
Cr Donated Assets Account*

Where the authority concludes that the condition was satisfied during 2009/10, the authority will need to recognise income in relation to the asset in the Comprehensive Income and Expenditure Statement. As the donated asset had not been transferred to the Government Grants Deferred Account, it is highly unlikely that the donated asset creditor would have been amortised to service revenue accounts. The accounting entries required to restate the 2009/10 accounts are:

*Dr Creditors
Cr Grant income in the Comprehensive Income and Expenditure Statement*

To reflect the income in the Comprehensive Income and Expenditure Statement.

*Dr General Fund (in the Movement in Reserves Statement)
Cr Capital Adjustment Account*

To reflect the transfer of the donated asset income to the Capital Adjustment Account to comply with the capital control regime.

[See Example F in the spreadsheet]

Donated assets received without conditions during 2009/10

Donated assets received without conditions during 2009/10 would, under the SORP, have been credited to the Government Grants Deferred Account. Although unlikely, it is possible part of the balance transferred to the Government Grants Deferred Account may have been amortised to service revenue accounts in the Income and Expenditure Account (and reversed out in the Statement of Movement on the General Fund Balance to the Capital Adjustment Account). Under the Code treatment, these donated assets would have been recognised as income in the Comprehensive Income and Expenditure Statement, and then transferred to the Capital Adjustment Account (with the transfer included in the Movement in Reserves Statement). The entries required to restate the 2009/10 transactions are as follows:

*Dr Service revenue accounts (in Surplus or deficit)
Cr Government Grants Deferred Account
Dr Capital Adjustment Account
Cr General Fund (in the Movement in Reserves Statement)*

To reverse any amortisation carried out under the SORP, and the subsequent transfer to the Capital Adjustment Account.

*Dr Government Grants Deferred Account
Cr Grant income in the Comprehensive Income and Expenditure Statement*

To reverse the credit carried out under the SORP and credit the income to the Comprehensive Income and Expenditure Account

*Dr General Fund (in the Movement in Reserves Statement)
Cr Capital Adjustment Account*

To reflect the transfer of the donated asset to the Capital Adjustment Account

[See Example G in the spreadsheet]

Donated assets received prior to 2009/10 where conditions were satisfied in 2009/10

Donated assets received prior to 1 April 2009 may have had conditions attached that were not satisfied until 2009/10. Balances in respect of these donated assets will have been transferred to the Donated Assets Account under Step 1 above.

Where the conditions were satisfied during 2009/10, the donated should have been transferred to the Government Grants Deferred Account; under the SORP, this transfer would have been made from the creditors account rather than from the Donated Assets Account. Although unlikely, it is possible part of the balance

transferred to the Government Grants Deferred Account may have been amortised to service revenue accounts in the Income and Expenditure Account (and reversed out in the Statement of Movement on the General Fund Balance to the Capital Adjustment Account).

To restate the 2009/10 accounts, the following entries will be required:

*Dr Service revenue accounts (in Surplus or deficit)
Cr Government Grants Deferred Account
Dr Capital Adjustment Account
Cr General Fund (in the Movement in Reserves Statement)*

To reverse any amortisation carried out under the SORP, and the subsequent transfer to the Capital Adjustment Account.

*Dr Government Grants Deferred Account
Cr Grant income in the Comprehensive Income and Expenditure Statement*

To reverse the credit carried out under the SORP and credit the income to the Comprehensive Income and Expenditure Account

*Dr General Fund (in the Movement in Reserves Statement)
Cr Capital Adjustment Account*

To reflect the transfer of the donated asset to the Capital Adjustment Account to comply with the capital control regime.

*Dr Donated Assets Account
Cr Creditors*

To clear the creditors account, as the balance as at 1 April 2009 would already have been transferred to the Donated Assets Account under Step 1 above.

[See Example H in the spreadsheet]

Appendix B to this guidance shows a flowchart of the process for accounting for capital grants and contributions that authorities might find useful when considering the transition arrangements.

Restatement of Revenue Grants**Step 1 - Restate Opening IFRS Balance Sheet as at 1 April 2009**

Where an authority was holding a revenue grant on the balance sheet to be matched to future expenditure, and there were no conditions (as defined by the Code) in respect of that grant, the grant would be recognised immediately under the Code. The creditor balance should therefore be transferred to the General Fund:

Dr Creditor (Revenue Grant)
Cr General Fund

With the creditor balance in respect of the grant

[See example 1 in the spreadsheet]

Where a condition remained to be satisfied, the grant would continue to be recognised as a creditor, and no restatement will be required in the opening (1 April 2009) IFRS Balance Sheet.

Step 2 - Restate Comparative Figures for 2009/10**Grants received (without conditions) prior to 1 April 2009**

Grants received without conditions prior to 1 April 2009 would have been restated in the opening 1 April 2009 balance sheet (Step 1 above). Transactions in respect of such grants that occurred in 2009/10 under the SORP will therefore need to be reversed. Where the grant was credited to the Income and Expenditure Account to match expenditure under the SORP, these transactions will need to be reversed:

Dr Grant Income (Service Revenue Account)
Cr Creditor (Revenue Grant)

With the expenditure credited to the Income and Expenditure Account under the SORP

[See example 1 in the spreadsheet]

Grants received (with conditions) prior to 1 April 2009

Where a grant was received with conditions prior to 1 April 2009, the grant would have been treated as a creditor under both the SORP and the Code. Where the conditions were met prior to 1 April 2009, the treatment would be the same as for grants received without conditions prior to 1 April 2009 (see above). Where the conditions had not been satisfied at 31 March 2010, the grant would continue to be treated as a creditor under both the SORP and the Code, and no restatement will be required. Where the conditions were satisfied during 2009/10 and the grant was credited in full to the Income and Expenditure Account to match expenditure under the SORP, this matches the treatment required under the Code, and no restatement will be required.

However, where the conditions were satisfied during 2009/10 but under the SORP the grant remained on the balance sheet as a creditor, the grant would need to be recognised in the Comprehensive Income and Expenditure Statement under the Code. The creditor balance should therefore be recognised as income:

*Dr Creditor (Revenue Grant)
Cr Grant Income (Service Revenue Account)*

With the creditor balance in respect of the grant

[See example J in the spreadsheet]

Grants received (without conditions) during 2009/10

Where a grant was received during 2009/10 without conditions, the Code requires the grant to be recognised as income immediately. Where, under the SORP, the grant was held on the Balance Sheet as a creditor, a restatement is required and the grant should be recognised as income:

*Dr Creditor (Revenue Grant)
Cr Grant Income (Service Revenue Account)*

With the creditor balance in respect of the grant

[See example K in the spreadsheet]

Grants received (with conditions) during 2009/10

Where a grant was received during 2009/10 with conditions, the grant would initially be accounted for as a creditor under both the SORP and the Code. Where those conditions remained unsatisfied at 31 March 2010, the grant would continue to be treated as a creditor under both the SORP and the Code, and no restatement will be required. Where the conditions were satisfied during 2009/10 and the grant was credited in full to the Income and Expenditure Account to match expenditure under the SORP, this matches the treatment required under the Code, and no restatement will be required.

However, where the conditions were satisfied during 2009/10 but under the SORP the grant remained on the balance sheet as a creditor, the grant would need to be recognised in the Comprehensive Income and Expenditure Statement under the Code. The creditor balance should therefore be recognised as income:

*Dr Creditor (Revenue Grant)
Cr Grant Income (Service Revenue Account)*

With the creditor balance in respect of the grant

[See example L in the spreadsheet]

Note that whilst this Appendix refers to revenue grants, the same treatment would apply to revenue contributions.

Flowchart of process for accounting for capital grants and contributions

