

Section 6

WHOLE OF GOVERNMENT ACCOUNTS 2008-09

TREATMENT OF GRANT IN AID TRANSACTIONS AND OTHER SPECIFIC GRANTS

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WHOLE OF GOVERNMENT ACCOUNTS 2008-09

TREATMENT OF GRANT IN AID TRANSACTIONS AND OTHER SPECIFIC GRANTS

Application

1. The guidance in this section applies to Non Departmental Public Bodies (NDPBs), including those that are charities and companies.

Summary

2. The FReM differentiates between revenue and capital grants. It makes allowances for NDPBs that are charities or companies and it removes the element of choice in the accounting treatment of grants and grant in aid received by NDPBs. The department responsible for the NDPB and the relevant authority must approve any alternative accounting treatment. Where an alternative treatment has been approved the NDPB should consult the responsible department who will liaise with the Treasury's WGA team to ensure a consistent WGA approach is adopted.

Revenue Grants

3. NDPBs must treat grant in aid and specific grants they receive from their sponsoring departments for revenue purposes as contributions from controlling parties, which give rise to a financial interest in the residual interest of the body, and hence they should account for them as financing. The impact of the change means that specific revenue grants and grant in aid received from sponsoring departments should be credited to an income and expenditure reserve (FReM; paragraph 4.2.15). For WGA purposes all such income should be credited to the standard chart of account code (SCOA) 31077000 and the relevant CPID code. NDPBs must ensure they agree the amount of grant received with the department / body providing the grant (Appendix 2 - Agreement of Balances Forms).

4. The FReM requires that a proposed alternative accounting treatment is approved by both the department responsible for the NDPB and the relevant authority. If an alternative accounting treatment has been approved the NDPB should, in the first instance, discuss the WGA implications with the responsible department who should then liaise with the Treasury's WGA team to ensure the proposed treatment for WGA purposes is consistent with other bodies and that counterparty transactions are fully eliminated.

5. NDPBs that account for their grant in aid and other grants on an accruals basis will need to complete the "Accrued GiA" worksheet in the New C Pack which they must send to their sponsoring departments in accordance with the "Guidance Notes for the Completion of the New Consolidation Pack". The completed "Accrued GiA" worksheet will then enable sponsoring departments to reverse the brought forward and carried forward debtors and creditors on behalf of their NDPBs. The reversal of these balances should be taken to SCOA 31077000. Sponsoring departments should make journal adjustments to the data supplied by the NDPBs to provide a clear audit trail.

6. In addition to grant in aid and specific revenue grants received from sponsoring departments some NDPBs receive grants from other departments or entities. In such circumstances NDPBs may treat the grant received as income. Similarly, the revenue generated by an NDPB when it provides a service to its sponsoring department (i.e. is analogous to an exchange transaction) may be treated as income. NDPBs should credit grant income received from departments that are not their sponsoring departments to SCOA 41209530 (other grant income - revenue). Revenue arising from the provision of services should be credited to SCOA 41203000 (sales of goods and services). If NDPBs account for grant received from departments other than their sponsoring departments on an accruals basis they should complete the "Accrued GiA" worksheet in the New C Pack as in paragraph 5 above to enable the sponsoring department to make the necessary adjustments.

Capital grants

7. Entities other than NDPBs that are charities (who should follow the requirements of the Charities SORP) or NDPBs that are companies (who should follow the requirements of SSAP4) should account for grants or grants in aid received as a contribution towards the cost of a fixed asset as follows (see FReM; paragraph 5.2.38):

- *grants for the purchase of a specific asset* – should be credited to a government grant reserve (not to deferred income) and released to the income and expenditure account over the useful life of the asset in amounts equal to the depreciation charge in the asset and any impairment;
- *grants for the purchase of fixed assets in general* - should be credited to the income and expenditure reserve (SCOA 31077000). It will not be necessary to release amounts to the income and expenditure account to offset the depreciation charge.

8. NDPBs that receive grants for the purchase of specific fixed assets will account for the assets and the receipt of the grant as noted in the Annex to this section. NDPBs should agree the amount of grant they receive with their sponsoring department / body (Appendix 2 - Agreement of Balances Forms). NDPBs should ensure they complete the "Accrued GiA" worksheet in the New C Pack if they accrue grants received. NDPBs should also ensure they record the amount released from the government grant reserve to the operating cost statement in the appropriate cells in the New C pack (cell C36 - 'O-INC' worksheet and cell F66 - 'Reserves' worksheet). The Annex provides details of the journals sponsoring departments should prepare to reverse balances in the government grant reserve account and any amounts released to the income and expenditure account. The purpose of the journals is to bring the government grant reserve transactions into line with Generally Accepted Accounting Practice as applied to WGA and to eliminate transactions that are within the WGA boundary.

9. Grants for the general purchase of fixed assets should be credited to income and expenditure reserve. Other than agreeing the amount of grant received from their sponsoring department / body (Appendix 2 - Agreement of Balances Forms) and allocating it to the appropriate CPID code no further action is required.

10. NDPBs that are charities or companies will follow for their statutory accounts the standards that apply to them. For WGA purposes they should follow the guidance as for other NDPBs. This will mean that their WGA submissions will not fully reflect their

statutory accounts. This should not present any difficulties provided NDPBs are able to reconcile their WGA submissions with their statutory accounts.

28 April 2009

Capital Grants for the Purchase of Specific Assets

1. Department A gives a capital grant of £100 to Body B so that it can acquire a fixed asset. The fixed asset is expected to have a 10 year life and the annual depreciation charge is £10. The accounting entries are:

Department A – year 1

Dr Expense (grant expenditure)	£100	Body B.cpid ¹
Cr Cash	£100	External.cpid

To record grant paid to body B

Body B – year 1

Dr Cash	£100	External.cpid
Cr Government Grant Reserve	£100	Dept A.cpid ¹

To record grant received from Department A

Dr Asset account	£100	no cpid required
Cr Cash	£100	no cpid required

To record acquisition of asset by Body B (if staged payments are made over a period of time, which may straddle a number of years, each payment will be Dr Asset account and Cr Cash).

Department A – year 2 and subsequent years

The Department has recorded the capital grant it has paid to body B in year 1. As long as it does not pay any additional capital grant to Body B there are no transactions to record in both the department's statutory accounts or in its WGA contribution.

Body B – year 2 and subsequent years

Dr Expense (in year depreciation)	£10	External.cpid
Cr Accumulated depreciation	£10	External.cpid

To record annual depreciation

Dr Gov grant reserve (35050000) ²	£10	External.cpid
Cr Income (41209600) ³	£10	External.cpid

¹ The balances will be eliminated when the accounts of Dept A and Body B are consolidated in year 1. Additional adjustments are not required in year 1.

² See cell F66 - 'Reserves' worksheet of the New C Pack

³ See cell C36 - 'O-INC' worksheet of the New C Pack

To record release from the reserve account an amount equal to the depreciation charge in accordance with the FReM.

Revaluation of assets and other transactions

The revaluation of assets funded by government grants and any other transactions affecting such assets are accounted for through the government grant reserve account for both the annual statutory accounts and the annual WGA submission.

Journals to be submitted by sponsoring department in year 2 and subsequent years⁴

For WGA purposes the income released from the reserve in the second and subsequent years needs to be eliminated otherwise income will be overstated. This can only be achieved if Body B makes the following journal entry in its WGA submission:

Dr Income (41209600)	£10	External.cpid
Cr General fund (31223000)	£10	External.cpid

Body B will also need to transfer the government grant reserve balance at the end of the second and subsequent years to the general fund since on consolidation the government grant reserve is treated as part of the Government's general fund:

Dr Government grant reserve	balance	External.cpid
Cr General fund (31223000)	balance	External.cpid

⁴ These adjustments are not carried forward in the following year. They are just an end of year WGA adjustment to ensure that both income is not overstated and the government grant reserve is included within the Government's general fund balance. These entries are only required in year 2 and subsequent years – the acquisition of the asset was recognized in the accounts in year one.

The data for the journal can be found in cell F66 - 'Reserves' worksheet of the New C Pack and cell C36 - 'O-INC' worksheet