



HM TREASURY

Financial Reporting Advisory Board Paper

ACCOUNTING TREATMENT OF GRANTS AND GRANTS IN AID

Issue:	Amendments to the FReM for 2006-07 relating to the accounting treatment of grants and grants in aid.
Impact on guidance:	The proposed text in Annex A relates to the FreM for 2006-07, ie is not linked to the adoption of international accounting standards.
IAS/IFRS adaptation?	IAS20 requires government grants to be credited to income, and to the extent that grants in aid are credited to reserves, this represents an adaptation of IAS20.
IPSAS compliant?	N/A
Interpretation for the public sector context?	No.
Impact on budgetary regime?	No.
Alignment with National Accounts	To confirm.
Impact on Estimates?	None.
Recommendation:	The FRAB is invited to approve the suggested amendments to the FreM for 2006-07.
Timing:	The changes will affect 2006-07.

DETAIL

Background

1. The FRAB agreed at its meeting on 28 September 2005 that grant in aid should be accounted for as financing, rather than as income. As no amendments to the Government Financial

Reporting Manual (FReM) were put forward at that time, preparers of accounts have not had the opportunity to consider the implications of that decision.

2. The attached annex notes the consequential amendments to chapters 4, 5 and 7 of the FReM. In summary:

- **Grant in aid** received for revenue purposes is to be credited to general reserves unless it can be demonstrated that it has been received in exchange for goods or services (in which case it can be credited to income).
- **Grants** are normally given in exchange for goods or services and will normally be credited to income.
- **Grant in aid** received to finance the acquisition of fixed assets in general is to be credited to general reserves.
- **Grants** received to finance the acquisition of a specific asset is to be credited to a Government Grant Reserve.
- Revaluation gains are to be credited to a Revaluation reserve where the corresponding grant in aid has been credited to general reserves, or to the Government Grant Reserve where the grant has been credited to that reserve.

Impact on disclosures in resource and other accounts

3. The above changes will affect the accounts of NDPBs. There is no equivalent of “Department Yellow” for NDPBs and, depending of the level of enquiries, it may be necessary to issue separate guidance on the layout of the income and expenditure account

IAS/IFRS compliance

4. IAS 20 requires government grants to be credited to income – whether for revenue or capital purposes. IAS 20 does not draw any distinction between grants and grants in aid, but the recognition of grants in aid as financing may be seen as an adaptation of IAS20.

IPSAS compliance

5. There is no IPSAS on this topic.

Proposed text for the Government Financial Reporting Manual for 2006-07

6. See Annex A for the proposed amendments to the FReM for 2006-07.

Impact on the budgetary regime

7. There is no impact on budgetary control.

Summary and recommendation

8. The FRAB is invited to approve the proposed amendments to the FreM for 2006-07 to reflect the accounting treatment of grants and grants in aid approved by the FRAB at its meeting in September 2005.

**HM Treasury
June 2006**

PROPOSED TEXT FOR THE GOVERNMENT FINANCIAL REPORTING MANUAL FOR 2006-07

CHAPTER 4

Para 4.2.15: Delete paragraph and replace with:

4.2.15 Non-departmental public bodies should regard grants and grants in aid received for revenue purposes as contributions from controlling parties giving rise to a financial interest in the residual interest of the body, and hence should account for them as financing, ie by crediting them to the income and expenditure reserve. However, if it can be demonstrated that the grants or grants in aid are provided in return for goods and services (ie they do not give rise to a financial interest in the residual interest of the body) they should be accounted for as income. The treatment of grants and grants in aid received for capital purposes is described in 5.2.36 to 5.2.40.

CHAPTER 5

Para 5.2.5.c: Delete sub-paragraph and replace with:

c) Gains on revaluation of fixed assets should be credited to the relevant reserve as follows:

- Assets financed by grants in aid (where the grant in aid is credited to the income and expenditure reserve) - the revaluation reserve (7.4.49)
- Donated assets – the donated asset reserve (7.4.50)
- Assets financed by grants, including any from the EU (where the grants in aid or grants are credited to the government grant reserve) – the government grant reserve (7.4.51)

Para 5.2.5.d – add “see c) above” between “reserve” and “to” in line 2.

Para 5.2.38.a - delete sub-paragraph and replace with:

a) entities other than non-departmental bodies that are charities (who should follow the requirements of the Charities SORP) or non-departmental public bodies that are companies (who should follow the requirements of the standard (but see also 5.2.39.c)) should account for grants or grants in aid received as a contribution towards the cost of a fixed asset as follows:

- grants – whether from the sponsor department or from other sources – 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 – that is the option given in SSAP4 to deduct the grant from the cost of the asset has been withdrawn;

- grants in aid should be credited to the income and expenditure reserve (see 7.4.48). It will not be necessary to release amounts to the income and expenditure account to offset the depreciation reserve.

Para 5.2.38.b – delete sub-paragraph and replace with:

- b) On disposal of an asset financed by a **grant**, the profit or loss is taken to the income and expenditure account/operating cost statement and is offset by a transfer from the government grant reserve of the same proportion of the profit or loss that the amount of the grant bears to the original acquisition cost of the asset. The balance on the government grant reserve in respect of that asset should be transferred to the income and expenditure reserve/general fund representing that same proportion of the proceeds. If the asset has been financed by a **grant in aid**, the profit or loss on disposal is simply taken to the income and expenditure account/operating cost statement.

Para 5.2.39.b – delete sub-paragraph and replace with:

- b) As it is important for monitoring and control purposes, entities that receive grant in aid that is intended to finance both revenue and capital expenditure should analyse the grant in aid between its constituent parts, notwithstanding that it will be credited in total to the income and expenditure reserve.

CHAPTER 7

Para 7.4.49 – delete paragraph and replace with:

7.4.49 The revaluation reserve should reflect the unrealised balance of the cumulative balance of indexation and revaluation adjustments to assets other than donated assets and those funded by grants, including those from the EU. The note should give a detailed analysis of movements in the reserve.

Para 7.4.51 delete “government” in line 2.