

Recognition and Matching

Received two-year interest free loan from the government of \$40,000. Market interest rate is 10% per annum for such similar loans.

- FV of loan = PV of 40k @10% discount over 2 years = \$36k
- FV of grant = \$4k

Entry:

- Cash Debit: \$40,000
- Government loan credit: \$36,000
- Deferred gain credit: \$4,000

(assuming loan is meant to compensate future expenses)

Presentation

Grants related to assets

Example: cost of acquisition: 1,000, useful life: 4 years, government grant: 200

1. Net of grant: capitalize 800, depreciation 200
2. Gross: capitalize deferred income: 200, capitalize 1,000, depreciation 250, other income 50

Grants related to income

Example: grant as 10% of development costs (1,000)

1. Other income (100), developments costs 1,000 - Gross
2. Offset from development costs (900) - Net