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# *Accounting for grants and other transfers*

*Issue paper presented at the EPSAS  
Working Group meeting  
Luxembourg, 21-22 November 2017*

Status report  
and  
preliminary  
matters for  
discussion



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# ***Contents***

Introduction	3
Available accounting and reporting guidance	5
Government practices in the EU	10
IPSASB developments	13
Matters for discussion	19

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# ***Introduction***

## **Objectives of the issue paper**

- Prepare the future discussion on accounting for grants and other transfers with the EPSAS stakeholders.
- This presentation addresses preliminary views and matters for discussion.
- Topics currently addressed in the paper:
  - Main categories of grants.
  - Accounting and reporting guidance available or under development.
  - Country analysis.
  - Main difficulties in practice.
  - Matters for discussion to achieve sound, efficient and harmonised accounting for grants and other transfers by Member States.

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# ***Introduction***

## **Background of the issue**

- Grants and other transfers are significant non-exchange transactions for governments acting as grantors or recipients of grants:
  - Grants received from the EU or other donors (WB, IMF, etc.).
  - Transfers received and given between (various levels of) governments.
  - Grants to third parties to achieve a certain economic or social objective.
- 2013 Staff Working Document from the Commission to the Council and the European Parliament:
  - Distinction between conditions and restrictions seen as difficult.
- PwC 2014 study:
  - Diversity in accounting practices by Member States: revenue is recognised upon fulfilment of conditions attached to the grant, when the cost claim is sent, when the budgetary commitment is made or when cash is received.

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## ***Available accounting and reporting guidance*** **IPSAS (current guidance)**

- IPSAS 23 ‘Revenue from non-exchange transactions (taxes and transfers)’. Next to taxes, grants and other transfers represent the second category of non-exchange revenue.
  - Stipulations, i.e. terms imposed on the use of a transferred asset, are often attached to grants. Stipulations are either conditions or restrictions.
    - Conditions impose to return the transferred asset or future economic benefits or service potential if the conditions are not met. Restrictions do not require this.
  - Revenue is recognised when the right to receive the grant is established, unless there is a condition attached to the grant in which case revenue is recognised when the condition is fulfilled.
  - No specific guidance for multi-year grants.
- No standard currently exists on non-exchange expenses.

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## ***Available accounting and reporting guidance*** **IPSAS (current guidance)**

- Accounting for grants with or without condition.
  - 1.a. Grant is received/receivable and a condition exists

Dt cash/grant receivable  
To Cr liability (deferred revenue)
  - 1.b. Condition is fulfilled (possibly over time)

Dt liability (deferred revenue)  
To Cr revenue
  2. Grant is received/receivable and no condition exists

Dt cash/grant receivable  
To Cr revenue

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## ***Available accounting and reporting guidance*** **IFRS, EAR, ESA 2010 (1/3)**

IFRS	<ul style="list-style-type: none"><li>• IFRS 15 ‘Revenue from contracts with customers’.<ul style="list-style-type: none"><li>- N/A for non-exchange transactions.</li></ul></li><li>• IAS 20 ‘Accounting for government grants and disclosure of government assistance’:<ul style="list-style-type: none"><li>- Grants related to assets are presented as deferred income or deducted from the carrying amount and the related asset, and are recognised in income as the related assets are depreciated.</li><li>- Grants relating to income are recognised in the period concerned.</li></ul></li></ul>
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# ***Available accounting and reporting guidance***

## **IFRS, EAR, ESA 2010 (2/3)**

EAR

- EAR 17 'Revenue from non-exchange transactions (taxes and transfers)'. Refers to IPSAS 23.
- EAR 3 'Expenses and payables'.
  - Covers both exchange and non-exchange transactions.
  - Transfers are defined as amounts (to be) paid to beneficiaries for which the EU does not receive good or services directly in return (e.g. purchase or sale), expect to be repaid in the future (e.g. loan) or expect a financial return (e.g. investment).
  - General principle: the expense is recognised in the period in which the event giving rise to the grant occurs. Three criteria to be met:
    - (a) The grant is authorised (by regulation or agreement).
    - (b) The eligibility criteria have been met by the beneficiary.
    - (c) The transfer can be estimated reliably.



# ***Available accounting and reporting guidance***

## **IFRS, EAR, ESA 2010 (3/3)**

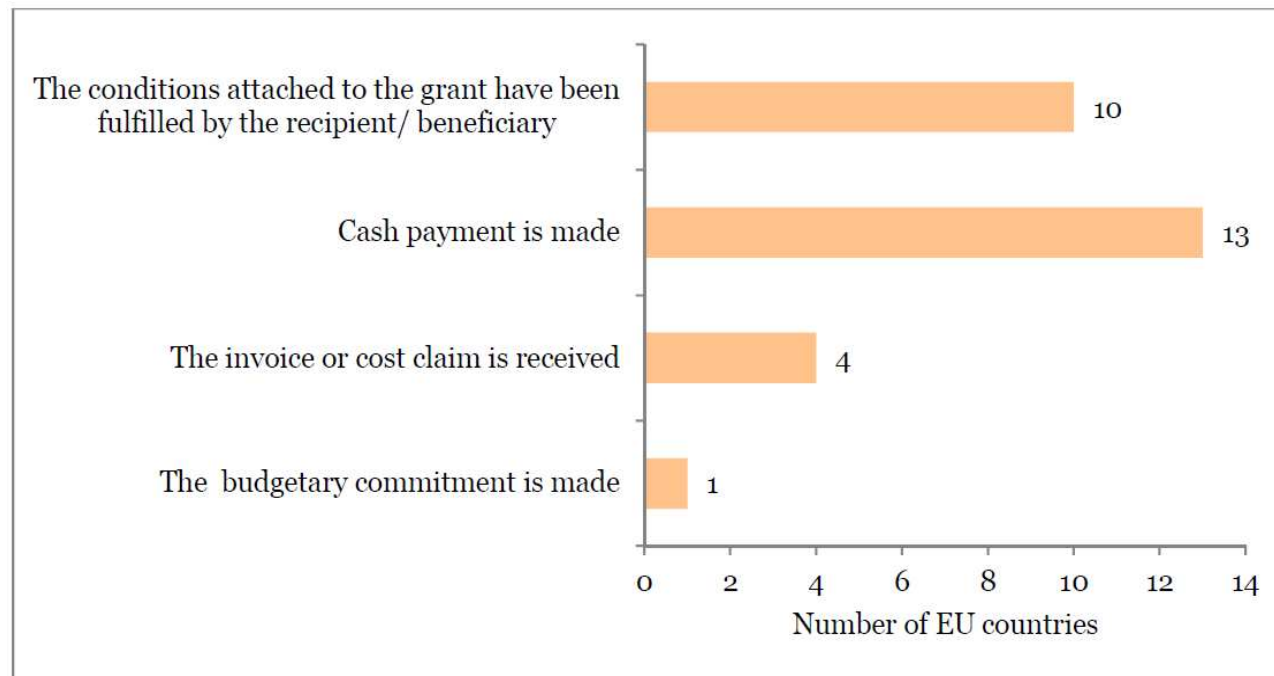
ESA 2010

- Grants and other transfers are distributive transactions:
  - They describe how value added generated by production is distributed to labor, capital and government, and the redistribution of income and wealth.
  - There are current and capital transfers.
- A flow is recorded on an accrual basis, i.e. when economic value is created, transformed or extinguished, or when claims and obligations arise, are transformed or are cancelled:
  - Subsidies (D.3) (type of current transfers): when the event giving rise to the subsidy occurs.
  - Other current transfers (D.7): at the time the regulation in force stipulates the transfer must be made, or at the time the transfer is made (in case of voluntary transfer).
  - Capital transfers (D.9) including investment grants (D.92): when cash payment is made or the asset is transferred (for grant in kind).

# Government practices in the EU

## PwC 2014 study report

The PwC 2014 study shows diversity in accounting for grants and other transfers by Member States.



# Government practices in the EU

## Country analysis

	Latvia	Belgium (central government)
Grants received	EU grants, foreign financial assistance, transfers between central and local governments, donations	EU grants, transfers between central and local governments, fines
Grants given	Transfers between central and local governments, membership fees to international organisations, donations	Transfers to State and local governments, grants and other transfers to private and public corporations, membership fees to international organisations
Accounting rules	Revenue and expenses recognised on an accrual basis	Accounting for grants and transfers aligned on ESA 2010 and budgeting rules. Adjustments to comply with accrual accounting done at year-end where material

# ***Government practices in the EU***

## **European Commission**

Summary of the accounting for the various types of grants by the European Commission under EC Accounting Rules 3.

<b>Type of grant</b>	<b>Example</b>	<b>Generating event</b>	<b>Recording during the year</b>	<b>Reporting date/cut-off at year-end</b>
Entitlements	EAGGF (European Agricultural Guidance and Guarantee Fund)	Expenses incurred in the Member State	Advance payments	Estimate of eligible expenses incurred
Transfers under agreement (often multi-year grants with conditions)*	Grants under agreement (e.g. DG RTD, DG DEVCO), structural funds (e.g. DG REGIO)	Incurred eligible expenses	Eligible cost claim/expense summary	Estimate of portion of eligible expenditure (+ pro rata temporis)
Discretionary grants (no conditions attached)	Discretionary grants, contributions, donations	Acceptance	Acceptance	Acceptance

\* Major pre-financing assets recorded

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## ***IPSASB developments***

### **IPSAS (CP on revenue and non-exchange expenses) (1/6)**

- Reasons for new CP on revenue and non-exchange expenses:
  - Difficulty to distinguish between exchange and non-exchange transactions.
  - Application issues with IPSAS 23 (including difficulty to distinguish between stipulations that are either conditions or restrictions and time requirements not considered in the accounting of multi-year grants).
  - Convergence with the IFRS equivalent for revenue from exchange transactions (IFRS 15 'Revenue from contracts with customers').
  - No standard on non-exchange expenses.
  - Consistency of approaches between resource providers and resource recipients.

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## ***IPSASB developments***

### **IPSAS (CP on revenue and non-exchange expenses) (2/6)**

- Proposed new accounting treatment of revenue:
  - One single revenue recognition model both for exchange and non-exchange transactions.
  - No need to distinguish between conditions or restrictions any more (these concepts are abandoned) and introduction of the concept of performance obligation.
    - Performance obligations (PO) are promises to deliver distinct services.
    - For a PO to exist, it should be enforceable. Enforceability is based on the ability of the resource provider to take remedies if the PO is not fulfilled, through e.g. legislation, ministerial decision or reduction of future funding for the same program. It goes beyond the obligation to refund if the conditions attached to the grant are breached.
    - Judgment is required in assessing whether a PO exists.

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## ***IPSASB developments***

### **IPSAS (CP on revenue and non-exchange expenses) (3/6)**

- Accounting for grants with or without performance obligation (PO) (from the perspective of the recipient of the grant).

#### 1.a. Grant is received/receivable and a PO exists

Dt cash/grant receivable

To Cr liability (deferred revenue)

#### 1.b. PO is fulfilled (possibly over time)

Dt liability (deferred revenue)

To Cr revenue

#### 2. Grant is received/receivable and no PO exists

Dt cash/grant receivable

To Cr revenue

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## ***IPSASB developments***

### **IPSAS (CP on revenue and non-exchange expenses) (4/6)**

- Accounting for grants with or without performance obligation (PO) (from the perspective of the grantor).

1.a. Grant is given/recipient's right to receive the grant is established and a PO exists

Dt asset (deferred charge/pre-financing)

To Cr cash/grant payable

1.b. PO is fulfilled (possibly over time)

Dt charge

To Cr asset (deferred charge/pre-financing)

2. Grant is given/recipient's right to receive the grant is established and no PO exists

Dt charge

To Cr cash/grant payable



## ***IPSASB developments***

### **IPSAS (CP on revenue and non-exchange expenses) (5/6)**

- Spectrum of transactions to which the single public sector PO approach would apply.

<b>Non-exchange</b>	<b>Exchange</b>
No performance obligation or stipulation	Enforceable agreements with PO to deliver goods or services to customers on commercial terms
E.g. transfers between governments	E.g. normal sales transactions as in the private sector
E.g. donations	
	Enforceable agreements with PO or stipulations to use or consume resources in a particular way
	or agreements to use resources over a particular period
	E.g. funding to deliver a specified number of vaccines to the public
	E.g. grant to undertake a specified research

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## ***IPSASB developments***

### **IPSAS (CP on revenue and non-exchange expenses) (6/6)**

- Proposed treatment of non-exchange expenses:
  - Grants and other transfers that contain PO or stipulations are recognised as an expense using the Public Sector PO approach (reverse approach to revenue).
  - Non-exchange transactions related to universally accessible services or collective services. No performance obligation and no obligating event. Expenses are recognised when services are delivered.

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## ***Matters for discussion***

### **Difficulties encountered in practice**

- The future IPSAS standard on revenue and non-exchange expenses may solve key issues in the accounting for grants and other transfers, in which case it may provide a suitable framework for EPSAS:
  - One single model for exchange and non-exchange transactions.
  - Introduction of broader PO concept and consequential impact on accounting for multi-year grants.
  - Guidance on non-exchange expenses.
  
- Some remaining difficulties (mainly of an organisational nature):
  - Inventory of all grants and other transfers. Data collection.
  - Year-end cut-off procedures in respect of multi-year grants.
  - Reconciliation of inter-government transactions in consolidation.

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## ***Matters for discussion***

### **Possible way forward**

- Possible areas to consider:
  - Need for additional specific guidance for grants and other transfers to ensure greater harmonisation?
  - Mirror accounting treatment for grants given and received within the consolidating entity (to facilitate elimination in consolidation)?
    - E.g. for grants by a central government entity to a local government entity in whole-of-government accounts (the reporting entity being the whole public sector in one country)
    - E.g. for grants by a local government to a local agency included in the consolidation scope of the local government (the reporting entity being the local government as a whole)

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***Thank you!***