

## **SSAP 35 – “ACCOUNTING FOR GOVERNMENT GRANTS AND DISCLOSURE OF GOVERNMENT ASSISTANCE”**

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In March 2002, the Hong Kong Society of Accountants issued the new Statement of Accounting Practice (“SSAP”) “Accounting for government grants and disclosure of government assistance”. The SSAP prescribes the accounting and disclosure requirements for government grants and other forms of government assistance and is virtually identical to IAS 20 of the same title.

Accounting for government grants is not a new issue in Hong Kong even though previously there was no specific standard for government grants. In general, the SSAP essentially codifies what was previously best practice.

In Hong Kong, accounting for government grants is a common issue for non-profit making organizations and certain high-tech industries. For these organizations, the government grants are usually in the form of provision of fixed assets, inventories or cash subsidies. Other examples of government assistance include :

- The provision of a cash subsidy as a loan for which the subsidy approval documents may not include any repayment term;
- Cash subsidies for losses incurred in previous years; and
- For certain enterprises involved in high-tech research and development projects, cash subsidies for particular development projects.

The SSAP requires that all government grants not to be credited directly to equity but to be recognized as income in a way that matches with the related costs. It also requires government grants relating to an asset to be deducted from the cost or to be treated as deferred income. Enterprises will need to understand the various alternatives (both accounting and presentation) available under the SSAP and determine the most appropriate basis of recognizing the government grants to the income statement to their circumstances.

The SSAP is effective for financial statements with accounting periods beginning on or after 1 July 2002. An enterprise adopting this SSAP for the first time should:

- comply with the disclosure requirements, where appropriate; and
- either:
  - a. apply the SSAP retrospectively in accordance with SSAP 2 “Net profit or loss for the period, fundamental errors and changes in accounting policies; or
  - b. apply the accounting provisions of the SSAP only to grants or portions of grants becoming receivable or repayable after the effective date of the SSAP.