



Accounting for Government Grants awarded under the Small Business Grant Fund and the Retail, Hospitality and Leisure Grant Fund

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1. Introduction

The COVID-19 pandemic led to both the UK and the various UK devolved Governments introducing a package of unprecedented business support measures to provide necessary financial assistance for those businesses affected by the pandemic.

On 17 March 2020, the Chancellor announced an increase in the grants available to small businesses in England eligible for Small Business Rate Relief from £3,000 to £10,000. In addition, grants of £25,000 were made available to businesses operating in the retail, hospitality and leisure sectors occupying smaller premises with a rateable value over £15,000 and below £51,000.

A similar package was introduced in Scotland shortly later.

2. Eligibility - Small Business Grant Fund

Under the small business support scheme, businesses in England were eligible for these grants if:

- their business was based in England;
- their business occupies property;
- they were eligible for small business rate relief (including tapered relief) or rural rate relief on 11 March 2020.

In Scotland, businesses on the Non-Domestic Rates register were eligible for these grants if their business premises were occupied on 17 March 2020 and:

- they receive the Small Business Bonus Scheme (SBBS);
- they receive Rural Relief; or
- they qualified for the SBBS but in receipt of Nursery Relief, Disabled Relief, Fresh Start Relief, Business Growth Accelerator Relief, Enterprise Areas Relief, Discretionary Sports Relief or Charitable Rate Relief.

Similar grants were also made available in Wales and Northern Ireland.

The responsibility for the administration of these grants was given to the relevant local authorities. The grants available under this scheme are subject to tax.

3. Eligibility - Retail, Hospitality and Leisure Grant Fund

In England, businesses in the Retail, Hospitality and Leisure Sectors were eligible for grants of £25,000 if the business had a property with rateable value of over £15,000 but less than £51,000 and:

- the business is based in England;
- the business is in the retail, hospitality or leisure sector;
- the business had a property with a rateable value of under £51,000 on 11 March 2020.

In Scotland, businesses were eligible for these grants if:

- the business is based in Scotland;
- the business is in the retail, hospitality or leisure sector;
- the business occupies a property with a rateable value of between £18,001 and £51,000.

Similar grants were also available in Wales and Northern Ireland.

As with the Small Business Grant Fund, these grants would be administered by the relevant local authorities. Once again, the grants available under this scheme are subject to tax.

4. Accounting treatment of Grants received under the Small Business Fund and the Retail, Hospitality and Leisure Grant Fund

When applying UK GAAP, the relevant guidance on accounting for Government Grants can be found in section 24 of FRS 102, *The Financial Reporting Standard applicable in the UK and Ireland*.

Sections 24.3A and 24.4 of FRS 102 require that:

- 24.3A Government grants, including non-monetary grants shall not be recognised until there is reasonable assurance that:
 - a. the entity will comply with the conditions attaching to them; and
 - b. the grants will be received.
- 24.4 An entity shall recognise grants either based on the performance model or the accrual model. This policy choice shall be applied on a class-by-class basis.

Determining the point at which these grants should be recognised as income within the financial statements will be a matter for professional judgement and will need to be considered on an entity by entity basis bearing in mind the different jurisdictions and local authorities responsible for administering the grants, who may introduce different application processes and apply additional eligibility criteria.

It is our understanding that there are no specific performance conditions attached to these grants and that they were made available to provide immediate financial support to eligible businesses during the pandemic.

Therefore, the assessment of when to recognise the grants, and how to account for them will require consideration of the matters listed below. Only when there is reasonable assurance that the grant will be received, or receivable, should it be recognised in income.

4.1 Steps to consider when determining the date of recognition of the grant

Step 1 - Is the entity eligible for the grant?

The eligibility criteria above should be considered and, when an entity considers it is eligible to apply for the grant, it should move to Step 2 of the recognition process.

Step 2 - Does the entity intend to participate in the scheme?

The date on which the entity takes the decision to participate in the scheme, which is likely to be the date of application, will be a key factor in determining the date of recognition of the grant. It would be difficult to justify recognition of the grant before this decision has been made. In some cases, this date may represent the point or date on which the grant should be recognised in the accounts. Therefore, recognition in the accounts should occur on the date when it is confirmed that:

- a. the eligibility criteria in Step 1 above are satisfied; and
- b. the entity has made the decision to apply for the grant; and

- c. there are no further eligibility criteria; and
- d. it is clear that the local authority does not intend to issue any confirmation that the grant will be awarded. If this has not been confirmed, move to Step 3.

Step 3 – Situations where the local authority intends to issue confirmation of eligibility for the grant.

We understand that some local authorities are contacting entities either by telephone, or in writing, to confirm that they have been deemed to be eligible for the grants. If an entity has received such a confirmation, then the date on which this confirmation is received would be considered to provide reasonable assurance that the grant is receivable and therefore it should be recognised at that point. It must be emphasised that it is not clear whether all local authorities are issuing such a confirmation before a grant is paid out although guidance issued by the Department of Business, Energy and Industrial Strategy (BEIS) has issued guidance advising them to do so.

4.2 Specific issues for entities with 31 March 2020 year ends

The date of recognition may vary from entity to entity. For some entities, they may have taken the decision to apply for the grant as soon as it was announced based on the rateable value of the property they occupy and the other eligibility criteria. Reports indicate that the number of applications received for these schemes was significant as at 1 April 2020.

4.2.1 Entities with accounting periods ending on 31 March 2020 who applied for grant funding prior to the year end

For those entities with a 31 March 2020 year end, who had applied for the grants before the year end, and had been deemed by that date to meet the eligibility criteria, then recognition of the income in the accounts for the year ended 31 March 2020 may be appropriate regardless of when the money was actually paid into the business bank account. If an entity with a year end date of 31 March 2020 receives the grant before that date, then it should be recognised in its accounts for the year ended 31 March 2020.

4.2.2 Entities with accounting periods ending on 31 March 2020 who applied for grant funding after the year end

With regard to entities with a 31 March 2020 year end who had not decided whether to apply for the grant funding by the year end, the position is less clear. If an entity decided to make the application on 5 April 2020, then it may be difficult to justify that the post year end receipt was indicative of a condition that existed at the balance sheet when applying FRS 102 Section 32, *Events after the End of the Reporting Period*. The eligibility criteria may have been satisfied at the year end date, indicating entitlement to the grant, but there had been no steps taken to participate in the scheme at that date. In such instances, some judgement will be necessary when determining the appropriate date of recognition. In these situations, the entity should agree an accounting policy in support of their decision on when to recognise the grant and this should be included within the accounting policies section of the accounts. It may be appropriate, depending on the materiality of the grant, and the date on which the accounts are approved, to include disclosure of the post-year end grant receipt as a non-adjusting event in the 31 March 2020 accounts with sufficient disclosures around the nature and the financial effect of the grant and the rationale behind the choice of accounting policy.

The two situations above assume that the local authority does not intend to issue a confirmation of the entity's eligibility for the grant and that the eligibility criteria and the decision to participate in the scheme are the only conditions that need to be satisfied. Each situation has to be assessed based on the specific facts and circumstances.

5. Further practical implications around the recognition of the grants in question

It should be acknowledged that we are in unknown territory at the moment and that many of the government support measures were introduced in some haste to make the financial support available as quickly as possible. As a result, the supporting information and guidance was not written with the resulting financial reporting implications in mind. Hence, the need for some judgement in relation to the associated accounting treatment based on the individual circumstances of the entity.

Further considerations when determining the appropriate accounting policy for recognition of the grants include:

5.1 Whether to apply the performance or accrual method of accounting for the grants

We understand that there are no performance measures attached to these grants although this may vary according to the local authority administering the schemes. According to section 24 of FRS 102, if no performance conditions exist, under the performance method, the grant should be recognised when received or receivable.

If an entity chooses to adopt the accrual method of accounting for grants as its accounting policy, FRS 102, Section 24, paragraphs 24.5D and 24.5E state:

- 24.5D Grants relating to revenue shall be recognised in income on a systematic basis over the periods in which the entity recognises the related costs for which the grant is intended to compensate
- 24.5E A grant that becomes receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the entity with no future related costs shall be recognised in income in the period in which it becomes receivable.

The absence of any conditions associated with these grants would indicate that, under the accrual method, it should be recognised when it is received or receivable. This is consistent with paragraph 24.5E above as they were intended to provide immediate financial support to those entities affected by the pandemic.

In practice, therefore, these grants are likely to be treated in the same way regardless of whether the performance or accrual method is adopted.

However, there may be an argument under the accrual method that these grants were made available to compensate businesses during the restricted lockdown period and therefore an entity with a 31 March 2020 year end might consider adopting a policy of spreading part, or all, of the grant received across the accounting periods when the financial effects of COVID-19, and the loss of income, would be most severely impacted. Once again, some judgement will be required. If applying the accrual method in this way, an entity should carefully consider the appropriateness of that policy and gather and produce all the information and supporting documentation necessary to support their choice of accounting policy.

It should be noted that FRS 105, *The Financial Reporting Standard application to the Micro-entities Regime*, only permits the adoption of the accrual method for those entities preparing their accounts in accordance with this standard. IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, also requires this approach for those entities preparing their accounts in accordance with IFRS.

5.2 Tax implications of the date of recognition of the grant

The general principle is that the tax treatment of individual items in the accounts will follow the accounting treatment. This principle becomes extremely relevant in relation to the recognition of these grants as early recognition will most likely accelerate the date on which the tax due on such grants falls due. If an entity recognises the grant income in its accounts for the year ended 31 March 2020, then, for self-employed individuals, the related tax will be due on 31 January 2021. Entities should ensure that they have sufficient cash resources to meet the additional tax when it falls due and this should be reflected in their budgetary and forecasting exercises. It is possible that, because of the size of some of the grants, up to £25,000 is available in some cases, that the additional income could push these individuals into a higher tax bracket therefore this should also be reflected in cash forecasts and budgets being produced. Ultimately, however, the decision around when to recognise the grant income should be based on the eligibility criteria and the individual circumstances of the entity.

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