

HK(SIC)-Int 10
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Effective for annual periods
beginning on or after 1 January 2005

Hong Kong (SIC) Interpretation 10

Government Assistance — No Specific Relation to Operating Activities



Hong Kong Institute of
Certified Public Accountants
香港會計師公會

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Government Assistance - No Specific Relation to Operating Activities

HK(SIC) Interpretation 10 *Government Assistance - No Specific Relation to Operating Activities* (HK(SIC)-Int 10) is set out in paragraph 3. HK(SIC)-Int 10 is accompanied by a Basis for Conclusions. The scope and authority of Interpretations are set out in the *Preface to Hong Kong Financial Reporting Standards*.

References

- HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*
- HKAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*

Issue

- 1 In some countries government assistance to entities may be aimed at encouragement or long-term support of business activities either in certain regions or industry sectors. Conditions to receive such assistance may not be specifically related to the operating activities of the entity. Examples of such assistance are transfers of resources by governments to entities which:
 - (a) operate in a particular industry;
 - (b) continue operating in recently privatised industries; or
 - (c) start or continue to run their business in underdeveloped areas.
- 2 The issue is whether such government assistance is a 'government grant' within the scope of HKAS 20 and, therefore, shall be accounted for in accordance with this Standard.

Conclusion

- 3 Government assistance to entities meets the definition of government grants in HKAS 20, even if there are no conditions specifically relating to the operating activities of the entity other than the requirement to operate in certain regions or industry sectors. Such grants shall therefore not be credited directly to ~~equity~~ shareholders' interests.

Basis for Conclusions

HK(SIC)-Int 10 is based on SIC Interpretation 10 *Government Assistance - No Specific Relation to Operating Activities*. In approving HK(SIC)-Int 10, the Council of the Hong Kong Institute of Certified Public Accountants considered and agreed with the SIC's Basis for Conclusions on SIC Interpretation 10. Accordingly, there are no significant differences between HK(SIC)-Int 10 and SIC Interpretation 10. The SIC's Basis for Conclusions is reproduced below. The paragraph numbers of SIC Interpretation 10 referred to below generally correspond with those in HK(SIC)-Int 10.

- 4 IAS 20.03 defines government grants as assistance by the government in the form of transfers of resources to an entity in return for past or future compliance with certain conditions relating to the operating activities of the entity. The general requirement to operate in certain regions or industry sectors in order to qualify for the government assistance constitutes such a condition in accordance with IAS 20.03. Therefore, such assistance falls within the definition of government grants and the requirements of IAS 20 apply, in particular paragraphs 12 and 20, which deal with the timing of recognition as income.

Date of Issue

December 2004

Effective date

This Interpretation becomes effective for annual accounting periods beginning on or after 1 January 2005; earlier application is encouraged. Changes in accounting policies shall be accounted for in accordance with HKAS 8.

This Interpretation supersedes the last sentence of paragraph 5 of SSAP 35 *Accounting for Government Grants and Disclosure of Government Assistance* (issued in March 2002).