

Accounting for Cash Boost

Issued 24 July, 2020

Points of reference for preparers of financial reports

Introduction

The recent COVID-19 outbreak has caused extensive disruptions to the global economy. In Australia, specific legislation was introduced to respond to the economic ramifications of the pandemic, including cash-flow support for certain businesses and not-for-profit organisations known as “Cash Boost”.

This document seeks to provide guidance on the key accounting implications of Cash Boost that management will need to consider.

Background to Cash Boost

The Cash Boost scheme provides eligible entities (with aggregated annual turnover less than \$50 million) with additional cash flow of between \$20,000 and \$100,000 – as a credit (i.e. reduction) to their BAS account with the ATO.

A refund is receivable to the extent that a debit (i.e. receivable) is created in this account. This will occur where the value of Cash Boost exceeds the amounts payable to the ATO.

Accounting for Cash Boost

For-profit entities

For-profit entities must apply AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance*.

The grant (i.e. Cash Boost) is recognised as income when the entity is reasonably assured that it will comply with the conditions attaching to it, and the grant will be received (AASB 120.7). The grant is recognised as a reduction in the PAYG liability when the right is created. This right is created through an associated administrative process – the lodgement of the BAS – which will generally result in the timing of recognition being in the relevant associated initial BAS period.

AASB 120 requires entities to match income and expenses. It generally allows a presentation choice for the grant of:

The amount of Cash Boost to be received is determined by reference to the amount of employee income tax (PAYG) withheld by the employer and reported on the relevant BAS and set in the March 2020 BAS (whether lodged monthly or quarterly). This amount is used to determine the value of Cash Boost applicable to all BAS lodgements to the month or quarter of September 2020.

- presentation as “income”; or
- being deducted from the related expenses.

The nature of the grant is that it is unconditional – the use of the personal income tax withheld value is purely a method of measurement and does not, in itself, give rise to the right to receive payment. This is evident in the inclusion of a \$10,000 minimum – the benefit of which is available even when no tax withholding has occurred.

There is therefore no related expense (or other cost, such as costs capitalised as property, plant and equipment) with which to associate the grant.

The grant is therefore most appropriately presented as income (not revenue).



Not-for-profit entities

For not-for-profit (NFP) entities, AASB 1058 *Income of Not-for-Profit Entities* applies. AASB 15 does not apply as no performance obligation exists – no expenses or other costs are required to be incurred that result in the transfer of an asset to a customer, and thus there cannot be a sufficiently specific performance obligation.

AASB 1058 does not include guidance on when amounts should be recognised. Instead, it references to various other Accounting Standards to address the timing of recognition of an asset. The reduction in PAYG payable is not dealt with by any specific Accounting Standard (because statutory payables are not contractual and therefore not financial instruments under AASB 9 *Financial Instruments* due to the definition in AASB 132 *Financial Instruments: Presentation*).

Timing of grant income

Cash Boost is realised in multiple periods as the BAS payments are lodged – it may appear reasonable that the associated income be recognised in the associated BAS period. As the lodgement of a BAS is an administrative process – one required to continue operating as a company – the right to income occurs at the time the recipient has met all requirements to be eligible for the grant – i.e. upon lodgement of the March 2020 BAS.

The grant is thus measured and recorded in full as of that date.

Consequently, it is necessary to consider the ‘hierarchy’ in AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* and apply the requirements of Accounting Standards dealing with similar and related issues to determine the appropriate accounting. In this regard, NFP entities would likely apply by analogy the AASB 120 ‘reasonable assurance’ requirements (i.e. as above for for-profit entities).

Unlike AASB 120, AASB 1058 doesn’t allow NFP entities a choice between presenting as other income and deduction from related expenses. Accordingly, the grant income needs to be recognised as income (not revenue) immediately.

Why does sector matter?

AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance* is limited in scope to only apply to for-profit entities. International Financial Reporting Standards, upon which Australian Accounting Standards are based, are not designed for use by not-for-profit entities.

In response, the Australian Accounting Standards Board has included “Aus” paragraphs within the standards, as well as issuing AASB 1058 *Income of Not-for-Profit Entities* which is scoped to only be applicable to not-for-profit entities.

Contact



Merylyn Gwan
Partner
Audit & Assurance
+61 2 8297 2431
Merylyn.Gwan@au.gt.com



Andrew Newman
Partner
Audit & Assurance
+61 7 3222 0308
Andrew.Newman@au.gt.com

