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TECHNICAL ADVISORY SERVICE

ACCOUNTING FOR CORONAVIRUS GOVERNMENT SUPPORT SCHEMES UNDER FRS 105

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INTRODUCTION

This helpsheet has been issued by ICAEW's Technical Advisory Service (in collaboration with the Financial Reporting Faculty) to help ICAEW and Financial Reporting Faculty members preparing accounts under FRS 105 to account for some of the various support schemes available for businesses from the government in light of the coronavirus pandemic. The following subsections take each support scheme in turn and outline the potential accounting treatment.

While this helpsheet seeks to apply the existing standards to these schemes and offers potential accounting approaches, it does not necessarily address every potential approach and, as most of these schemes are brand new, this is an emerging area of UK GAAP.

Members may also wish to refer to the following helpsheets and guidance:

- Checklist: implications of COVID 19 on the preparation of micro-entity accounts (FRS 105)
- The financial reporting implications of coronavirus

CORONAVIRUS JOB RETENTION SCHEME (CJRS)

The Coronavirus Job Retention Scheme (CJRS) results in cash payments from government to compensate employers for part of the wages, associated national insurance contributions (NICs) and employer pension contributions of employees who have been placed on furlough (i.e. placed on a temporary leave of absence from working for the employer). This is a government grant which should be accounted for in accordance with Section 19 of FRS 105.

FRS 105 paragraph 19.7 states that grants relating to revenue shall be recognised in income on a systematic basis over the periods in which the micro-entity recognises the related costs for which the grant is intended to compensate. Practically, this means that the income from the grant will normally be recognised on a straight line basis over the period a relevant employee is furloughed for.

Where the entity has its own PAYE payroll scheme, the grant income will be shown within other income and there would be either a debtor (within current assets) or a deferred income balance (within accruals and deferred income) depending upon when the cash was received from HMRC. It is **not** appropriate to net the grant income off against wages and salaries costs (FRS 105 paragraph 2.37).

Example 1

A business with a year end of 31 March 2020 furloughed an eligible member of staff with effect from 1 March 2020. The business has calculated that the total amount which can be claimed under the CJRS for this period for this employee is £2,100 (this is an illustrative figure for the purpose of this example – to work out how much can be claimed for a particular employee, please refer to HMRC's guidance). At the year end, the claim portal hadn't yet opened, although the business had reasonable assurance that it had complied with the relevant conditions to be able to claim once the portal was opened, and that the grant would be received. This business made the claim on 20 April 2020, and received the funds 6 working days later.

In the accounts for the year ended 31 March 2020, the business should recognise £2,100 as other income and a debtor balance of £2,100.

Example 2

A business with a year end of 30 April 2020 furloughed an eligible member of staff with effect from 30 March 2020. The business has calculated that the total amount which can be claimed under the CJRS for this period for this employee is £2,100 (this is an illustrative figure for the purpose of this example – to work out how much can be claimed for a particular employee, please refer to HMRC's guidance). This business made the claim on 28 April 2020, but had not received the funds by the year end. At the year end, the business has reasonable assurance that the grant would be received and that it has complied with the relevant conditions to make the claim.

In the accounts for the year ended 30 April 2020, the business should recognise £2,100 as other income and a debtor balance of £2,100.

SMALL BUSINESS GRANT FUND (SBGF), RETAIL, HOSPITALITY AND LEISURE GRANT FUND (RHLGF) AND DISCRETIONARY FUND

The Small Business Grant Fund (SBGF), the Retail, Hospitality and Leisure Grant Fund (RHLGF) and the discretionary fund represent cash payments from local authorities to eligible businesses. These are government grants which should be accounted for in accordance with Section 19 of FRS 105.

FRS 105 paragraph 19.8 states that a government grant that becomes receivable for the purpose of giving immediate financial support to the entity with no future related costs shall be recognised as income in profit or loss in the period in which it becomes receivable (this is likely to be when the scheme eligibility criteria were first published, or if there was uncertainty around eligibility, when confirmation of entitlement was received from the local authority). Practically, this would be shown within other income, with a corresponding debtor until the cash is received from the local authority.

BUSINESS RATES HOLIDAY

Eligible nurseries and businesses in the retail, hospitality and leisure sectors will not have to pay business rates for the 2020-21 tax year. Under FRS 105, this simply represents a reduction in the rates expense.

If the financial year of the business is aligned to the tax year, the business would simply have a zero rates expense for the year. In most cases, the financial year will not be aligned to the tax year, so time apportionment will be necessary.

Example

An eligible business has a year end of 30 June 2020. In the 2019-20 tax year its total rates bill was £30,000. In the 2020-21 tax year, due to the business rates holiday, its total rates bill is zero.

The rates expense to be reflected in the accounts for the year ended 30 June 2020 is as follows:

Time period	Calculation	Expense
1 July 2019 to 5 April 2020	(280 days / 366 days) x £30,000	£22,951
6 April 2020 to 30 June 2020	(86 days / 365 days) x £0	£0
Total		**£22,951**

STATUTORY SICK PAY (SSP) REBATE

The statutory sick pay (SSP) rebate results in cash payments from government to compensate employers for the SSP they pay to employees for periods of sickness starting on or after 13 March 2020. This is a government grant which should be accounted for in accordance with Section 19 of FRS 105.

FRS 105 paragraph 19.7 states that a grant 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. Practically, this means that the income from the grant will be recognised on a straight line basis over the period a relevant employee is off sick.

Where the entity has its own PAYE payroll scheme, the grant income would be shown within other income and there would be either a debtor (within current assets) or a deferred income balance (within accruals and deferred income) depending upon when the cash was received from HMRC. It is **not** appropriate to net the grant income off against wages and salaries costs (FRS 105 paragraph 2.37).

VAT DEFERRAL AND TIME TO PAY

When an entity is making use of the Deferral of VAT payments due to coronavirus or HMRC's time to pay scheme, this is simply a deferral of the tax due; it does not result in a reduction in the amount of tax due. As tax liabilities do not meet the definition of a financial instrument there is no need to apply the requirements of Section 9 of FRS 105.

Note that under the time to pay scheme, interest usually still accrues and should therefore be accounted for in accordance with the agreement reached with HMRC. It is the position as at the balance sheet date which should be reflected in the financial statements (subsequent negotiations after the balance sheet date would be a non-adjusting event after the reporting period in line with paragraph 26.2 of FRS 105).

CORONAVIRUS BUSINESS INTERRUPTION LOAN SCHEME (CBILS) AND CORONAVIRUS BOUNCE BACK LOAN SCHEME (BBLS)

Support under the Coronavirus Business Interruption Loan Scheme (CBILS) or the Coronavirus Bounce Back Loan Scheme (BBLS) is essentially an arrangement which combines three elements together:

- A bank loan;
- A government-backed guarantee; and
- A business interruption payment (i.e. the government pays any fees and interest payments for the first 12 months).

Initial recognition

FRS 105 paragraph 9.5 requires a financial liability to initially be recognised at cost which is measured at the transaction price (i.e. the amount borrowed).

Transaction costs would ordinarily be deducted from the cost of the financial liability. Practically though, as the fees are responsibility of government, there is unlikely to be a need to adjust for transaction costs.

As such, at initial recognition the double entries would be:

Dr Cash	@ amount of cash received
Cr Liability	@ the same

Subsequent measurement

Assuming there are no transaction costs, the liability is subsequently measured in accordance with FRS 105 paragraph 9.12. The loan will be measured at the transaction price, **plus** the cumulative interest expense recognised in the profit or loss to date, **minus** all repayments of principal and all interest payments to date.
FRS 105 paragraph 9.14 requires that the interest expense is allocated at a constant rate on the financial liability's carrying amount.

Subsequent entries would be:

Dr P&L (interest)	@ interest calculated as above
Dr/Cr Liability	@ balance
Cr Cash	@ cash repayments made

Example

An entity has borrowed £100,000 under CBILS on a 5 year term at 5% on the first day of its accounting period. Without the business interruption payment from the government, the loan might ordinarily look like the following (assuming regular, equal repayments).

Year	b/f on first day of the year	Payment made on first day of the year	Balance immediately after payment	Interest (at 5%)	c/f on last day of year
1	100,000	-	100,000	5,000	105,000
2	105,000	(23,097)	81,903	4,095	85,998
3	85,998	(23,097)	62,900	3,145	66,045
4	66,045	(23,097)	42,948	2,147	45,095
5	45,095	(23,097)	21,998	1,100	23,097
6	23,097	(23,097)	-	-	-
Total		**(115,487)**		**15,487**	
Note: The figures in the above table have been rounded to the nearest pound for presentational purposes.					

However, in this example, the loan agreement for this entity clearly states that it is not obliged to pay the interest over the first 12 months of the loan, the government is. So adjusting to reflect the BIP, i.e. the £5,000 interest in Year 1 not being the responsibility of the entity, the figures look like the following (again, assuming the entity is required to make regular, equal repayments).

Year	b/f on first day of the year	Payment made on first day of the year	Balance immediately after payment	Interest (at 5%)	c/f on last day of year
1	100,000	-	100,000	-	100,000
2	100,000	(21,998)	78,002	3,900	81,903
3	81,903	(21,998)	59,905	2,995	62,900
4	62,900	(21,998)	40,903	2,045	42,948
5	42,948	(21,998)	20,950	1,048	21,998
6	21,998	(21,998)	-	-	-
Total		**(109,988)**		**9,988**	
Note: The figures in the above table have been rounded to the nearest pound for presentational purposes.					

However, the interest expense must allocated at a constant rate on the financial liability's carrying amount. Recalculating on this basis gives an interest rate of 3.26%. Therefore the accounting should reflect the following.

Year	b/f on first day of the year	Payment made on first day of the year	Balance immediately after payment	Interest (at 3.26%)	c/f on last day of year
1	100,000	-	100,000	3,260	103,260
2	103,260	(21,998)	81,262	2,649	83,911
3	83,911	(21,998)	61,913	2,018	63,931
4	63,931	(21,998)	41,934	1,367	43,301
5	43,301	(21,998)	21,303	694	21,998
6	21,998	(21,998)	-	-	-
Total		**(109,988)**		**9,988**	
Note: The figures in the above table have been rounded to the nearest pound for presentational purposes.					

The initial accounting entries are:

Dr Cash £100,000 (the amount of cash received)

Cr Liability £100,000 (the same)

At the end of the first year, the accounting entries are:

Dr P&L (interest) £3,260 (the interest calculated above)

Cr Liability £3,260 (the same)

At the end of the second year, the accounting entries are:

Dr P&L (interest) £2,649 (the interest calculated above)

Dr Liability £19,349 (the balance)

Cr Cash £21,998 (the cash repayment)

The double entries in subsequent years follow a similar pattern to those in the second year.

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