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GOVERNMENT GRANTS: ASPECT OF ACCOUNTING ACCORDING TO INTERNATIONAL STANDARDS

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ДЕРЖАВНІ ГРАНТИ: ОБЛІКОВИЙ АСПЕКТ ЗА МІЖНАРОДНИМИ СТАНДАРТАМИ

Accounting for grant agreements is an important aspect of financial management for a variety of organisations, including not-for-profit, commercial enterprises, and public institutions. Accounting for grants helps to ensure financial openness and transparency in the organisation's activities. This is important to meet the requirements of stakeholders, including donors, government agencies, investors, and the public. The purpose of the study is to identify the areas of grant funds reporting in accordance with international financial reporting standards. The study found that many organisations receive grants from various sources, and this may include funds from governmental organisations and international donors. Grant accounting helps ensure compliance with the terms of the grant agreement accompanying the grant. Grants accounting helps organisations to effectively manage financial resources provided for specific projects or programmes. This ensures the efficient use of funds and the achievement of planned results. In addition, grant accounting allows you to evaluate the results and impact of projects that have been funded by grants. This helps organisations and donors understand how successful their investments have been. In general, grant accounting is important for the financial stability, transparency, and efficiency of grant-receiving organisations. It helps ensure effective management of financial resources and fulfilment of obligations to donors and other stakeholders. The article provides a detailed classification of types of grants and describes their characteristics. The main provisions regarding the accounting of grants in accordance with IAS 20 have been defined. The use of international standards for grant accounting helps create consistent and comparable financial reporting. It also ensures the quality of financial management and compliance with legislative and regulatory requirements for the organization's financial activities. Grant reporting is a key element that reflects the accurate assessment and effectiveness of the use of grant funds. Ensuring clarity, accuracy, and timely grant accounting is essential for effective management decisions and successful project or program implementation.

Бухгалтерський облік грантових угод є важливим аспектом фінансового менеджменту для різних суб'єктів господарювання, у тому числі некомерційних, комерційних підприємств і державних установ. Облік грантів допомагає забезпечити фінансову відкритість і прозорість діяльності

організації загалом. Це важливо для задоволення вимог зацікавлених сторін, включаючи донорів, урядових установ, інвесторів і громадськість. Метою дослідження є визначення напрямків звітності про грантові кошти за міжнародними стандартами фінансової звітності. Дослідження показало, що багато господарюючих суб'єктів отримують гранти з різних джерел, зокрема кошти від урядових організацій та міжнародних донорів. Облік грантів допомагає забезпечити дотримання положень та умов грантового договору, що супроводжують грант. Правильне відображення грантів на рахунках бухгалтерського обліку допомагає організаціям якісно управляти фінансовими ресурсами, наданими для конкретних проєктів або програм. Це забезпечує ефективне використання коштів і досягнення запланованих результатів. Крім того, облік грантів дозволяє оцінити результати та вплив проєктів, які були профінансовані за рахунок грантів, що, у свою чергу, допомагає організаціям і донорам зрозуміти, наскільки успішними були їхні інвестиції. Загалом облік грантів важливий для фінансової стабільності, прозорості та ефективності бізнес-структур, що отримують гранти. Це допомагає ефективно управляти фінансовими ресурсами та виконувати зобов'язання перед донорами та іншими зацікавленими сторонами. У статті подано детальну класифікацію видів грантів та описано їх характеристику. Визначено основні положення щодо обліку грантів згідно з МСБО 20. Використання міжнародних стандартів для обліку грантів допомагає створити послідовну та порівнянну фінансову звітність, забезпечує якість управління фінансами та дотримання законодавчих і нормативних вимог до фінансової діяльності організації. Грантова звітність є ключовим елементом, що відображає точну оцінку та ефективність використання грантових коштів. Забезпечення ясності, точності та своєчасного обліку грантів має важливе значення для прийняття ефективних управлінських рішень та успішної реалізації проєкту чи програми.

Keywords: grant agreement, financial statements, government support, social development, business incentives.

Ключові слова: грантовий договір, фінансова звітність, державна підтримка, соціальний розвиток, стимулювання бізнесу.

Target setting. One of the most common problems faced by both start-up and experienced entrepreneurs is the lack of or insufficient funds to achieve various business goals. To develop creative business ideas and support small and medium-sized businesses, grant funding is used around the world to help entrepreneurs who can offer important and useful projects for the state.

State support programmes for small and medium-sized businesses are primarily aimed at industries that are a priority for the state.

The state will help with financing a business that will be useful for a region, oblast, or even a specific city: for example, opening a pharmacy, developing crop production, or tourism [18]. However, the state should not support gambling, alcohol, or cigarette businesses [23; 13].

At the same time, it should be borne in mind that the state has levers to choose, for the purpose of further financing, those projects that can directly or indirectly lead to qualitative transformations in the country's economy, support its image, or create prerequisites for further development.

However, entrepreneurs should be aware that the process of interaction with the state does not end with the receipt of grant funds. The funds received must be used and correctly reflected in the financial statements, which may sometimes require special knowledge and competence on the part of the company's accountants and financiers.

Analysis of research and publications. In the most general sense, a grant is a gratuitous assistance to legal entities and individuals for the implementation of non-profit projects [23; 1]. Grants are issued in the form of money or tangible property. Funds are spent on research, scientific, development, education, treatment, and other tasks. As a result, grant recipients prepare a report on the expenditure of funds.

The peculiarities of the transfer of resources under the grant are the gratuitous nature and targeted nature of the subsidy [4; 15].

Grants are used to support social initiatives, charitable foundations, science and education projects. The grant distribution system helps non-profit associations funded

by the state. This develops the economy. Often, the main and even the only source of income for a non-profit organisation is subsidised by grants [14]. With the help of grants, non-profit organisations are able to cover the costs of renting and maintaining premises and equipment, as well as staff salaries.

One of the key issues in receiving grants is who can apply for them. A grant can be awarded on a competitive basis to someone who is engaged in the process of their main activity or related activities [2; 5]: scientific research, educational activities, charity, healthcare, defending the rights and interests of citizens, work in the arts, non-professional physical education, and sports, social, cultural, or publishing work, environmental protection, management or other activities.

Entrepreneurs can get financial support from the state if their project brings real benefits to society, helps solve acute problems in the region, and relieves some of the tasks of the state representatives.

For example, grants are awarded to companies that [24]:

- provide jobs for socially vulnerable categories of citizens (disabled, low-income, refugees, pensioners, and young professionals);
- produce goods and services for the above-mentioned citizens and meet their needs;
- solve socially significant problems in society, i.e., they operate in the areas of pedagogical services, recreation and health improvement for children, preschool education, cultural education, etc.

In this way, cooperation between the state apparatus and business representatives is achieved, which is equally beneficial for both parties.

The wording of the purpose of article (problem). The purpose of the study is to identify the areas of grant funds reporting in accordance with international financial reporting standards.

Presentation of the main research material. The budget allocates funds in the form of grant funding free of charge but under strict control of the targeted use

of these funds. At the same time, the state uses grant programmes to address various socially significant problems of the country or region.

The entrepreneur receives the money he lacks for the development and implementation of the project, and the project will ensure the performance of important functions for the state. Undoubtedly, the system of grants is an important and effective incentive for achieving socially useful results and developing civic initiatives. Of course, it will not be possible to spend public money on buying a car, travelling abroad, or covering the company's debts, as the grant is issued for specific purposes for the implementation of the project, and therefore the spending of funds is strictly controlled (the state, through authorised bodies, requires submission of reports and storage of all supporting documents).

There are micro-grants for the current needs of small and medium-sized businesses (paying rent, buying equipment, participating in exhibitions) and large grants for business development or to support certain sectors (information technology, tourism, etc.).

An entrepreneur hoping to receive a grant needs to find out what state support measures are available to him or her. That is, you should obtain information on existing regional and national programmes, eligibility requirements, and the amount you can expect to receive.

The websites of government organisations involved in the selection of entrepreneurs and the distribution of grant funds can be useful in this regard. The procedure for obtaining a grant varies. That is, its procedure depends on the region. It is important to understand that funding can be obtained not only from the state (from the district, regional, and national budgets), but also from a business incubator. This term is used to describe an organisation specialising in providing support to young entrepreneurs.

Business incubators operate in many countries and are designed to finance the activities of mostly young entrepreneurs to develop innovative businesses and promote the latest business ideas. Startups that win the competition can become

residents of the business incubator, which usually opens up not only financial but also organisational prospects for entrepreneurs.

An entrepreneurial grant is an opportunity to receive a certain amount of money for the development of an enterprise. Entrepreneurial grants are additional funds aimed at implementing a specific project or solving a specific problem. They are available to small and medium-sized enterprises and their associations, government agencies, non-governmental organisations, regional associations, research and educational institutions, and commercial companies. Unlike budgetary allocations, which are distributed by state authorities, European funding sources are allocated to specific projects through a call for proposals.

Therefore, if an organisation is ready to solve a specific problem identified in the call for proposals, it can apply for funding. Examples of such grants include the reconstruction of suburbs, parks, and cultural facilities, the creation of educational and youth institutions, the development of green tourism, the promotion of employment for socially vulnerable groups, the creation of jobs for IDPs, the restoration of cultural heritage, etc.

It is logical to cite the example of Ukraine, which, after the full entry into force of the EU-Ukraine Association Agreement, provides Ukrainian companies with the opportunity to submit projects to EU structural and investment funds. There are a number of programmes aimed at balancing the economic potential of the region. In particular, Horizon 2020 (total budget of €80 billion for seven years), Erasmus+ (€14.7 billion), COSME (€2.3 billion), Creative Europe (€1.46 billion), LIFE (€3.4 billion), Pericles 2020 [18], cross-border cooperation programmes, assistance from international funds and foreign governments, and many other programmes. EU financial funds are, of course, financed from the budgets of EU countries. Ukraine also contributes to some funds (in the form of a small percentage of GDP). In Europe, budgets are prepared on a seven-year cycle, and programmes and sub-programmes of additional funding under the EU funds are also prepared on a seven-year cycle.

Due to the war, a considerable portion of businesses in Ukraine experienced a decline in activity or, in some cases, completely shuttered operations. This situation resulted in a substantial rise in unemployment rates. In response to these challenges, the government initiated grant programs aimed at encouraging the establishment of new businesses and fostering the expansion of existing ones. These initiatives are aimed at stimulating economic recovery, creating jobs and contributing to the general revival of the post-war business environment.

Given the military operations on the territory of Ukraine, the country currently enjoys a 95% discount on the transfer of contributions (i.e., it has not paid 100% of its contributions). And, unfortunately, Ukrainian companies and organisations are not currently making full use of the potential of the available funding instruments, including the small contributions they pay to ensure their participation in EU funding programmes.

EU funds, which account for more than 76% of the budgets of these programmes, are managed in partnership with national and regional governments, mainly through five major structural and investment funds: The European Regional Development Fund (ERDF), the European Social Fund (ESF), the Cohesion Fund (Cohesion Fund) and the European Agricultural Fund for Rural Development (EAFRD), and the European Maritime Fisheries Fund (EMFF) [15].

Direct grants are provided by the European Commission or its executive bodies to support projects and activities related to EU policies.

The Commission's direct grants are awarded on a one-for-one basis following an open call for proposals under a specific programme; the EU does not always provide 100% of the funding for projects, with part of the funding coming from the EU and the rest from other sources. In most cases, a certain percentage of contribution is required from the organisation implementing the project. In addition, grants are not awarded retrospectively, and projects that have already been implemented are not eligible to apply.

In October 2023, the Ministry of Finance of Ukraine attracted almost \$ 2.8 billion in grants and preferential financing from international partners. Grant funds provided on a non-repayable basis constituted over 40% of the total financial assistance.

Among the donors in October 2023:

- European Union: \$ 1.6 billion (concessional financing).
- United States of America: \$1.15 billion (grants).

The funds from the EU represent the ninth tranche within the framework of the extensive Macro-Financial Assistance (MFA) for the year 2023. The overall financing under the MFA program amounts to €18 billion, of which Ukraine has already received €15 billion.

The US grant is part of the fifth additional financing under the World Bank's project "Supporting State Expenditures for Sustainable Public Governance in Ukraine" (PEACE in Ukraine). The goal of the «Peace in Ukraine» project is partial compensation of state budget expenditures, in particular, social and humanitarian expenditures that are not related to the sphere of security and defense [11].

In total, in the first quarter of 2023, ₴ 171.9 billion (\$4.7 billion) were spent from the state budget, which are subject to reimbursement by international partners of Ukraine within the framework of the «Peace in Ukraine» project (Table 1) [19].

Table 1- Public expenditures that are subject to reimbursement under the Project PEACE in UKRAINE in Q1 2023

№	Payment type	Sector	Total expenditures	Recipients (persons/households), monthly average
1	Assistance at child adoption	Social assistance	7,9 m₴	2,0 e
2	Assistance at childbirth	Social assistance	2399,8 m₴	693,6 e
3	Assistance to internally displaced persons	Social assistance	18590,0 m₴	1957,2 e
4	Assistance to single mothers	Social assistance	318,5 m₴	55,0 e
5	Housing subsidies	Social assistance	9567,0 m₴	1880,5 e
6	Maternity assistance	Social assistance	46,5 m₴	6,4 e
7	Old-age social benefits	Social assistance	67964,9 m₴	9840,2 e

Continuation of table 1.

№	Payment type	Sector	Total expenditures	Recipients (persons/households), monthly average
8	Social support to low-income families	Social assistance	2593,6 m€	133,2 e
9	Social support to persons with disability since childhood and children with disabilities	Social assistance	4256,0 m€	463,6 e
10	Salaries of public employees (non-security sectors)	Public Service	7361,9 m€	137,0 e
11	Salaries to healthcare workers (under PMG)	Healthcare	25837,8 m€	513,8 e
12	Salaries of first responders	Emergency Services	8019,2 m€	56,8 e
13	Salaries in public universities	Education	5278,9 m€	135,0 e
14	Salaries of teachers in schools	Education	19689,6 m€	491,8 e
	TOTAL	-	171,9 mrd €/ \$ 4,7 mrd	-

Source: based on [19]

In 2023, Ukraine has already received \$10.9 billion in grant funding from the United States.

International financing is directed towards supporting priority expenditures in the state budget, including social protection, humanitarian needs, and the remuneration of workers in the education and healthcare sectors.

In total, over the first 10 months of 2023, the Ministry of Finance of Ukraine attracted approximately \$ 35.4 billion of external financing to address the urgent needs of the state budget [11].

In Ukraine in 2023, the largest state grant program is "eRobota", it is suitable for many types of small business activities, including startups. Submit applications through the portal or mobile application "Diya". Many grant programs are available on the EU4Business portal, a large-scale initiative from the European Union to support Ukrainian companies. On the organization's website, you can find out how to get grant or credit funds, scale business and enter new markets [7].

The classification of grant types is summarised in Figure 1.

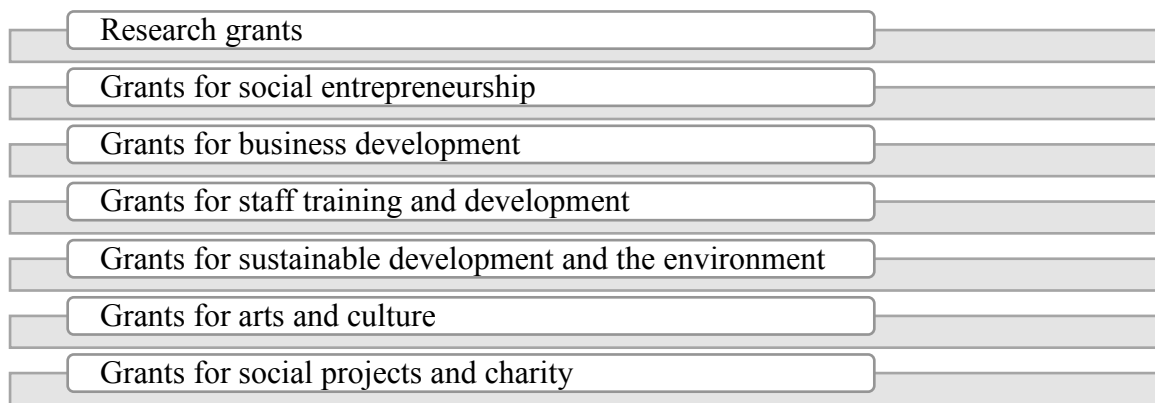


Fig. 1. Classification of grant types

Source: authors' own development

The classification of tasks that can be solved with the help of grants, according to current trends in grant funding in the EU, is presented in Figure 2.

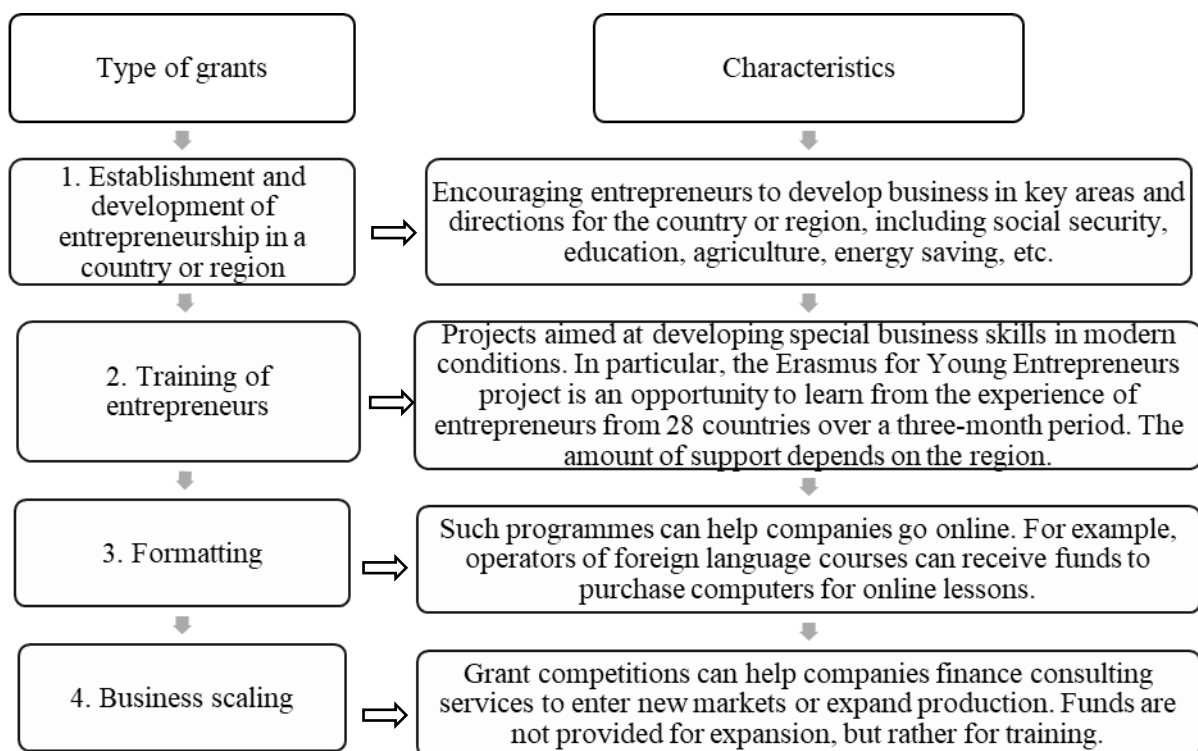


Fig. 2. Classification of tasks that can be solved with the help of grants, according to current trends in grant funding in the EU

Source: authors' own development

Research grants: these grants are awarded to fund research and development of new products, technologies, or services (grants for research, innovation, introduction of new technologies, etc.).

Grants for social entrepreneurship: these grants are aimed at supporting social enterprises that combine entrepreneurial activity with solving social or environmental problems (for projects aimed at solving problems in the areas of education, healthcare, environment, etc.).

Grants for business development: these grants are aimed at supporting start-ups, small and medium-sized businesses (funding for product development, market expansion, or business infrastructure improvements, etc.).

Grants for staff training and development: grants of this type are provided for staff training and professional development (costs of training, seminars, courses, and other professional development programmes).

Grants for sustainable development and the environment: some grants are aimed at supporting projects that promote sustainable development and conservation of natural resources (environmental projects, energy efficiency improvements, and other initiatives).

Grants for arts and culture: these grants are awarded to artistic and cultural organisations to support creativity, exhibitions, art projects, and cultural events.

Grants for social projects and charity: these grants are awarded to organisations engaged in charity and social projects to improve living conditions for the population and solve social problems.

Grants can have different terms and conditions and requirements, and they can be provided for specific projects or for general financing of business activities. Businesses should be careful to assess which grants best suit their needs and objectives and to comply with all conditions and obligations associated with them.

Any government grant requires clear reporting prepared in accordance with the entrepreneur's application. If the application states that the company intends to

produce a certain type of innovative product, then it cannot differ in any of the parameters in the reporting. In addition, the list of contractors and the scope of work performed are controlled. Accordingly, in the process of obtaining grant funds, entrepreneurs need to plan their expenses in detail and make efforts to ensure that all basic conditions are met in the course of fulfilling grant agreements.

Traditionally, grant reporting has been a tool to ensure that the funded organisation uses grants for the purpose stated in the application. Ideally, a grant report would also contain information that could benefit both the organisation and the funder [17]. However, in practice, reporting often becomes another obstacle to overcome. Over time, the reporting requirements have changed the essence of their original intent; grantees now have the responsibility to justify the need for funding.

Instead of acting in a haphazard manner, it makes sense for grantees to develop and implement new reporting requirements that foster dialogue within the organisation - requirements that encourage organisations to refine and evaluate goals. The best grant reporting goes far beyond the simple notion of accountability. The first question to ask is how a new approach to accounting for reporting will bring the most value to organisations in terms of reducing the time it takes to produce grant reporting documents.

The globalisation of commercial activity and the rapid development of international financial markets have led to a new approach to financial reporting. The focus of this approach is on the compatibility of reporting information that is understandable to investors around the world, regardless of their nationality.

International Financial Reporting Standards are a unified set of provisions based on the basic principles of recognition and measurement of the main elements of financial statements, taking into account industry specifics and company structure, as well as the presentation of financial information.

Each of the standards has a specific structure that includes the following elements in most cases: purpose and scope of the standard; basic definitions used in the standard; individual clauses that disclose individual features of the standard, i.e.,

a description of methodological problems and ways to solve them; the procedure for disclosing information in financial statements; date of entry into force.

Interpretations (International Financial Reporting Interpretations) clarify and specify certain provisions of the standards in the light of their application practice and regulate the application of the relevant standards on issues that are not sufficiently disclosed or not mentioned in the standard itself.

Currently, two systems prevail in international business turnover: IFRS (International Financial Reporting Standards) and US GAAP (US Generally Accepted Accounting Principles), which have given way to a large number of disparate national financial reporting systems [3; 10].

Unlike IFRS, which are based on principles, US GAAP are based on clearly defined rules that regulate in detail the accounting for certain business situations. In some cases, US GAAP focuses on the legal form of a transaction rather than its economic substance [22]. In contrast, IFRS prioritise the economic substance of a transaction and the application of professional judgement.

The convergence of the two systems was reflected in the joint adoption of a Memorandum of Understanding by the developers of IFRS and US GAAP, in which the parties formally formalised their intention to create common standards for use in international capital markets [6; 16]. Since then, most of the projects, including business acquisitions, revenue recognition, accounting for financial instruments, and leases, have been developed jointly by the parties to the Memorandum.

As discussed earlier, almost every government supports certain companies or businesses by providing subsidies or other types of government assistance. Accordingly, grantees must account for the funds received in accordance with different financial reporting standards. It is advisable to consider the main IFRS rules governing the accounting for government grants.

Since government subsidies are a clear benefit and provide an advantage over other companies that do not receive such assistance, they should be properly accounted for in the financial statements.

The most important standard relating to government grants is IAS 20 Accounting for Government Grants and Disclosure of Government Assistance. This is a fairly old standard - it was issued in 1983 and came into force on 1 January 1984, and there have been virtually no significant changes to the rules since then [8; 20].

The primary objective of IAS 20 is to account for and disclose information about:

- government subsidies or grants. Simply put, these are actual resources, whether monetary or in-kind, transferred to an entity by the state, usually after certain conditions are met;

- government assistance is other government actions designed to provide economic benefits to an organisation, such as business advice or directions to new markets, or free marketing support.

In general terms, IAS 20 applies to almost all types of government grants, except for the following exceptions:

- state aid in the form of tax incentives (tax breaks, tax holidays, etc.),
- agricultural subsidies accounted for in accordance with IAS 41;
- reflecting subsidies in the financial statements, reflecting the impact of price changes, and the situation when the grantee organisation acts on behalf of the company's owner.

The main rule for accounting for grants is that companies should never charge the receipt of any government grant directly to the company's equity.

The capital approach is not permitted under IFRS. Instead, IFRS rules prescribe the so-called “income approach” - recognising subsidies as income in the relevant periods so that the income of those periods corresponds to the expenses of the same periods that the subsidies are intended to compensate.

The specific accounting procedure depends on the purpose of the subsidy received. A company may receive a subsidy or grant for such specific purposes:

- acquisition (creation) of an asset;
- reimbursement of expenses (related to income).

If an entity receives a subsidy for the acquisition of assets, it has two options for presenting the subsidy in its financial statements:

1. Report it as deferred income.
2. Deduct it from the carrying amount of the acquired asset.

If a grant is granted to reimburse past expenses, it is recognised immediately in profit or loss.

If the grant is provided to reimburse current or future expenditures, it is recognised in profit or loss in the periods in which the expenditures are incurred and recognised.

There are two options for reporting subsidies:

1. Report subsidies as income in a separate line item, such as “Other income”.
2. Deduct the amount of subsidies from the relevant costs (i.e., from the costs that these subsidies are intended to compensate).

The key provisions for accounting for grants in accordance with IAS 20 [12] are as follows:

- *Definition of a grant*: a grant is a transfer of resources (money or other assets) from one party (the grantor) to another party (the beneficiary) without receiving equivalent compensation in the form of goods or services. Grants can be provided by governments, international organisations, or other donors.

- *Identification of the grantor and beneficiary*: businesses should clearly define who is the grantor and who is the beneficiary of the grant.

- *Grant recognition*: a grant should be recognised in the financial statements of a business only when it is probable that the beneficiary will comply with the conditions attached to the grant and the grant will be received. The likelihood of fulfilment of the conditions can be determined based on objective evidence.

- *Requirements for grant recognition*: a grant should be recognised on the balance sheet of the business as a liability that the beneficiary must pay or reimburse by providing goods or services if the grant agreement provides for this. When grant conditions are met, the grant may be recognised as income.

- *Subsequent accounting*: once a grant is recognised, an entity should account for the liability and revenue associated with the grant appropriately in the financial statements. Information about grants should also be included in the notes to the financial statements.

The accounting for grants in IAS 20 is regulated in detail and requires accurate implementation of the standard to ensure that grants are correctly accounted for and reported in the financial statements of the business.

Conclusions. To summarise, the accounting for grants received by businesses in accordance with International Financial Reporting Standards (IFRS) is governed by IAS 20 Accounting for Government Grants and Disclosure of Government Assistance. This standard sets out the rules for accounting for and presenting information about grants in the financial statements of an entity.

Government grants are systematically accounted for in the income statement over the periods when the entity records expenses associated with the costs intended to be covered by the grants. In situations involving grants related to assets, the process involves either deferring the grant as income or deducting it from the carrying amount of the asset.

The receipt of grants by a business entity is an important component of financial management, as it can significantly affect the financial condition and reporting of the enterprise. First, when it comes to the transfer of resources, the accurate reflection of this process in the financial statements is important. This involves determining the value of the received resources, their use and their impact on the financial condition of the enterprise.

According to IAS 20, the following information is subject to disclosure: accounting policies adopted for government grants, including presentation methods adopted for financial reporting; the nature and volume of government grants recognized in the financial statements, as well as the indication of other forms of state aid from which the economic entity has a direct benefit; unfulfilled conditions and other conditional obligations related to recognized state aid.

Prospects for further research are the analysis of financial statements for international grants according to national and international standards.

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