

May 2020

ISCA Financial Reporting Bulletin 6

FRB 6:
COVID-19 Government Relief Measures:
Accounting for the grant provided by the
Singapore Government for wages paid to
local employees under the Jobs Support
Scheme

About the Institute of Singapore Chartered Accountants

The Institute of Singapore Chartered Accountants (ISCA) is the national accountancy body of Singapore. ISCA's vision is to be a globally recognised professional accountancy body, bringing value to our members, the profession and wider community. There are over 32,000 ISCA members making their stride in businesses across industries in Singapore and around the world.

Established in 1963, ISCA is an advocate of the interests of the profession. Possessing a Global Mindset, with Asian Insights, ISCA leverages its regional expertise, knowledge, and networks with diverse stakeholders to contribute towards Singapore's transformation into a global accountancy hub.

ISCA is the Designated Entity to confer the Chartered Accountant of Singapore – CA (Singapore) – designation.

ISCA is a member of Chartered Accountants Worldwide, a global family that brings together the members of leading institutes to create a community of over 1.8 million Chartered Accountants and students in more than 190 countries.

For more information, visit www.isca.org.sg.

About ISCA's Technical Division

As the national accountancy body, ISCA is committed to supporting our members in their careers as they progress and rise to challenges faced along the way. ISCA's Technical Division provides technical support in areas of audit & assurance, financial reporting, sustainability reporting, ethics and specialised industries such as capital markets, banking and finance and insurance; and communicates insights and views to our members and the wider accountancy community. Through our technical committees that comprise representatives from various stakeholders in the corporate reporting eco-system, we hear issues from the ground and conceive initiatives to promote and enhance quality, consistency and best practices to uphold technical excellence.

About ISCA's Financial Reporting Committee

ISCA's Financial Reporting Committee (FRC) is chaired by Mr Reinhard Klemmer and comprises representatives from legal and accounting firms, corporate, regulators and academia in the financial reporting eco-system. FRC's terms of reference include monitoring policy and implementation issues relating to the development of accounting standards internationally and in Singapore, and to identify, understand and address accounting issues faced by professional accountants in Singapore, and provide support through the issuance of guidance.

The terms of reference are executed through FRC with the support of two Sub-Committees, namely the Core Sub-Committee and the Valuation Sub-Committee. The FRC Core Sub-Committee is the technical accounting arm of FRC and comprises various technical accounting subject matter experts from accounting firms. The Core Sub-Committee engages in technical deliberations on emerging accounting issues in Singapore and new or revised accounting developments proposed by the international accounting standards setter.

Note:

- *Although this FRB makes references to SFRS(I) 1-1 Presentation of Financial Statements and SFRS(I) 1-20 Accounting for Government Grants and Disclosure of Government Assistance, the guidance in this FRB is also applicable to entities applying FRS 1 Presentation of Financial Statements and FRS 20 Accounting for Government Grants and Disclosure of Government Assistance.*
- *The fact pattern and the example presented in this FRB for an entity with a 31 March financial reporting period-end are purely illustrative in nature. The amount of grant to be received under the Jobs Support Scheme is dependent on the facts and circumstances of the entity.*
- *The FRB is based on publicly available information as of 4 May 2020.*

Background

The Jobs Support Scheme¹ (“JSS”) was announced at the Budget 2020 (the “Unity Budget”) on 18 February 2020. The purpose of the JSS is to provide wage support to employers to help them retain their local employees (Singapore Citizens and Permanent Residents) during this period of economic uncertainty. Employers who have made CPF contributions for their local employees will qualify for the payouts under JSS.

The JSS was enhanced subsequently in the two supplementary budgets (the “Resilience Budget” and the “Solidarity Budget”) and the Multi-Ministry Taskforce on COVID-19 press conference² announced on 26 March 2020, 6 April 2020 and 21 April 2020 respectively. The Singapore Government will co-fund the wages of local employees for nine months.

The summary of the JSS and its subsequent enhancements are as follows:

| Unity Budget | Resilience Budget | Solidarity Budget | Multi-Ministry Task Force Press Conference |
|--|---|--|---|
| 18 February 2020 | 26 March 2020 | 6 April 2020 | 21 April 2020 |
| Employers will receive an <u>8%</u> cash grant on the gross monthly wages of each local employee (applicable to Singapore Citizens and Permanent Residents only) for <u>3 months computed based on October 2019 to December 2019 monthly wages</u> , subject to a monthly wage cap of <u>\$3,600</u> per employee. | The JSS has been enhanced as follows: Employers will receive a <u>25%*</u> cash grant on the gross monthly wages of each local employee (applicable to Singapore Citizens and Permanent Residents only) for <u>9 months</u> computed based on October 2019 to July 2020 (exclude January 2020) monthly wages, subject to a monthly wage cap of <u>\$4,600</u> per employee. * 75% for companies in the Aviation and Tourism sector; 50% for companies in the Food Services sector. | The JSS payout for wages in <u>April 2020</u> has been increased to <u>75%</u> for all companies. The first tranche of JSS payout is brought forward from May 2020 to April 2020. | The JSS payout for wages in <u>May 2020</u> has been increased to <u>75%</u> for all companies. |

¹ Details of the JSS on IRAS’ website:

<https://www.iras.gov.sg/irashome/Schemes/Businesses/Jobs-Support-Scheme--JSS-/>

² MOF press release on enhancement to JSS on 21 April 2020:

https://www.sgpc.gov.sg/sgpcmedia/media_releases/mof/press_release/P-20200421-1/attachment/Support%20Measures%20for%20Extended%20Circuit%20Breaker.pdf

The summary of the timing of payouts³ are as follows:

| Payout | When will firm receive the pay-out? | JSS will cover wages paid in: | Wages will be derived based on CPF contributions paid by: |
|------------------------------|--|--|--|
| 1st payout | Apr 2020 | <ul style="list-style-type: none"> Oct 2019 x 75%; <i>(of which 50% (in absolute) is an advance recoverable in Jul 2020)</i> Nov 2019 x 25%; and Dec 2019 x 25% | 14 Feb 2020 |
| Additional payout | May 2020 | <ul style="list-style-type: none"> Nov 2019 x 75% <i>(the entire amount is an advance recoverable in Oct 2020)</i> | 14 Feb 2020 |
| 2nd payout | Jul 2020 | <ul style="list-style-type: none"> Feb 2020 x 25%; Mar 2020 x 25%; and Apr 2020 x 75%; Less: Oct 2019 x 50% <i>(advance given in Apr 2020)</i> | 31 May 2020 |
| 3rd payout | Oct 2020 | <ul style="list-style-type: none"> May 2020 x 75%; Jun 2020 x 25%; and Jul 2020 x 25%; Less: Nov 2019 x 75% <i>(advance given in May 2020)</i> | 14 Aug 2020 |

IRAS has also issued the following FAQ⁴ on its website on 4 May 2020 to clarify the period over which the JSS grant is intended to compensate.

Q: When should JSS payouts be recognised as income in my accounts?

A: JSS is meant to provide wage support to employers to help them retain their local employees (Singapore Citizens and Permanent Residents) during the period of economic uncertainty. While the payouts are calculated with reference to wages paid in certain months, they are meant to support businesses during the period in which the payouts are received.

The Unity Budget⁵ states that the JSS is a temporary scheme for 2020. This is reinforced in the Resilience Budget⁶ which states that the JSS is provided until the end of 2020.

³ FAQ 2

<https://www.iras.gov.sg/irashome/Schemes/Businesses/Jobs-Support-Scheme--JSS-/>

⁴ FAQ 1

<https://www.iras.gov.sg/irashome/Schemes/Businesses/Jobs-Support-Scheme--JSS-/>

⁵ Paragraph I-1 of Annex A-1: Stabilisation and Support Package

https://www.singaporebudget.gov.sg/docs/default-source/budget_2020/download/pdf/annexa1.pdf

⁶ Paragraph B12(b)(iii) of Supplementary Budget Statement

https://www.singaporebudget.gov.sg/budget_2020/resilience-budget/supplementary-budget-statement#t2

Scope of this FRB

This FRB provides accounting guidance and key considerations on how to account for the JSS payouts receivable by employers under the Singapore Government JSS announced under the Unity Budget on 18 February 2020, and subsequently enhanced in the two supplementary budgets (the “Resilience Budget” and the “Solidarity Budget”) and the Multi-Ministry Taskforce on COVID-19 announcements on 26 March 2020, 6 April 2020 and 21 April 2020 respectively.

An illustrative example has also been included to aid in the understanding of the principles being applied.

1. Do the payouts receivable under the JSS meet the definition of government grants?

The FAQ issued by IRAS clarified that the JSS is meant to provide wage support to employers to help them retain their local employees (Singapore Citizens and Permanent Residents) during the period of economic uncertainty. While the payouts are calculated with reference to wages paid in certain months, they are meant to support businesses during the period in which the payouts are received.

Given that the JSS is a cash grant from the Singapore Government, it qualifies as a government grant because there is a transfer of resources from the Singapore Government to entities in return for meeting the stipulated conditions related to the operating activities of the entity and there is no service or goods provided back to the Singapore Government by the entities. Therefore, SFRS(I) 1-20 *Accounting for Government Grants and Disclosures of Government Assistance* should be applied in accounting for the JSS.

2. How does the employer account for the JSS payouts receivable under the JSS in its financial statements?

Recognition:

Paragraph 7 of SFRS(I) 1-20 states that an entity shall not recognise government grants until there is reasonable assurance that it will comply with the conditions attached to them and the grants will be received.

The budget was first announced in the month of February 2020. Subsequently in the months of March 2020 and April 2020, additional JSS payouts were announced.

The conditions for the JSS payout are that the entity is required to pay salaries to local employees for the period mentioned in the announcements, and that the related CPF contributions on those salaries have been paid. For information on the additional support by tiers (including the appeal process), please refer to the [IRAS' JSS website](#). This scheme is administered automatically without the need for application by the entity.

Accordingly, there is reasonable assurance that the grant conditions are satisfied when salaries and related CPF contributions are incurred by the employer, and a grant receivable is recognised. **The timing and manner in which the grant will be received should not affect the accounting for the grant.**

According to SFRS(I) 1-20 paragraph 12, the grant is recognised in profit or loss on a systematic basis over the periods in which the entity recognises as expenses the related costs for which the grant is intended to compensate.

The following questions arise:

- What are the 'related costs' for which the JSS grant is intended to compensate?
- How should the JSS grant income be recognised by an entity? How about an entity with the financial reporting period ended 31 March 2020?

3. What are the 'related costs' for which the JSS grant is intended to compensate?

As stated in the Resilience Budget announced on 26 March 2020, the Singapore Government will co-fund the wages of local employees for nine months. The FAQ issued by IRAS clarified that the JSS is meant to provide wage support to employers to help them retain their local employees (Singapore Citizens and Permanent Residents) during the period of economic uncertainty. While the payouts are calculated with reference to wages paid in certain months, they are meant to support businesses during the period in which the payouts are received.

In ISCA's view, the 'related costs' for which the JSS grant is intended to compensate is the salary costs incurred by the entity during the nine months period of economic uncertainty in 2020. Judgment is involved in determining the appropriate period. For most companies, the nine months period of economic uncertainty is likely to commence in April 2020. However, for some companies in the more affected sectors, the period of economic uncertainty may commence earlier.

4. How should the JSS grant income be recognised by an entity?

The stated purpose of the JSS is to provide nine months of wage support to entities to retain their local employees during the period of economic uncertainty until end of 2020.

Recognition of grant income:

Accordingly, the JSS grant income should be recognised in the profit or loss on a systematic basis over the nine month period of economic uncertainty in which the entity recognises the related salary costs in the calendar year 2020 (but not earlier than the date of the Unity Budget which was announced on 18 February 2020).

The determination of when the period of economic uncertainty commences and how the systematic basis is applied by the entity will be an accounting estimate. If the grant amount is material, disclosures under SFRS(I) 1-1 paragraph 125 on the assumptions made and SFRS(I) 1-20 paragraph 31 on the effects of the grant will be required.

Presentation and disclosures:

According to SFRS(I) 1-20 paragraph 29, the grant income can be presented either (1) separately as grant income or under “other income”; or (2) deducted against the salary costs.

Greater transparency will be achieved if the JSS grant income is presented as ‘grant income’ or under ‘other income’ in the financial statements, instead of as a deduction against the salary costs. Disclosure requirements of SFRS(I) 1-20 should also be considered⁷.

How should the JSS grant income be recognised by an entity with a financial reporting period ended 31 March 2020?

Although some entities such as those in the aviation and tourism sector may have been impacted by the COVID-19 pandemic in March 2020 or earlier, most entities are likely to have only been significantly impacted from April 2020, following the circuit-breaker measures which took effect on 7 April 2020.

In ISCA’s view, the JSS grant should be recognised as a grant income, on a systematic basis, over the estimated nine months period of economic uncertainty in calendar year 2020 in which the entity recognises the related salary costs..

To illustrate, consider the following example:

Fact pattern

- Entity A has one local employee who is paid a gross monthly wage of \$4,600 from October 2019 to December 2020
- Entity A is eligible for 25% wage support under the JSS, except for April and May 2020 for which Entity A is entitled to 75% wage support
- Entity A’s financial reporting period-end is 31 March 2020
- Entity A is significantly impacted from April 2020 onwards following the circuit-breaker measures.

For financial reporting period-end 31 March 2020

| Month | Oct 2019 | Nov 2019 | Dec 2019 | Feb 2020 | Mar 2020* | Total |
|--|----------|----------|----------|----------|-----------|--------|
| Salary cost incurred (\$) | 4,600 | 4,600 | 4,600 | 4,600 | 4,600 | 23,000 |
| JSS wage support | 25% | 25% | 25% | 25% | 25% | |
| Computed JSS grant (\$) [JSS wage support% x \$4,600] | 1,150 | 1,150 | 1,150 | 1,150 | 1,150 | 5,750 |
| JSS grant income recognised in P/L (\$) | - | - | - | - | - | - |
| Grant receivable (\$) | - | - | - | 864** | 5,750 | |
| Deferred grant income (\$) | - | - | - | 864 | 5,750 | |

⁷ SFRS(I) 1-20 paragraphs 31 and 39

For the period ended 31 March 2020, Entity A recognises a grant receivable of \$5,750 and a corresponding deferred grant income of \$5,750, being the amount Entity A is entitled up to 31 March 2020. Grant income of \$Nil is recognised in the profit or loss as Entity A is only significantly impacted from April 2020 onwards.

*Although the CPF contribution for March 2020 is paid in April 2020, the entity is obliged to accrue for the CPF contribution as at 31 March 2020. Therefore, Entity A has fulfilled the requirements of SFRS(I) 1-20 paragraph 7 for recognition of the JSS grant receivable.

**This is calculated based on 8% cash grant on the gross monthly wages of each local employee (applicable to Singapore Citizens and Permanent Residents only) for the months of October 2019 to December 2019, and capped at monthly wage of \$3,600 per employee [as per the Unity Budget]. That is, 8% x \$3,600 x 3 months = \$864.

For financial reporting period-ending 31 March 2021

| Month | Apr 2020 | May 2020 | Jun 2020 | Jul 2020 | Aug 2020 | Sep 2020 | Oct 2020 | Nov 2020 | Dec 2020 | Total |
|---|----------|----------|----------|----------|----------|----------|----------|----------|----------|--------|
| Salary cost incurred (\$) | 4,600 | 4,600 | 4,600 | 4,600 | 4,600 | 4,600 | 4,600 | 4,600 | 4,600 | 41,400 |
| JSS wage support | 75% | 75% | 25% | 25% | - | - | - | - | - | |
| Computed JSS grant (\$) [JSS wage support% x \$4,600] | 3,450 | 3,450 | 1,150 | 1,150 | - | - | - | - | - | 9,200 |
| JSS grant income recognised in P/L (\$) | 3,450 | 3,450 | 1,150 | 1,150 | 1,150 | 1,150 | 1,150 | 1,150 | 1,150 | 14,950 |
| Grant receivable (\$) | 3,450 | 3,450 | 4,600 | 2,300 | 2,300 | 2,300 | - | - | - | |
| Deferred grant income (\$) | 5,750 | 5,750 | 5,750 | 5,750 | 4,600 | 3,450 | 2,300 | 1,150 | - | |

During the period from April to December 2020, Entity A recognises a credit to its profit or loss of \$14,950, being the amount Entity A is entitled over the period. The JSS grant income is recognised to the profit or loss on a systematic basis as determined by Entity A. Entity A determines that in April and May 2020, JSS grant income representing 75% of the actual salary costs (capped at \$4,600) is to be recognised in the profit or loss as the Singapore Government is co-funding 75% of the wages of local employees (capped at \$4,600) in the respective months due to the circuit breaker measures. For the other months, Entity A determines that JSS grant income representing 25% of the actual salary costs (capped at \$4,600) is to be recognised in the profit or loss as the Singapore Government is co-funding 25% of the wages of local employees.

Note: Grant receivable recognised at each month end is calculated based on the actual salary costs of local employees incurred in each month and is not based on the JSS grant paid out in April, May, July and October 2020. Deferred grant income is recognised as grant income in the P/L on a systematic basis over the months in which the related salary costs are recognised as expense as determined by Entity A in the table above.

Effective Date and Application:

Companies had to apply judgment in determining the appropriate accounting for the JSS grant prior to the issuance of this FRB and this FRB is intended to provide guidance for preparers who have not finalised their reporting prior to the issuance of this FRB. It is not intended to suggest that such accounting judgments made are inappropriate or would need to change as a result of issuing this FRB. This FRB is effective as of 7 May 2020.

For reference: ISCA Financial Reporting Codification Framework

In November 2019, ISCA issued the ISCA Financial Reporting Codification Framework (Framework). The Framework establishes a formalised categorisation, degrees of authority and a due process for future issuance of ISCA's technical documents. It provides credence to ISCA's technical content, promulgates ISCA's views on the application of accounting standards as well as promotes quality, consistency and best practices in financial reporting.

The Framework is summarised in the table below.

| Category | Nature | Degree of authority | Due Process | Highest level of approval |
|--|--|--|----------------------------------|--|
| 1. Financial Reporting Practice (FRP) | Recommended best practices for financial reporting for specific industries, sectors or transactions | Expected to apply | Public consultation required | ISCA Council |
| 2. Financial Reporting Guidance (FRG) | Technical guidance, views and insights on specific financial reporting issues for specific industries, sectors or transactions | Expected to follow or explain departures | Public consultation required | ISCA Financial Reporting Committee (FRC), with authority delegated by the ISCA Council |
| 3. Financial Reporting Bulletin (FRB) | Technical bulletin containing discussions and highlight of emerging topical financial reporting issues | For information and educational purposes | Public consultation not required | ISCA FRC |

For more details on the Framework and the guidance issued under the Framework, please refer to the following:

- Framework – <https://isca.org.sg/tkc/fr/financial-reporting-codification-framework/>
- FRG – <https://isca.org.sg/tkc/fr/financial-reporting-guidances/>
- FRB – <https://isca.org.sg/tkc/fr/financial-reporting-bulletins/>

© 2020 Institute of Singapore Chartered Accountants. All rights reserved. This document contains general information only and ISCA is not, by means of this document, rendering any professional advice or services. This document is not a substitute for such professional advice or services, nor should it be used as a basis for any decision or action that may affect your business. Before making any decision or taking any action that may affect your business, you should consult a professional advisor. Whilst every care has been taken in compiling this document, ISCA makes no representations or warranty (expressed or implied) about the accuracy, suitability, reliability or completeness of the information for any purpose. ISCA, their employees or agents accept no liability to any party for any loss, damage or costs howsoever arising, whether directly or indirectly from any action or decision taken (or not taken) as a result of any person relying on or otherwise using this document or arising from any omission from it.