THE ROLE OF GOVERNMENT BUDGET AND SUBSIDIES IN FINANCIAL REPORTING UNDER INTERNATIONAL ACCOUNTING STANDARDS

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Abstract

This study examines the role of government budget and subsidies in financial reporting within the framework of International Financial Reporting Standards (IFRS). In the context of increasing state participation in economic development, the proper recognition, measurement, and disclosure of government assistance have become critical factors in ensuring the transparency and comparability of financial statements.

The aim of this research is to analyze the impact of government grants and subsidies on the structure, accuracy, and reliability of financial reporting. The study is based on a comprehensive analysis of IFRS requirements, particularly IAS 20 "Accounting for Government Grants and Disclosure of Government Assistance," as well as comparative and analytical research methods.

The results indicate that government subsidies significantly influence financial performance indicators, asset valuation, and income recognition processes. Improper accounting treatment of such subsidies may lead to distortions in financial results and reduce the reliability of financial statements. At the same time, the application of IFRS provides a systematic and transparent approach to accounting for government assistance.

This study contributes to the existing body of knowledge by offering a structured analysis of the interaction between public financial mechanisms and corporate financial reporting. The findings may be useful for policymakers, accountants, and auditors in improving the quality and transparency of financial information.

Keywords: Government budget; Government subsidies; Financial reporting; IFRS; IAS 20; Government grants; Accounting standards; Financial transparency; Public finance; Audit

1. Introduction

In recent years, the role of government intervention in economic development has increased significantly, particularly through the allocation of budget funds and the provision of various forms of subsidies. Governments use these instruments to support key sectors of the economy, stimulate investment activity, and ensure social and economic stability. As a result, the proper accounting and presentation of government assistance in financial statements have become increasingly important.

Within the framework of International Financial Reporting Standards (IFRS), the accounting treatment of government grants and subsidies is regulated by IAS 20 "Accounting for Government Grants and Disclosure of Government Assistance." This standard defines the principles for recognition, measurement, and disclosure of government support, ensuring consistency and comparability of financial information across different entities.

However, in practice, the application of IAS 20 remains complex. Issues such as the timing of income recognition, classification of subsidies, and their impact on financial performance indicators often lead to differences in accounting approaches. These challenges can result in inconsistencies in financial reporting and reduce the reliability of financial statements.

At the same time, the growing scale of government support in modern economies increases the importance of transparent and accurate financial reporting. Improper accounting for subsidies may distort financial results, mislead stakeholders, and negatively affect decision-making processes.

Although previous studies have addressed various aspects of financial reporting and public finance, limited attention has been given to the integrated analysis of government budget mechanisms and their reflection in corporate financial statements under IFRS. This indicates the existence of a research gap that requires further investigation.

Therefore, the aim of this study is to examine the role of government budget and subsidies in financial reporting in accordance with IFRS, with a particular focus on IAS 20. The study analyzes their impact on financial statements and identifies key challenges associated with their accounting treatment.

The paper is structured as follows. The next section presents a review of relevant literature, followed by the methodology and analysis. The final sections provide conclusions and practical implications.

2. Literature Review

2.1. Theoretical Foundations of Management Accounting and Economic Analysis in Financial Reporting

Management accounting and economic analysis play a fundamental role in ensuring the effective use of resources and improving the quality of financial reporting. In modern conditions, the application of analytical methods is closely linked to the need for operational control and efficient decision-making within enterprises.

As noted in prior research, the effective utilization of resources requires not only accurate accounting records but also continuous operational analysis and strict control at all levels of the enterprise . This highlights the importance of integrating accounting systems with analytical tools in order to ensure transparency and efficiency in financial management[1].

The literature emphasizes that the production process of enterprises is characterized by both quantitative and qualitative indicators. While quantitative indicators reflect production volume and output structure, qualitative indicators are associated with the efficiency of resource utilization and the organization of labor and material costs[1]. This distinction is essential for understanding how financial information is formed and interpreted within accounting systems.

A significant contribution to management accounting theory is the development of cost accounting and cost calculation methods. These methods include job order, process, and normative approaches, each of which provides different perspectives on cost measurement and control. Among them, the normative method is considered one of the most progressive, as it allows for the identification of deviations from established standards and supports operational cost management.

Furthermore, the integration of accounting and analytical approaches enhances the ability to assess financial performance and identify inefficiencies. Economic analysis provides tools for evaluating cost structures, detecting deviations, and supporting managerial decision-making processes.

In addition, modern approaches emphasize the importance of classifying costs into variable and fixed components. This classification improves the accuracy of financial analysis and allows organizations to better understand the relationship between costs, production volume, and profitability. As highlighted in previous studies, such an approach is essential for effective financial planning and control.

Despite the development of various accounting methods, the literature indicates that there is still a need for a comprehensive approach that combines accounting standards, management accounting, and economic analysis. This is particularly relevant in the context of government subsidies, where accurate accounting and analysis are necessary to ensure transparency and reliability of financial reporting.

Thus, the theoretical framework suggests that the integration of management accounting methods and economic analysis is a key factor in improving the quality of financial reporting and supporting effective financial decision-making.

2.2. Empirical Studies on Government Support and Resource Efficiency

Empirical studies on government support and resource management emphasize the importance of efficient allocation and utilization of financial and material resources in achieving sustainable economic development. In particular, the role of state support mechanisms, including subsidies and budget financing, is widely discussed in the context of improving production efficiency and strengthening the economic potential of enterprises.

Previous research indicates that the development of material and technical resource markets is a key factor in enhancing the productivity and competitiveness of the agricultural sector[1]. Effective management of these resources requires the application of modern economic analysis tools and the improvement of market infrastructure, which allows for better coordination between supply and demand.

It has been noted that insufficient development of resource markets and weak institutional mechanisms may limit the efficiency of government support. In such conditions, subsidies and budget allocations may not produce the expected economic outcomes unless they are supported by appropriate management systems and transparent financial reporting practices.

Furthermore, empirical evidence suggests that the effectiveness of government subsidies largely depends on their targeted use and proper monitoring. The absence of clear control mechanisms and performance evaluation criteria can lead to inefficient allocation of funds and reduced economic returns.

Studies also highlight that the integration of financial reporting systems with resource management practices improves the transparency and accountability of government support. In particular, the use of standardized accounting approaches allows for better tracking of subsidies and their impact on financial performance indicators.

In addition, the development of market-based mechanisms for resource allocation contributes to the optimization of production processes and cost structures. This is especially relevant in sectors such as agriculture, where the efficient use of material and technical resources directly affects productivity and profitability.

Despite the growing body of empirical research, there remains a need for further studies that link government budget mechanisms with financial reporting practices under international accounting standards. This gap is particularly important in the context of IFRS, where the proper recognition and disclosure of government subsidies play a crucial role in ensuring transparency and comparability of financial statements.

Overall, empirical studies confirm that the effectiveness of government support depends not only on the volume of financial resources provided but also on the quality of their management, monitoring, and reporting.

2.3. Accounting Treatment of Government Subsidies under IFRS

The accounting treatment of government subsidies within the framework of International Financial Reporting Standards (IFRS) represents a critical area in ensuring the transparency and comparability of financial reporting. IAS 20 “Accounting for Government Grants and Disclosure of Government Assistance” provides the primary guidance for recognizing, measuring, and presenting government support in financial statements.

According to IAS 20, government grants should be recognized only when there is reasonable assurance that the entity will comply with the conditions attached to them and that the grants will be received. This principle ensures that financial statements reflect economic reality and prevents premature recognition of income[11].

The standard allows two main approaches to the presentation of government grants. They can either be recognized as income over the periods necessary to match them with related costs or deducted from the carrying amount of the related asset. Each approach has a different impact on financial indicators, particularly profitability and asset valuation.

Empirical and theoretical studies suggest that the choice of accounting method for subsidies significantly influences financial reporting outcomes. For example, recognizing grants as income increases reported earnings, while deducting them from asset values reduces depreciation expenses in future periods. As a result, different accounting treatments may lead to variations in financial performance indicators, even when underlying economic conditions remain the same.

In addition, disclosure requirements play an essential role in enhancing transparency. IAS 20 requires entities to disclose the nature and extent of government assistance, as well as the accounting policies applied. Such disclosures allow users of financial statements to better understand the impact of subsidies on financial performance and position.

However, the literature indicates that, in practice, the application of IAS 20 is not always consistent. Differences in interpretation, lack of detailed guidance, and variations in national practices may lead to inconsistencies in financial reporting. These issues highlight the need for improved methodological approaches and greater standardization in the accounting of government support.

Furthermore, the increasing complexity of economic environments and the expansion of government intervention require more advanced approaches to accounting and reporting. The integration of accounting standards with analytical tools and digital technologies can enhance the accuracy and reliability of financial information related to government subsidies.

Overall, the analysis shows that proper accounting for government subsidies under IFRS is essential for ensuring the credibility of financial statements and supporting informed decision-making by stakeholders.

3. Research Methodology

3.1. Methodological Framework and Research Design

The methodological framework of this study is based on an integrated approach combining theoretical analysis, comparative evaluation, and elements of economic analysis. The research is aimed at examining the role of government budget and subsidies in financial reporting within the framework of International Financial Reporting Standards (IFRS), with particular emphasis on IAS 20.

The study adopts a qualitative research design, focusing on the analysis of accounting principles and their practical implications. Special attention is given to the recognition, measurement, and disclosure of government grants, as well as their impact on financial reporting indicators.

In order to ensure a comprehensive analysis, several research methods are applied. These methods allow for the evaluation of both theoretical concepts and practical accounting approaches related to government support.

The main research methods used in the study are presented in Table 1.

Table 1.

Research methods and their application

Method	Purpose	Application in the study
Analytical method	Evaluation of financial indicators	Assessment of subsidy impact on reporting
Comparative analysis	Comparison of accounting approaches	IFRS vs alternative treatments
IFRS analysis	Study of accounting standards	Application of IAS 20
Economic analysis	Evaluation of efficiency and costs	Analysis of resource allocation
System approach	Integrated analysis	Interaction between budget and reporting

As shown in Table 1, the study applies a combination of analytical and comparative methods, which enables a deeper understanding of the relationship between government support and financial reporting.

Furthermore, the methodological framework is structured as a sequence of interconnected stages, starting from the analysis of government budget mechanisms and ending with the evaluation of their impact on financial statements.

3.2. Research Model and Analytical Approach

To provide a structured understanding of the research process, a conceptual model is developed that illustrates the relationship between government budget mechanisms, accounting standards, and financial reporting outcomes.The proposed research model is presented in Fig. 1.

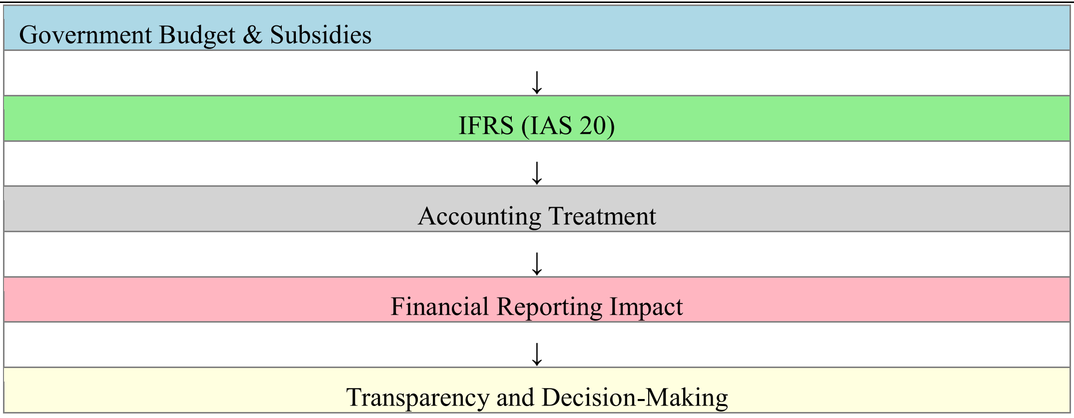

Figure 1. Conceptual research model (author's development)

The model demonstrates that government subsidies influence financial reporting through the application of IFRS principles, particularly IAS 20. The accounting treatment of subsidies affects key financial indicators, including profitability, asset valuation, and financial stability.

The analytical approach of the study is based on evaluating these relationships through the lens of financial reporting quality. The study examines how different accounting treatments of government grants influence the structure and reliability of financial statements.

In addition, the research considers the role of transparency and disclosure in improving the usefulness of financial information. Proper application of IFRS ensures that government assistance is accurately reflected, which enhances the credibility of financial reporting.

Overall, the developed model provides a systematic representation of the research problem and supports the analysis of the interaction between public finance mechanisms and accounting practices.

4. Results and Discussion

4.1. Impact of Government Subsidies on Financial Reporting Indicators

The analysis shows that government subsidies have a significant impact on key financial reporting indicators, particularly profitability, asset valuation, and income recognition. In accordance with IAS 20, the accounting treatment of subsidies determines how these effects are reflected in financial statements.

Government grants recognized as income contribute directly to an increase in reported earnings. This approach improves short-term financial performance indicators, such as net profit and return on assets. However, such recognition may also create distortions if subsidies are not properly matched with the related costs.

Alternatively, when subsidies are deducted from the carrying amount of assets, they indirectly affect financial performance through reduced depreciation expenses. This approach provides a more gradual impact on financial results and is often considered more consistent with the matching principle.

Empirical findings indicate that different accounting treatments of subsidies may lead to variations in financial indicators even under identical economic conditions. For example, organizations applying the income approach may report higher profitability in the short term, while those using the asset-based approach demonstrate more stable financial performance over time[2,3].

To illustrate the impact of different accounting approaches, the comparison is presented in Table 2.

Table 2.

Impact of accounting treatment of subsidies on financial indicators

Accounting approach	Effect on profit	Effect on assets	Impact on reporting
Income recognition	Increases profit	No direct impact	Short-term improvement
Asset reduction	Gradual profit effect	Decreases asset value	Long-term stability

As shown in Table 2, the choice of accounting method significantly influences the interpretation of financial results. This highlights the importance of consistency and transparency in applying IFRS standards.

4.2. Challenges in Accounting for Government Subsidies

Despite the existence of clear guidelines under IAS 20, several challenges remain in the practical application of accounting rules for government subsidies[12].

One of the key challenges is the timing of recognition. Determining the moment when there is reasonable assurance that the entity will comply with the conditions attached to the subsidy requires professional judgement. This introduces subjectivity into the accounting process.

Another issue is related to the classification of subsidies. In practice, it may be difficult to distinguish between income-related and asset-related grants, especially in complex financial arrangements. This may lead to inconsistencies in reporting practices across organizations[13]..

Furthermore, insufficient disclosure of government assistance reduces the transparency of financial statements. Users of financial reports may not fully understand the extent and impact of subsidies if disclosure requirements are not properly followed.

4.3. Discussion of Results

The results of the study confirm that government subsidies play a dual role in financial reporting. On the one hand, they support financial stability and improve performance indicators. On the other hand, they introduce complexity into accounting and may affect the comparability of financial statements.

The findings are consistent with previous studies, which emphasize the importance of proper accounting and analytical methods in ensuring the reliability of financial information. In particular, the integration of management accounting and economic analysis enhances the ability to evaluate the effectiveness of government support[9,10].

Moreover, the study highlights the need for improving disclosure practices and strengthening regulatory guidance in order to reduce inconsistencies in accounting treatment.

Overall, the results demonstrate that the proper application of IFRS, especially IAS 20, is essential for maintaining transparency, comparability, and reliability in financial reporting.

5. Conclusion

The present study examined the role of government budget and subsidies in financial reporting within the framework of International Financial Reporting Standards (IFRS), with particular emphasis on IAS 20. The analysis demonstrates that government support mechanisms significantly influence the structure, reliability, and interpretation of financial statements.

The findings indicate that the accounting treatment of government subsidies has a direct impact on key financial indicators, including profitability, asset valuation, and income recognition. Different approaches to accounting for subsidies may lead to variations in financial results, even under similar economic conditions. This highlights the importance of consistency and transparency in the application of IFRS.

The study also identified several challenges related to the practical implementation of accounting standards. These include issues associated with the timing of recognition, classification of subsidies, and disclosure practices. Such challenges may reduce the comparability of financial statements and affect the decision-making process of stakeholders.

At the same time, the integration of management accounting and economic analysis enhances the effectiveness of financial reporting. The use of analytical tools allows for a more accurate assessment of the impact of government support and improves the quality of financial information[6].

From a practical perspective, the results suggest that organizations should strengthen their accounting policies related to government subsidies and ensure full compliance with IFRS requirements. In addition, improving disclosure practices and adopting a systematic approach to financial reporting can increase transparency and reliability.

The study contributes to the existing literature by providing a comprehensive analysis of the interaction between government budget mechanisms and financial reporting. It also offers practical implications for accountants, auditors, and policymakers in improving reporting standards and financial control.

However, the study has certain limitations, including the reliance on theoretical and comparative analysis. Future research may focus on empirical data and quantitative evaluation of the impact of subsidies across different industries and countries.

Overall, the results confirm that the proper accounting and disclosure of government subsidies are essential for ensuring high-quality financial reporting and supporting effective economic decision-making.

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