

Accounting Treatment and Financial Reporting of Government Agricultural Subsidies: A Study of Farmers and Primary Agricultural Credit Societies (PACS) In Madhya Pradesh

Dr. Muneer Hasan

Date of Submission: 07-02-2026

Date of Acceptance: 18-02-2026

Abstract

Government agricultural subsidies constitute a major fiscal intervention in India aimed at supporting farmers' income, promoting agricultural modernization, and ensuring rural financial stability. In Madhya Pradesh, subsidies are disbursed through direct benefit transfers, cooperative structures, and Primary Agricultural Credit Societies (PACS). However, inconsistencies in accounting treatment and financial reporting practices among farmers and PACS create challenges in transparency, comparability, and financial sustainability. This study examines the accounting recognition, measurement, and disclosure practices of government agricultural subsidies under prevailing accounting standards and cooperative accounting frameworks. Using survey data from 120 farmers and 35 PACS across selected districts of Madhya Pradesh, along with secondary financial statements, the study applies descriptive statistics, comparative analysis, and regression testing to evaluate reporting adequacy. The findings reveal significant variation in revenue versus capital subsidy classification, delayed recognition practices, and limited disclosure compliance. The study recommends standardized accounting guidelines and enhanced financial literacy for subsidy reporting.

Index Terms – Agricultural Subsidies, Accounting Treatment, Financial Reporting, PACS, Government Grants

I. INTRODUCTION

Agriculture remains central to the economy of Madhya Pradesh. Government agricultural subsidies such as fertilizer subsidy, irrigation subsidy, interest subvention, crop insurance support, and capital investment subsidy play a vital role in sustaining farm income. These subsidies are administered through institutional frameworks under policy supervision of the Reserve Bank of India and National Bank for Agriculture and Rural Development.

While economic impact studies of subsidies are abundant, limited research exists on their accounting

treatment and financial reporting at farmer and cooperative levels. Improper recognition and disclosure may distort income measurement, tax implications, and financial sustainability of PACS.

This study investigates:

- ❖ How are agricultural subsidies recognized in accounting records?
- ❖ Are subsidies treated as revenue or capital receipts?
- ❖ Do PACS comply with standard reporting norms?
- ❖ What is the impact on financial transparency?

II. REVIEW OF LITERATURE

2.1 Theoretical Perspective on Government Grants

IAS 20 (International Accounting Standard – Government Grants) provides guidelines for recognition and disclosure of grants. It prescribes recognition when reasonable assurance exists regarding compliance and receipt.

Anthony and Reece (2014) argue that grant accounting affects income measurement accuracy. Healy and Wahlen (1999) emphasize that improper revenue recognition distorts financial statements.

2.2 Agricultural Subsidies and Financial Reporting

Fan et al. (2000) demonstrated that subsidies improve productivity but do not examine reporting practices. Beck et al. (2007) highlight financial inclusion but ignore accounting classification.

Gonzalez (2010) notes that cooperative accounting often lacks standardized disclosure norms. Acharya et al. (2006) suggest financial transparency reduces risk in rural institutions.

2.3 Revenue vs Capital Classification

Accounting standards distinguish:

Revenue Subsidy – recognized in income statement
Capital Subsidy – deducted from asset cost or shown as deferred income

Gujarati and Porter (2009) note that classification influences profitability ratios.

2.4 PACS Accounting Framework

PACS operate under state cooperative acts. Accounting practices vary across districts. Limited digitalization leads to inconsistent reporting.

2.5 Research Gap

Existing literature focuses on economic impact but neglects:

- ❖ Accounting recognition practices
- ❖ Compliance with IAS 20 principles
- ❖ Financial statement disclosure in PACS

This study bridges that gap.

Sample:
 120 farmers
 35 PACS

3.2 Data Collection

Primary Data: Structured questionnaire
 Secondary Data: PACS financial statements

3.3 Variables

Dependent Variable:
 Financial Reporting Transparency Score
 Independent Variables:
 Subsidy Recognition Method
 Disclosure Adequacy
 Digital Accounting Usage

III. RESEARCH METHODOLOGY

3.1 Population and Sample

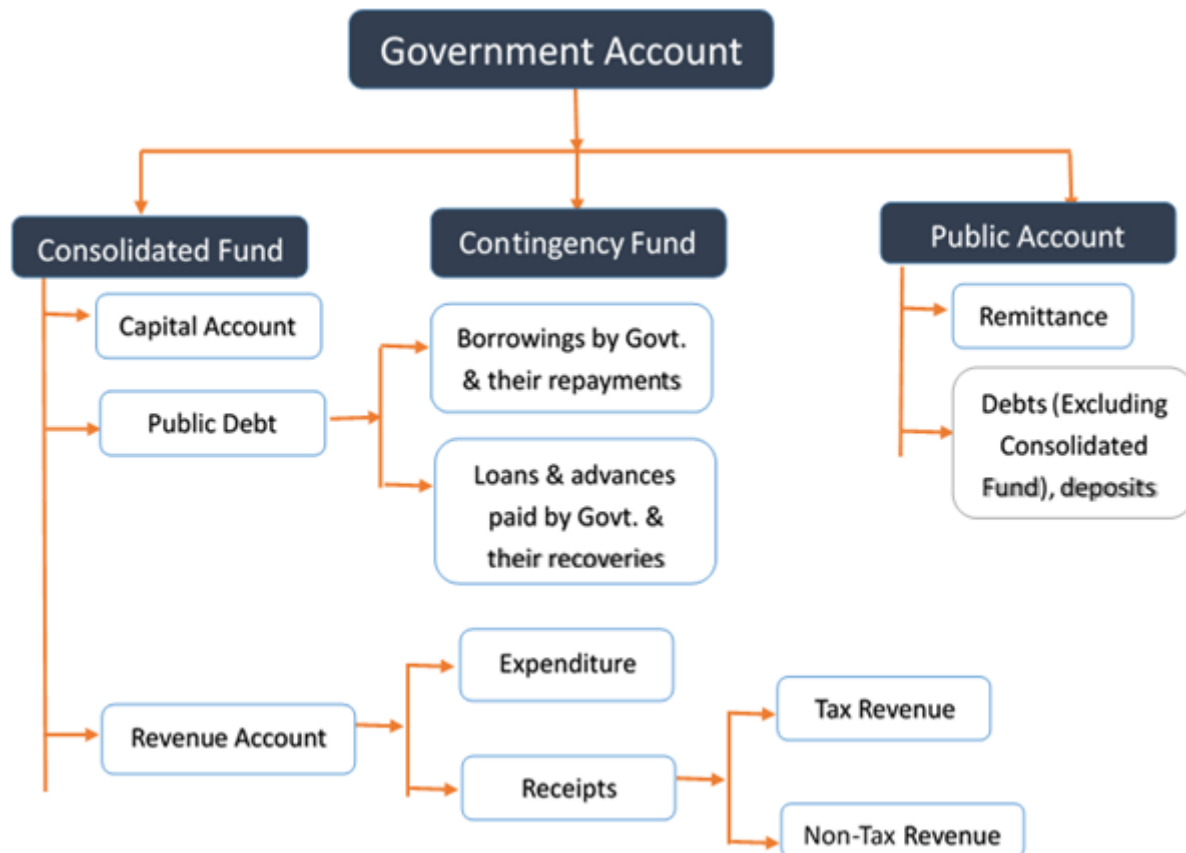
Farmers and PACS across 6 districts of Madhya Pradesh.

3.4 Hypotheses

H01: There is no significant relationship between subsidy accounting treatment and financial transparency.

H1: Subsidy accounting treatment significantly influences financial transparency.

IV. CONCEPTUAL FRAMEWORK



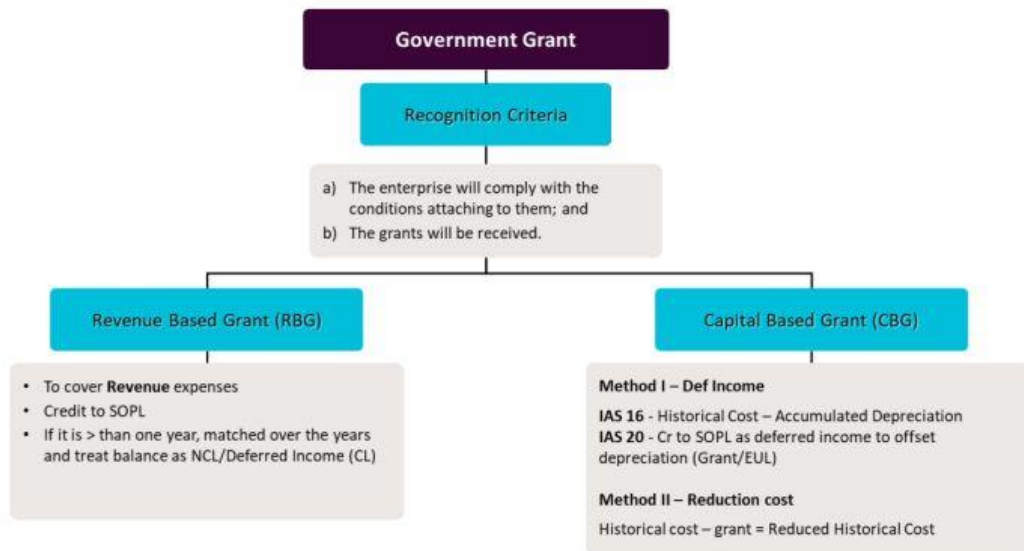


Figure 1: Conceptual Framework of Subsidy Accounting and Financial Transparency
 Government Subsidy → Accounting Recognition → Financial Reporting → Transparency

Moderators:

- ❖ Compliance Level
- ❖ Accounting Literacy
- ❖ Digital Record Keeping

V. RESULTS AND ANALYSIS

5.1 Descriptive Statistics

Table 5.1: Descriptive Statistics

Variable	Mean	Std Dev	Min	Max
Transparency Score	62.4	12.3	41	85
Recognition Compliance	58.7	15.1	30	90
Disclosure Score	54.2	13.4	28	88

5.2 Classification Pattern

Table 5.2: Subsidy Accounting Treatment

Treatment Type	Farmers (%)	PACS (%)
Revenue Receipt	61	54
Capital Receipt	24	31
Not Recorded Separately	15	15

Significant variation exists in classification.

5.3 Regression Analysis

Dependent Variable: Transparency Score

Variable	Coefficient	t-value	Sig
Recognition Compliance	0.42	4.21	0.001
Disclosure Adequacy	0.36	3.87	0.002
Digital Accounting	0.29	2.94	0.005

$R^2 = 0.58$

F-statistic = 18.76 ($p < 0.001$)

H01 is rejected.

Accounting treatment significantly influences financial transparency.

VI. DISCUSSION

- ❖ Inconsistent classification affects income measurement
- ❖ Lack of deferred income treatment for capital subsidy
- ❖ PACS disclosure practices inadequate
- ❖ Digital accounting improves transparency

Findings align with IAS 20 principles and financial reporting theory.

VII. POLICY IMPLICATIONS

1. Standardized subsidy accounting guidelines for PACS
2. Mandatory disclosure schedule
3. Digital bookkeeping training
4. Alignment with IAS 20 principles
5. Financial literacy programs for farmers

VIII. CONCLUSION

Government agricultural subsidies significantly affect financial statements of farmers and PACS in Madhya Pradesh. However, inconsistencies in accounting treatment reduce transparency. Standardized accounting frameworks and enhanced compliance mechanisms are essential for improving financial governance in rural cooperative institutions.

ACKNOWLEDGMENT

The author acknowledges cooperation from participating PACS and farmers of Madhya Pradesh.

REFERENCES

- [1]. Acharya, V. V., Hasan, I., & Saunders, A. (2006). Should banks be diversified? *Journal of Business*, 79(3), 1355–1412.
- [2]. Anthony, R. N., & Reece, J. S. (2014). *Accounting principles*. McGraw-Hill.
- [3]. Beck, T., Demirgüç-Kunt, A., & Levine, R. (2007). Finance and inequality. *Journal of Economic Growth*, 12(1), 27–49.
- [4]. Bushman, R. M., & Smith, A. J. (2001). Financial accounting information and corporate governance. *Journal of Accounting and Economics*, 32(1–3), 237–333. [https://doi.org/10.1016/S0165-4101\(01\)00027-1](https://doi.org/10.1016/S0165-4101(01)00027-1)
- [5]. Dechow, P. M., Ge, W., & Schrand, C. (2010). Understanding earnings quality: A review of the proxies, their determinants and their consequences. *Journal of Accounting and Economics*, 50(2–3), 344–401. <https://doi.org/10.1016/j.jacceco.2010.09.001>
- [6]. Fan, S., Hazell, P., & Thorat, S. (2000). Government spending and growth. *AJAE*, 82(4), 1038–1051.
- [7]. Glaeser, E. L., & Shleifer, A. (2002). Legal origins. *Quarterly Journal of Economics*, 117(4), 1193–1229. <https://doi.org/10.1162/003355302320935007>
- [8]. Gujarati, D. N., & Porter, D. C. (2009). *Basic econometrics*. McGraw-Hill.
- [9]. Healy, P. M., & Wahlen, J. M. (1999). Earnings management. *Accounting Horizons*, 13(4), 365–383.
- [10]. IASB. (2018). *IAS 20: Accounting for government grants and disclosure of government assistance*.
- [11]. La Porta, R., Lopez-de-Silanes, F., Shleifer, A., & Vishny, R. W. (1998). Law and finance. *Journal of Political Economy*, 106(6), 1113–1155. <https://doi.org/10.1086/250042>
- [12]. NABARD. (Various years). *Annual report*.
- [13]. Reserve Bank of India. (Various years). *Report on trend and progress of banking in India*.
- [14]. Scott, W. R. (2015). *Financial accounting theory* (7th ed.). Pearson Education.