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New Guidance on Accounting for Government Grants?

On November 19, 2024, FASB issued an exposure draft requesting feedback on new guidance for the recognition, measurement, and disclosure of government grants received by business entities. Comments are requested by March 31, 2025.

Background

Current GAAP does not contain specific authoritative guidance on how business entities should recognize, measure, and present grants received from a government. Many entities analogize to guidance in International Accounting Standards (IAS) 20, *Accounting for Government Grants and Disclosure of Government Assistance,* or leverage guidance in Accounting Standards Codification (ASC) 958-605, *Not-For-Profit Entities—Revenue Recognition*. During the COVID-19 pandemic, many companies received government assistance, and FASB issued Accounting Standards Update (ASU) 2021-10, *Government Assistance (Topic 832): Disclosures by Business Entities about Government Assistance*, which created several new disclosure requirements. ASU 2021-10 requires the following annual disclosures about government transactions that are accounted for by applying a grant (IAS 20) or contribution (ASC 958-605) accounting model by analogy:

- Information about the nature of the transactions and the related accounting policy used to account for the transactions
- The balance sheet and income statement line items affected by the transactions, and the amounts for each financial statement line item
- Significant transaction terms and conditions

Resource: ASU 2021-10, Government Assistance Disclosures

Scope

The changes in the proposed update would apply to all business entities except nonprofit entities or employee benefit plans. The proposal defines a government grant as the transfer of a monetary or tangible nonmonetary asset from a government to a business entity (including forgivable loans when recognition criteria are met).

The proposed update would not apply to the following types of transactions:

- Exchange transactions, including transactions within the scope of ASC 606, *Revenue from Contracts with Customers*, and ASC 610-20, *Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets*
- Transactions within the scope of ASC 740, *Income Taxes*
- Below-market interest rate loans
- Government guarantees

Initial Recognition

Under the proposed update, a government grant should be initially recognized when it is probable that:

- The entity will comply with the grant's conditions
- The grant will be received

An entity should treat a forgivable loan from a government as a government grant when it is probable that the entity will meet the criteria above, as well as meeting the loan's forgiveness terms. (The probable threshold is consistent with how most entities are current applying IAS 20 in practice).

The proposal offers optionality for presenting certain government grants differently to better reflect the grant's economics and the effect on an entity's operations. The proposal includes presentation and recognition guidance for two categories of government grants. The first is a grant related to an asset which is defined as, "A government grant in which the primary condition is for the entity to purchase, construct, or otherwise acquire a long-term asset, including the direct grant of a tangible nonmonetary asset. Other conditions also may be attached, restricting the type or location of the asset or the periods during which the asset is to be acquired or held." (This definition leverages but modifies the language in IAS20.) The second is a grant related to income, which is a government grant other than a grant related to an asset, *i.e.*, a grant that reimburses a business for operating expenses.

The proposal's scope does not cover intangible assets and services. This would exclude licenses, patent protection, credits, and access to certain facilities.

For government grants related to an asset, there are two options under which the entity can choose to account for the grant, either using the Coat Accumulation Approach or the Deferred Income Approach. The table below summarizes the accounting requirements for each approach:

Grant Related to an Asset		
	Cost Accumulation Approach	**Deferred Income Approach**
Recognition	Recognize a grant for determining the asset's carrying amount on the balance sheet. There is no separate subsequent recognition of grant proceeds in earnings. The asset's carrying amount reflecting the grant proceeds will be used to determine the asset's depreciation or other subsequent accounting.	Recognize a grant on the balance sheet as deferred income and in earnings on a systematic and rational basis over the periods in which an entity recognizes as expenses the costs the grant is intended to compensate. Expenses could include depreciation, gain or loss on sale, or impairment.
Presentation	Present on the balance sheet as part of the carrying amount of the related asset. There should be no subsequent presentation of the government grant in earnings.	Present on the balance sheet as deferred income and present on the income statement as either (1) separate under a general heading, such as other income, or (2) deducted in reporting the related expense, *e.g.*, depreciation, gain or loss on sale, or impairment.
Repayment[1]	Repayment should be recognized by increasing the asset's carrying amount, and the new amount should be evaluated for impairment using existing guidance.	Repayment should be recognized by reducing the deferred income balance by the amount repayable. The cumulative additional depreciation (or change in previously recognized gain or loss on sale or impairment due to a change in the carrying amount) that would have been recognized in earnings to date in the absence of the government grant shall be recognized immediately in earnings.
Grant Related to a Tangible Nonmonetary Asset		
Measurement	Initially measure a government grant of a tangible nonmonetary asset at cost, if any, to a business entity.	Initially measure a government grant of a tangible nonmonetary asset at fair value.

The following table summarizes the key accounting requirements for government grants received related to income:

[1] A government grant that becomes repayable shall be accounted for as a change in estimate in accordance with ASC 250, *Accounting Changes and Error Corrections*.

Grants Related to Income	
Recognition & Measurement	Recognize in earnings on a systematic and rational basis over the periods in which an entity recognizes as expenses the related costs for which a grant is intended to compensate.
Presentation	Present in earnings either (1) separately, under a general heading such as other income, or (2) deduct from the related expense.
Repayment[2]	Repayment of a grant related to income shall be applied first against any unamortized deferred credit recognized related to the grant. If the repayment exceeds any unamortized deferred credit or if no deferred credit exists, the repayment shall be recognized immediately in earnings.

Business Combinations – Grant-Related Liabilities

The proposed update would add specific guidance to ASC 805, *Business Combinations*, about whether and how to recognize and measure grant-related liabilities assumed in a business combination. If an entity has fully complied with the government grant's conditions (either an asset or income grant), the acquirer would not recognize deferred income at the acquisition date. If an entity has not fully complied with the acquired government grant's conditions related to an asset, then the acquirer would account for the asset the grant relates to in accordance with ASC 805-20, at fair value, and the liability to repay the grant proceeds would be recognized in accordance with ASC 405, *Contingencies*.

If an entity has not fully complied with the conditions attached to an acquired government grant related to income, but the acquirer determines that it is probable that the grant's conditions will be met, the acquirer would account for any deferred income from the income-related grant under ASC 832. Any acquired grant-related assets shall be accounted for in accordance with ASC 805.

At the acquisition date, if an acquirer has a liability to repay government grant proceeds (regardless of whether it is an income-related or assets-related grant), that liability shall be recognized in accordance with ASC 450.

Disclosures

The proposal would add the following two new annual disclosure requirements in addition to those already required by ASC 832, *Government Assistance*, noted above:

- A business entity would be required to disclose the fair value of a government grant of a tangible nonmonetary asset in the period in which the government grant is recognized, even if the cost accumulation approach is used.
- For an asset grant accounted for under the cost accumulation approach, a business entity would only be required in the period the government grant is recognized to disclose the line items on the balance sheet

[2] A government grant that becomes repayable shall be accounted for as a change in estimate in accordance with ASC 250, *Accounting Changes and Error Corrections*.

and income statement that are affected by the government grant and the amounts applicable to each financial statement line item.

Transition & Effective Date

FASB will determine the effective date and if early adoption will be permitted after reviewing comment letter feedback. If ratified, the amendment would be applied either prospectively to a government grant that either is not complete[3] or is entered into after the effective date or retrospectively.

Conclusion

Entities that previously analogized to IAS 20 or ASC 958-605 may need to change their accounting policies upon adoption of the proposed amendments. If you have questions, please reach out to a professional at Forvis Mazars.

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[3]A complete government grant is a grant for which all proceeds have been previously recognized in accordance with current guidance before the effective date of these amendments.