FASB proposal

Accounting for government grants

November 21, 2024

FASB proposes guidance on recognizing, measuring and presenting government grants.

Source and applicability

- Proposed ASU, Government Grants
- Business entities that receive government grants

Fast facts, impacts, actions

As more business entities receive government grants, determining how to recognize, measure and present them has become a more prevalent issue. The absence of US GAAP on accounting for government grants has resulted in diverse practices and left business entities to analogize to other GAAP or IFRS® Accounting Standards. To address these concerns the FASB's proposed ASU would enhance Topic 832 (government assistance) to do the following.

- **Prescribe an accounting model** based on the main principles in IAS 20 (government grants and government assistance), with revisions to areas such as scope and the recognition threshold. The guidance would apply to all entities, except not-for-profit entities and employee benefit plans.

- **Define a government grant** as a transfer of a monetary or a tangible nonmonetary asset, other than an exchange transaction, from a government to a business entity. The proposal's scope excludes exchange transactions, income tax items accounted for under Topic 740, the benefit of below-market interest rate loans and government guarantees.

- **Provide a recognition threshold** under which a grant would be recognized when it is probable that the entity will comply with the grant's conditions and that the grant will be received.

- **Leverage existing disclosure requirements** in Topic 832 for annual periods. (Some of these disclosures would only be required in the period the grant is recognized.)

- **Create specific recognition and measurement guidance** in Topic 805 for certain grant-related liabilities assumed in a business combination.

Companies that receive or expect to receive government grants are encouraged to review the proposal and submit any comments to the FASB by the end of the comment period on March 31, 2025.

Background

Current US GAAP does not contain specific guidance on the accounting for business entities receiving government grants. This lack of guidance has led to diversity in practice and has left business entities to analogize to other GAAP or IFRS® Accounting Standards. Many business entities account for their government grants by analogy to the grant model under IFRS Accounting Standards – specifically IAS 20. Others analogize to the not-for-profit contribution model under Subtopic 958-605.

In November 2021, the FASB issued ASU 2021-10, which created Topic 832 and requires business entities to disclose information about certain government assistance they receive. However, ASU 2021-10 did not provide guidance on recognition, measurement or presentation of government grants. The proposed ASU seeks to close that gap in the guidance.

Details of the proposed ASU

Scope

The proposed ASU would amend Topic 832 and change its name from 'Government assistance' to 'Government grants'. Like the disclosure guidance in current Topic 832, the new guidance would apply to all entities, except not-for-profit entities and employee benefit plans.

The scope would include all government grants defined as transfers of monetary and tangible nonmonetary assets, other than exchange transactions, from a government to a business entity. The draft proposal includes the following specific scope exceptions:

- exchange transactions, such as those in the scope of Topic 606 (revenue from contracts with customers) and Subtopic 610-20 (gains and losses from derecognition of nonfinancial assets);
- items accounted for under Topic 740 (income taxes);
- the benefit of below-market interest rate loans; and
- government guarantees.

The proposed guidance would not apply to government grants in the form of intangible assets or services. Environmental credits received from a government may be in the scope of the FASB's project on Accounting for Environmental Credit Programs. A refundable tax credit that is not in the scope of Topic 740 would be in the scope of the government grants proposed ASU.

Recognition and presentation

The proposed ASU would create a recognition threshold under which a grant would be recognized when it is probable:

- the entity will comply with the grant's conditions; and
- the grant will be received.

IAS 20 uses a recognition threshold of reasonable assurance, which the FASB would revise to probable, a term defined in US GAAP as 'likely to occur'. We understand the SEC staff equates reasonable assurance under IAS 20 to probable such that we would not expect a significant change in practice for entities currently applying IAS 20 by analogy.

A forgivable loan from a government would be accounted for as a government grant under the proposed guidance if it meets the probable recognition threshold, including meeting the terms for forgiveness of the loan.

Accounting categories and approaches

The proposed ASU would classify grants into two categories: grants related to an asset and grants related to income.

Grants related to assets are grants that require an entity to purchase, construct or acquire long-term assets. The proposed ASU would provide two accounting approaches for such grants, allowing an entity to elect to account for the grant as either:

- an adjustment to the carrying amount of the asset (cost accumulation approach); or
- deferred income (deferred income approach).

If a tangible nonmonetary asset were to be granted instead of a monetary amount, the asset would be recognized at fair value under the deferred income approach or at its cost to the entity (which is likely to be nominal) under the cost accumulation approach.

Under the cost accumulation approach, the benefit of the grant would be inherently recognized in earnings through reduced expense (i.e. depreciation expense over the asset's useful life). Under the deferred income approach, the benefit of the grant would be recognized in earnings in a systematic and rational manner over the period in which the entity recognizes the relevant expenses (i.e. depreciation expense).

Grants related to income are grants other than those related to an asset (e.g. reimbursement of operating expenses). The recognition of the benefit in earnings would be the same as above for a grant related to assets using the deferred income approach – that is, in a systematic and rational manner over the period in which the operating expenses being reimbursed are incurred.

Presentation

Grants related to assets accounted for under the deferred income approach and grants related to income would be presented in the income statement either:

- separately under a general heading such as other income; or
- as a deduction to the related expense.

The proposed ASU would retain the optionality available under IAS 20 on recognition and presentation of government grants in the balance sheet and income statement. Therefore, we would not expect a significant change in practice for entities currently applying IAS 20 by analogy.

Disclosure

The proposed ASU would apply the existing disclosure provisions in Topic 832 to all government grants within the revised scope of the Topic. Those existing disclosure requirements (which are required in annual periods only) include:

- the nature of the government grant received;
- the accounting policies used to account for the grant;
- the line items on the balance sheet and income statement that are affected by the grant and the amounts applicable to each financial statement line item in the current reporting period; and
- significant terms and conditions of the grant.

For grants related to assets accounted for using a cost accumulation approach, the proposed ASU would require disclosure of the balance sheet and income statement effects only in the period the grant is recognized on the balance sheet. Further, the fair value of tangible nonmonetary assets would be disclosed only in the period the grant is recognized on the balance sheet.

Business combinations

The proposed ASU would provide guidance for government grant-related liabilities assumed in a business combination, including a new exception to the recognition and measurement principles in Topic 805.

If the entity has fully complied with the grant's conditions at the acquisition date, the acquirer would not recognize deferred income. If the acquirer has a liability to repay government grant proceeds at the acquisition date, it would account for that liability under the contingency guidance in Topic 450. If the entity has not fully complied with the grant's conditions at the acquisition date, the acquirer would do the following.

- If the grant is related to an asset, account for the acquired grant under Topic 805.
- If the grant is related to income and the acquirer determines it is probable the grant's conditions will be met, account for any deferred income under Topic 832.

Effective dates and transition

Under the proposal, entities could elect either a prospective or retrospective transition approach. If elected, the prospective approach would be applied to all government grants that are (1) not completed (i.e. all grant proceeds have not been recognized) as of the effective date and (2) entered into after the effective date. If elected, the retrospective approach would require a cumulative-effect adjustment to the opening balance of retained earnings at the beginning of the earliest period presented.

The FASB will determine the effective dates and whether to allow early adoption after considering stakeholders' feedback.

Contributing authors

Mike Breen, Shoshana Feldman, Liz Franzen

KPMG Financial Reporting View

kpmg.com/us/frv

This newsletter is part of our Defining Issues® collection of newsletters and articles with insights and news about financial reporting and regulatory developments.

Sign up here to receive news and insights delivered to your mailbox.

Learn about us: kpmg.com