



FASB issues ASU

Accounting for government grants

December 5, 2025



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

Source and applicability

- ASU 2025-10, [Accounting for Government Grants Received by Business Entities](#).
- Business entities that receive government grants.

Fast facts, impacts, actions

Topic 832 as originally promulgated, contained only disclosure requirements concerning the receipt of government assistance. However, as more business entities receive government grants, determining how to recognize, measure and present these grants has become an increasingly prevalent issue. The absence of explicit US GAAP guidance on accounting for government grants by business entities has resulted in diverse practices, requiring business entities to apply other US GAAP or IFRS® Accounting Standards by analogy. To address these concerns, the ASU expands Topic 832 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 applies to all entities except not-for-profit entities and employee benefit plans.
- **Define a government grant** as a transfer of a monetary or tangible nonmonetary asset, other than an exchange transaction, from a government to a business entity. The scope excludes income tax items accounted for under Topic 740, benefits of below-market interest rate loans and government guarantees.
- **Provide a recognition threshold** under which a grant is not recognized until both of the following are met:
 - it is probable that the entity will comply with the grant's conditions and that the grant will be received; and
 - the entity meets the specific recognition guidance for a grant related to an asset (i.e. as the related costs are incurred) or a grant related to income (i.e. as the related expenses are incurred).
- **Leverage existing disclosure requirements** in Topic 832 for annual periods. (Some disclosures are required only in the period the grant is recognized.)

Background

Current US GAAP does not contain specific guidance on the accounting for business entities that receive government grants. This lack of guidance has led to diversity in practice, leaving business entities to apply other GAAP or IFRS Accounting Standards by analogy. 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. ASU 2025-10 closes that gap in the guidance.

The Topic 832 Government grant model

Scope

The ASU amends Topic 832 and changes its name from 'Government assistance' to 'Government grants'. As with the current disclosure provisions in Topic 832, the new guidance applies to all entities except not-for-profit entities and employee benefit plans.

The scope includes all government grants, which are defined as transfers of monetary assets and tangible nonmonetary assets, excluding exchange transactions, from a government to a business entity. The ASU includes the following scope exceptions:

- exchange transactions (including those that may be at a significant discount to fair value), 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 transfer of an intangible asset or provision of a service;
- government participation in the ownership of an entity;
- the benefit of below-market interest rate loans; and
- government guarantees.



A refundable tax credit that is not in the scope of Topic 740 is in the scope of the government grants ASU. While nonrefundable, transferable tax credits are not explicitly in the scope of the ASU; if an entity does not apply Topic 740 by analogy, we believe that it can apply Topic 832 by analogy.

Recognition

The ASU establishes a recognition threshold under which a grant is not recognized until both of the following are met:

- it is probable that the entity will comply with the grant's conditions and that the grant will be received; and
- the entity meets the specific recognition guidance for a grant related to an asset (i.e. as the related costs are incurred) or a grant related to income (i.e. as the related expenses are incurred).

A government grant receivable or liability may be recognized because of differences in the timing between when an entity receives the proceeds from a grant and when the recognition conditions are met.



IAS 20 uses a recognition threshold of reasonable assurance, which the FASB revised 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 is accounted for as a government grant when the entity meets the recognition threshold. That includes it being probable that the entity will receive the proceeds and meet the terms for forgiveness of the loan. If the grant recognition guidance is not met, the proceeds are accounted for as a loan.

Accounting categories and approaches

The ASU classifies grants into two categories: grants related to an asset and grants related to income.

A grant related to an asset is a grant, or part of a grant, that requires an entity to purchase, construct or acquire an asset (e.g. a building). A grant related to an asset is recognized on the balance sheet as the related costs are incurred. The ASU provides two accounting approaches for recognizing 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).

Under the cost accumulation approach, the benefit of the grant is recognized in earnings through reduced expense (i.e. reduced depreciation expense over the asset's useful life). Under the deferred income approach, the benefit of the grant is recognized in earnings in a systematic and rational manner over the period in which the entity recognizes the relevant expenses (i.e. depreciation expense). If the grant is related to a nondepreciable asset (e.g. land), the benefit is recognized in earnings in a systematic and rational manner over the period in which the entity incurs the costs to which the grant relates.

If a tangible nonmonetary asset is granted and determined to be a grant related to an asset, the asset is recognized at:

- fair value under the deferred income approach; or
- its cost to the entity (which is likely to be nominal) under the cost accumulation approach.

A grant, or part of a grant that is not related to an asset grant, is categorized as an income grant (e.g. reimbursement of operating expenses). The benefit is recognized in earnings in a systematic and rational manner over the period in which the reimbursed expenses are incurred. A grant that is intended to compensate for previously incurred expenses or losses, or one that provides immediate financial support with no future related costs, is recognized directly in earnings when the probable recognition threshold is met.

Presentation

Grants related to assets accounted for under the deferred income approach as well as grants related to income are presented in the income statement either:

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



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

Disclosure

The ASU applies the existing disclosure provisions in Topic 832 to all government grants in 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 in the income statement affected by the grant and the amounts applicable to each financial statement line item in the current reporting period (only for grants related to an asset using a deferred income approach or grants related to income); and
- significant terms and conditions of the grant.

For grants related to assets accounted for using a cost accumulation approach, the ASU requires disclosure of the following only in the period the grant is recognized on the balance sheet:

- the line items on the balance sheet affected by the grant and the amounts applicable to each line item; and
- the useful life of any related depreciable or amortizable asset.

Further, the fair value of a tangible nonmonetary asset received is disclosed only in the period the grant is recognized on the balance sheet.

Business combinations

The ASU provides guidance for government grant-related liabilities assumed in a business combination, including a new exception to the recognition and measurement principles for business combinations in Topic 805. For grants related to income, if the entity has fully complied with the grant's conditions at the acquisition date, the acquirer does not recognize deferred income. If the entity has not fully complied with the grant's conditions at the acquisition date, the acquirer accounts for any deferred income under Topic 832.

Effective dates and transition

Effective dates	Public business entities	Other than public business entities
Annual and interim periods beginning after	December 15, 2028	December 15, 2029
Early adoption permitted?	<ul style="list-style-type: none">• Yes, for interim or annual periods for financial statements that have not yet been issued or made available for issuance.• If adopted in an interim period, apply the guidance as of the beginning of the annual period that includes that interim period.	
Transition methods	<p>The transition method may be based on one of the following approaches.</p> <ul style="list-style-type: none">• Modified prospective approach for both (1) government grants entered into on or after the effective date and (2) government grants that are not complete as of the effective date.¹• Modified retrospective approach for both (1) government grants entered into on or after the beginning of the earliest period presented and (2) government grants that are not complete as of the beginning of the earliest period presented.² Requires a	

	<p>cumulative-effect adjustment to the opening balance of retained earnings as of the beginning of the earliest period presented for government grants that are not complete.</p> <ul style="list-style-type: none"> Retrospective approach for all government grants with a cumulative-effect adjustment to the opening balance of retained earnings as of the beginning of the earliest period presented.
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Note 1: When substantially all proceeds from a government grant have been recognized before the effective date, the grant is considered complete for this transition approach.

Note 2: When substantially all proceeds from a government grant have been recognized before the beginning of the earliest period presented, the grant is considered complete for this transition approach.

Prospective transition is applied to government grants acquired in business combinations that occur after the effective date.

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