



Accounting for Government Grants

FASB | IASB Education Meeting

October 11, 2024

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Project Update and Timeline



Date	Event
June 2022	The FASB issued an Invitation to Comment (ITC) related to the government grants research project.
September 2023	The FASB and the IASB discussed the history of the government grants research project and feedback received on the 2022 ITC on government grants.
November 2023	The FASB voted to add a project to the technical agenda and made some tentative decisions.
April 2024	The FASB decided to leverage the accounting framework within IAS 20 for government grants and to include targeted improvements to the guidance based on certain previous Board decisions, including scope and the recognition threshold.
June 2024	The FASB completed initial deliberations and directed the staff to proceed to drafting a proposed Accounting Standards Update for vote by written ballot.
Q4 2024	Proposed Update expected to be issued for comment.

Scope

Definition of a Government Grant

- Transfer of a monetary or tangible nonmonetary asset from a government to a business entity (including forgivable loans when recognition criteria are met)

Excluded

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

Initial Recognition

A government grant should be initially recognized when it is *probable* that:

- The entity will comply with the conditions attached to the grant
- The grant will be received.

Two types of government grants

- Grant related to an asset: 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.
- Grant related to income: A government grant other than a grant related to an asset.

Grant Related to an Asset

Cost Accumulation Approach

Recognition: Recognize a grant in determining the carrying amount of the asset on the balance sheet. There is no separate subsequent recognition of grant proceeds in earnings.

Measurement: Initially measure a government grant of a tangible nonmonetary asset at cost, if any, to a business entity.

Presentation: Present on the balance sheet as part of the carrying amount of the related asset.

Deferred Income Approach

Recognition: 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 related costs.

Measurement: Initially measure a government grant of a tangible nonmonetary asset at fair value.

Presentation: 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.

Grant Related to Income

Recognition and 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:
 - Separately, under a general heading such as other income
 - Deduct from reporting the related expense.

Statement of Cash Flows & Business Combinations

Statement of Cash Flows

- A business entity should classify cash flows from a government grant in accordance with Topic 230, Statement of Cash Flows, depending on the nature of the government grant (for example, operating, investing, or financing activities).

Business Combinations

- The Board decided to provide specific guidance about whether and how to recognize and measure grant-related liabilities in a business combination.

Disclosures

- Existing Topic 832, Government Assistance, requirements:
 - 1) The nature of a government grant and the related accounting policy used to account for the government grant
 - 2) The line items on the balance sheet and income statement that are affected by the government grant, and the amounts applicable to each financial statement line item
 - 3) Significant terms and conditions of the government grant, including commitments and contingencies.
- 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**.
- For a grant related to an asset that is accounted for using a cost accumulation approach, a business entity **would be required only in the period the government grant is recognized** to disclose the line items on the balance sheet and income statement that are affected by the government grant and the amounts applicable to each financial statement line item.

Next Steps

Proposed Accounting Standards Update expected to be issued during Q4 2024

90 day comment period