FASB ISSUES GUIDANCE ON ACCOUNTING FOR GOVERNMENT GRANTS

January 2026

Overview

The Financial Accounting Standards Board (FASB or Board) issued Accounting Standards Update (ASU) 2025-10, *Government Grants (Topic 832): Accounting for Government Grants Received by Business Entities* (ASU 2025-10 or the ASU), introducing U.S. GAAP guidance on the accounting for government grants for business entities. The new standard is broadly similar to International Accounting Standard (IAS) 20, Accounting for Government Grants and Disclosure of Government Assistance, covering monetary and tangible nonmonetary assets received from governments while excluding exchange transactions. Grants cannot be recognized until compliance with grant conditions and receipt of the grant is probable. Once the probable threshold is met, income-related grants are recognized as related costs are incurred, or immediately if reimbursing past expenses. Asset-related grants are also recognized as related costs are incurred and may be recognized using either a deferred income or cost accumulation approach. The ASU allows optionality in the income statement presentation of proceeds from income-related grants or asset grants recognized under the deferred income approach as either other income or netted against the related expense. It also requires detailed disclosures and offers three transition methods. The amendments in ASU 2025-10 are effective for public business entities with annual reporting periods beginning after December 15, 2028, including interim periods within those annual periods. For all others, the amendments are effective for annual reporting periods beginning after December 15, 2029, and interim periods within those annual periods.

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1. Background

Since the FASB's creation over 50 years ago, it has not developed any guidance on the recognition or measurement of government grants received by business entities, so these entities have often analogized to IAS 20 or, less commonly, Accounting Standards Codification (ASC or Codification) 450, *Contingencies*, or Subtopic 958-605, *Not-for-Profit Entities – Revenue Recognition*. This led to diversity in practice regarding related recognition thresholds, presentation and disclosures. In November 2021, the FASB issued ASU 2021-10, *Government Assistance (Topic 832): Disclosures by Business Entities about Government Assistance*, which added ASC 832, *Government Assistance*, to the Codification to introduce disclosure requirements for government assistance but did not address recognition or measurement for such assistance. ASU 2025-10 amends the title of ASC 832 to *Government Grants* and seeks to reduce diversity by codifying a U.S. GAAP accounting model for government grants to business entities, including recognition and measurement guidance. While broadly convergent with IAS 20, ASU 2025-10 does include several differences from the guidance in IAS 20, which are highlighted throughout this publication. In developing this standard, the Board attempted to balance investor preferences for transparency and comparability with cost and operability concerns expressed by preparers. As a result, ASU 2025-10 generally retains the optionality for certain accounting and presentation elections currently present within IAS 20.

2. Scope

Under the amendments in ASU 2025-10, ASC 832 provides guidance on the accounting for government grants received by business entities. A government grant is defined in part as a transfer of a monetary asset or a tangible nonmonetary asset from a government to a business entity, other than in an exchange transaction (including an exchange transaction that may be at a significant discount to fair value). The description of government is broad and includes domestic, foreign, local, regional and national governments as well as related bodies and intergovernmental organizations acting on behalf of governments.

Not-for-profit entities and employee benefit plans are excluded from ASC 832's recognition and measurement guidance because guidance for these entities is addressed in other ASC Topics such as ASC 958, *Not-for-Profit Entities*; ASC 960, *Plan Accounting—Defined Benefit Pension Plans*; ASC 962, *Plan Accounting—Defined Contribution Pension Plans*; and ASC 965, *Plan Accounting—Health and Welfare Benefit Plans*.

Additional scope exclusions from ASC 832 include:

- Transactions within ASC 740, *Income Taxes*, such as nonrefundable, nontransferable income tax credits
- The benefit of below-market interest rate loans
- Government guarantees
- Transfers of intangible assets or services such as licenses, approvals, credits (e.g., environmental credits), utilities, transportation, training and access to certain facilities

A forgivable loan is treated as a government grant when it is probable the terms for forgiveness will be met.

> **Spotlight on difference from IAS 20:** The scope of ASC 832, as amended by ASU 2025-10, is narrower than the scope of IAS 20. Specifically, the scope of IAS 20 includes the benefit of a government loan at a below-market interest rate, which is not within the scope of the amendments in the ASU.

3. Recognition and measurement

Under the amendments in ASU 2025-10, an entity does not recognize a government grant until it is probable that the entity will comply with the conditions attached to the grant and that the grant will be received.

ASC 832-10-25-1

An entity shall not recognize a government grant until:

a. It is probable that both of the following criteria are met:

   1. The entity will comply with the conditions attached to the government grant.
   2. The government grant will be received.

b. An entity meets the recognition guidance for a grant related to an asset in paragraphs 832-10-25-4 through 25-8 or a grant related to income in paragraph 832-10-25-9.

Receipt alone is not conclusive evidence of compliance with the grant conditions, and a receivable is not recognized before all recognition criteria are met. Once the probable threshold described in ASC 832-10-25-1 is satisfied, recognition follows the guidance for either a grant related to an asset (see Section 3.2) or a grant related to income (see Section 3.3), which requires that the costs associated with the grant be incurred prior to recognition of the related grant. Forgivable loans follow the same threshold, and recognition mirrors that of cash grants when forgiveness is probable.

Spotlight on difference from IAS 20: Under IAS 20, the recognition threshold for a government grant is based on when there is “reasonable assurance” that criteria will be met and the grant will be received. Many business entities that currently analogize to IAS 20 interpret “reasonable assurance” to be consistent with “probable” under U.S. GAAP. However, the Board chose to use the term “probable” and link it to the existing definition within U.S. GAAP as the term “reasonable assurance” is not defined or widely used in U.S. GAAP.

3.1 Grants related to assets

ASC 832-10-25-4

An entity shall recognize a grant related to an asset on the balance sheet as the entity incurs the related costs for which the government grant is intended to compensate using either of the following approaches:

a. Separately recognize the grant as deferred income. (This is referred to as the deferred income approach.)

b. Reflect the grant as an adjustment to the cost basis in determining the carrying amount of the asset. (This is referred to as the cost accumulation approach.)

ASC 832-10-25-5

A grant related to an asset that is accounted for using the deferred income approach shall be recognized in earnings on a systematic and rational basis over the periods in which the entity recognizes as expenses the related costs for which the government grant is intended to compensate. The expenses that are recognized for a grant related to an asset could include depreciation, gain or loss on sale, or impairment.

ASC 832-10-25-6

A government grant related to a nondepreciable asset that is accounted for using the deferred income approach shall be subsequently recognized in earnings on a systematic and rational basis over the periods in which the entity incurs the costs to which the grant relates.

ASC 832-10-25-7

For a grant related to an asset that is accounted for using the cost accumulation approach, there is no separate subsequent recognition of the government grant proceeds in earnings because they have been reflected in the carrying amount of the asset. The carrying amount of the asset that includes the government grant proceeds shall be used to determine depreciation or other subsequent accounting for that asset.

ASC 832-10-25-8

A government grant may take the form of a transfer of a tangible nonmonetary asset, such as land or other resources. The receipt of a tangible nonmonetary asset that is determined to be a grant related to an asset shall be recognized in accordance with paragraphs 832-10-25-4 through 25-7 and measured in accordance with paragraph 832-10-30-1.

For grants related to assets, the amendments to ASC 832 permit two approaches:

- **Deferred income approach.** Under the deferred income approach, the grant is recognized as deferred income on the balance sheet and recognized in earnings on a systematic and rational basis over the periods the related costs are recognized, which may include depreciation, impairment or gain or loss on sale of the related asset. For nondepreciable assets, the deferred income is recognized over periods in which related costs are incurred (e.g., compliance or maintenance obligations).
- **Cost accumulation approach.** Under the cost accumulation approach, the grant is reflected as an adjustment to the asset's cost basis. There is no separate recognition of grant proceeds in income because the grant's effect is reflected in the carrying amount of the asset and embedded in the depreciation and subsequent accounting for that asset.

For grants of tangible nonmonetary assets, if the deferred income approach is elected, initial measurement of the asset is at fair value. If the cost accumulation approach is elected, the asset is recognized at the entity's cost (which may be nominal or zero).

Example 3-1: Grant related to an asset (ASC 832-10-55-8 through 55-11)

Entity A is awarded a government grant of $5 million to assist with the cost of purchasing a building, which is the only condition attached to the grant. The government grant proceeds will be received after the purchase of the building. When the building is purchased, Entity A has incurred the related costs for which the government grant is intended to compensate and determines that the probable criteria in paragraph 832-10-25-1(a)(1) through (a)(2) have been met. The building has a useful life of 40 years.

Entity A can elect to recognize the government grant as deferred income on the balance sheet using the deferred income approach in accordance with paragraph 832-10-25-4(a) or reflect the government grant as an adjustment to the cost basis in determining the carrying amount of the building using the cost accumulation approach in accordance with paragraph 832-10-25-4(b).

If Entity A elects the deferred income approach, it should recognize the government grant as deferred income. Once the building is placed into service, Entity A begins recognizing the government grant of $5 million in earnings on a systematic and rational basis over the 40-year period in proportion to the depreciation expense recognized in accordance with paragraphs 832-10-25-5 and 832-10-55-6. Entity A may elect to present the grant in earnings either separately under a general heading such as other income or deducted from the related expense (for example, depreciation). Entity A should revise the pattern of recognition if the building is disposed of or impaired.

If Entity A elects the cost accumulation approach, it should reflect the government grant as an adjustment to the cost basis in determining the carrying amount of the building. Once the building is placed into service, there is no subsequent separate recognition of the government grant proceeds in earnings. The carrying amount of the building, which reflects the government grant proceeds, should be used to determine the depreciation expense or subsequent accounting in accordance with paragraph 832-10-25-7.

3.2 Grants related to income

ASC 832-10-25-9

A grant related to income shall be recognized in earnings on a systematic and rational basis over the periods in which the entity recognizes as expenses the related costs for which the grant is intended to compensate.

ASC 832-10-25-10

A grant related to income that provides an entity with compensation for expenses or losses previously incurred or for the purpose of giving immediate financial support to the entity with no future related costs shall be recognized in earnings in the period in which the entity meets the guidance in paragraph 832-10-25-1.

In accordance with ASC 832-10-25-1, entities may recognize government grants only when it is probable that they will comply with grant conditions and the grant will be received. Recognition is further tied to the incurrence of costs for which the grant is intended to compensate. For grants related to income, this means proceeds are recognized in earnings on a systematic or rational basis over the periods in which the related expenses are incurred.

Example 3-2: Grant related to income (ASC 832-10-55-12 through 55-14)

Entity B is awarded a government grant of $2 million for qualifying expenditures associated with the research and development of a new drug. Entity B will receive cash from the government on a cost-reimbursement basis by submitting proof that it has incurred qualifying expenditures. Entity B determines that the probable criteria in paragraph 832-10-25-1(a)(1) through (a)(2) have been met because it is probable that it will comply with the condition of the government grant (to incur qualifying expenditures) on the basis of its detailed project plan and budget and that the grant will be received.

Entity B incurs the qualifying expenditures associated with the research and development of a new drug over a 2-year period and recognizes the government grant of $2 million on a systematic and rational basis over the 2-year period as those costs are incurred in accordance with paragraphs 832-10-25-9 through 25-10 and 832-10-55-6. No government grant proceeds would be recognized in earnings until Entity B incurs the related expenses. In addition, a receivable would not be recognized on the balance sheet unless and until Entity B incurs the qualifying expenditures associated with the research and development of a new drug.

Entity B can elect to present the government grant proceeds either separately under a general heading such as other income in accordance with paragraph 832-10-45-3(a) or as a deduction from the related expenses in accordance with paragraph 832-10-45-3(b)

3.3 Repayment of a government grant

When a government grant becomes repayable, the accounting treatment outlined in ASU 2025-10 is consistent with IAS 20 and depends on whether the grant was related to income or to an asset.

For a grant related to income, any repayment is first applied against the unamortized deferred income recognized related to the grant. If the repayment exceeds the remaining deferred income, or if no deferred income exists, the excess is recognized immediately in earnings.

For a grant related to an asset, repayment is recognized by increasing the carrying amount of the asset (if the cost accumulation approach was used) or by reducing the deferred income balance (if the deferred income approach was used) by the amount repayable. If the cost accumulation approach is applied, all related expenses—such as cumulative depreciation or changes in previously recognized gains or losses on sale—that would have been recognized in earnings to date in the absence of the grant must be recognized immediately in earnings. If the deferred income approach is applied and the repayment exceeds the unamortized deferred income, the excess is also recognized immediately in earnings. Additionally, if repayment results in a new carrying amount for the asset, the entity must consider this new amount when evaluating impairment, depreciation and other subsequent accounting for the asset.

4. Presentation

ASC 832, as amended by ASU 2025-10, permits income statement presentation for grants recognized in earnings as either:

- A separate line item under a general heading such as other income
- A deduction from the related expense.

For grants related to assets recognized using the cost accumulation approach, the grant is presented within the carrying amount of the asset on the balance sheet and is not separately presented in earnings.

5. Disclosure

The annual disclosure requirements for government grants in ASU 2025-10 largely align with the existing requirements in ASC 832 for government assistance, with updates to reflect the new scope of ASC 832. Under the amendments in the ASU, entities are required to disclose:

- The nature of the grant, including a general description of the grant and the form in which the grant has been received (e.g., cash, tangible nonmonetary assets)
- The accounting policies used to account for the grant as required by ASC 235-10-50-1 (e.g., for a grant related to an asset, whether the deferred income approach or the cost accumulation approach is applied or for a grant related to income and whether the grant is presented separately under a general heading such as other income or deducted from the related expense)

For grants related to income and grants related to assets accounted for using the deferred income approach, entities must disclose the affected balance sheet and income statement line items and the amounts applicable to each financial statement line item in the current period.

For asset grants under the cost accumulation approach, entities are required to disclose the affected balance sheet line items, the amounts applicable to each financial statement line item and the useful life of any related depreciable or amortizable asset in the period of initial recognition.

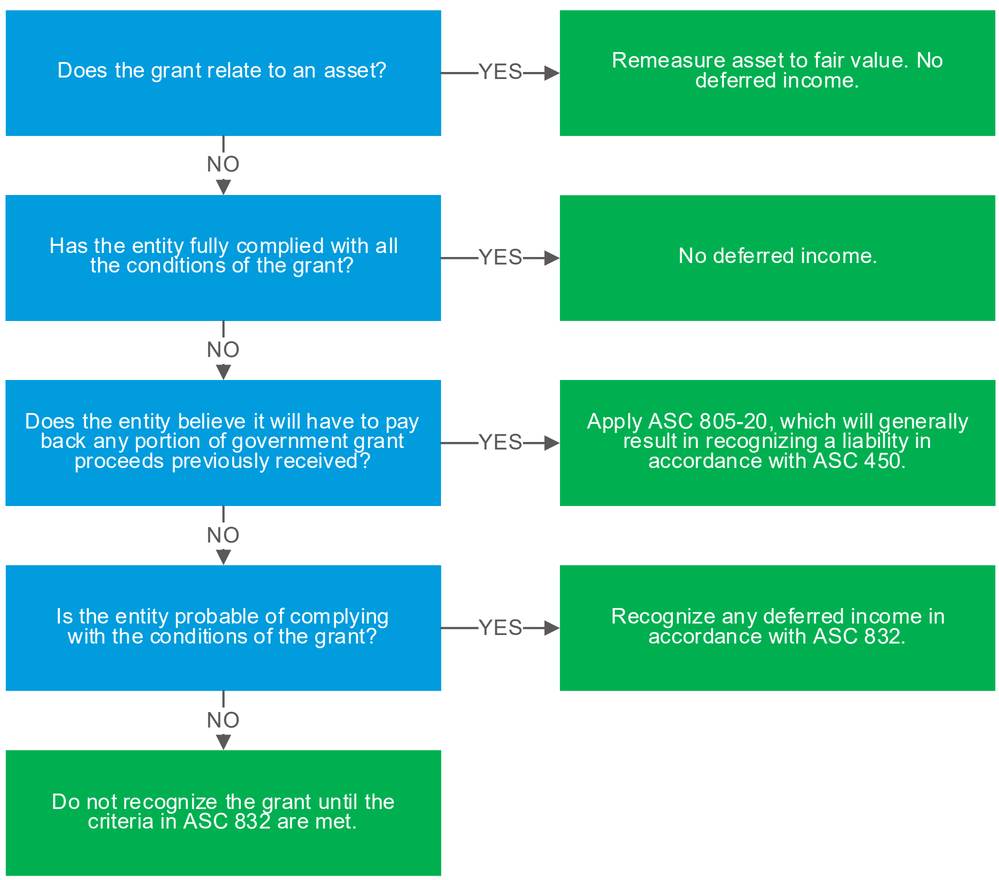
Regardless of approach applied, entities must disclose the fair value of any tangible nonmonetary asset received in the period recognized.

When grant proceeds are presented as a deduction from expenses, the total amount deducted must be included within the ASC 220-40, *Income Statement—Reporting Comprehensive Income – Expense Disaggregation Disclosures*, disaggregation of income statement expenses tabular disclosure.

If specific information is legally prohibited from being disclosed, the entity must disclose the general nature of the omitted information and indicate that the omitted information is legally prohibited from being disclosed.

6. Business combination considerations

When an entity acquires a target in a business combination that has received government grants related to income, the entity recognizes deferred income at the acquisition date in accordance with ASC 832 unless the target has fully complied with the grant conditions, in which case no deferred income is recognized. Deferred income recognized in this scenario is measured in accordance with ASC 832 rather than at fair value under ASC 805, *Business Combinations*, as a practical expedient acknowledging limited market participant inputs. Other assets and liabilities related to grants follow the recognition and measurement principles in ASC 805-20, *Business Combinations – Identifiable Assets and Liabilities, and Any Noncontrolling Interest* (see our publication*, A guide to accounting for business combinations*) The following flowchart illustrates the accounting for a target that has received government grants:



7. Effective date and transition

For public business entities, the amendments in ASU 2025-10 are effective for annual reporting periods beginning after December 15, 2028, including interim periods within those annual periods. For other entities, the amendments in the ASU are effective for annual reporting periods beginning after December 15, 2029, including interim periods within those annual periods.

Early adoption is permitted in interim or annual periods in which financial statements have not yet been issued or made available for issuance. If an entity adopts the amendments in the ASU in an interim reporting period, it must adopt them as of the beginning of the annual period that includes the interim period of adoption.

Entities may apply one of three transition methods:

- **Modified prospective:** Under this approach, the amendments are applied to grants entered into on or after the effective date and prospectively to grants that are not complete as of the effective date (i.e., with no prior-period restatement or cumulative-effect adjustment to the opening balance sheet).
- **Modified retrospective:** Under this approach, the amendments are applied to grants entered into on or after the effective date and retrospectively to grants that are not complete as of the effective date. The cumulative-effect adjustment resulting from application of the modified retrospective approach is reflected in the opening balance of retained earnings as of the beginning of the earliest period presented.
- **Fully retrospective:** Under this approach, the amendments are applied to all government grants through a cumulative effect adjustment to the opening balance of retained earnings as of the beginning of the earliest period presented.

A grant is considered complete when substantially all of the grant proceeds have been recognized. For asset grants accounted for using the cost accumulation approach, the grant is considered complete when substantially all amounts are reflected as a reduction in the carrying amount of the asset. For all other grants, the grant is considered complete when substantially all proceeds have been recognized in the income statement.

+1 800 274 3978
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