

U.S. GAAP vs. IFRS: Government grants

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July 2020

Introduction

Currently, more than 120 countries require or permit the use of International Financial Reporting Standards (IFRS), with a significant number of countries requiring IFRS (or some form of IFRS) by public entities (as defined by those specific countries). Of those countries that do not require use of IFRS by public entities, perhaps the most significant is the U.S. The U.S. Securities and Exchange Commission (SEC) requires domestic registrants to apply U.S. generally accepted accounting principles (GAAP), while foreign private issuers are allowed to use IFRS as issued by the International Accounting Standards Board (which is the IFRS focused on in this comparison). While the SEC continues to discuss the possibility of allowing domestic registrants to provide supplemental financial information based on IFRS (with a reconciliation to U.S. GAAP), there does not appear to be a specified timeline for moving forward with that possibility.

Although the SEC currently has no plans to permit the use of IFRS by domestic registrants, IFRS remains relevant to these entities, as well as private companies in the U.S., given the continued expansion of IFRS use across the globe. For example, many U.S. companies are part of multinational entities for which financial statements are prepared in accordance with IFRS, or may wish to compare themselves to such entities. Alternatively, a U.S. company's business goals might include international expansion through organic growth or acquisitions. For these and other reasons, it is critical to gain an understanding of the effects of IFRS on a company's financial statements. To start this process, we have prepared [a series of comparisons](#) dedicated to highlighting significant differences between U.S. GAAP and IFRS. This particular comparison focuses on the significant differences between U.S. GAAP and IFRS related to accounting for government grants.

Comparison

The guidance in U.S. GAAP and IFRS related to accounting for government grants is summarized in the following table.

U.S. GAAP	IFRS
A business entity that receives government assistance, must first consider whether the nature of that assistance falls within the scope of specific U.S. GAAP, which is generally dependent in large part on the form of the assistance:	In IFRS, the guidance related to government grants is included in IAS 20, which differentiates grants related to assets from grants related to income. Government grants related to assets generally include a primary condition that the

U.S. GAAP	IFRS
<ul style="list-style-type: none"> • Income tax credits are accounted for under Topic 740, <i>Income Taxes</i>, of the Financial Accounting Standards Board’s Accounting Standards Codification (ASC). • Loans generally are accounted for as debt under ASC 470, <i>Debt</i>. • Assistance that represents a payment for goods or services should be considered revenue and accounted for under ASC 606, <i>Revenue from Contracts with Customers</i>. <p>Assistance that does not fall into any of the preceding categories generally is viewed as a government grant.</p> <p>U.S. GAAP does not provide guidance on accounting by business entities for government grants. For not-for-profit entities, guidance on accounting for government grants is included in ASC 958-605, <i>Not-for-Profit Entities – Revenue Recognition</i>. While transfers of assets from government entities to business entities are specifically excluded from the scope of ASC 958-605, it may still be appropriate for business entities to apply ASC 958-605 by analogy, depending on the facts and circumstances. However, the income-statement effects of a grant received by a business entity analogizing to ASC 958-605 should generally be reflected in other income (and not revenue).</p> <p>In certain cases, it may also be appropriate for business entities to analogize to International Accounting Standard (IAS) 20, <i>Accounting for Government Grants and Disclosure of Government Assistance</i> (see the discussion in the IFRS column of this table).</p> <p>Business entities in the U.S. must carefully analyze the substance of any governmental assistance, as well as their compliance with conditions of the assistance. Because of the current lack of guidance in U.S. GAAP for business entities, such entities should keep abreast of viewpoints that may be expressed by standard setters. For example, our white paper, Coronavirus: Financial Reporting Considerations, discusses viewpoints expressed by standard setters related to the various forms of assistance</p>	<p>entity qualifying for the grant purchase, construct or otherwise acquire long-term assets. Grants related to income are those not related to assets.</p> <p>IAS 20 provides for the following:</p> <ul style="list-style-type: none"> • Government grants (related to either assets or income) are not recognized until there is reasonable assurance that: (a) the entity will comply with the conditions attached to the grants and (b) the grants will be received. • Government grants (related to either assets or income) are recognized in income on a systematic basis over the periods in which the entity recognizes as expenses the related costs for which the grants are intended to compensate the entity. For government grants related to assets that are reflected as reductions of the related assets (as discussed in a later bullet point), their effects on income are recognized as the related assets are depreciated or amortized. • Government grants that become receivable as compensation for expenses or losses already incurred, or for the purpose of giving immediate financial support to the entity with no tie to future related costs, are recognized in income in the period they become receivable. • Government grants related to assets are presented in the statement of financial position either by setting up deferred income or by deducting the grant in arriving at the carrying amount of the asset. • Government grants related to income are presented in the income statement as either a separate line item, within other income (or a similar general line item) or net within the related expense line item for which the grant is intended to compensate the entity. • Government grants that become repayable are accounted for as changes in estimates. • Government grants must be disclosed in the financial statements, including information about their nature and extent, the accounting policy, the method of presentation in the

U.S. GAAP	IFRS
<p>provided by the U.S. government in the Coronavirus Aid, Relief, and Economic Security (CARES) Act. In addition, where multiple accounting policies are deemed acceptable, we believe it is important for an entity to adopt a policy that is consistently applied to similar government assistance, and to disclose its accounting policy for such assistance.</p>	<p>financial statements and any unfulfilled conditions and other contingencies related to government grants that have been recognized.</p> <p>Refer to IAS 20 for all of the specific requirements under IFRS that are applicable to the accounting for government grants.</p>

Given the lack of specific guidance in U.S. GAAP for business entities, the existence of specific guidance in IFRS, and the differences between IAS 20 and ASC 958-605 for not-for-profit entities related to the accounting for government grants, different accounting may result under U.S. GAAP and IFRS with respect to the accounting for a specific grant.

Refer to our [U.S. GAAP vs. IFRS comparisons series](#) for more comparisons highlighting other significant differences between U.S. GAAP and IFRS.

Consult your RSM US LLP service provider concerning your situation and any specific questions you may have. You may also contact us toll-free at 800.274.3978 for a contact person in your area.

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U.S. GAAP vs. IFRS: Government grants resulted from the efforts and ideas of various RSM US LLP professionals, including members of the National Professional Standards Group, as well as contributions from RSM UK and RSM Canada professionals.

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