

Early Impressions

FASBs' Accounting Standard Update (ASU-2025-10)

Government Assistance (ASC 832)

Accounting for Government Grants Received by Business Entities



EXECUTIVE SUMMARY

On December 4, 2025, the FASB issued **ASU 2025-10, Accounting for Government Grants Received by Business Entities (or “ASU”)**, marking a significant step toward creating a comprehensive and consistent framework for accounting for government grants in US GAAP. For many years, the absence of explicit authoritative guidance resulted in diversity in practice, with entities drawing on analogy-based models, including those in IFRS. The issuance of ASU 2025-10 is therefore a meaningful development—one that enhances comparability, transparency, and decision-usefulness for users of financial statements.

The new standard draws upon the foundational principles in **IAS 20 Accounting for Government Grants and Disclosure of Government Assistance**, while incorporating targeted refinements and aligning certain requirements with the existing government assistance disclosure framework in **ASC 832 Government Assistance**. By doing so, the FASB has provided a structured model for recognition, measurement, and presentation that business entities can apply consistently across industries and types of government programs.

ASU 2025-10 also introduces flexible transition options—modified prospective, modified retrospective, or full retrospective—giving entities the ability to select an approach that best suits their systems, historical data availability, and reporting objectives.

With an effective date beginning **December 15, 2028**, for public business entities, and one year later for all other entities, organizations have adequate time to assess the operational and financial reporting implications of the new guidance. **Early adoption is permitted**, enabling entities to achieve comparability sooner if they are prepared to do so.

This Thought Leadership aims to provide a clear, practical, and insightful discussion of the new standard. We explore the core principles of ASU 2025-10, highlight key differences from prior practice, outline transition considerations, and share perspectives on potential implementation challenges. As entities begin evaluating and preparing for adoption, understanding the nuances of the new model will be essential to ensuring a smooth and compliant transition.

We hope this publication serves as a valuable resource as you navigate the evolving landscape of government grant accounting and prepare to operationalize ASU 2025-10 within your organization.

We will be happy to participate in any discussions required to clarify our views enclosed in the attached publication. We look forward to hearing from you.

Thank you.

Yours faithfully

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BACKGROUND

Historically, US GAAP did not provide authoritative guidance for business entities on the accounting for government grants. In practice, companies were required to analogize to other models—most commonly *IAS 20*, and in some cases the not-for-profit contribution model in *ASC 958-605 (958 Not-for-Profit Entities- 605 Revenue Recognition)* or the contingent gain model in *ASC 450 Contingencies*. This led to significant diversity in recognition timing, measurement approaches, and presentation across industries.

Recognizing the need for clearer and more consistent principles, the FASB issued **ASU 2025-10, Accounting for Government Grants Received by Business Entities**, on December 4, 2025. The standard amends ASC 832, establishing a comprehensive US GAAP framework for **recognizing, measuring, and presenting government grants**. The guidance builds on the foundational concepts in *IAS 20* while introducing targeted improvements and aligning certain existing disclosure requirements.

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ASU 2025-10 SUMMARY AT GLANCE

Objective of the ASU

- Establishes a comprehensive US GAAP framework for recognition, measurement, presentation, and disclosure of government grants received by business entities.
- Aligns broadly with IAS 20 with targeted U.S.-specific enhancements.

Scope

- Applies to government grants received by business entities, except those within the scope of Topic 740 (income taxes), Topic 606/610 (exchange transactions), Topic 450 (contingencies), and grants to not-for-profit entities under ASC 958.
- Covers both monetary and nonmonetary assistance.

Grant Types

- **Two categories:**
 - (1) **Grant related to an asset** — conditioned on acquisition, construction, or purchase of an asset;
 - (2) **Grant related to income** — all other grants, typically reimbursement of operating expenditures.

Recognition Criteria

- Grant cannot be recognized until it is **probable** that
 - (1) the entity will comply with grant conditions, and
 - (2) the grant will be received.
- Asset-related grants also cannot be recognized before **related costs are incurred**.

Measurement

- Monetary grants measured at the amount received/receivable;
- Nonmonetary grants measured at **fair value**.

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Accounting for Asset-Related Grants

- Two policy choices:
 - (i) **Deferred Income Approach** — recognize liability and amortize to earnings over periods of related expense;
 - (ii) **Cost Accumulation Approach** — reduce the carrying amount of the asset (net basis).
- Policy applied consistently for similar grants.

Accounting for Income-Related Grants

- Recognized in earnings on a **systematic and rational basis** over periods in which related costs are incurred.
- Deferred credit recorded if cash is received before costs are incurred.

Statement of Cash Flows Presentation

- No prescriptive rules; entity applies ASC 230 principles.
- Cash flows may be classified as **operating, investing, or financing**, depending on the nature of the grant and timing of cash receipts.
- Requires consistent accounting policy.

Disclosures (Annual)

- Required disclosures include:
 - (i) nature of the grant;
 - (ii) accounting policy applied;
 - (iii) affected financial statement line items;
 - (iv) significant terms & conditions.
- Additional disclosures required depending on whether deferred income or the cost accumulation method is used.

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Transition Options

- Entities may adopt using
 - **modified prospective** or
 - **modified retrospective**, or
 - **full retrospective** application.
- Early adoption permitted.

Effective Dates

- PBEs: annual periods beginning after **Dec 15, 2028** (including interim periods).
- All other entities: one year later.
- Early adoption allowed for any period not yet issued.

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SCOPE APPLICABILITY

Scope Inclusion:

The scope includes all government grants, which are defined as the **transfer** of a **monetary asset or tangible nonmonetary asset**—other than in an exchange transaction—from a government to a business entity.

Scope Exclusions:

ASU applies to **all business entities** (*Other than Not-for-profit entities, which continue applying ASC 958-605 and Employee benefit plans within ASC 960, 962, and 965*) receiving government grants from **domestic or foreign, national, regional, state, or local governments**, including entities related to those governments. However, the guidance in ASU is not applicable to following transaction types:

- Transactions within the scope of **Topic 740 on income taxes** (for e.g., nonrefundable, nontransferable income tax credits).
- **Below-market interest rate loans**
- **Government guarantees**
- Transfers of **intangible assets** or the **provision of services**
- A reduction of an **entity's liabilities** (for example, sales, property, payroll, or other **tax abatement**).
- Government **equity participation**
- A contribution to a business entity from a nongovernmental source within the **scope of Subtopic 958-605 on not-for-profit entities — revenue recognition**.
- A transaction within the scope of **Topic 606** on revenue from contracts with customers or Subtopic 610-20 on other income — **gains and losses from the derecognition of nonfinancial assets**.

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Illustrative list of examples within the scope of new guidance in ASU

	Particulars	Basis of Conclusion
Executive Summary Background ASU 2025-10 Summary at Glance Scope Applicability Key Highlights of Amendment in ASU Effective date and transition Comparison of ASU 2025-10 and IAS 20 Uniquis Perspective of amendments	Cash Grant for Capital Expenditures:	
	A state government provides a manufacturing company with a \$5 million cash grant to support construction of a new production facility, contingent on the company completing the project and maintaining a minimum employment level.	This is a transfer of monetary assets from a government, not in exchange for goods or services, and is directly tied to asset acquisition—meeting the definition of a government grant.
	Grant of Land for Facility Expansion:	
	A city transfers a parcel of land at no cost to a logistics company to promote local development.	A tangible nonmonetary asset is transferred from a government entity. This aligns directly with ASC 832's definition of a government grant.
	Forgivable Loan for Job Creation:	
	A government agency issues a \$2 million loan to a biotechnology company that becomes forgivable if the company hires 200 local employees within three years.	Under ASU 2025-10, a forgivable loan is treated as a government grant once it becomes probable the forgiveness conditions will be met.
	Refundable Tax Credit (not in ASC 740)	
	A federal program provides a refundable R&D tax credit that is not based on taxable income and is outside ASC 740 .	Refundable tax credits not within ASC 740 are treated as government grants , consistent with the ASU's definition.
	Workforce Training Reimbursement	
	A county reimburses a technology company for 50% of employee training costs to support local skill development.	The reimbursement is intended to compensate for operating expenses qualifying as a grant related to income .

Illustrative list of examples outside the scope of new guidance in ASU

	Particulars	Basis of Conclusion
Executive Summary	Income Tax Credits within ASC 740	
	A company receives a nonrefundable investment tax credit that reduces its current-year income tax payable.	The transaction is in the scope of ASC 740 (income taxes) and hence excluded from the scope of ASU guidance.
	Below-Market Interest Rate Loan	
	A public development bank offers a low-interest loan to a construction company for an infrastructure project.	Below-market loans are explicitly excluded from ASC 832, despite involving government assistance.
	Transfer of Intangible Assets	
	A government grants a patent license to a biotechnology firm for free.	Transfers of intangible assets are explicitly excluded from ASC 832.
Background	Tax Abatement / Liability Reduction	
	A municipality offers a 10-year property tax exemption to encourage real estate development.	Reductions of a company's liabilities (e.g., property taxes) are explicitly excluded from ASC 832, even though they involve government assistance.
	Government Equity Participation	
ASU 2025-10 Summary at Glance	A government invests directly in a startup and receives equity shares .	Government equity ownership transactions are explicitly excluded—they represent investments, not grants.
Scope Applicability	Fee-for-Service Arrangements	
	A government pays a biomedical firm to provide testing services under a contractual agreement.	This is an exchange transaction —the entity provides goods/services to the government. It falls under ASC 606 , not ASC 832.

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- Some government arrangements may contain multiple components, only part of which qualify as a government grant. Entities are required to evaluate each element separately and apply the appropriate GAAP depending on its nature.
- **Transferable Tax credits:** Until now, US GAAP has not clearly explain how companies should account for these transferable credits. Because of this, companies used different approaches:
 - Some treated them like income tax items under ASC 740.
 - Others treated them like government grants, using IAS 20 as guidance.
 - Some used other GAAP models entirely.

This led to inconsistent practices.

New ASU clarifies how to account for refundable tax credits (not within ASC 740) and provides a more comprehensive grant accounting framework. The FASB **did not include transferable tax credits directly** in the scope of the new ASU because these credits are considered **intangible assets**, which are outside the scope of ASC 832.

In the absence of explicit guidance on **transferable tax credits**, companies with transferable tax credits will now likely end up using ASC 832 by analogy, even though these credits are not directly included in the standard. So, after adopting ASU 2025-10:

- Companies that previously used IAS 20 may now switch to **ASC 832 by analogy** instead.
- Companies using ASC 740 will need to re-evaluate if that choice still makes sense.

The FASB expects companies to **reassess their accounting policy** for transferable credits to ensure it remains appropriate.

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KEY HIGHLIGHTS OF AMENDMENT IN ASU

A. Recognition Principles

ASU 2025-10 establishes a principles-based model for accounting for government grants. The accounting depends on whether the **grant is related to an asset or to income**, with specific recognition criteria that apply to both types.

1. Grant Categories

The ASU classifies grants into two categories:

Grant related to an Asset

Grant related to Income

1.1 Grant Related to an Asset

A grant is considered **asset-related** when it or part of it is conditioned on the **purchase, construction, or acquisition of an asset**, such as a long-lived asset or inventory.

Additional conditions may apply, including:

- Restrictions on the type or location of the asset
- Requirements on the timing of acquisition or usage
- Limitations on disposal or minimum holding periods

These grants are directly tied to capital investment activity.

1.2 Grant Related to Income

A grant is considered **income-related** when it is **not associated with an asset**.

Typical examples include:

- Reimbursements for operating expenses
- Grants supporting training costs, R&D efforts, or general operating activities

The guiding principle is that these grants compensate the entity for **periodic operating costs or losses**.

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2. Core Recognition Criteria Applicable to All Grants

Regardless of type, a government grant **cannot be recognized** until it is **probable** that:

2.1 Compliance with Conditions Is Likely

The entity must determine that it is **probable** (a term defined in US GAAP as ‘**likely to occur**’) it will **meet all conditions** attached to the grant. These may include performance requirements, spending thresholds, hiring commitments, or other compliance obligations.

2.2 Receipt of the Grant Is Probable

The entity must also conclude that it is probable the **grant will be received**, considering approval processes, eligibility assessments, and administrative steps required by the government.

These criteria form the **foundation** of recognition under **ASC 832-10-25-1(a)**.

3. Recognition Timing for Asset-Related Grants

For asset-related grants, recognition is further constrained:

3.1 Recognition Cannot Occur Before Costs Are Incurred

An entity may not record:

- A **grant receivable**, or
- Any related grant income

until it has incurred the costs that the grant is intended to reimburse (e.g., construction costs, capital expenditures).

3.2 Nonmonetary Grants Follow the Same Principles

If the government transfers a **tangible nonmonetary asset**—such as land or a building—the recognition and measurement, follow the same model as for monetary grants. The distinction is only in form, not in accounting treatment.

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4. Recognition Timing for Income-Related Grants

Income-related grants follow a matching principle:

4.1

Systematic and Rational Recognition in Earnings

Grant income must be recognized over the same periods in which the entity recognizes:

- The operating costs, or
- The expenses

that the grant is intended to compensate.

This ensures that the grant's economic benefits are reflected in earnings in a manner consistent with the related expenditures.

B. Recognition, Measurement, and Presentation framework- Asset-Related Grants

ASU 2025-10 provides two permissible approaches for recognizing a **grant related to an asset**:

Deferred Income Approach

Cost Accumulation Approach

The following sections outline the principles, mechanics, and implications of each approach.

1. Deferred Income Approach

Under this approach, the government grant is recorded as a **deferred income liability** and subsequently recognized in earnings over the periods in which the related costs are recognized.

1.1

Initial Measurement

- **Monetary Grants:** Deferred income is initially measured at the **amount of cash received or expected to be received** once the recognition criteria in ASC 832-10-25-1(a) are met (i.e., probable compliance and probable receipt).
- **Nonmonetary Grants (e.g., land, buildings, equipment):** Deferred income is measured at the **fair value of the nonmonetary asset** received on the date the recognition criteria are achieved.

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1.2 Subsequent Recognition

Deferred income is recognized in earnings on a **systematic and rational basis**, aligned with the period(s) in which the entity incurs the costs that the grant is intended to offset.

- For **depreciable assets**, recognition generally follows the asset's **depreciation pattern**.
- For **non-depreciable assets** (e.g., land), recognition occurs over the **periods in which the entity incurs the associated costs**, since no depreciation exists.

1.3 Presentation in Earnings

ASU 2025-10 allows flexibility in presentation:

- Presented as **“other income”**, or
- Shown as a **reduction of the related expense**.

Important Clarification:

The term “other income” in ASC 832 does **not** carry the same meaning as in SEC Regulation S-X. It simply refers to income that is **not revenue under ASC 606**. Entities may present this amount within operating income, depending on their facts and circumstances.

2. Cost Accumulation Approach

Under this method, the government grant is reflected as a reduction of the cost basis of the related asset.

2.1 Initial Measurement

- For **monetary grants**, the asset is recorded at its **gross acquisition or construction cost**, reduced by the grant amount once the recognition criteria are met.
- For **nonmonetary asset transfers**, the asset is recognized at its **cost to the entity**, which may be zero or nominal.

2.2 Subsequent Measurement

Because the grant is embedded within the asset's carrying amount:

- There is no separate deferred income balance,
- No separate recognition in earnings, and
- The asset's net carrying value is subject to standard depreciation, impairment, and other applicable ASC guidance (e.g., ASC 360 or ASC 330).

This means the benefit of the grant flows through earnings indirectly, via a lower depreciation or cost of goods sold amount.

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2.3 Timing Considerations

The timing of asset acquisition and the timing of meeting grant recognition criteria may differ. Entities should adjust the asset's carrying amount when the criteria are met, even if the asset was acquired earlier.

3. Accounting Policy Considerations

ASU 2025-10 requires entities to make a policy election for asset-related grants. Key principles include:

3.1 Consistency Requirement

Once an entity selects either:

- the **Deferred Income Approach**, or
- the **Cost Accumulation Approach**,

it must apply the election consistently to similar types of grants.

3.2 Changes in Accounting Policy

Under ASC 250:

- A change in approach is permitted only if it is preferable, and
- Must follow the change-in-accounting-policy guidance in ASC 250.

3.3 Transition for Entities Previously Using Analogies

Entities currently analogizing to IAS 20 or ASC 958-605 (e.g., for nonrefundable, transferable tax credits or other government transfers not explicitly within ASC 832) may:

- Apply the **transition guidance** under ASU 2025-10, and
- Elect a new accounting policy to align with ASC 832 going forward.

Many entities may conclude that the updated ASC 832 framework is now the **most suitable US GAAP model for transactions involving government transfers that are not** otherwise addressed by specific guidance.

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Practical Insight

- The Deferred Income Approach produces a clear, separate income line over time.
- The Cost Accumulation Approach embeds the benefit into the asset's carrying value, producing lower depreciation without isolated grant income.
- Entities should assess factors such as visibility, comparability, system capabilities, and alignment with industry practice when selecting a policy.
- Early planning is crucial, especially where grants are frequent or material.

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Illustrative Example included in ASU

832-10-55-8

Entity A is awarded a government grant of USD 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.

832-10-55-9

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).

832-10-55-10

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 USD 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.

832-10-55-11

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.

C. Recognition, Measurement, and Presentation framework- Income-Related Grants

Income-related grants follow a distinct recognition pattern based on alignment with the costs they are intended to offset.

1. Recognition Principle

A grant related to income must be recognized in earnings on a **systematic and rational basis** over the periods in which the entity identifies the corresponding costs.

2. Timing Scenarios

A. Grant Received Before Costs Are Incurred

If an entity receives an income-related grant **in advance** of the related expenditures:

- A **deferred credit liability** is recorded.
- The liability is reduced, and grant income is recognized as the related expenses are incurred over future periods.

B. Grant Received After Costs Are Incurred

If the entity incurs qualifying costs **before** receiving the grant:

- Grant income is recognized in the period the ASC 832 recognition criteria are met (probable compliance and probable receipt).
- Recognition may therefore occur **before** cash is received.

3. Presentation in Earnings

Consistent with the presentation alternatives for asset-related grants under the deferred income approach, ASU 2025-10 allows two options:

- 01 Separately as “other income.”
- 02 As a reduction of the related expense (Common for reimbursement-type grants (e.g., wage support, R&D funding)).

Entities should apply their presentation policy consistently and disclose the chosen approach.

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Illustrative Example included in ASU

832-10-55-12

Entity B is awarded a government grant of USD 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.

832-10-55-13

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 USD 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.

832-10-55-14

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).

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D. Statement of Cash Flow Presentation

ASU 2025-10 does not prescribe specific cash flow classification requirements for government grants. Instead, it directs entities to apply the general principles in **ASC 230, Statement of Cash Flows**. Because of this principles-based approach, entities must use judgment when determining the classification of grant proceeds.

The following subsections outline the key considerations and recommended practices.

1. Principles-Based Approach to Classification

The Board clarified in the ASU's Basis for Conclusions (BC59) that:

- **Proceeds from income-related grants** may be classified as **operating** or **financing** cash flows.
- **Proceeds from asset-related grants** may be classified within **operating**, **investing**, or **financing** activities.



This flexibility means that classification depends on the nature of the grant, timing of cash receipts, and interpretation of ASC 230.

Entities must therefore:

- Apply judgment based on underlying economics.
- Establish an accounting policy for grant classification.
- Apply the policy consistently across similar arrangements.

2. Key Considerations Affecting Classification

The appropriate classification of grant proceeds—particularly for asset-related grants—depends on three key factors:

- **Nature of the underlying asset** (productive vs. operating asset)
- **Timing** of cash flows (received before or after qualifying costs are incurred)
- **Relevant ASC 230 principles** for analogous transactions

These factors often require nuanced evaluation, and entities should document the rationale supporting their classification conclusions.



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Implementation matters

Statement of Cash Flows Classification Under ASU 2025-10

	Grant Type	Timing of Cash Receipt	Nature of Underlying Item	Appropriate Cash Flow Classification	Rationale
Executive Summary	Asset-Related Grant	After qualifying costs are incurred	Productive asset (e.g., PP&E)	Investing activity	Matches the classification of the capital expenditure the grant reimburses.
			Operating asset (e.g., inventory)	Operating activity	Reimbursement is linked to operating cost flows.
Background	Asset-Related Grant	Before qualifying costs are incurred	Any asset type	Financing activity*	Cash received in advance is economically similar to a restricted loan or advance funding, supported by ASC 230-10-45-14(c).
ASU 2025-10 Summary at Glance					
Scope Applicability					
Key Highlights of Amendment in ASU	Income-Related Grant	After qualifying expenses are incurred	Operating costs	Operating activity	Represents reimbursement for operating expenditures.
Effective date and transition	Income-Related Grant	Before qualifying expenses are incurred	Operating costs	Either Operating or Financing activity (policy choice)	Both are acceptable due to the absence of prescriptive guidance; entity must apply the chosen policy consistently.
Comparison of ASU 2025-10 and IAS 20					
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* When costs are later incurred, the entity should disclose a **noncash financing activity** related to the fulfillment of grant conditions.



- The ASU's principles-based model preserves flexibility but requires robust policy decisions and disclosure.
- Judgment will continue to play a central role—especially for asset-related grants, where classification may vary based on asset type and funding structure.
- Consistency across similar grant types will be essential to maintain transparency and comparability.

E. Disclosure Requirements

The amendment in ASU expands and aligns the disclosure framework for all government grants within the revised scope of **ASC 832, Government Assistance**. Entities must apply the existing annual disclosure provisions in Topic 832, with additional requirements depending on the **type of grant** and the **accounting approach** applied.

The following subsections summarize the key disclosure expectations.

Key Disclosure Requirements	Implementation matters
1. Annual Disclosures Required for All Grants Within the Scope of ASC 832 Entities must provide a baseline set of disclosures for all government grants, regardless of whether they are related to income or assets. These annual disclosures include:	
i. Nature of the Government Grant	A description of the form and purpose of the assistance received (e.g., cash subsidy, forgivable loan, tax incentive, land transfer).
ii. Accounting Policies Applied	A clear explanation of the accounting approach used under ASC 832, including: - Deferred income vs. cost accumulation (for asset-related grants) - Basis for recognizing income-related grants - Any relevant judgments or elections
iii. Financial Statement Line Items Affected	Required for deferred income approach for asset-related grants <i>and</i> all income-related grants) - Identification of the specific balance sheet and income statement line items impacted. - Quantification of amounts recognized in each line item during the current reporting period.
iv. Significant Terms and Conditions	Key provisions that drive recognition and measurement, including: - Compliance requirements - Eligibility conditions - Restrictions on asset use or disposition - Clawback or repayment clauses

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II. Additional Disclosures for Asset-Related Grants Using the Cost Accumulation Approach

When an entity elects the cost accumulation approach, certain disclosures are required only in the period where the grant is first recognized on the balance sheet (i.e., when qualifying expenditures have been incurred). These incremental disclosures include:

- | | |
|---|--|
| i. Affected Balance Sheet Line Items | Identification of the asset categories impacted and the amounts recorded

(e.g., PP&E, construction-in-progress, inventory). |
| ii. Useful Life of Related Depreciable or Amortizable Assets | <ul style="list-style-type: none">• Disclosure of the depreciation or amortization period for any asset whose carrying value has been reduced by the government grant.• Ensures users understand the period over which the grant's economic effects will flow through earnings. |

III. Fair Value Disclosure for Nonmonetary Asset Grants

For grants involving tangible nonmonetary assets (e.g., land, equipment), the ASU requires:

- | | |
|---|--|
| i. Disclosure of the fair value of the nonmonetary asset received. | <ul style="list-style-type: none">• Disclosure is required only in the period the grant is initially recognized on the balance sheet.• This disclosure enhances transparency about the magnitude of the government contribution when no monetary transaction is involved. |
|---|--|



Practical Observations for Entities

- The ASU reinforces the need for policy clarity, especially when multiple grant types or approaches are used.
- Disclosure requirements differ depending on the accounting model chosen, making consistent policy application essential.
- Entities should expect enhanced scrutiny of compliance terms, recognition judgments, and line-item impacts.
- Entities may need new processes and internal controls to gather the required information during transition.

F. Other Matters

1. Forgivable Loans

Board clarified in basis of conclusion that forgivable loans fall within the scope of the new government grant guidance once an entity concludes that the recognition criteria are met. Specifically, a forgivable loan should be accounted for as a government grant when it becomes *probable* that (1) the entity will comply with the loan's terms of forgiveness, and (2) the proceeds will be received.

The Board noted that a forgivable loan is economically equivalent to a direct government cash grant. In both cases, the entity assesses whether the underlying conditions will be satisfied such that the amount will not need to be repaid. Accordingly, the ASU requires entities to evaluate forgivable loans using the same principles applied to monetary grants—focusing on the substance of the arrangement rather than its legal form.

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Illustrative Example

Fact Pattern

Entity X receives a **USD 5 million forgivable loan** from a state government to support employee retention during an economic downturn.

Key terms:

- The loan will be **fully forgiven** if Entity X maintains at least **85% of its workforce** for 12 months.
- If the condition is not met, the loan must be repaid in full.
- Cash is received on **January 1, 20X1**.
- As of receipt, management believes it is **not yet probable** that the forgiveness condition will be met due to operational uncertainties.

STEP 1

Initial Recognition (When Cash Is Received)

On January 1, 2021, Entity X receives USD 5 million.

However, forgiveness is **not yet probable**.

Accounting:

- Recognize **cash**.
- Recognize a **loan liability** (not a government grant).

Journal Entry:

Dr. Cash	USD 5,000,000
Cr. Loan Liability	USD 5,000,000

STEP 2

Reassessment of Forgiveness Probability

By **June 30, 20X1**, Entity X has secured multi-year contracts and stabilized operations. Management now concludes it is **probable** that it will maintain 85% of its workforce for the full 12 months.

Under ASC 832, once forgiveness becomes **probable** and the proceeds have been received, the forgivable loan is treated as a **government grant**.

STEP 3

Reclassification as a Government Grant

At the point forgiveness becomes probable, Entity X applies the **income-related grant model** and derecognizes the loan liability.

Entity X determines that the grant relates to **operating expenses** (employee compensation) over a 12-month period. Therefore, recognition is **systematic and rational**, aligned with the related payroll costs.

Assume by **June 30, 2021**, Entity X has incurred **50% of the qualifying payroll expenses**.

Entity X recognizes **USD 2.5 million** of grant income (50% of USD 5 million) and defers the remainder.

Journal Entry:

Dr. Loan Liability	USD 5,000,000	
Cr. Deferred Income (Liability)		USD 2,500,000
Cr. Grant Income		USD 2,500,000

STEP 4

Subsequent Recognition

The remaining 50% of the payroll costs are incurred between July and December 20X1.

Entity X recognizes the remaining USD 2.5 million of grant income systematically as the costs are incurred.

Journal Entry (periodic recognition):

Dr. Deferred Income (Liability)	USD 2,500,000	
Cr. Grant Income		USD 2,500,000

STEP 5

Year-End Outcome

By year-end:

- The forgiveness conditions are fully satisfied.
- The entire USD 5 million is recognized as **grant income**, aligned with the related payroll expenses.
- No loan liability remains on the balance sheet.

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Key Takeaways:

Principle	Illustrated How?
Forgivable loans are treated as grants when forgiveness is probable	Transition from loan liability to grant accounting on June 30.
Recognition follows the “systematic and rational” matching principle	Grant income recognized as payroll expenses is incurred.
Form does not override substance	Although legally structured as a loan, economically it is a grant.

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2. Repayment of Government Grants

If circumstances change and a previously recognized government grant becomes repayable, ASU 2025-10 provides specific guidance on how to account for the repayment. The required treatment depends on the type of grant and the accounting policy applied (deferred income approach or cost accumulation approach). The key principles are summarized below:

Scenario	Accounting Treatment	Key Considerations
1. Repayment of a Grant Related to Income	Balance sheet impact: Apply the repayment first to any unamortized deferred income associated with the grant. Income Statement impact: Any amount in excess of the remaining deferred income—or when no deferred income exists—is recognized immediately in earnings.	Ensures reversal of previously deferred grant benefits before recognizing a new expense.
2. Repayment of a Grant Related to an Asset — Cost Accumulation Approach	Balance sheet impact: Increase the carrying amount of the asset by the amount repayable. Income Statement impact: Immediately record in earnings the additional depreciation (or related gains/losses) that would have been recognized to date if the grant had not been received.	Results in the asset being treated as if recorded at gross cost from inception, ensuring accurate future depreciation and performance metrics.

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Scenario	Accounting Treatment	Key Considerations
3. Repayment of a Grant Related to an Asset — Deferred Income Approach	Balance sheet impact: Reduce the deferred income balance by the amount repayable. Income Statement impact: Any repayment exceeding the unamortized deferred income is recognized immediately in earnings.	Mirrors the logic applied to income-related grants—unearned benefit is reversed before recognizing excess repayment expense.
4. Subsequent Accounting After Repayment (All Asset-Related Grants)	- If repayment changes the asset's carrying amount, the entity must reassess: - Impairment indicators - Depreciation or amortization schedules - Other relevant subsequent measurement considerations	Ensures future accounting reflects the updated economic basis of the asset following repayment.

3. Recognition and measurement of Government Grants acquired in a Business Combinations

ASU 2025-10 introduces targeted guidance on how government grants—particularly grants related to income—should be recognized and measured when acquired in a business combination. The Board concluded that Topic 805, on its own, does not provide sufficient clarity for these situations, prompting the need for explicit direction to promote consistency and reduce unnecessary valuation complexity.

a. Recognition of Income-Related Grants Acquired in a Business Combination

The ASU requires an acquirer to recognize deferred income associated with a grant related to income at the acquisition date, unless the acquiree has already fully satisfied the grant conditions before the acquisition.

- If the acquiree has not yet complied with the grant conditions** - the acquirer recognizes deferred income.
- If the conditions have been fully met prior to acquisition** - no deferred income is recognized.

The deferred income recognized by the acquirer should generally be similar to the amount recorded by the acquiree immediately before acquisition, promoting continuity and avoiding remeasurement at fair value.

b.

Measurement Exception for Income-Related Grants

The Board acknowledged that measuring deferred income from government grants at fair value under Subtopic 805-20 can be difficult because such grants typically lack observable market-based inputs.

To reduce cost and complexity, ASU 2025-10 introduces a measurement exception:

- Deferred income associated with a grant related to income is not remeasured at fair value.
- Instead, it is carried forward at the amount recognized under ASC 832 by the acquirer, subject only to adjustments for compliance conditions.

c.

Treatment of Other Grant-Related Assets and Liabilities

All other assets acquired, and liabilities assumed that arise from a government grant—such as property, equipment, or obligations tied to grant conditions—remain within the scope of Subtopic 805-20.

These items must be recognized and measured at fair value as of the acquisition date, consistent with standard business combination accounting.



Stakeholders raised concerns that government grant proceeds might be double-counted in valuations—for example, if expected grant proceeds were included in the fair value of acquired in-process R&D (IPR&D) while deferred income for the same grant is also recognized.

The Board clarified that:

- Expected future grant proceeds should not be included in the valuation of IPR&D or other acquired assets at the acquisition date.
- This avoids overstating asset values and prevents duplication of grant benefits in the business combination accounting.

Illustrative Example

Fact Pattern

Entity A acquires Entity B on **July 1, 2025**.

Entity B previously received a **USD 10 million income-related government grant** to support R&D activities, with the following features:

- The grant reimburses eligible R&D expenses over a 3-year period.
- As of the acquisition date, Entity B has incurred **USD 6 million** of eligible costs.
- Entity B has recognized **USD 6 million in grant income** and has **USD 4 million of deferred income** remaining.
- Entity B has **not yet met all grant conditions**, as R&D activities will continue for the final year.
- The acquirer performs a fair value assessment of all assets and liabilities as part of the business combination.

STEP 1

Determine Whether Deferred Income Should Be Recognized

Because B has **not fully complied** with all grant conditions before the acquisition date:

- The grant is still “in progress.”
- Entity A must recognize **deferred income** at acquisition.

STEP 2

Measurement of Deferred Income

Under ASU 2025-10, the deferred income is **not remeasured at fair value**. Instead, Entity A recognizes the **same** deferred income balance that Entity B carried immediately before the acquisition:

Deferred income recognized by Entity A = USD 4 million

This amount reflects the portion of the grant for which qualifying activities **have not yet been completed**.

STEP 3

Business Combination Accounting

At the acquisition date:

- Deferred income of USD 4 million is recognized as a liability.
- No fair value adjustment is made.
- Other grant-related assets (e.g., R&D equipment funded by the grant) are measured at **fair value** under Topic 805.

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STEP 4

Post-Acquisition Recognition

After acquisition, Entity A continues to recognize grant income under **ASC 832**, on a systematic and rational basis:

- As the remaining USD 4 million of eligible R&D expenses are incurred, the deferred income is amortized into earnings.

Key Takeaways

- Deferred income from income-related grants **carries over at the acquiree's amount**, not at fair value.
- This is a specific **measurement exception** unique to ASU 2025-10.
- All other grant-related assets and liabilities follow **standard Topic 805 fair value rules**.
- Expected future grant proceeds must not be baked into asset valuations to avoid double-counting.

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EFFECTIVE DATE AND TRANSITION

Effective Date

PBEs

Effective for fiscal years beginning **after December 15, 2028**, including interim periods within those fiscal years.

Non-PBEs

Effective for fiscal years beginning **after December 15, 2028**, including interim periods within those fiscal years.

Early Adoption

Permitted for any annual or interim period **not yet issued**. Entities may early adopt across all grant types within the scope of ASC 832.



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Transition Provision

Entities must select one of the **three transition methods** and **apply it** consistently. Transition choice may affect comparability across periods.

01 Modified Prospective

Amendments in the ASU are applied to-

- Government grants that are not complete¹ as of the adoption date (i.e., the beginning of the adoption period) and
- Any new government grants entered into after that date.

There is “no cumulative-effect adjustment to the opening balance of retained earnings” under the modified prospective approach.

Illustrative Example:

Entity A adopts ASU 2025-10 on **January 1, 2029**. As of that date:

- It has **two ongoing government grants** that are not complete¹.
 - **Grant 1:** Asset-related grant for a manufacturing facility; entity has incurred only 60% of qualifying costs.
 - **Grant 2:** Income-related grant reimbursing payroll expenses; entity is in Year 2 of a 3-year grant term.
- It also expects to enter into **new grants** during fiscal year 20X9.

Transition Provisions Application

Under the modified prospective method:

- Entity A applies the new ASU **only to**:
 - Grants **not complete** as of **January 1, 2029** (Grant 1 and Grant 2).
 - Any **new grants** entered into after January 1, 2029.
- **No cumulative-effect adjustment** is recorded to opening retained earnings.
- Historical financial statements (prior to 2029) **are not restated**.

Impact

- Grant 1: The remaining 40% of qualifying costs incurred from 2029 onward will be accounted for under ASU 2025-10.
- Grant 2: Remaining reimbursements under the grant are recognized under the new rules.
- Pre-2029 grant activity is left as originally reported.

¹ ASC 832-10-65-2(d)(1)(ii) (added by ASU 2025-10) states, in part, that “[a] government grant is complete when substantially all of the government grant proceeds have been recognized before the effective date of the [amendments in the ASU].”

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02 Modified Retrospective

Amendments in the ASU are applied to-

- Government grants that are **not complete**² as of the beginning of the **earliest period presented**, and
- All new grants thereafter.

Requires a **cumulative-effect adjustment** to opening retained earnings and **restatement** of prior periods presented.

Illustrative Example:

Entity B presents **three comparative years**: 2027, 2028, and 2029. It adopts the ASU on **January 1, 2029**. As of the beginning of the earliest period presented (January 1, 2027):

- **Grant 1**: Income-related grant (not complete).
- **Grant 2**: Asset-related grant for research equipment (construction began in mid-2027 and continued through 2028).
- Pre-2027 grants have already been completed.

Transition Provision Application

Under the modified retrospective method:

- Entity B applies the ASU to **all grants not complete as of January 1, 2027**, and to any new grants from that point forward.
- Entity B records a **cumulative-effect adjustment** as of January 1, 2027.
 - For example, deferred income that should have been recognized earlier is moved to opening retained earnings.
- All comparative periods (2027 and 2028) are **restated** to reflect the ASU as if it were applied from the beginning of 2027.
- 2029 is presented under the ASU.

Impact

- Grant 1 and Grant 2 results for 2027 and 2028 are restated.
 - Users of financial statements see a **fully comparable three-year presentation** aligned with ASC 832.
- The cumulative-effect entry adjusts for amounts that would have been recognized before 2027 had the ASU been effective.

² ASC 832-10-65-2(d)(2)(ii) (added by ASU 2025-10) states, in part, that "[a] government grant is complete when substantially all of the government grant proceeds have been recognized before the beginning of the earliest period presented in which the [amendments in the ASU are] adopted.

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03 Full Retrospective

Amendments in the ASU are applied to-

- **All grants**, whether complete or not, for all periods presented.

Requires a **cumulative-effect adjustment** as of the earliest period presented.

Illustrative Example:

Entity C adopts ASU 2025-10 for its fiscal year 2029 (**adoption year**), presenting three comparative periods: 2026, 2027, and 2028 (with **2026** being the earliest period presented).

Entity C has **multiple historical government grants**, including:

- **Grant 1 (2026–2028)**: Multi-year income-related grant reimbursing training costs.
- **Grant 2 (2025–2029)**: Asset-related grant for construction of a distribution center (multi-year build).
- **Grant 3 (Completed in 2026)**: Nonmonetary land grant from city authorities.

Transition Provision Application

Under the full retrospective method:

- The ASU is applied to **all grants**, including grants that were *fully completed* prior to the adoption period.
- Entity C records a **cumulative-effect adjustment** to opening retained earnings **as of January 1, 2026**, the earliest period presented.
- **All three years (2026–2028) are restated** to reflect accounting under ASU 2025-10.

Impact

- Completed grants (such as the 2026 land grant) are **retrospectively remeasured** and recognized under ASC 832.
- Asset and income impacts across all periods are aligned to the ASU's recognition and presentation rules.
- Provides maximum comparability but requires **significant historical data reconstruction** across years.

Disclosure Requirements

Entities must disclose the chosen transition method, the nature of adjustments, and quantitative effects on the financial statements in the year of adoption.

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COMPARISON OF ASU 2025-10 AND IAS 20

Key Similarities

Overall Framework		
ASU 2025-10 (ASC 832)	IAS 20	Summary Insight
Establishes a comprehensive grant accounting model for business entities.	Provides an internationally recognized model for government grants.	ASU 2025-10 is conceptually aligned with IAS 20.
Grant Classification		
ASU 2025-10 (ASC 832)	IAS 20	Summary Insight
Two categories: (1) Asset-related grants; (2) Income-related grants.	Same two categories: asset-related and income-related.	Strong structural alignment.
Measurement of Nonmonetary Grants		
ASU 2025-10 (ASC 832)	IAS 20	Summary Insight
Measured at fair value when recognized.	Measured at fair value (unless nominal option elected).	Nearly identical measurement approach.
Asset-Related Grant Accounting Models		
ASU 2025-10 (ASC 832)	IAS 20	Summary Insight
Allows Deferred Income or Cost Accumulation (netting) approach.	Allows Deferred Income or Netting approach .	Model options align in both frameworks.
Recognition Pattern for Income Grants		
ASU 2025-10 (ASC 832)	IAS 20	Summary Insight
Recognized in earnings on a systematic and rational basis over periods of related costs.	Same pattern—recognized in profit or loss matching related costs.	Mirror treatment from a matching principle perspective.

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Key Differences

Recognition Threshold		
ASU 2025-10 (ASC 832)	IAS 20	Summary Insight
Requires probable compliance and receipt of a grant.	Requires reasonable assurance .	ASU is more conservative , which may potentially delay recognition.

Grant Receivable Recognition		
ASU 2025-10 (ASC 832)	IAS 20	Summary Insight
Asset-related grant receivable is recognized only after qualifying costs are incurred .	Recognized once reasonable assurance exists, irrespective of cost timing.	ASU is more restrictive on receivable recognition.

Scope Exclusions		
ASU 2025-10 (ASC 832)	IAS 20	Summary Insight
Explicitly excludes income taxes, exchange transactions, and intangible assets, such as transferable tax credits.	Broader scope; often applied to refundable or transferable credits.	ASU has a more defined and narrower scope .

Cash Flow Classification		
ASU 2025-10 (ASC 832)	IAS 20	Summary Insight
No prescriptive rules; classify under ASC 230 (operating/investing/financing).	Generally prescriptive: asset grants- investing; income grants - operating.	ASU provides greater flexibility but requires judgment.

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Uniquis PERSPECTIVE OF AMENDMENTS

ASU 2025-10 introduces a comprehensive framework for government grant accounting under US GAAP. While aligned with IAS 20 in principle, it introduces several US-specific judgments and strategic considerations that will shape how entities report and interpret government assistance going forward.

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1

Global Alignment, With US-Centric Nuances

The ASU moves closer to international practice but preserves key US features—such as optional accounting models and flexible cash flow classification—resulting in alignment without full convergence.

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2

Higher Recognition Threshold

The requirement that grant recognition occurs only when it is **probable** the entity will meet conditions and receive the grant may **delay recognition** for early-stage or conditional grants.

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3

Strategic Accounting Model Choice

For asset-related grants, entities may elect either the **Deferred Income** or **Cost Accumulation approach**. This choice affects margins, EBITDA, asset presentation, and depreciation patterns—ultimately informing meaningful policy decisions.

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4

Cash Flow Classification Flexibility

ASU 2025-10 allows classification as **operating, investing, or financing**, depending on timing and nature. This flexibility is valuable but demands consistent and well-documented policy application.

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5

Mixed-Component Arrangements Require Judgment

Government arrangements often include both grant and non-grant elements. The ASU acknowledges this and supports **residual allocation**; however, entities will need to exercise strong judgment and provide thorough documentation.

6

Implications for Transferable Tax Credits

Although not explicitly in scope, the ASU provides a pathway to **analogize ASC 832** for nonrefundable, transferable credits—shaping future accounting for emerging incentive structures, especially in clean energy and manufacturing.

7

Enhanced Transparency Through Disclosures

More robust disclosure requirements—covering policies, conditions, and line-item effects—will increase comparability and stakeholder insight into the role of government incentives.

For more information on the proposed Accounting Standard Update, see the [press release](#) on the FASB's website.

About Uniquis Consultech:

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In today's dynamic business environment, organizations are continuously required to adapt to the dynamic shifts in accounting & reporting standards and regulations. Enhanced management reporting requirements and accelerated reporting timelines necessitate increased automation within the finance function. Special events, such as preparing for an IPO/capital market transaction or fulfilling the reporting requirements arising from an M&A transaction, introduce additional complexities and challenges for the finance function.

As a result, organizations need to transform their finance functions from time to time with a focus on people, processes, and technology. Our Accounting & Reporting Consulting (ARC) practice is designed to partner with the finance function through these challenges. Our teams function as an extension of your finance teams to execute your plans seamlessly.

We bring the necessary technical expertise, skills, technology, and bandwidth, enabling you to navigate your plans in real time without adding additional manpower costs within the organization.

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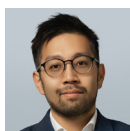
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