

FASB issues ASU

New Codification Topic: Government assistance

November 18, 2021



New annual disclosures for business entities receiving government assistance.

Applicability

ASU 2021-10, [Disclosures by Business Entities about Government Assistance](#)

Applies to all business entities, except not-for-profit (NFP) entities and employee benefit plans in the scope of Topics 960, 962, and 965.

Fast facts, impacts, actions

FASB ASU 2021-10 created Topic 832, Government Assistance, which requires business entities to disclose information about certain government assistance they receive. NFP entities and employee benefit plans are automatically exempt from these new disclosure requirements.

All other entities must comply with the new disclosure requirements if they account for transactions with government entities by applying one of the following accounting models by analogy.



The Topic 832 disclosure requirements include:

- the nature of the transactions and the related accounting policy used;
- the line items on the balance sheet and income statement that are affected and the amounts applicable to each financial statement line item; and
- significant terms and conditions of the transactions.

Action: Entities should consider all transactions, both foreign and domestic, that involve government entities. Even if an entity considers an assistance payment immaterial, the payment may have to be disclosed if the entity receives similar payments and the payments in the aggregate are material.

Background

Transactions between business entities and government entities can take different forms, e.g. normal course sales and purchases, grants, tax credits, loan guarantees and other forms of assistance. The frequency and amount of government assistance transactions has increased recently due to COVID-19.

US GAAP provides limited guidance on the accounting for government assistance. Subtopic 905-605 provides guidance on the accounting for agricultural income replacement and subsidy programs and Subtopic 958-605 provides guidance on government grants to NFPs. Business entities typically analogize to other GAAP such as IAS 20 or Subtopic 958-605. This has resulted in diversity in practice in the recognition, measurement, presentation and disclosure of government assistance.

The Board chose to increase the transparency about government assistance given the diversity in accounting practices, by requiring certain disclosures. The Board may revisit the recognition and measurement models in the future.

Scope

Topic 832 exempts certain transactions and entities from its scope.

The transactions exempt from its scope are those with government entities that an entity does not account for by analogy to either a grant or a contribution accounting model. For example, Topic 606 – not Topic 832 – applies when the government entity is considered a customer in a revenue contract. Similarly, Topic 740 applies to income tax transactions with government entities.

Examples of transactions in the scope of Topic 832 are:

- forgivable loans from a government entity that are accounted for under IAS 20 by analogy; and
- a receipt of a cash grant from a government entity that is accounted for under Subtopic 958-605 by analogy.

The types of entities exempt from Topic 832 are NFPs and employee benefit plans. Topic 958 provides disclosure guidance for NFPs, and the Board did not see sufficient need to modify existing requirements. FASB research indicated that employee benefit plans do not receive a significant amount of government assistance.

The term ‘government entity’ under Topic 832 is very broad. It can include domestic, foreign, local, regional and national governments. Intergovernmental agencies such as the United Nations and European Union are also considered government entities.

Example 1: State grant

ABC Corp. enters into an agreement with a state government to receive a cash grant in the amount of \$10 million to build a facility in the state. ABC has agreed to create at least 1,000 jobs and make additional investments in the facility. The agreement contains clawback features if ABC does not create the required number of jobs.

The agreement is with a government entity (state government). ABC accounts for the cash grant by analogy to Subtopic 958-605. Therefore, this transaction is in the scope of Topic 832.

Disclosures

Topic 832 specifically requires the following disclosures about transactions with a government that are in the scope of the Topic:

- the nature of the transactions, including a general description of the transactions and the form in which the assistance was received;
- the accounting policies used to account for the transactions;

- the line items on the balance sheet and income statement that are affected by the transactions and the amounts applicable to each financial statement line item in the current reporting period; and
- significant terms and conditions of the transactions, including, but not limited to, the duration, commitments made by both parties, other contingencies, and any other provisions that would allow the government entity to recapture the amounts.

In rare circumstances, when the agreement legally prohibits specific information from being disclosed, the entity must disclose the general nature of the information and what items are legally prohibited from disclosure.

Observation: The disclosure requirements focus on providing users with greater transparency related to government assistance, especially given the diversity in accounting practices. Entities should focus on clearly noting the nature and form of the assistance, as well as the accounting policy followed by analogy and any commitments required on behalf of the entity. The Board decided not to require additional disclosures, such as disaggregation by geography or type of assistance.

Disclosures are limited to amounts that are readily available within an agreement. Topic 832 does not require disclosure of future-oriented information contingent on forecasts or other assumptions about uncertain or unknown future events beyond management’s control.

Example 2: Contingent government assistance

ABC Corp. enters into an agreement with a federal government agency to receive a cash credit based on 5% of gross payroll costs for the next five years. ABC must disclose the nature and significant terms of the agreement and the accounting policy applied, but need not disclose a dollar amount because the amount is not readily available in the agreement (i.e. it is based on future payroll costs).

Alternatively, if the agreement notes a flat amount of \$100,000 per year, ABC must disclose the nature and significant terms of the agreement, the accounting policy applied, and the amount and which financial statement line items are impacted.

Effective date and transition

	All entities
Annual periods – Fiscal years beginning after	December 15, 2021
Interim periods – In year of application	N/A
Early application permitted?	Yes

The disclosure requirements can be applied either:

- prospectively to all transactions in the scope of the amendments that are reflected in the financial statements at the date of initial application and new transactions that are entered into after the date of initial application; or
- retrospectively.

The disclosure requirements are for annual periods only; the Board decided against amending the disclosure requirements of Topic 270.

Observation. When an SEC registrant adopts a new accounting standard in an interim period, Rule 10-01 of Regulation S-X requires it to provide both the annual and the interim period financial statement disclosures about material matters prescribed by the new accounting standard, to the extent those disclosures do not duplicate information provided in previous annual financial statements.

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