BDO BULLETIN

NEW GOVERNMENT GRANT ACCOUNTING FOR BUSINESSES

DECEMBER 2025

SUMMARY

The Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2025-10, *Accounting for Government Grants Received by Business Entities,* to establish authoritative guidance on accounting for government grants received by businesses. ASU 2025-10 incorporates principles from International Accounting Standard 20, *Accounting for Government Grants and Disclosure of Government Assistance* (IAS 20) into U.S. GAAP with targeted improvements.

BACKGROUND

Prior to ASU 2025-10, ASC 832, *Government Grants*, included only disclosure requirements. The lack of recognition, measurement, and presentation guidance in U.S. GAAP led to diversity in practice in accounting for government grants received by businesses. In response to stakeholder feedback, the FASB developed accounting guidance for such grants to reduce diversity in practice and align U.S. GAAP with the predominant approach used in practice, IAS 20.

MAIN PROVISIONS

Scope

ASU 2025-10 applies to all business entities and does not apply to not-for-profit entities and employee benefit plans. A government grant is defined as a transfer of a monetary asset or a tangible nonmonetary asset, other than in an exchange transaction (including an exchange transaction that may be at a significant discount to fair value), from a government to an entity in scope of ASC 832. Examples of government grants include:

- Cash transfers to fund or reimburse expenditures such as wages, training, research and development, or other operating expenses
- Transfers of tangible long-lived assets, such as a buildings, land, or equipment
- Forgivable loan proceeds that meet specified recognition criteria (described below), when it is probable that the entity will meet the forgiveness terms
- Refundable tax credits not accounted for under ASC 740, *Income Taxes*

FASB publications excerpted in this publication were reprinted with permission. Copyright 2025 by Financial Accounting Foundation, Norwalk, Connecticut.

Material discussed in this Bulletin is meant to provide general information and should not be acted upon without first obtaining professional advice appropriately tailored to your individual facts and circumstances.

BDO is the brand name for the BDO network and for each of the BDO Member Firms. BDO USA, P.C, a Virginia professional corporation, is the U.S. member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms. For more information, visit: www.bdo.com. Copyright © 2025, BDO USA, P.C.

The ASU excludes the following transactions from its scope:

- Exchange transactions (including those in scope of ASC 606, *Revenue from Contracts with Customers*, and ASC 610-20, *Other Income — Gains and Losses from the Derecognition of Nonfinancial Assets*)
- Transactions in scope of ASC 740
- Benefits of below-market interest rate loans
- Government guarantees
- Grants of intangible assets and services
- Reductions of liabilities such as tax abatements
- Transactions in which a government entity obtains an ownership interest in a business
- Contributions to businesses from nongovernmental sources that are within the scope of ASC 958-605, *Not-for-Profit Entities — Revenue Recognition*

BDO INSIGHTS: ENTITIES MAY NEED TO REVISE ACCOUNTING POLICIES

Entities that currently apply another accounting model by analogy, such as ASC 958-605 or ASC 450, *Contingencies*, must revise their accounting policies to comply with ASU 2025-10 using the transition provisions described below. Additionally, entities that analogized to IAS 20 must assess whether changes to their accounting policies are required to comply with ASU 2025-10.

Recognition, Measurement, and Presentation

An entity must not recognize a government grant until **all** the following conditions are present (the "recognition criteria"):

- It is **probable** that the entity will **both**:
  - Comply with the conditions attached to the grant.
  - Receive the grant.
- The entity incurs the costs and expenses associated with grant.

An entity can recognize proceeds from a forgivable loan as a government grant when it is probable that the entity will meet the above criteria and will satisfy the loan's forgiveness terms.

ASU 2025-10 identifies two categories of grants: grants related to assets and grants related to income. The table below describes each type of grant and summarizes the accounting and presentation requirements for each, after an entity has concluded that the grant meets the recognition criteria:

	GRANT RELATED TO AN ASSET	GRANT RELATED TO INCOME
Description	A grant, or part thereof, that is conditional upon the purchase, construction, or acquisition of an asset (for example, a long-lived asset or inventory). Other conditions may be attached, such as those restricting the type or location of the asset, when the asset is to be bought or held, or the disposal of the asset.	A grant, or part thereof, other than a grant related to an asset (for example, a grant that reimburses an entity for operating expenses).
Recognition and Measurement	Elect an accounting policy to recognize the grant as the entity incurs the related costs using either: ▶ **Deferred income** approach: record deferred income for the grant amount received. An entity subsequently recognizes the grant in earnings on a systematic and rational basis as it recognizes the related expenses (for example, depreciation). • A grant of a tangible nonmonetary asset is initially measured at fair value. ▶ **Cost accumulation** approach: reduce the asset's carrying amount for the grant amount received. An entity subsequently recognizes depreciation and impairments based on the reduced carrying amount. • A grant of a tangible nonmonetary asset is recognized at the entity's cost.	Recognize the grant in earnings on a systematic and rational basis as the entity recognizes the related expenses. If a grant related to income compensates an entity for previously incurred expenses, it must recognize the grant in earnings when it meets the recognition criteria. If an entity receives grant before it incurs the related expenses, it must record deferred income to reflect the proceeds.
Presentation	▶ **Deferred income** approach: present as deferred income on the balance sheet. An entity may elect an accounting policy to present the grant as one of the following on the income statement: • Separately, using a financial statement caption such as other income. • Deducted from the related expense (for example, depreciation). ▶ **Cost accumulation** approach: reduce the asset's carrying amount. There is no separate presentation in earnings because the grant reduced the asset's carrying amount. ▶ Cash flows are classified based on the nature of the grant in accordance with ASC 230, *Statement of Cash Flows*.	▶ Elect an accounting policy to present the grant either: • Separately, using a financial statement caption such as other income. • Deducted from the related expense (for example, research & development). ▶ Cash flows are classified based on the nature of the grant in accordance with ASC 230.

BDO INSIGHTS: ACCOUNTING POLICY ELECTIONS

ASU 2025-10 introduces multiple accounting policy choices for recognition, measurement, and presentation of government grants. Each choice will affect the financial statements and disclosures differently. For example, electing the cost accumulation approach for grants related to assets will reduce depreciation expense over the asset's useful life compared to the amount that might have been recognized under the deferred income approach.

Once an entity has elected an accounting policy, it must apply the policy consistently. Establishing accounting policies to account for government grants requires professional judgment based on the facts and circumstances.

Repayment of a Government Grant

If a government grant becomes repayable, an entity must account for the repayment as follows:

- Grant related to an asset: increase the asset's carrying amount (if the cost accumulation approach was used) or reduce the deferred income balance (if the deferred income approach was used). An entity must immediately recognize in earnings any cumulative additional depreciation or change in prior gain, loss, or impairment that it would have recognized to date had the grant not been received.
- Grant related to income: first, apply the repayment against any remaining deferred income from the grant. If the repayment exceeds the remaining deferred income or no deferred income exists, an entity records the repayment immediately in earnings.

Government Grant-Related Assets and Liabilities Acquired in a Business Combination

ASU 2025-10 introduces a new exception to the recognition and measurement principles in ASC 805, *Business Combinations,* for liabilities arising from grants related to income. For such grants:

- If the acquiree has not complied with all conditions of the grant at the acquisition date, the acquirer recognizes and measures deferred income in accordance with ASC 832.
- If the acquiree has fully complied with the conditions of the grant at the acquisition date, the acquirer does not recognize any deferred income.

An entity must identify and measure all other grant-related assets and liabilities in accordance with ASC 805.

Disclosures

After the adoption of ASU 2025-10, an entity within the scope of ASC 832 is required to disclose annually:

- The nature and a general description of grants received.
- Accounting policies used to account for grants, including the accounting approach used for a grant related to an asset and income statement presentation approach for each type of grant.
- For asset-type grants accounted for using the deferred income approach and all income-type grants, the line items on the balance sheet and income statement affected by the grant and the amounts applicable to each financial statement line item in the current reporting period.
- For asset-type grants accounted for using the cost accumulation approach, only in the period(s) in which the grant is recognized on the balance sheet, both of the following:
    - Line items on the balance sheet affected by the grant and the amounts applicable to each financial statement line item.
    - Useful life of any related depreciable or amortizable asset.
- The fair value of a grant of a tangible nonmonetary asset, only in the period(s) in which the grant is recognized on the balance sheet, regardless of the accounting approach used.

EFFECTIVE DATE AND TRANSITION

The following table summarizes transition for ASU 2025-10:

	PUBLIC BUSINESS ENTITIES	ALL OTHER ENTITIES
Effective date	Annual reporting periods beginning after December 15, 2028, including interim reporting periods within those annual reporting periods.	Annual reporting periods beginning after December 15, 2029, including interim reporting periods within those annual reporting periods.
Early adoption	Allowed for interim and annual financial statements that have not yet been issued (or been made available for issuance). If an entity adopts ASU 2025-10 in an interim period, the entity must apply ASU 2025-10 as of the beginning of the annual reporting period that includes that interim period.	
Transition	An entity may select one of the following transition approaches: ▶ Modified prospective approach: Apply amendments to grants that are entered after and grants that are not complete as of the effective date. A government grant is complete when substantially all proceeds have been recognized before the effective date of ASU 2025-10. ▶ Modified retrospective approach: Apply amendments to grants that are entered after and grants that are not complete as of the beginning of the earliest period presented. All prior period results must be retrospectively revised for grants that are not complete as of the beginning of the earliest period presented through a cumulative-effect adjustment to the opening retained earnings at that date. ▶ Retrospective approach: Recast comparative periods and recognize a cumulative-effect adjustment to opening retained earnings (or other appropriate equity components) as of the beginning of the first period presented.	
Transition disclosures	An entity must provide specific disclosures based on the transition method selected: ▶ Prospective approach: Disclose the nature and reason for the change. ▶ Modified or full retrospective approach: Provide full transition disclosures under ASC 250, *Accounting Changes and Error Corrections*, with some exceptions.	

Link to ASU 2025-10

CONTACTS

JENNIFER KIMMEL

Professional Practice Principal, Accounting
jkimmel@bdo.com

ANGELA NEWELL

Professional Practice Principal, Accounting
ajnewell@bdo.com