

ANNUAL DISCLOSURE REQUIREMENTS FOR BUSINESS ENTITIES RECEIVING GOVERNMENT ASSISTANCE

NOVEMBER 2021

SUMMARY

ASU 2021-10¹ (“ASU”) requires business entities to provide certain annual disclosures about transactions with a government that are accounted for by applying a grant or contribution accounting model by analogy.

BACKGROUND

U.S. GAAP does not include specific authoritative guidance on accounting for government assistance received by business entities. Accordingly, diversity in practice exists in the recognition, measurement, presentation, and disclosure of these transactions. Some business entities have applied the “Contributions Received” subsections of *ASC 958, Not-for-Profit Entities*, while others have analogized to the guidance in *IAS 20, Accounting for Government Grants and Disclosure of Government Assistance*.

As a result of this diversity and the lack of authoritative guidance, the FASB observed that financial reporting about government assistance has provided limited decision-useful information for users of the financial statements. In addition, the COVID-19 pandemic resulted in many business entities receiving government funding, which led investors and other financial statement users to request additional disclosures about such government assistance.

The ASU addresses some of these concerns by requiring business entities to provide annual disclosures to increase the transparency of government assistance received by business entities.

MAIN PROVISIONS

- ▶ The amendments apply to all entities except not-for-profit entities and employee benefit plans. That is, the ASU applies to business entities that have accounted for a transaction with a government by analogizing to a grant or contribution accounting model.
- ▶ The ASU adds *ASC 832, Government Assistance*, to the Codification, which requires business entities to disclose, on an annual basis, the following information about such transactions:
 - The nature of the transactions, including a general description and the form in which the assistance has been 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

¹ Government Assistance (Topic 832): *Disclosures by Business Entities about Government Assistance*

- The significant terms and conditions of the transactions, including the following:
 - The duration or period of the agreement
 - Commitments made by both the reporting entity and the government
 - Provisions, if any, for recapture (for example, when the government can recapture amounts awarded), including the conditions under which recapture is allowed
 - Other contingencies.
- ▶ An entity that omits specific required disclosures because the information is legally prohibited from being disclosed are required to disclose the general nature of the information and indicate that the omitted disclosures are legally prohibited from being disclosed.

BDO INSIGHTS

Transactions with a government include assistance that is administered by domestic, foreign, local (for example, city, town, county, and municipal), regional (for example, state, provincial, and territorial), and national (federal) governments and entities related to those governments. Examples of entities related to governments include departments, independent agencies, boards, commissions, and component units. Government assistance also can be administered by intergovernmental organizations and other types of organizations such as nongovernmental organizations or government-sponsored enterprises that have authority to administer assistance on behalf of a government.

EFFECTIVE DATES AND TRANSITION

For all entities in the scope of the ASU, the amendments are effective for financial statements issued for annual periods beginning after December 15, 2021, with early adoption permitted.

The amendments are required to be applied either prospectively to all transactions that are reflected in financial statements at the date of initial application and to new transactions that are entered into after that date, or retrospectively.

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