

FASB FLASH REPORT

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Annual Disclosure Requirements for Business Entities Receiving Government Assistance

Summary: The FASB issued ASU 2021-10¹ ("ASU"), which 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 (e.g., IAS 20 or ASC 958-605).

BACKGROUND

Generally accepted accounting principles ("GAAP") do 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. The final ASU is available [here](#).

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

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
 - The significant terms and conditions of the transactions, including but not limited to any of 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
- ▶ Entities omitting specific required disclosures because the information is legally prohibited from being disclosed should disclose the general nature of the information and indicate that the omitted disclosures are legally prohibited from being disclosed.

BDO INSIGHT: 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 scope, the amendments are effective for financial statements issued for annual periods beginning after December 15, 2021, with early adoption permitted.

The amendments should 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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