BDO

BDO'S US GAAP AND IFRS COMPARISON SERIES

GOVERNMENT GRANTS

MAY 2021 / www.bdo.com

INTRODUCTION

Guidance related to assessing and recording government grants is found in International Accounting Standard (IAS) No. 20 *Accounting for Government Grants and Disclosure of Government Assistance* for entities complying with International Financial Reporting Standards (IFRS). US accounting standards do not provide specific guidance on the accounting for government grants to business entities but include relevant guidance for not-for-profit entities.

Below is a comparison of the accounting under the US GAAP and IFRS standards related to government grants.

US GAAP	IFRS[1]
Scope	**Scope**
There are no specific US GAAP standards on accounting by business entities for government assistance. ASC 958-605 *Not-for-profit Entities*, contribution accounting by not-for-profit entities scopes out transfers of assets from government entities to business entities. ASC 105, *Generally Accepted Accounting Principles*, states that if the guidance for a transaction or event is not specified within a source of authoritative GAAP for that entity, an entity shall first consider accounting principles for similar transactions or events within a source of authoritative GAAP for that entity and then consider nonauthoritative guidance from other sources. Business entities should analyze the nature and form of the government assistance as well as the related conditions required to be met. Depending on the type of government assistance, business entities may account for government grants by analogy to ASC 958-605 or IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance.* However, if the government assistance is disbursed through legal form debt, ASC 470 Debt is likely the most appropriate accounting standard to apply. Not-for-profit entities may not analogize to IAS 20, since they are subject to the authoritative guidance in ASC 958-605. For example, with regards to the Paycheck Protection Program (PPP) loans provided under the Coronavirus Aid, Relief, and Economic Security (CARES) Act, since the PPP funds are disbursed through legal form debt arrangements, the legal release model under ASC 470 is always acceptable. However, for business entities meeting the eligibility criteria under the PPP, grant accounting under IAS 20 may be acceptable in limited circumstances if the company is able to demonstrate that it met the eligibility requirements to participate in the PPP and at the inception of the loan it is probable (e.g., 75%-80%) that the business entity will meet the forgiveness requirements under the PPP. If a business entity qualifies for and elects grant accounting, it should apply it consistently in all similar circumstances. Absent meeting the probability threshold, ASC 470 guidance would be applied.	IFRS includes a specific standard, IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*, which addresses different types of government assistance including transfers of assets from governments to business entities. Government grants are defined as a transfer of resources in return for past or future compliance with conditions relating to the operating activities of the entity.

1 The guidance only covers IFRS as issued by the IASB and does not include IFRS for SMEs or any jurisdictional versions of IFRS.

US GAAP	IFRS
Recognition & Measurement (ASC 958-605) ASC 958-605 does not consider the probability of whether a condition has been or will be met. Recognized when the grant is awarded or, if conditional, immediately once the conditions are substantially met or waived. The entity should also consider whether there are any government-imposed restrictions that exist.	**Recognition & Measurement** Recognized when there is reasonable assurance[2] that: ▶ The entity will comply with the conditions attached to the grant; and ▶ The grants will be received. For grants related to income recognize in profit or loss on a systematic basis over the periods in which the entity recognizes as expenses the related costs for which the grants are intended to compensate. For grants related to assets recognize as either deferred income or deducting the grant from the carrying amount of the asset. For grants of non-monetary assets both the grant and asset are accounted for at either the fair value of the asset or at the nominal amount. If the grant compensates for expenses or losses already incurred with no future related costs, the grant is recognized in profit or loss in the period it becomes receivable.
Government loans with a below-market rate of interest For purposes of imputing interest, ASC 835-30-15-3(e) scopes out 'transactions where interest rates are affected by the tax attributed or legal restrictions prescribed by a governmental agency (for example, industrial revenue bonds, tax exempt obligations, government guaranteed obligations, income tax settlements).' Therefore, a business entity would not impute interest on a below-market interest rate loan from the government. This would include for example the PPP loans provided under the CARES Act.	**Government loans with a below-market rate of interest** The difference between the initial carrying value of the loan determined in accordance with IFRS 9 *Financial Instruments* and the proceeds received is recognized as a government grant.

2 'Reasonable assurance' is generally considered to be similar to 'probable' used in ASC 450 *Contingencies*.

US GAAP	IFRS
Presentation and Disclosure Generally, the income would be recognized in the income statement as qualified expenses are paid and presented as either (1) other income or (2) a reduction of the related expenses; presentation as revenue would not be appropriate. In addition, a company should clearly disclose its accounting policy for any government grants received.	**Presentation and Disclosure** **Grants related to asset:** In the statement of financial position either as deferred income or deducting the grant from the carrying amount of the asset. In the statement of profit or loss either as 'other income' on a systematic basis over the life of the asset or as a reduction to depreciation expense. In the statement of cash flows often as a separate line item (since the receipt of the grant can cause significant movements in cash flows). **Grants related to income:** In the statement of financial position as deferred income (depending on timing of receipt and period/expense grant relates to). In the statement of profit or loss either separately or as 'other income' or deducted from the related expenses (the expenses the grant is intended to compensate for). In the statement of cash flows often as a separate line item (since the receipt of the grant can cause significant movements in cash flows) Disclosures include accounting policy for grants, nature and extent of grants recognized in the financial statements, unfulfilled conditions and contingencies attaching to recognized grants.

The above discussion covers the more significant differences between US GAAP and IFRS related to government grants, it is not intended to replace the review of the specific accounting literature applicable to government grants or consultation with professional advisors.

Contact Us

For more information or any questions you may have please contact those listed below or your local BDO service provider:

WENDY HAMBLETON
National Assurance Partner
312-616-4657 / whambleton@bdo.com

ANDREW MOORE
National Assurance Senior Manager
312-616-4664 / asmoore@bdo.com

NATTALY JETER
National Assurance Director
702-726-3284 / njeter@bdo.com