

## Publications

### New Accounting Rules for Disclosing Government Incentives – Effective for Fiscal Periods after December 15, 2021

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Scott J. Ziance

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**CLIENT ALERT** | 12.14.2021

### Disclaimer

Vorys is a law firm, not an accounting firm. Nevertheless, because the topic addressed herein is important and timely for our economic development incentives clients, we decided to publish this client alert. This client alert does not constitute accounting advice or legal advice. Because the impact of the new guidance discussed below may vary depending upon a number of different, individual circumstances, including materiality considerations, you should communicate with your accountants and attorneys about how the new guidance specifically affect you.

### Background

Governments provide different forms of assistance to entities, and the forms of assistance have varying structures, complexities, and terms. Government assistance can include tax credits, cash grants, grants of other assets, and project grants. Often, government assistance is provided to an entity for a particular purpose, and the entity promises to take specific actions.<sup>[1]</sup>

Because of the lack of specific authoritative guidance in generally accepted accounting principles (GAAP), there is diversity in the recognition, measurement, presentation, and disclosure of government assistance received by business entities.<sup>[2]</sup>

The Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update 2021-10, Government Assistance (Topic 832): Disclosures by Business Entities about Government Assistance (“Update”) to increase the transparency of government assistance.<sup>[3]</sup>

### Scope

The guidance in the Update applies to business entities (all entities except for not-for-profit entities within the scope of Topic 958, or employee benefit plans within the scope of Topics 960, 962, and 965)

that account for transactions with a government by analogizing to a grant or contribution accounting model (for example, a grant model within IFRS Standards or a contribution model within Subtopic 958-605).<sup>[4]</sup> If a transaction with a government is accounted for in accordance with existing authoritative guidance in GAAP (for example, Topic 450, Contingencies, Topic 606, or Topic 740), that transaction is not within the scope of the amendments in the Update.<sup>[5]</sup>

Transactions with a government, as that term is used in the Update, 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, including entities related to those governments (for example, departments, independent agencies, boards, commissions, and component units), and intergovernmental organizations. Examples of intergovernmental organizations include global organizations (for example, the United Nations), regional organizations (for example, the European Union), and economic organizations (for example, the World Trade Organization).<sup>[6]</sup>

The following are examples of transactions with a government that may require disclosure under the amendments in the Update:

1. A forgivable loan from a government that an entity accounts for as a grant by applying IAS 20 by analogy;
2. A receipt of cash or other assets from a government that the entity accounts for as a contribution by applying Subtopic 958-605 by analogy.<sup>[7]</sup>

## Disclosure

An entity must disclose the following about transactions with a government within the scope of the Update:

1. The nature of the transactions, including a general description of the transactions and the form in which the assistance has been received (for example, cash or other assets);
2. The accounting policies used to account for the transactions;
3. 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.<sup>[8]</sup>

An entity must also disclose information about the significant terms and conditions of transactions with a government within the scope of the Update. Terms and conditions that might be appropriate to disclose include, but are not limited to, (a) the duration or period of the agreement; (b) commitments made by both the reporting entity and the government; (c) provisions, if any, for recapture (for example, when the government can recapture amounts awarded), including the conditions under which recapture is allowed; and (d) other contingencies.<sup>[9]</sup>

If an entity omits specific disclosures required by the Update because the information is legally prohibited from being disclosed, the entity must disclose a description of the general nature of the information and indicate that the omitted disclosures are legally prohibited from being disclosed.<sup>[10]</sup>

## Effective Date

For all entities except not-for-profit entities and employee benefit plans within the scope of Topics 960, 962, and 965 on plan accounting, the requirements of the Update will be effective for financial statements issued for annual periods beginning after December 15, 2021. Early application of the requirements of the Update is permitted.<sup>[1]</sup>

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Vorys encourages you to contact your accountant with any accounting questions you may have. Vorys can assist with incentives legal questions related to this topic. For questions on such matters, please contact: Scott Ziance, 614.464.8287, [sjziance@vorys.com](mailto:sjziance@vorys.com), Chris Knezevic, 614.464.5627, [cjknezevic@vorys.com](mailto:cjknezevic@vorys.com), Jon Stock, 614.464.5647, [jkstock@vorys.com](mailto:jkstock@vorys.com); or Sean Byrne, 614.464.8247, [spbyrne@vorys.com](mailto:spbyrne@vorys.com).

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<sup>[1]</sup> Government Assistance (Topic 832), paragraph 832-10-05-1.

<sup>[2]</sup> Accounting Standards Update 2021-10, pages 14-15.

<sup>[3]</sup> Accounting Standards Update 2021-10, pages 14-15.

<sup>[4]</sup> Topic 832, paragraph 832-10-15-4.

<sup>[5]</sup> Accounting Standards Update 2021-10, page 11.

<sup>[6]</sup> Topic 832, paragraph 832-10-15-5; Accounting Standards Update 2021-10, page 13.

<sup>[7]</sup> Accounting Standards Update 2021-10, page 12.

<sup>[8]</sup> Topic 832, paragraph 832-10-50-3. “[T]he Board decided not to require that an entity disaggregate transactions with a government by various factors, including type of government or geography.” Accounting Standards Update 2021-10, page 14.

<sup>[9]</sup> Topic 832, paragraph 832-10-50-4.

<sup>[10]</sup> Topic 832, paragraph 832-10-50-5.

<sup>[11]</sup> Topic 832, paragraph 832-10-65-1. “The Board decided that the amendments in th[e] Update are required on an annual basis. If a reporting entity prepares interim financial statements, that entity should look to the existing disclosure requirements in Topic 270, Interim Reporting, for guidance.” Accounting Standards Update 2021-10, page 15. “[T]he Board concluded that it was not necessary to provide an additional year deferred effective date for private companies.” Id., pages 16-17.