Grant Thornton

Snapshot

Accounting for government grants under ASU 2025-10

JUNE 16, 2026
SNAPSHOT 2026-12

Contents

In the past, U.S. GAAP lacked authoritative accounting requirements for business entities receiving government grants. ASU 2025-10, *Government Grants (Topic 832): Accounting for Government Grants Received by Business Entities,* fills that void by establishing such guidance. These requirements are in addition to the current disclosure-only requirements issued in ASU 2021-10, *Government Assistance (Topic 832): Disclosures by Business Entities about Government Assistance*.

The new ASU leverages an existing international standard, IAS 20, which is the accounting framework to which most business entities currently analogize. The new guidance clearly defines a *government grant* and provides requirements for recognizing and measuring a grant on the balance sheet and income statement. Those requirements vary based on whether the grant is related to an asset or related to income. The new guidance also gives entities the option to present grants either gross or net on the income statement and balance sheet.

The new standard is effective for public business entities beginning in 2029, and the year after for other entities.

A. Overview

Historically, U.S. GAAP has lacked specific guidance for entities other than not-for-profits (NFPs) to account for government grants. In practice, business entities receiving government grants have generally applied one of three frameworks by analogy to recognize and measure government assistance: (1) the guidance on contributions received by NFPs in ASC 958-605, (2) the guidance on gain contingencies in ASC 450-30, and (3) the guidance on government grants and assistance in International Accounting Standards (IAS) 20.

In 2021, the FASB issued ASU 2021-10, which provided disclosure requirements for business entities receiving government grants and was codified in ASC 832, *Government Assistance*, but offered no guidance for their recognition or measurement. After receiving feedback that stakeholders wanted authoritative guidance for business entities accounting for government grants, the FASB issued ASU 2025-10, which adds recognition, measurement, and presentation guidance to the existing disclosure guidance in ASC 832

The new guidance leverages the guidance in IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance,* which contains requirements and an accounting model that the majority of business entities have been applying by analogy prior to the issuance of ASU 2025-10. The new guidance distinguishes between a grant that is provided to fund the purchase or construction of an asset and one designed to reimburse an entity for designated expenses, and provides flexibility in presenting different types of grants differently on the income statement and balance sheet.

B. Scope

The amendments in ASU 2025-10 apply to all business entities that receive government grants, excluding NFPs, which apply the industry-specific guidance in ASC 958-605, and employee benefit plans within the scope of ASC 960, ASC 962, or ASC 965. The amendments in ASU 2025-10 apply to government grants received by all entities within its scope, including both public and nonpublic entities.

The new guidance defines a “government grant” in the Master Glossary as a transfer of a monetary or nonmonetary tangible asset (for example, a building or land) from a government other than through an exchange transaction. The terminology used in an agreement (such as *grant*, *award*, or *subsidy*) is not determinative in assessing whether the agreement meets the scope of the new guidance. Instead, an entity should consider the specific facts and circumstances of the agreement.

Government Grant

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 except for a not-for-profit entity and an employee benefit plan within the scope of Topics 960, 962, and 965 on plan accounting.

An “exchange transaction” is defined in the Master Glossary as a reciprocal transfer between two parties in which one entity acquires assets or services (or satisfies liabilities) by surrendering other assets or services (or incurring other obligations). An exchange transaction does not meet the definition of a government grant, even if the transaction is conducted at a significant discount to fair value. That is, as long as each party provides something of value in the exchange, the transaction is excluded from the accounting requirements in ASC 832 and should be accounted for within the scope of other guidance.

Grant Thornton insight: Exchange versus nonexchange transactions

Determining whether a transaction with the government is within the scope of either ASC 832 or other guidance depends on whether the transaction with the government is considered to be a *grant* or an *exchange transaction*. While this may be readily apparent from the terms and conditions of the arrangement, in some circumstances, it may be less clear if the government is receiving goods or services as an outcome of the arrangement. While the FASB did not provide specific guidance on distinguishing between exchange and nonexchange transactions in ASU 2025-10, we believe that all entities should consider the existing industry-specific guidance for NFPs in ASC 958-605-15-5A when making this determination.

According to the guidance in ASC 958-605-15-5A, the goods or services received from the entity in an exchange transaction are generally expected to be received by the government itself rather than by the general public. Additionally, neither the execution of the government's mission to provide a general benefit to its constituents nor the positive sentiment associated with the transaction are considered goods or services provided to a government. Examples of benefit to the general public that would ordinarily not indicate an exchange transaction include furthering public scientific knowledge in a specific field, strengthening domestic capabilities in an area of industry, or creating job or other economic opportunities in a community.

Entities may also consider other factors listed in ASC 958-605-15-5A for additional considerations to clarify whether a transaction with the government constitutes a grant or an exchange transaction.

Significant judgment may be required in determining whether an arrangement with a government meets the definition of a government grant, and an entity should consider all of the specific facts and circumstances in arriving at a conclusion

ASC 832 provides examples of entities that may grant or administer government grants. As used in ASC 832, *government* may refer to domestic or foreign governments at the local, regional, or national level. The guidance also includes grants from entities related to those governments, such as departments, independent agencies, boards, commissions, and component units. In addition, a government grant may be administered by intergovernmental organizations or by other organizations, such as a nongovernmental organization or a government-sponsored enterprise authorized by a government to administer grants on its behalf. Agreements with any of these entities may meet the definition of a government grant under ASC 832.

The new guidance applies only to transactions in which the government provides monetary assets or *tangible* nonmonetary assets. Tangible nonmonetary assets may include buildings, land, equipment, or inventory. An agreement with a government that provides items other than monetary or tangible nonmonetary assets does not meet the definition of a government grant under the new guidance and, therefore, would not be accounted for under ASC 832. Examples of types of assets outside this guidance include licenses, patents, and the right to control the use of an asset (a lease).

Examples of government grants within the scope of ASC 832 include

- Cash to fund or reimburse expenses or expenditures, including capital expenditures, employee-related costs such as wages or training, research and development activities, or other operating expenses
- Tangible nonmonetary assets, including long-lived assets like equipment, buildings, or land
- A forgivable loan if the entity expects to meet the requirements for forgiveness
- A refundable tax credit outside the scope of the income tax guidance in ASC 740

Examples of transactions that would not be considered government grants and are not therefore within the scope of ASC 832 include

- Income tax transactions that are within the scope of ASC 740
- The benefit of below-market interest rate loans
- Government guarantees
- An agreement for the government to provide intangible assets or services, including leases
- Reduction of an entity's liabilities, such as an abatement of taxes (sales, property, payroll, or other taxes)
- Government participation in the ownership of an entity
- A revenue transaction or a sale of an asset to the government under ASC 606 or ASC 610-20
- Contractual arrangements for research and development within the scope of ASC 912-730[1]

Grant Thornton insight: Multiple element grant arrangements

In Paragraph 24 of the Basis for Conclusions (BC24) of ASU 2025-10, the FASB acknowledges that an agreement may contain elements that both meet the definition of a government grant and do not meet that definition. The Board clarified that the amendments in the ASU are intended to apply only to the transaction within the agreement that relates to the government grant. The Board did not provide guidance on separating and allocating consideration in the agreement between such elements. We believe that an entity should apply a reasonable and rational approach in performing such an allocation.

[1] ASU 2025-10, Basis for Conclusions, Paragraph 23.

C. Recognition and measurement of a government grant

A government grant is not recognized in the financial statements until it is probable that both (1) the entity will comply with the conditions attached to the grant, and (2) the grant will be received. Additionally, the entity must meet the specific recognition criteria under ASC 832 for the type of grant it receives, as discussed later in this section.

An entity will need to use judgment in determining whether and when it meets the probable threshold for compliance with the conditions and receipt of the grant. The Master Glossary defines “probable” as an event that is “likely to occur.” An entity should consider all conditions attached to the grant, along with the specific facts and circumstances of the arrangement, in making its assessment.

There may be timing differences between an entity’s determination that it meets the recognition guidance in ASC 832 and when it actually receives the proceeds under the grant, which may result in the recognition of a grant liability or a grant receivable on the balance sheet. An entity is not permitted to recognize a grant receivable until the recognition threshold in the new guidance is met. The new guidance also specifies that the receipt of proceeds for a grant does not, in and of itself, provide evidence that the conditions of the grant have been or will be fulfilled. Recognition of the grant on the income statement follows the specific criteria set out in the new amendments for the type of grant received.

Additionally, in BC37 of ASU 2025-10, the FASB clarified that it did not intend for a business entity to recognize a government grant before incurring grant-related costs or expenses, even if the business entity concludes it meets the “probable” threshold for the two criteria outlined in ASC 832-10-25-1 (that is, the entity will comply with the conditions of the grant and the grant will be received).

The new guidance also adds to the Master Glossary a definition of a “forgivable loan,” which is a loan where the lender agrees to waive repayment under certain prescribed conditions established by a government. A forgivable loan is treated as a government grant when the recognition threshold is met, including when it is probable that an entity will meet the conditions for forgiveness. Prior to meeting that threshold, a forgivable loan is accounted for as a loan under the appropriate accounting topic.

Types of grants

The new amendments provide separate guidance for two specific types of government grants:

- A *grant related to an asset* is a government grant that is conditioned on the purchase, construction, or acquisition of an asset, such as a long-lived asset or inventory.
- A *grant related to income* is a government grant that is not related to an asset, such as one that reimburses an entity for operating expenses.

The amendments provide separate guidance for recognizing each type of government grant, as outlined in the following sections.

Grant related to an asset

A grant related to an asset is recognized on the balance sheet as the cost of the asset is incurred using one of the following approaches:

- **Deferred income approach:**
  - *Initial measurement:* The asset that is the subject of the grant is recognized on the balance sheet at the cost incurred to obtain it, without regard to the grant, in accordance with other GAAP. Once

the grant meets the recognition threshold, it is recognized on the balance sheet as a deferred income liability, separately from the associated asset. If a grant is received in the form of a tangible nonmonetary asset, that asset is measured at fair value as of the date when the grant is recognized on the balance sheet.

  – *Recognition:* The deferred income is recognized on a systematic and rational basis on the income statement over the period when the entity recognizes expenses related to the asset. Examples of expenses related to an asset include depreciation, recognition of a gain or loss on the sale of the asset, or an impairment charge. If a grant relates to a nondepreciable asset, such as land, the entity should subsequently recognize the grant on a systematic and rational basis over the periods when the entity incurs the related costs.

- **Cost accumulation approach:**
  – The grant is recognized as an adjustment to the cost basis of the asset when the asset is initially recorded. Under this approach, there is no separate subsequent recognition of the grant on the income statement because it is already reflected in the carrying amount of the asset. If a grant is received in the form of a tangible nonmonetary asset, that asset is measured at the cost of acquiring the asset, if any. For example, if an entity receives a government grant of land and a building and does not incur any costs, it would record $0 of fixed assets for the land and building asset under the cost accumulation approach.

Grant related to income

An entity recognizes a grant related to income on its income statement on a systematic and rational basis over those periods when the entity recognizes the expenses that the grant is intended to compensate. For example, if a grant is intended to compensate for costs an entity incurs for scientific research, recognizing the grant when the research expenses are recognized could be considered a systematic and rational method for recognition. Although it will be easy to determine the period over which recognition should occur for many grants, other grants may be received with conditions attached, in which case, an entity may need to use judgment in determining which costs relate to those conditions to comply with the grant.

If the grant is received to compensate for expenses that have previously been incurred by the entity and there are no future costs related to the grant, the grant should be recognized in income when it meets the criteria in 832-10-25-1.

D. Repayment of a government grant

A grant received by an entity may become repayable to the government, such as when an entity fails to meet the stipulations of a grant and must return some or all of the proceeds received. The amendments in the ASU provide separate repayment guidance for a grant related to an asset and one related to income, as outlined below.

Grant related to an asset

Recognizing the repayment of a grant related to an asset depends on whether the grant was accounted for under the cost accumulation or the deferred income approach, as follows:

- Under the *cost accumulation approach*, the repayment is recognized as an increase in the carrying amount of the asset. All related expenses (such as the cumulative depreciation or a change in previously recognized gains or losses upon a sale, which would have been recognized in earnings to date in the absence of the government grant) should be recognized immediately in earnings. The new carrying amount of the asset is then used in evaluating the asset for impairment, recognizing depreciation, and any other subsequent accounting for the asset.

- Under the *deferred income approach*, the repayment reduces the deferred income balance. If the amount of the repayment is greater than the deferred income balance, the difference is recognized in earnings.

Grant related to income

For repayment of a grant related to income, an entity first applies the repayment to reduce any unamortized deferred income on the balance related to the grant. If the amount of the repayment is greater than the deferred income balance, the difference is recognized in earnings when the grant becomes repayable.

E. Presentation

The new guidance gives entities options in how they present a government grant on the income statement and balance sheet.

Grant related to an asset

A grant related to an asset that is accounted for using the deferred income approach is presented as follows:

- On the balance sheet as a deferred income liability
- On the income statement either under a general heading, such as “other income,” or as a deduction from the related expense (such as depreciation, gain or loss on sale, or impairment)

A grant related to an asset that is accounted for using the cost accumulation method is presented on the balance sheet as part of the carrying amount of the related asset. Therefore, there is no separate presentation of the grant on the income statement. If proceeds are received before the grant meets the criteria for recognition, deferred income related to the grant is presented as a liability on the balance sheet.

Grant related to income

A grant related to income is presented in earnings either separately under a general heading, such as “other income,” or is deducted from the related expense, such as operating expense, research and development, or SG&A. If proceeds are received before the grant meets the criteria for recognition, deferred income related to the grant is presented as a liability on the balance sheet.

F. Disclosure

Prior to the issuance of ASU 2025-10, guidance on disclosures for government grants already existed that applies to all entities. The amendments in ASU 2025-10 provide additional disclosure requirements and update the existing requirements to conform with the new recognition and measurement guidance. The new disclosures for government grants are required on an annual basis.

Grant Thornton insight: Interim disclosure considerations for government grants

The disclosures in ASC 832 are required on an annual basis, with no specific incremental interim disclosures required by the new guidance. However, we believe that an entity with government grant activity in an interim period should consider the interim disclosure requirements in ASC 270, *Interim Reporting*, for events that have a material impact on the entity occurring since the last annual period to determine if grant activity during the period should be disclosed as a part of an entity's interim reporting.

The amendments in the ASU also added a requirement to the pending disclosure requirements for public entities in ASU 2024-03, *Disaggregation of Income Statement Expenses*, commonly referred to as DISE. Under the DISE disclosure requirements, the amount of a government grant presented as a reduction of the related expense should be disclosed for all significant expense captions in the tabular disclosure. The DISE standard becomes effective for public business entities for annual reporting periods beginning after December 15, 2026.

New disclosure requirements under ASU 2025-10

The new disclosures required in annual periods by the amendments in ASU 2025-10 are as follows:

- For a grant related to an asset using the deferred income approach or for a grant related to income, an entity must disclose the line items that are affected by the grant and the corresponding amounts on both the balance sheet and income statement.
- For a grant related to an asset using the cost accumulation approach, an entity must disclose the affected line items as well as the amounts applicable to each line item and useful lives of the related depreciable asset on the balance sheet in the period when the grant is recognized.
- For a grant of a tangible nonmonetary asset, an entity must disclose the fair value of the asset received in the period when the grant is recognized, regardless of whether the cost accumulation or deferred income approach is used.

Existing disclosure requirements under ASC 832

ASC 832 currently requires certain disclosures about government assistance transactions in the notes to the annual financial statements, which will still be required when the new ASU becomes effective. The current disclosure requirements under ASC 832 in annual periods are as follows:

- Information about the nature of the transactions, including a general description and the form (cash or other assets, for example) in which the assistance has been received
- The accounting policies used to account for the transactions

- Line items on the balance sheet and income statement affected by the transactions and the amounts applicable to each financial statement line item in the current reporting period[2]
- Information about the significant terms and conditions of transactions with a government, which may include
  - The duration or period of the agreement
  - Any commitments made by the parties
  - Provisions for recapture, including the conditions that allow recapture
  - Other contingencies

An entity that is legally prohibited from disclosing any of the information required by ASC 832 should instead disclose a description of the general nature of the information and indicate that the omitted disclosures are legally prohibited from being disclosed.

G. Business combinations

The new ASU provides specific guidance for recognizing any deferred income from a grant related to income in a business combination. The guidance provides the same exception to the recognition principle in ASC 805 previously extended to contract assets and contract liabilities under ASC 606. Instead of being measured at fair value, a deferred income balance for a grant related to income is measured in accordance with ASC 832 at the acquisition date and is subsequently recognized into income following the guidance in ASC 832. This exception does not apply to an acquisition by an NFP accounted for under the industry-specific guidance in ASC 958-805.

H. Effective date and transition

For public business entities, the amendments are effective for annual reporting periods beginning after December 15, 2028 and for interim periods within those annual periods. For all other entities, the amendments are effective for interim and annual periods beginning after December 15, 2029. Early adoption is permitted in both interim and annual periods for financial statements that have not been issued or made available for issuance. If an entity adopts the standard in an interim period, it should adopt as of the beginning of the annual period.

Entities may elect to apply the transition guidance using either a modified prospective approach, a modified retrospective approach, or a full retrospective approach. The details of each of these approaches are laid out in the table below.

For both the modified prospective and the modified retrospective transition approach, an entity needs to determine which grants were not complete as of the application date of the guidance. For the modified prospective approach, the application date is the effective date of the guidance. For the modified retrospective approach, the application date is the beginning of the earliest period presented in the

[2] This requirement in ASC 832-10-50-3(c) was superseded by ASU 2025-10 and replaced with more specific disclosures. For periods before the adoption of ASU 2025-10, the disclosure in paragraph ASC 832-10-50-3(c) is required.

financial statements for the period in which the guidance becomes effective. For a grant related to an asset accounted for using the cost accumulation approach, a grant is considered complete when substantially all of the grant is reflected in the carrying amount of the asset before the application date. For all other grants, a grant is complete when substantially all of the grant proceeds have been recognized on the income statement before the application date of the new guidance. The ASU does not provide a bright line threshold for determining “substantially all”; however, as applied in other areas of U.S. GAAP, such as ASC 842 for leasing, entities have generally interpreted “substantially all” to mean approximately 90 percent or more.

	Modified prospective	Modified retrospective	Full retrospective
Apply the guidance to…	Government grants entered into on or after the effective date Government grants not complete as of the effective date	Government grants entered into on or after the beginning of the earliest period presented Government grants not complete as of beginning of earliest period presented	All government grants arrangements, both previously and currently existing
Record upon adoption	Prior-period results are not restated; there is no cumulative-effect adjustment	Prior-period results are restated only for government grants not complete as of the beginning of the earliest period presented, with a cumulative-effect adjustment to the opening balance of retained earnings for the earliest period presented	Prior-period results are restated for all government grants, with a cumulative-effect adjustment to the opening balance of retained earnings for the earliest period presented
Transition disclosure	Disclose the nature of and reason for the accounting change	Provide transition disclosures required by ASC 250-10-50-1 through 50-2 in the period of adoption, except for ASC 250-10-50-1(b)(2) for the current reporting period and the requirements in ASC 250-10-50-1(b)(4) through (c)(1)	Provide transition disclosures required by ASC 250-10-50-1 through 50-2 in the period of adoption, except for ASC 250-10-50-1(b)(2) for the current reporting period and the requirements in ASC 250-10-50-1(b)(4) through (c)(1)

© 2026 Grant Thornton LLP | All rights reserved | U.S. member firm of Grant Thornton International Ltd.

Contacts

Graham Dyer
Partner – Chief Accountant,
Grant Thornton LLP
Partner, Grant Thornton Advisors LLC
T +1 312 602 8107
E Graham.Dyer@us.gt.com

Carolyn Warger
Partner, Grant Thornton LLP
Partner, Grant Thornton Advisors LLC
T +1 617 848 4838
E Carolyn.Warger@us.gt.com