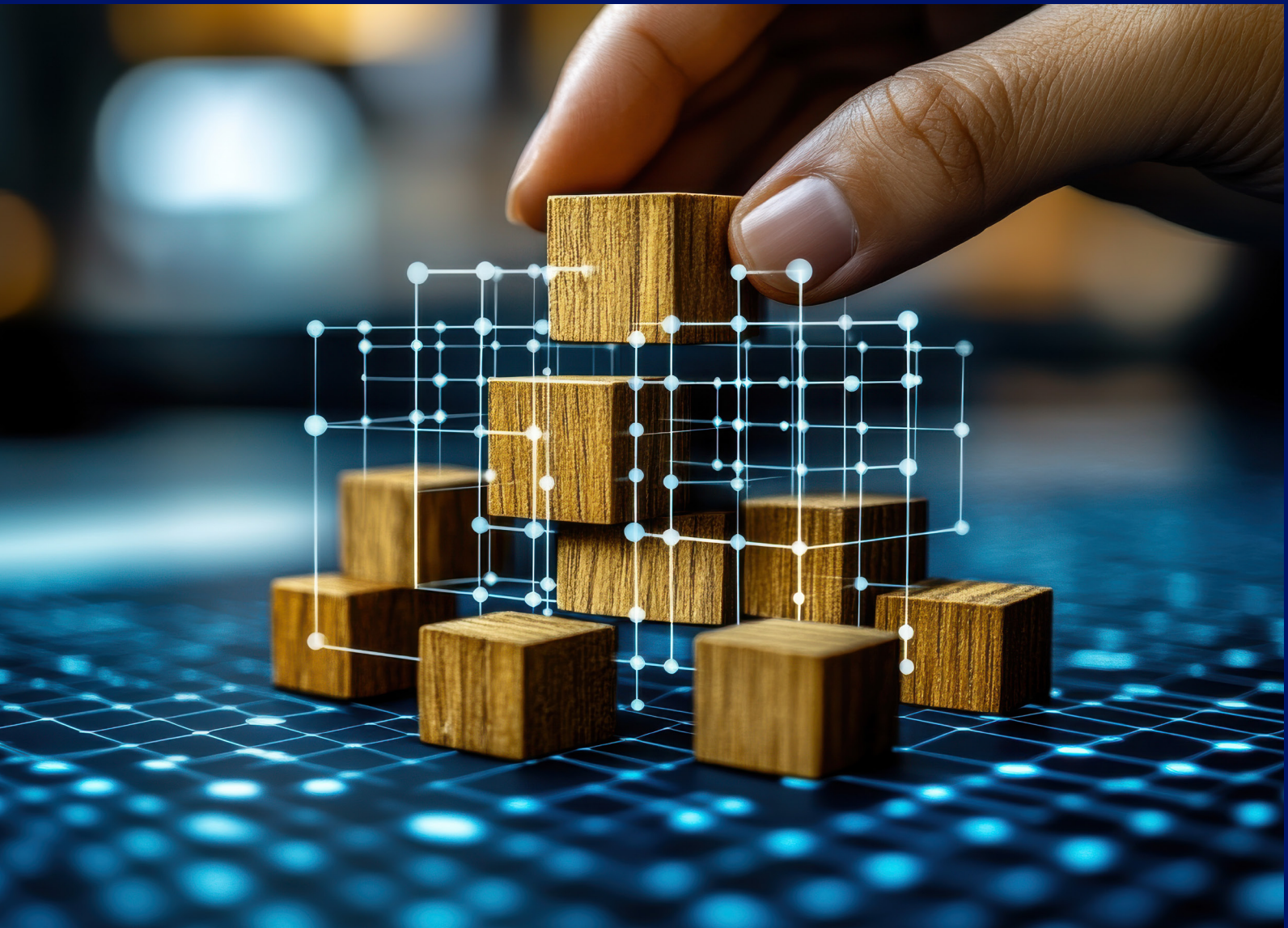


ASU 2025-10

A New Era for Government Grant Accounting



Executive Summary



In December 2025, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2025-10, Government Grants (Topic 832). This Update introduces explicit U.S. GAAP guidance on how business entities should recognize, measure, present, and disclose government grants.

Until now, U.S. GAAP did not contain a dedicated standard for government grants received by business entities. As a result, companies applied diverse practices, commonly taking from IAS 20 - Accounting for Government Grants and Disclosure of Government Assistance, ASC 450 - Contingencies or sub-topic 958-605 - Not-for-Profit Entities - Revenue Recognition. This approach often led to inconsistent accounting outcomes and reduced comparability across financial statements.

ASU 2025-10 addresses this gap by establishing a structured and uniform accounting framework. While the guidance is broadly aligned with IAS 20, it has been tailored to fit within the principles-based architecture of U.S. GAAP.

The update covers two main types of grants: asset-related and income-related. It sets clear rules for recognition and presentation. This is intended to improve consistency and transparency for investors while reducing the complexity and cost for preparers.

Pre-ASU vs Post-ASU Comparison:

Area	Pre-ASU 2025-10	Post-ASU 2025-10
Authoritative U.S. GAAP Guidance	No dedicated guidance for business entities. Entities relied on analogies to IAS 20, ASC 450, or Subtopic 958-605.	Dedicated guidance introduced under Topic 832 specifically for business entities.
Asset vs Income Classification	No standardized classification guidance. Entities interpreted conditions differently.	Explicit distinction between asset-related and income-related grants with defined accounting models.
Measurement of Non-Monetary Asset Grants	Often recorded at nominal value when analogizing to contingency model.	Requires fair value measurement at recognition (even if cost accumulation approach is used).
Disclosure Requirements	Often limited and inconsistent; not codified specifically for grants.	Expanded disclosures required: nature, policy election, terms, contingencies, line-item impact, fair value of non-monetary assets, useful life, and recapture risks.
Comparability Across Entities	Reduced comparability due to inconsistent application of multiple Topics.	Improved comparability through uniform recognition and presentation framework.



Scope:

The amendments in this Update applies to business entities, excluding not-for-profit organizations and employee benefit plans. This exclusion is since not-for-profit entities already follow established guidance under Topic 958 - Accounting for Contributions and Government Assistance.

Under the new guidance, a government grant is defined as a transfer of a monetary asset (such as cash or refundable tax credits) or a tangible non-monetary asset (such as land, buildings, or equipment) from a government to a business entity. Importantly, the transaction must be other than an exchange transaction. This means that if the government receives matching value of the asset in return, the transaction will fall under Topic 606 (Revenue from Contracts with Customers) rather than the grant guidance.

The following transactions are outside the scope of the amendments in this Update:

- **Income Taxes:** Transactions within the scope of Topic 740 are excluded.
- **Below-Market Interest Rate Loans:** The economic benefit derived from a government loan with an interest rate lower than market rates is not accounted for as a grant.
- **Government Guarantees:** These are excluded because they do not meet the definition of a transfer of an asset.

Forgivable loans are included in the scope and are accounted for as government grants once it becomes probable that the entity will satisfy the forgiveness conditions.

Key Accounting Changes and Measurement:

The most significant change is that the government grant received by a business entity shall not be recognized until:

1. It is probable that
 - The entity will comply with the conditions attached to the grant.
 - The grant will be received.
2. A business entity meets the recognition guidance for a grant related to an asset or a grant related to income.



Recognition:

Grants Related to Assets:

For grants conditioned on the purchase or construction of a long-lived asset, ASU 2025-10 provides two recognition approaches:

- **Deferred Income Approach:** The grant is recorded as deferred income and recognized in profit or loss over the asset's useful life. Under this approach, the asset is measured at fair value at the time of recognition.
- **Cost Accumulation Approach:** The grant reduces the cost of the asset, which lowers depreciation and affects profit or loss over the asset's life. Under this approach, the asset is measured at the cost to the entity, which may be zero or nominal.

Grants Related to Income:

If a grant is meant to compensate for expenses or losses, recognize it in profit or loss in the periods when the related expenses are incurred.

Repayment of a Government Grant



For a repayment of grant related to income, repayment is first applied against any unrecognized (unamortized) balance, with the remainder recognized in profit or loss as required.

Illustration: An entity receives an income-related government grant of USD 900,000 to support operating costs over a three-year period. The grant is recognized on a straight-line basis at USD 300,000 per year once it becomes probable that the conditions will be met.

By the end of Year 2, the entity has recognized USD 600,000, with an unrecognized balance of USD 300,000. In Year 3, the entity fails to meet a key grant condition, and the government requires a repayment of USD 500,000.

In accordance with ASU 2025-10, the repayment is first applied against the unrecognized grant balance of USD 300,000. The remaining USD 200,000 is recognized immediately as an expense in profit or loss in Year 3.

For a repayment of grant related to an asset, the accounting treatment depends on the approach previously applied. If the cost accumulation approach was used, the repayment increases the carrying amount of the asset, and depreciation is revised prospectively over the remaining useful life. If the deferred income approach was used, the repayment is first adjusted against any remaining deferred income balance.

Illustration: An entity purchases machinery for USD 1,000,000 with a useful life of five years and receives a government grant of USD 200,000 related to the asset. The grant conditions are initially satisfied. After two years, the entity is required to repay USD 150,000 due to non-compliance with a condition.

Cost accumulation approach:

The asset was initially recognized at USD 800,000 (USD 1,000,000 less USD 200,000) and depreciated at USD 160,000 per year. After two years, the carrying amount is USD 480,000. Upon repayment of USD 150,000, the carrying amount of the asset is increased to USD 630,000. This revised carrying amount is depreciated prospectively over the remaining three-year useful life.

Deferred income approach:

The asset was initially recognized at USD 1,000,000, and the grant of USD 200,000 was recorded as deferred income. The asset is depreciated at USD 200,000 per year, and USD 40,000 of deferred income is recognized annually. After two years, the remaining deferred income balance is USD 120,000. When USD 150,000 is repaid, USD 120,000 is adjusted against the remaining deferred income balance, and the excess USD 30,000 is recognized immediately in profit or loss. Depreciation continues over the remaining useful life.

Presentation and Disclosure Requirements:

Presentation:

Grant Related to an Asset:

If a grant related to an asset is accounted for using the deferred income approach, it is shown on the balance sheet as deferred income (a liability). Over time, as the asset is used, the grant is recognized in earnings. This can be presented in either of the following ways:

- Shown separately in the income statement, or
- Deducted from the related expense

If the cost accumulation approach is used, the grant is included directly in the carrying amount of the asset on the balance sheet. In this case, there is no separate presentation of the grant in earnings later, because the benefit is already reflected through lower depreciation of the asset.

Grant Related to Income:

A grant related to income is recognized in earnings. It can be presented in either of the following ways:

- Shown separately under a general heading such as other income, or
- Deducted from the related expense that the grant is intended to compensate.

The Board makes this choice because it matches current practice and gives companies flexibility to present different grants in a way that best reflects their economic impact and how they affect the business's operations.



Disclosures:

ASU 2025-10 mandates several disclosures to aid investors in understanding the impact of grants. Entities must disclose:

- The nature of the grant and the forms in which it was received (e.g., cash vs. tangible assets).
- The accounting policies used (e.g., whether the entity elected the cost accumulation or deferred income approach).
- The significant terms and conditions, including duration, commitments, and potential recapture provisions.
- Affected line items: For income grants and deferred income asset grants, the entity must disclose which balance sheet and income statement line items are affected and by what amounts.
- Fair Value of Non-monetary Assets: Crucially, even if an entity uses the cost accumulation approach (which might result in a zero carrying value), it must disclose the fair value of a tangible non-monetary asset in the period it is recognized.

Effective Date and Transition:

Public Business Entities:

Applicable for annual reporting periods beginning after December 15, 2028, including interim periods within those fiscal years.



All Other Entities:

Applicable for annual reporting periods beginning after December 15, 2029, including interim periods within those fiscal years.



Early Adoption:

Entities may adopt the guidance early for any annual and interim period, provided the financial statements for that period have not yet been issued or made available for issuance.



Transition Methods

Entities can choose from three transition approaches:

Modified Prospective Approach



Applied to grants entered into on or after the effective date and grants not yet complete as of effective that date. Prior-period results are not restated and no cumulative-effect adjustment.

Modified Retrospective Approach



Applied to grants entered into or incomplete at the beginning of the earliest period presented. Prior periods are restated via a cumulative-effect adjustment to opening balance of retained earnings as of the beginning of the earliest period.

Retrospective Approach



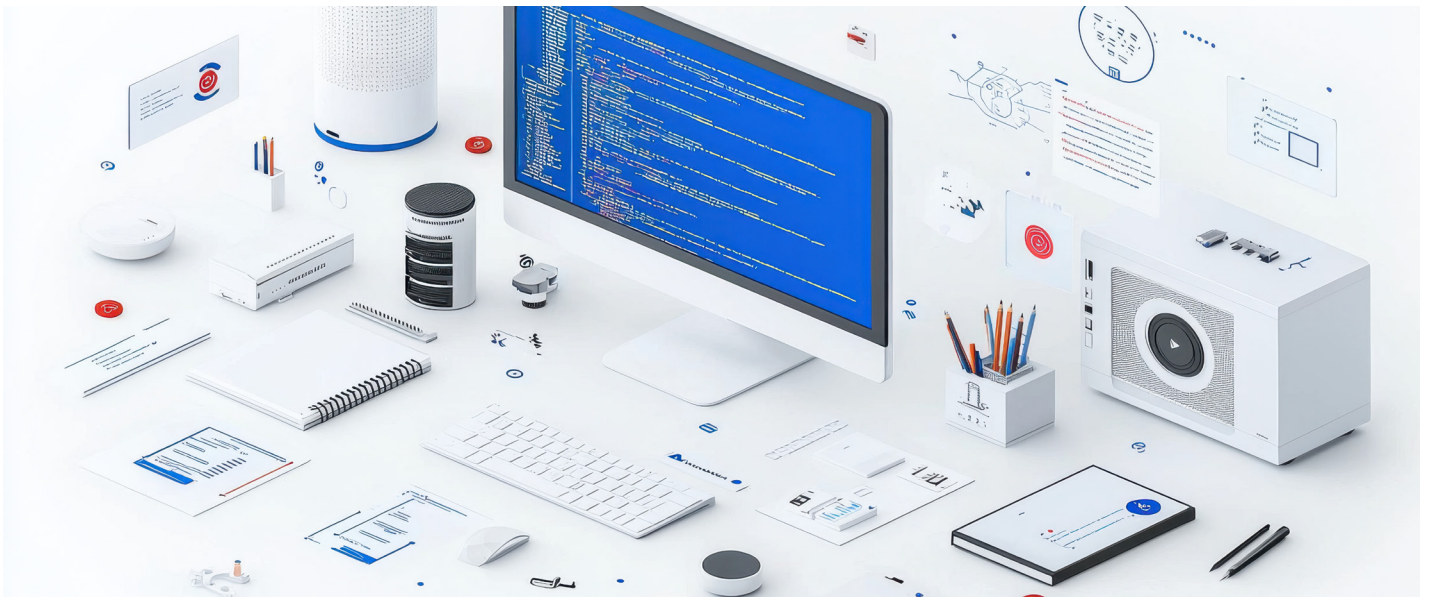
Full restatement of all years presented for all government grants.

For transition purposes, a government grant is considered complete when substantially all of the grant proceeds have already been recognized in earnings or reflected in the carrying amount of related assets.



Our Perspective

We believe this Update brings much-needed clarity to an area that previously relied heavily on judgment and analogies. The introduction of a clear recognition threshold and defined accounting models should improve consistency across entities. At the same time, the permitted presentation alternatives allow entities to reflect the economic substance of grants without forcing a one-size-fits-all outcome. Overall, the guidance strikes a balanced approach between comparability for users and practical flexibility for preparers.





Pierag Consulting

Pierag Consulting was founded in February 2021 by Abhishek Gupta, Thomas Raffa and Pierian Services as a unique business model to serve clients globally by blending domestic proficiency with global expertise. Since then, we have been serving prominent clients across the US, SEA, India and UK in the field of Assurance, Accounting Advisory, Business Risk, Technology Risk Advisory, Deals Advisory and ESG & Sustainability.

With highly skilled team members, we are fueled by our purpose of ‘Inspiring people to do things that inspires them’ and our values of ‘Excellence, Equity & Empathy’.

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www.pierag.com | info@pierag.com



Gurugram
Level 18, DLF
Square, DLF Phase
II, Gurugram,
Haryana - 122002

Mumbai
One International
Centre,
Tower 1, 8th Floor
Lower Parel,
Mumbai – 400013

Bengaluru
Brigade Software
Park 27th Cross Rd,
Banashankari Stage
II, Bengaluru,
Karnataka - 560070

Jaipur
Level 5, Jaipur
Centre, Tonk Road,
Sector B4,
Jaipur, Rajasthan -
302018

Chandigarh
W4-G, Level 4, Tower
A, Godrej Eternia
Towers, Industrial
Area, Phase I,
Chandigarh - 160002

Washington, D.C.
1899 LST NW,
Washington,
D.C. - 20036

Singapore
12 Marina
Boulevard Marina
Bay Financial Centre,
Singapore - 018982

Melbourne
2.14, 111 Overton
Road, Williams
Landing, VIC
Australia - 3027