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CFO JOURNAL

New U.S. Accounting Rule to Establish How Companies Must Record Government Grants

Three FASB board members say the requirements don't provide investors with adequate details on government assistance

By [Mark Maurer](#) [Follow](#)

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General Motors is generally supportive of flexibility allowed under the proposed rule but seeks clarity on when it should recognize grants in its financial statements. PHOTO: CARLOS OSORIO/ASSOCIATED PRESS

The Financial Accounting Standards Board plans to establish requirements on how companies account for government grants in their financial reports, following awards provided in recent years as pandemic-related and other relief.

The standard setter on Wednesday voted, 4-3, to require U.S. public and private companies to record the value of grants they've received. Most companies already voluntarily do this by applying an existing standard on government-aid accounting from the FASB's international counterpart, the London-based International Accounting Standards Board.

Governments sometimes offer incentives to companies to help them pay for things like employee training, machinery purchases or overcoming natural disasters or economic downswings such as a pandemic.

The new rule focuses on the transfer of both monetary assets like cash and loans expected to be forgiven as well as physical assets such as buildings, land and equipment between a government and a company. The rule borrows heavily from the IASB standard, which has gone largely unchanged since 1983.

For a grant related to income, companies will have to recognize the grant on their income statement in the periods in which they incur any related expenses.

For a grant related to an asset, companies will have to account for and disclose the amounts they received. They also will have the option of either recording the grant as deferred income or reducing the value of the asset. If companies opt to reduce the asset's value, they will have to disclose the amount by which they reduced it in the period that they recognized it.

Companies such as [General Motors](#) were generally supportive of flexibility allowed under the proposed rule, but sought clarity on when they should recognize grants in their financial statements. "If the board's intention is to require a gross up of the balance sheet via recognition of the grant prior to the asset purchase, we recommend that the proposal clearly illustrate this in the example and provide classification guidance," General Motors wrote in a March 31 letter. Grossing up the balance sheet refers to recording related assets and liabilities at their gross amounts, not net.

The board on Wednesday said the rule would clarify the timing. GM declined to comment.

The new requirement follows a rule that the FASB set in 2021 in response to the government assistance provided to businesses amid the Covid-19 pandemic. That rule required companies to disclose details about the nature of the grant, its terms and conditions, and the line items in the financial statements affected by the transaction.

The requirements are set to go into effect for public companies' 2029 annual financial reports, and the following year for private companies, though companies can adopt them early. The FASB is aiming to formally issue the requirements later this year, a spokeswoman said.

There are no specific U.S. rules for accounting for government grants. Despite the 2021 rule, the absence of more specific requirements has made it difficult for investors to compare the underlying accounting of grants across public companies. The new

standard, for which the FASB [issued a proposal](#) last November, is aimed at helping investors with that analysis.

Board members Joyce Joseph, Fred Cannon and Christine Botosan said the benefits of the rule don't justify the costs, saying it would result in insufficient information for investors. The three board members opposed the proposal as well.

U.S. generally accepted accounting principles, or GAAP, will now include at least six different accounting models for companies to account for grants, Botosan said.

"I don't know how investors are going to make head nor tail of the continued lack of comparability in the information that they are receiving, and I think they were counting on us to do something about the current state of affairs," Botosan said.

FASB Chair Rich Jones said the majority of the board hasn't supported one model for grant accounting for roughly 50 years, and didn't on Wednesday either.

The U.S. Small Business Administration earlier this year [cut more than 40% of its workforce](#) after having expanded during the pandemic to support programs such as the Paycheck Protection Program and during the Biden administration, The Wall Street Journal reported at the time.

Small businesses in recent months have requested relief from new U.S. tariffs on foreign goods as they [navigate higher costs](#). The SBA in April said it would provide up to \$1.1 million in funding to three eligible manufacturers for training and technical assistance.

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