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Clarifying Terms & Concepts in ASU 2021-10 & ASU 2018-08

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A careful reading and clear understanding of relevant authoritative literature is critical to help ensure financial statement preparers, and in turn their auditors, are associated with representationally faithful U.S. generally accepted accounting principles (U.S. GAAP) financial statements. Some practitioners are unclear about certain terms and concepts in Accounting Standards Update (ASU) 2021-10 *Government Assistance (Topic 832): Disclosures by Business Entities about Government Assistance*, and ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This report provides selected clarifications to those ASUs, specifically the terms "government" and "grant," as well as the concept of a "barrier" related to conditional contributions.

Having a good grasp of the terminology used in the professional literature (both accounting and auditing) is essential. The FASB provides definitions of key terms in a variety of pronouncements, including the *Accounting Standards Codification* (FASB ASC) Master Glossary, individual ASUs, and the recently issued chapters of Statement of Financial Accounting Concepts (SFAC) 8, *Conceptual Framework for Financial Reporting*. Of particular note is the fact that SFAC 8, Chapter 4, *Elements of Financial Statements*, dated December 2021, indicates "the definitions in this Chapter apply to both business activities and not-for-profit entities (NFPs)…and are a significant determinant of the content of financial statements."

ASU 2021-10 (FASB ASC 832)

ASU 2021-10 requires business entities to disclose, in notes to financial statements, information about certain types of government assistance received. The issuance of ASU 2021-10 was spurred on by the COVID-19 pandemic and related increases in government funding provided to companies. Clarifying the terms "government" and "grant," as they are used in ASU 2021-10, as well as the scope of ASU 2021-10, may be helpful to practitioners. FASB ASC 832-10-05-2 indicates "This Topic provides guidance on

disclosures for transactions with a *government* [emphasis added] that are accounted for by applying a *grant* [emphasis added] or contribution accounting model by analogy." (The disclosures include the nature, description, and form of the transactions, per FASB ASC 832-10-50-3a.)

Clarification – Term "Government"

FASB ASC 832-10-15-5 provides a list of example "governments" as well as other types of entities that could administer government assistance. Such a list may not be tantamount to a definition if it's reasonable to presume there could be others. Practitioners may find the guidance in paragraph 1.01 of the AICPA Guide, *State & Local Governments*, helpful in better understanding the definition of a governmental organization, which is either:

- A public corporation (see also footnote 4 to par. 1.01 of the Guide)
- A body corporate and politic
- An organization where the governing body's controlling majority is elected or appointed/approved by one or more state or local governments
- Able to be unilaterally dissolved by a government
- Has the power to enact and enforce a tax levy
- Has the ability to directly issue federal tax-exempt debt

CPEA Observation: It's not uncommon for practitioners to confuse governments with NFPs due to unfamiliarity with the U.S. GAAP definitions of these two different types of entities. Examples of some of the situations seen where the wrong reporting principles were apparently used include:

- A government cemetery, where financial statements were audited by a practitioner, was improperly treated as an NFP. It was a body corporate and politic (i.e., governmental legal entity) per state law
- An NFP volunteer fire district was improperly treated as a government. It met none of the criteria of a government.

Clarification – Term "Grant"

The word "grant" is a name or form of a transaction and does not identify substance. Going all the way back to 1993 and Statement of Financial Accounting Standards 116, *Accounting for Contributions Received and Contributions Made*, the FASB avoids terms such as awards and grants, since those terms can often refer to exchanges.

The FASB has long used the terms gift, donation, and contribution interchangeably to refer to a transaction that is in substance nonreciprocal. Generally, accounting and financial reporting are to be based on the nature or substance of a transaction, not its

name or form. This was reinforced in paragraph BC 3.26 of SFAC 8, Chapter 3 issued in August, 2018, as well as FASB ASC 958-605-55-2.

Practitioners should avoid inter-mixing "form" words like grant with "substance" words like contribution.

The "contribution accounting model" simply refers to the principle that unconditional contributions (ASC 958-605-20) shall be recognized in the period received (ASC 958-605-25-2) at fair value (ASC 958-605-30-2).

Clarification – Scope of ASU 2021-10 (FASB ASC 832)

FASB ASC 832-10-15-2 indicates "the guidance in this Topic applies to all entities except not-for-profit entities and employee benefit plans…" The FASB ASC Notice to Constituents indicates "This Codification is the single source of authoritative nongovernmental U.S. GAAP." This is reinforced by FASB ASC 105, *Generally Accepted Accounting Principles*, specifically FASB ASC 105-10-05-1 (See our CPEA report, *Auditing Disclosures in Governmental and NFP Financial Statements – Are There Material Misstatements Hiding in Plain Sight?*).

Therefore, ASU 2021-10 (FASB ASC 832) does not authoritatively apply to governments. Our experience indicates that some practitioners are uncertain about the applicability of certain principles to governments.

ASU 2018-08 (FASB ASC 958-605)

ASU 2018-08 was issued to assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of FASB ASC 958 or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. We've noted that some practitioners struggle with the application of the guidance in ASU 2018-08 (codified in FASB ASC 958-605) on determining whether a contribution is conditional. FASB ASC 958-605-25-5A indicates that, for a donor-imposed condition to exist, it must have both:

a. One or more barriers that must be overcome before a recipient is entitled to the assets transferred or promised
b. A right of return to the contributor for assets transferred (or for a reduction, settlement, or cancellation of liabilities) or a right of release of the promisor from its obligation to transfer assets (or reduce, settle, or cancel liabilities)

Through our technical inquiry service, we find that practitioners tend to specifically struggle with the definition of a "barrier," related to item "a" above. The term "barrier" is not specifically defined by the FASB; however, FASB ASC 958-605-25-5D provides a

table containing a list of indicators that may be helpful in determining whether an agreement contains a barrier:

- Measurable Performance–Related Barrier or Other Measurable Barrier
- Limited Discretion by the Recipient on the Conduct of an Activity
- Stipulations that are Related to the "Purpose of the Agreement"

The list of indicators does not state it is all inclusive (i.e., there could be other indicators of a barrier).

We encourage practitioners to read our CPEA report on ASU 2018-08 for practical guidance on determining whether a barrier exists.

Passage of Time. Donor stipulations that simply involve the passage of time (and nothing else) do not indicate that a barrier is present. Donor imposed time stipulations, be they temporary (resources can be used only after a specified date) or perpetual (the principal will be maintained in perpetuity, with only the income generated therefrom available for use by a recipient), are indicators of restrictions and not conditions. As indicated in the FASB ASC Master Glossary, an *unconditional* promise to give depends only on passage of time or demand by the promisee for performance. A barrier is something to be overcome, not just the passage of time.

Practice Note: The fact that donors could "change their minds" about contributions does not represent a barrier when determining whether a contribution is conditional.

Illustrations of Determining Whether a Barrier Exists

Presented below are examples of inquiries received by the CPEA about whether a barrier exists in a contribution. These examples illustrate how determining whether a barrier exists is not always clear-cut, and professional judgment needs to be exercised in making a determination. These examples should help practitioners better understand the concept of a barrier. The conclusions reached in the examples below are CPEA observations and other practitioners may come to different reasonable conclusions based on their evaluation of the facts and circumstances.

Example 1

An educational NFP receives a contribution requiring the NFP to prepare a learning course, subject to grantor's approval, and deliver it to 500 students. The grantor is responsible for identifying the students and transporting them to the NFP's facilities. The contribution is subject to termination and refund if the NFP fails to comply with any of the terms and conditions of the grant.

In determining whether this contribution is conditional, is a barrier present?

It appears that barriers may be present. The requirement to teach the course to 500 students may indicate that the NFP's entitlement to the contribution is contingent upon the achievement of a specified level of service – a potential barrier (FASB ASC 958-605-55-17D(a)). Also, the fact that the grantor must approve the course may indicate limited discretion by the recipient on the conduct of the activity – another potential barrier (FASB ASC 958-605-55-17E).

Example 2

An NFP receives a $60,000 grant from the department of transportation (DOT) to purchase a vehicle to transport the elderly. The grant agreement includes a stipulation that the vehicle purchased with the grant be jointly titled to the NFP and the DOT. Further, the vehicle must be used only for transportation of elderly persons for a period of five years. There is no stipulation requiring a minimum number of rides or miles. The grant agreement also requires the NFP to maintain accident and liability insurance on the van and to only use drivers who have a valid chauffeur license and are trained in CPR. The agreement further stipulates that, if the NFP diverts the use of the van to other purposes or sells it at any time over the next five years, it must repay the $60,000 to the DOT.

In determining whether this contribution is conditional, is a barrier present?

A reasonable judgment can be made that the grant agreement contains stipulations about how the transit vehicle is to be used, such as only using the vehicle to transport the elderly and only using drives who meet certain qualifications (limited discretion by the recipient on the conduct of an activity – FASB ASC 958-605-55-17E). As such, those stipulations can be construed as barriers.

Example 3

An NFP receives a $2,000,000 contribution from a corporation to support the NFP's capital campaign. This amount represents the first payment of a five-year pledge and is subject to the approval of the corporation's contributions committee each year. Annual progress reports are also required.

In determining whether this contribution is conditional, is a barrier present?

There does not appear to be a measurable performance related barrier, nor does there appear to be stipulations involving limited discretion by the recipient on the conduct of the activity, nor stipulations that are related to the purpose of the agreement. The annual progress reports appear to be administrative in nature. In this situation, no barriers appear to exist.