Q&A Section 5270

Other Income

.01 Recipient Accounting for Shuttered Venue Operators Grants and Restaurant Revitalization Fund Grants Received Under the Small Business Administration COVID-19 Relief Programs

Inquiry — How should a recipient[1] account for a Shuttered Venue Operators Grant (SVOG) or a Restaurant Revitalization Fund (RRF) Grant issued under the Small Business Administration COVID-19 Relief Programs?[2]

Reply — Under the terms of both the SVOG and RRF grants, recipients are not required to repay the funding as long as funds are used for eligible uses by the dates specified by each respective program.

Business (For-Profit) Entities

There is no explicit guidance within U.S. GAAP on the accounting for government grants to business entities. When selecting the appropriate accounting model to apply to a government grant, a business entity should consider

a. U.S. GAAP guidance on selecting accounting principles for transactions or events for which no guidance exists (FASB *Accounting Standards Codification* [ASC] 105, *Generally Accepted Accounting Principles*);

b. the specific characteristics and facts and circumstances associated with the grant; and

c. any preexisting accounting policies the entity may have established for government grants.

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[1] Please note that publicly traded entities (as defined in the respective grant programs) are not eligible to receive Shuttered Venue Operators Grants (SVOG) or Restaurant Revitalization Fund (RRF) grants. Furthermore, non-profit organizations are not eligible to receive RRF grants.

[2] Please refer to the Small Business Administration website for information regarding the SVOG and RRF grant programs. Also, the AICPA has web pages dedicated to both SVOG and RRF grants, which it is continuously updating.

FASB ASC 105 describes the decision-making framework for determining the guidance to apply when guidance for a transaction or event is not specified within U.S. GAAP.[3] The AICPA staff has observed that guidance in International Accounting Standard (IAS) 20, *Accounting for Government Grants and Disclosure of Government Assistance*, FASB ASC 958-605, *Not-for-Profit Entities — Revenue Recognition*,[4] (discussed in the reply for not-for-profit entities [NFPs]), or FASB ASC 450-30, *Contingencies — Gain Contingencies*, might be considered for application by analogy.

Under the IAS 20 framework, government grants cannot be recognized in income until there is reasonable assurance that a recipient

a. will comply with the conditions associated with the grant and

b. will receive the grant.

Thus, before recognition can occur, a business entity should have received the grant payments (or have reasonable assurance that it will receive grant payments in an amount that can be reliably estimated) and must be reasonably assured of meeting any compliance requirements associated with receiving or retaining the funds. As used in IAS 20, "reasonably assured" is a threshold generally considered analogous to "probable" as defined in FASB ASC 450-20, *Contingencies — Loss Contingencies*.[5]

Under the IAS 20 framework, once there is reasonable assurance that the conditions will be met, the earnings impact is recorded "on a systematic basis over the periods in which the entity recognizes as expenses the related costs for which the grants are intended to compensate."[6] Thus, with respect to the SVOG and RRF grants, grant income would be recognizable only to the extent that the business entity is reasonably assured that eligible expenses have been incurred at a reporting date. Companies will need to evaluate their individual facts and circumstances in evaluating the extent to which compliance with grant conditions is reasonably assured at a given reporting date. If the amount of payments received or receivable at a reporting date exceeds the amount of the grant for which the reasonable assurance threshold has been met, the difference is reported as a refundable advance (that is, a liability).

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[3] FASB *Accounting Standards Codification* (ASC) 105-10-05-2 explains that, in the absence of explicit guidance, entities should first analogize to other areas of authoritative generally accepted accounting principles before considering other nonauthoritative sources.

[4] The issue of business entities analogizing to the guidance in FASB ASC 958-605, *Not-for-Profit Entities — Revenue Recognition*, was discussed by FASB staff at the Private Company Council meeting on April 17, 2020, as well as by the FASB Not-for-Profit Advisory Committee during its meetings on September 13–14, 2018, and April 7, 2020.

[5] The FASB ASC Master Glossary defines *probable* as "[t]he future event or events are likely to occur."

[6] Paragraph 12 of International Accounting Standard (IAS) 20, *Accounting for Government Grants and Disclosure of Government Assistance*.

Under the IAS 20 framework, a grant related to income may be reported either as income or as a reduction in the related expense that the grant is intended to defray.[7]

FASB ASC 450-30 outlines a model for gain contingency recognition. Under this model, the earnings impact of a gain contingency is recognized when all the contingencies related to receipt of the assistance have been met and the gain is realized or realizable. A business entity would record the payments received under the SVOG or RRF grants as a refundable advance (that is, a liability). Those amounts would continue to be reported as a liability until the grant proceeds are realized or realizable, at which time the earnings impact would be recognized.

Regardless of the accounting model it applies, a business entity with material grants should adequately disclose its accounting policy for such grants (as required by FASB ASC 235, *Notes to Financial Statements*), and the impact of the grants on the financial statements.[8]

Not-for-Profit Entities

NFP entities should account for government grants in accordance with the "contributions received" subsections of FASB ASC 958-605, *Not-for-Profit Entities — Revenue Recognition*. That model requires entities to first determine if a contribution is conditional or unconditional. If a recipient is required to meet conditions imposed by the government to be entitled to receive or keep the funds, then the contribution is conditional, and recognition of contribution revenue is deferred until the conditions are substantially met or explicitly waived. An NFP entity cannot factor in the likelihood that the condition will be met in determining whether a grant is conditional or unconditional.

Because entitlement to the payments is conditioned upon having incurred eligible expenses (that is, a barrier to entitlement), and because noncompliance with the terms and conditions is grounds for recoupment by the Small Business Administration (that is, a right of return), the payments would be considered conditional contributions under FASB ASC 958-605. Thus, contribution revenue would be recognized only to the extent that eligible expenses have been incurred at that date.

NFP entities will need to evaluate their individual facts and circumstances in determining the extent to which conditions have been substantially met at a given reporting date. Payment amounts received that exceed recognizable contribution revenue (for example, because entitlement is conditioned on eligible expenses that are expected to be incurred in the subsequent accounting period) are reported as a refundable advance (that is, a liability).

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[7] Paragraph 29 of IAS 20. Grants related to assets have separate presentation requirements under paragraphs 24–28 of IAS 20.
[8] FASB is expected to issue a final Accounting Standards Update in connection with its project on disclosures by business entities about government assistance. At its May 26, 2021 meeting, FASB tentatively decided that these disclosure requirements should apply to a business entity that has accounted for a transaction with a government by analogizing to a grant or a contribution accounting model (for example, IAS 20 or FASB ASC 958-605). Readers should stay alert for further developments and refer to the FASB website for up-to-date information on this project.

To the extent that conditions have been met (and, thus, contribution revenue is recognizable), FASB ASC 958-605 also requires a recipient to consider whether the government has imposed restrictions on the use of the funds. Because the payments can only be used for eligible expenses, they would be considered to be donor-restricted. Due to the linkage of the conditions with the restrictions, restrictions will likely be satisfied simultaneously with meeting the conditions (but each entity's specific facts and circumstances would need to be considered). Thus, in an NFP entity's statement of operations and statement of changes in net assets, any contribution revenue recognized would be reported as an increase in donor-restricted net assets, along with a reclassification to net assets without donor restrictions to reflect the satisfaction of the restriction. However, an NFP entity that has elected one of the "simultaneous release" accounting policy options described in paragraph 4A–B of FASB ASC 958-605-45 (for donor-restricted contributions whose restrictions are met within the same reporting period) would be permitted to report the contribution revenue directly in net assets without donor restrictions.

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