February 28, 2025

Mr. Jackson Day, Technical Director
File Reference No. 2024-ED700
FASB
801 Main Avenue
PO Box 5116
Norwalk, CT 06856-5116

RE: Proposed Accounting Standards Update: *Government Grants (Topic 832)*

Via email: director@fasb.org

Dear Mr. Day:

The North Carolina Association of Certified Public Accountants (NCACPA), representing more than 12,000 members in public practice, industry, government, and education, welcomes the opportunity to respond to the proposed update referenced above. This response represents the views of the NCACPA Accounting & Attestation Resource Group ("Resource Group") with input from the NCACPA staff.

We offer the following response to the request for comments posted in the exposure draft:

Question 1: Is the proposed scope understandable and operable? Please explain why or why not and, if not, what changes you would suggest. Do you 5 agree with the population of government grants included in the scope of the amendments in this proposed Update? Please explain why or why not.

We believe that there should be more clarity in the intended scope application of this proposed standard when a nonprofit entity may be involved as a pass-through entity of government funds to a business. Would the involvement of the nonprofit entity cause the transaction to fall under the scope of Topic 958? But if that same government grant was received directly by the business, would it be accounted for under the scope of Topic 832? If two grants with essentially the same terms and conditions were received by a business entity but one was received from a nonprofit and the other was received from a government, would that require different accounting (i.e., the former under Topic 958 and the latter under Topic 832)? Would that result in economically different outcomes (due to probability assessment rules) for economically similar instruments?

Question 2: Under the proposed amendments, a government grant would be recognized when it is probable that (a) the business entity will comply with the conditions attached to the grant and (b) the grant will be received. Are these proposed amendments clear, operable, and auditable? Please explain why or why not.

We believe that using the term "probable" (as defined in ASC 450-20 and used in ASC 606-10-25-1(e)) is a workable solution. However, due to the extent of subjectivity involved, we also believe that additional examples and implementation guidance should be provided for evaluating when it is "probable" that a condition has been complied with.

Government grants may contain multiple conditions or elements of both a capital grant and an income grant. In addition, the conditions associated with government grants can be subjective or unclear, and determining whether the probable threshold has been met or the timing of when certain conditions are met can be challenging. As a result, diversity in practice could arise since entities must use significant judgment in evaluating such conditions.

For example, the CARES Act's Paycheck Protection Program loans initially included subjective and unclear conditions that the borrower had to meet to qualify for loan forgiveness. Some entities that initially concluded that they met the conditions for forgiveness repaid the loans after the government clarified those conditions. There should be specific examples or application materials on how to evaluate clarifying guidance provided by regulatory agencies that is issued after the end of the reporting period but before the financial statements are issued.

To avoid divergence in practice, we recommend overall providing additional examples and implementation guidance around when "probable" is met in a wider variety of scenarios.

Question 4: The proposed amendments would allow a business entity to elect to recognize and present a grant related to an asset either under the deferred income approach or under the cost accumulation approach.

a. **Is the deferred income approach operable and understandable? Please explain why or why not.**
b. **Is the cost accumulation approach operable and understandable? Please explain why or why not.**
c. **Should there be two approaches to account for a grant related to an asset? Please explain why or why not. If not, what approach do you prefer?**
d. **Should there be separate recognition or presentation requirements (and implementation guidance) for a grant related to a nondepreciable asset (for example, land)? If yes, should the guidance align with IAS 20 or would you suggest an alternative approach and why?**

We believe that the deferred income approach should be the only recognition method for government grants related to assets, rather than the cost accumulation approach which results in a reduction of depreciation expense. We also believe that timing of profit or loss recognition should be the same for grants related to assets and grants related to income.

It is possible that the option to reduce the carrying amount of an asset by the grant amount can result in recording minimal or no asset balance if substantially all the cost of the asset is funded by a government grant. These situations would then necessitate robust disclosure to provide decision-useful information to financial statement users, which may not be cost-beneficial for the financial statement preparer.

We believe that it is unclear if there is a benefit of permitting two different recognition models. This would create another difference between non-profit and for-profit entities with respect to recognition of similar transactions, as non-profits do not have the option for the cost-accumulation approach.

Question 6: Should a business entity be required to initially measure a government grant of a tangible nonmonetary asset (a) at fair value if the deferred income approach is elected and (b) at cost if a cost accumulation approach is elected? Please explain why or why not.

We believe that measurement of the nonmonetary asset and grant at fair value would be preferable because it would provide more decision-useful information. In addition, in other areas of U.S. GAAP (e.g., ASC 958-605), nonmonetary assets received are measured at fair value.

Question 7: If a business entity elects to apply the deferred income approach for a grant related to an asset, the grant would be presented on the balance sheet as deferred income and within earnings either (a) separately under a general heading such as other income or (b) deducted from the related expense. Are these proposed amendments clear, operable, and auditable? Please explain why or why not. Would these presentation options provide decision-useful information? Please explain why or why not.

See response to Question 9.

Question 9: The proposed amendments would require that a grant related to income be presented as part of earnings either (a) separately under a general heading such as other income or (b) deducted from the related expense. Are these proposed amendments clear, operable, and auditable? Please explain why or why not. Would these presentation options provide decision-useful information? Please explain why or why not.

We believe it would be preferable to require consistency in presentation, as financial statement users generally prefer comparability for similar transactions. We have generally seen companies elect the gross presentation as it relates to grants of both assets and income, as it is generally considered to be more relevant and meaningful to the users of the financial statements.

We acknowledge that when given a choice between gross and net presentation, a company's election may depend on the company's specific facts and circumstances (including the nature of the grant and the company's business model). Companies may choose net presentation either to reflect the true economic cost of the related activities or because the company may not have been willing to incur the related costs in the absence of government assistance. In other cases, companies choose gross presentation to provide increased transparency into actual costs incurred and grant income received. However, due to the risk of divergence in practice and to promote the comparability principle underlying general purpose financial statements, we recommend gross presentation as the only alternative.

We do not believe that grants related to assets or grants related to income are fundamentally different. Priority should be placed on consistency and comparability to avoid different recognition criteria for similar transactions.

Question 12: Is the proposed implementation guidance, including the illustrative examples, understandable and operable? If not, please explain how it could be improved. Should additional implementation guidance be provided? If yes, please specify what additional guidance should be provided and why.

See responses above, which include encouragement for additional examples and implementation guidance.

Thank you for the opportunity to submit comments on the proposed update. Please direct any questions or concerns to NCACPA Vice President of Advocacy and Outreach Robert Broome, CAE, at rbroome@ncacpa.org or (919) 481-5160.

Sincerely,

Melisa F. Galasso

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cc: NCACPA Board of Directors
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