



United States Department of Agriculture
Rural Development
Washington, DC 20250

January 7, 2010

SUBJECT: Accounting Guidance for Grants Received from Governments

TO: All Rural Utilities Service Grant Recipients

FROM: KENNETH M. ACKERMAN

A handwritten signature in black ink that reads "Kenneth M. Ackerman".

Assistant Administrator

Program Accounting and Regulatory Analysis

Due to the increased level of grant programs administered by the Rural Utilities Service (RUS) and the numerous requests for information, we are issuing guidance to our grant recipients on appropriate accounting for grants. This guidance will help ensure uniform accounting treatment for grants received from the government and will enable grant applicants and their proforma financial statements to be evaluated fairly and consistently.

Some applicants have erroneously followed the guidance provided in Accounting Standards Codification (ASC) 958, formerly Statement of Financial Accounting Standard No. 116, *Accounting for Contributions Received and Contributions Made*. However, business entities are specifically scoped out of the guidance on accounting for contributions received in ASC Section 958-605-15-6 (d).

The earliest discussion of accounting for grants is found in an Issues Paper published by the American Institute of Certified Public Accountants (AICPA) on October 16, 1979, titled *Accounting for Grants Received from Governments*, prepared by the International Technical Standards Subcommittee (Subcommittee), Accounting Standards Division. This paper addressed the various types of government grants, including but not limited to grants related to current expenditures and grants related to fixed assets. The Subcommittee concluded that the purpose of the government grant plays a role in determining the appropriate accounting treatment and that the periods in which a grantee earns benefits should be taken into consideration when accounting for the receipt of the grant.

The Subcommittee concluded that grants related to expense items should be treated as reductions of the related expenses. If those expenses will occur in future periods, they recommended deferring the grants to those future periods

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and reducing the expenses in those periods. For grants related to fixed assets, the Subcommittee determined that grants related to land should be recognized over the life of the depreciable asset built upon the land and that grants for depreciable fixed assets should be taken to income over the useful lives of the assets.

This guidance results in the best representation of the actual economics of our grant programs and therefore we are recommending the following accounting for the recipients of all government grants whether from Federal, state or local grantors.

Accounting Requirements

1. The following journal entry is used to record receipt of a government grant related to current period expenses:

Dr. Cash	\$XXX,XXX	
Cr. Expense Accounts		\$XXX,XXX

To record the receipt of a government grant related to current expenses.

2. The following journal entries are used to record receipt of a government grant related to expenses to be incurred in future periods:

In the year the grant is received:

Dr. Cash	\$XXX,XXX	
Cr. Deferred Credits		\$XXX,XXX

To record the receipt of a government grant related to expenses in future periods.

In the future period when expenses are incurred:

Dr. Deferred Credits	\$XXX,XXX	
Cr. Expense Accounts		\$XXX,XXX

To properly offset the grant received against expenses incurred.

3. The following journal entries are used to record receipt of a government grant related to fixed assets:

In the year the grant is received:

Dr. Cash	\$XXX,XXX	
Cr. Deferred Revenue		\$XXX,XXX

To record receipt of a government grant related to the purchase or construction of fixed assets.

In the year the fixed asset is put into service and each year after during the useful life of the fixed asset:

Dr. Deferred Revenue	\$XXX	
Cr. Grant Revenue		\$XXX

To record the grant revenue earned by the passage of time (the amount of revenue earned is calculated as $1/n^{th}$ of the original grant where n equals the useful life of the asset purchased or constructed).

The accounting described here is appropriate for all non-regulated business entities and for the non-regulated portions of regulated entities. This guidance is effective when issued and may be applied retroactively in the current accounting period. If you have any questions regarding the accounting for government grants, please contact the Technical Accounting and Auditing Staff at (202) 720-5227 or Diana C. Alger, Chief, Technical Accounting and Auditing Staff at diana.alger@wdc.usda.gov.

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