

To the Point

FASB – final guidance

FASB amends guidance for measuring credit losses on accounts receivable and contract assets

The amended guidance addresses challenges in estimating expected credit losses for current accounts receivable and current contract assets.

What you need to know

- ▶ The FASB amended the guidance in ASC 326 to simplify the estimation of credit losses on current accounts receivable and current contract assets arising from transactions accounted for under ASC 606.
- ▶ The amendments allow all entities to elect a practical expedient to assume that the current conditions as of the balance sheet date will remain unchanged for the remaining life of the asset when developing a reasonable and supportable forecast as part of estimating expected credit losses on these assets.
- ▶ Entities other than PBEs that elect the practical expedient are also allowed to make an accounting policy election to consider collection activity after the balance sheet date when estimating expected credit losses for these assets.
- ▶ Entities are required to disclose their practical expedient and accounting policy elections.
- ▶ The amendments are effective for fiscal years beginning after 15 December 2025, and interim periods within those fiscal years. Early adoption is permitted.

Overview

The Financial Accounting Standards Board (FASB or Board) issued a final **Accounting Standards Update** (ASU)¹ amending Accounting Standards Codification (ASC) 326, *Financial Instruments – Credit Losses*, to provide a practical expedient that all entities can use when estimating expected credit losses for current accounts receivable and current contract assets arising from transactions accounted for under ASC 606, *Revenue from Contracts with*



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Customers. The guidance also allows entities other than public business entities (PBEs) that apply the practical expedient to make an accounting policy election to consider collection activity after the balance sheet date when estimating expected credit losses.

The amended guidance is based on recommendations from the Private Company Council and is intended to address challenges encountered when applying the guidance in ASC 326-20, *Financial Instruments – Credit Losses – Measured at Amortized Cost*, to current accounts receivable and current contract assets. Private company stakeholders said the identification, analysis and documentation of the macroeconomic data needed to develop reasonable and supportable forecasts can often be costly, and such data generally does not have a material effect on the estimate of credit losses for these short-term assets. The Board expanded the scope of the practical expedient to all entities after receiving similar feedback from not-for-profit entities and public companies.

Stakeholders also noted the significant effort and documentation required to estimate expected credit losses for assets that are collected before the financial statements are available to be issued.² Current guidance does not allow entities to consider collection activity after the balance sheet date. In deciding to provide only non-PBEs with an accounting policy election to consider subsequent collection activity, the Board reasoned that such an election would likely not result in a reduction of costs for PBEs because they typically have shorter reporting deadlines and interim reporting requirements.

Key considerations

The amendments apply to current accounts receivable and current contract assets arising from transactions accounted for under ASC 606, including assets acquired in transactions accounted for under ASC 805, *Business Combinations*. Entities are required to use a one-year period as the basis for determining whether a receivable or contract asset is a current asset, unless their operating cycle exceeds 12 months, in which case they would use the longer period.

Practical expedient

ASC 326-20 requires companies to consider available and relevant information in determining credit loss allowances for financial assets. An entity that uses historical loss information in estimating expected credit losses is required to adjust that information to reflect the extent to which management expects current conditions and reasonable and supportable forecasts to differ from the conditions that existed over the historical loss period. Such adjustments often require the assessment of macroeconomic data (e.g., unemployment rates, property values, commodity values).

The amended guidance allows entities to elect a practical expedient to assume the current conditions as of the balance sheet date remain unchanged for the remaining life of the asset in the development of a reasonable and supportable forecast for current accounts receivable and current contract assets arising from transactions accounted for under ASC 606.

Entities electing the practical expedient are still required to adjust historical loss information to reflect current conditions when they are different from the historical loss period. For example, customer-specific factors, such as an individual customer that is experiencing financial distress, are still required to be considered in the expected credit loss estimate, even if the customers are current on existing receivables as of the balance sheet date.

Accounting policy election

The amended guidance also allows entities other than PBEs that elect to apply the practical expedient to make an accounting policy election to consider collection activity that occurs after the balance sheet date but before the financial statements are available to be issued in the estimate of credit losses on current accounts receivable and current contract assets.

An entity that has used the practical expedient and, if applicable, made the accounting policy election is required to disclose that fact.

An entity may select any date for this purpose that is after the balance sheet date but before the financial statements are available to be issued. A change to the date through which an entity considers subsequent collection activity is not a change in an accounting principle in accordance with ASC 250, *Accounting Changes and Error Corrections*.

An entity applying this accounting policy election would not record a credit loss allowance for any current accounts receivable or current contract asset balances that have been collected as of the date that the financial statements are available to be issued (or the alternative date selected by the entity). For any remaining uncollected amounts, the entity would apply the practical expedient to develop its estimate of expected credit losses based on the collection status of those assets as of the date through which collection activity has been considered.

How we see it

Entities using an aging schedule for estimating expected credit losses that make the accounting policy election are permitted to update historical loss rates based on collection activity after the balance sheet date. However, they are required to update the delinquency and aging status of any uncollected amounts through the date they have selected to evaluate collection activity.

Entities using the practical expedient and accounting policy election are required to apply these consistently to all current accounts receivable and current contract assets arising from transactions accounted for under ASC 606.

Disclosures

An entity that has used the practical expedient and, if applicable, made the accounting policy election is required to disclose that fact. In annual reporting periods, a non-PBE that has elected the accounting policy is required to disclose the date through which it has considered subsequent collection activity.

Effective date and transition

The ASU is effective for fiscal years beginning after 15 December 2025, and interim reporting periods within those fiscal years. Early adoption is permitted for both interim and annual financial statements that have not yet been issued or made available for issuance. An entity that adopts the guidance in an interim reporting period is required to apply it as of the beginning of the annual reporting period that includes that interim reporting period.

Entities that elect the practical expedient and, if applicable, make the accounting policy election are required to apply the amendments prospectively. Entities other than PBEs that initially elect the practical expedient and, if applicable, make the accounting policy election after the effective date are not required to perform a preferability assessment in accordance with ASC 250.

Endnotes:

- ¹ ASU-2025-05, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses for Accounts Receivable and Contract Assets*
- ² Under the Master Glossary definition, financial statements “are considered available to be issued when they are complete in a form and format that complies with GAAP and all approvals necessary for issuance have been obtained, for example, from management, the board of directors, and/or significant shareholders. The process involved in creating and distributing the financial statements will vary depending on an entity’s management and corporate governance structure as well as statutory and regulatory requirements.”