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To the Point

FASB — final guidance

FASB issues guidance to clarify, correct errors or make improvements to Codification

The amendments are part of the Board's ongoing project to address stakeholder input and make technical corrections and other changes to US GAAP.

What you need to know

- The FASB issued final guidance to clarify, correct errors in or make other improvements to a variety of topics in the Codification that are intended to make it easier to understand and apply. The amendments apply to all reporting entities in the scope of the affected accounting guidance.
- The amendments, among other things, clarify the guidance in ASC 260 on how to calculate diluted earnings per share when an entity has a loss from continuing operations and a contract that may be settled in stock or cash that is reported as an asset or liability for accounting purposes.
- The guidance is effective for annual reporting periods beginning after 15 December 2026, and interim periods within those annual periods. Entities are required to apply the amendments to ASC 260 retrospectively. All other amendments may be applied prospectively or retrospectively. Early adoption is permitted.

Overview

The Financial Accounting Standards Board (FASB or Board) issued a final **Accounting Standards Update** (ASU) to clarify, correct errors in or make other improvements to a broad range of topics in the Accounting Standards Codification (ASC or Codification), including ASC 260, *Earnings Per Share*; ASC 325, *Investments — Other*; and ASC 958, *Not-for-Profit Entities*. The ASU is part of the Board's ongoing Codification Improvements project to make technical corrections, clarifications and other incremental improvements to US GAAP.

The amendments apply to all reporting entities within the scope of the affected accounting guidance (i.e., both public and nonpublic entities). Generally, the Board does not intend for the amendments to result in significant changes for most entities. However, the amendments may result in accounting changes for some entities.

Key considerations

The amendments address 33 issues in the Codification, including the following:

Issue 1 — Remove the Master Glossary term 'amortized cost'

The ASU removes the term "amortized cost" from the Master Glossary. The term is not currently linked to existing guidance in the Codification and is used interchangeably with the linked and defined Master Glossary term "amortized cost basis" throughout ASC 320-10, *Investments — Debt Securities — Overall*.

Issue 4 — Clarify the calculation of earnings per share when a loss from continuing operations exists

The amendments clarify the guidance in ASC 260 on how to calculate diluted earnings per share (EPS) when an entity has a loss from continuing operations and a contract that may be settled in stock or cash that is reported as an asset or liability for accounting purposes. These types of contracts may require an adjustment to the numerator in the diluted EPS calculation for any changes in income or loss that would result if the contract has been reported as an equity instrument.

The guidance specifies that an entity should consider whether including the potential common shares would have a dilutive effect on the diluted EPS computation by evaluating the combined effect of any numerator and denominator adjustment, even if a loss from continuing operations exists. As a result, diluted EPS would not always be the same as basic EPS when an entity reports a loss from continuing operations.

The guidance also clarifies how to calculate diluted EPS when an entity has a loss in one or more quarters, regardless of whether that entity has year-to-date income or loss from continuing operations.

Issue 6 — Clarify calculation of the reference amount for beneficial interests

The ASU revises (1) the description of the calculation of the reference amount for beneficial interests in ASC 325-40-35-4B to state that the reference amount is reduced by the amount of the allowance for credit losses and (2) in ASC 325-40-35-1 and ASC 325-40-35-4 through 35-4A to clarify the calculation of interest income for beneficial interests. The amendments also remove ASC 325-40-35-10, which references guidance that was superseded as part of the amendments in ASU 2016-13.[1] The reference amount affects the calculation of the accretable yield and, therefore, the recognition of interest income over the life of the beneficial interest.

The amendments address stakeholder questions as to whether the current guidance in ASC 325-40-35-4B, which does not specifically discuss whether the calculation of the reference amount for beneficial interests described in ASC 325-40-35-4 through 35-4A should be reduced by the allowance for credit losses, could result in a double count of credit losses in both the allowance for credit losses and the accretable yield.

In addition, they are responsive to stakeholder feedback that the Board clarify that accretion of the beneficial interest is determined without consideration of the allowance for credit losses (i.e., the effective interest rate is applied to the beneficial interests' amortized cost basis).

The ASU addresses questions about which guidance applies when an entity transfers a receivable for which it has an unconditional right to consideration but has not yet transferred control of a good or service to the customer.

Issue 20 — Clarify guidance for the transfer of receivables from contracts with customers

The ASU clarifies that the transfer of receivables from contracts with customers recognized in accordance with ASC 606, *Revenue from Contracts with Customers*, where the entity's right to the consideration is unconditional, would be subject to the requirements of ASC 860-10, *Transfers and Servicing — Overall*, if the receivable meets the definition of a financial asset.

The amendments address stakeholder questions as to whether ASC 470, *Debt*, or ASC 860 would apply to the transfer of a receivable for which the entity has an unconditional right to consideration from a customer but has not yet transferred control of a good or service to the customer.

Issue 25 — Clarify accounting for certain receivables by not-for-profit entities

The ASU removes paragraph 958-310-35-3 to clarify that all entities, including not-for-profit entities (NFPs), need to measure credit losses on receivables arising from exchange transactions using the guidance in ASC 326-20, *Financial Instruments — Credit Losses — Measured at Amortized Cost*. The superseded guidance required receivables arising from exchange transactions to be reported at net realizable value if the amounts are due within one year.

The Board noted that the recent amendments[2] to ASC 326-20 to simplify the estimation of credit losses on current accounts receivable and current contract assets arising from transactions accounted for under ASC 606 may help reduce implementation costs for NFPs adopting the amendment in Issue 25. Refer to our To the Point publication, ***FASB amends guidance for measuring credit losses on accounts receivable and contract assets***, for more information.

Effective date and transition

The guidance is effective for all entities for annual reporting periods beginning after 15 December 2026, and interim periods within those annual periods. Early adoption is permitted. An entity may elect to early adopt the amendments on an issue-by-issue basis (i.e., an entity may decide to early adopt certain amendments and adopt the remaining amendments at the effective date).

Entities are required to apply the amendments to ASC 260 retrospectively to each prior reporting period presented in the period of adoption. Entities can apply all other amendments in the period of adoption either (1) prospectively to all new transactions recognized on or after the date that the entity first applies the amendments or (2) retrospectively to the beginning of the earliest comparative period presented, with an adjustment to the opening balance of retained earnings (or other appropriate components of equity or net assets in the statement of financial position) as of the beginning of the earliest comparative period presented. An entity may elect the transition method on an issue-by-issue basis (except for the ASC 260 amendments).

Entities are required to make certain transition-related disclosures in accordance with ASC 250, *Accounting Changes and Error Corrections*, for any of the amendments adopted.

How we see it

The amendments to ASC 260, which are required to be retrospectively applied for all periods presented, may result in a change in an entity's diluted EPS calculation if the entity did not previously consider the effect of any numerator adjustments in periods of loss.

While we generally don't expect the amendments to other ASC topics to result in significant changes for most entities, they may affect the application of guidance in certain cases, such as when the original guidance may have been unclear or inconsistent with other issued guidance. Entities should carefully review the ASU to consider how it would affect their accounting.

Endnotes:

[1] ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326)*.

[2] ASU 2025-05, *Financial Instruments — Credit Losses (Topic 326): Measurement of Credit Losses for Accounts Receivable and Contract Assets*.

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