To estimate credit losses, entities need to identify the economic factors that drive credit risk, quantify the effect that current and future economic conditions will have on credit losses, and adjust historical loss rates.

Processes and controls should include monitoring whether an adjustment for future economic conditions is required.

Assets that are in the scope of the model include accounts receivable, consideration receivable from a vendor (i.e., vendor allowances), security and maintenance deposits, (including those related to an operating lease) and insurance receivables. However, operating lease receivables are not in the scope of the model.

The CECL model does not apply to receivables that will be settled in nonfinancial assets. However, contract assets are in scope, even though they are not financial assets.

The standard requires the allowance to reflect the risk of loss, even if the likelihood of the loss is remote.

The CECL model requires assets to be pooled by similar risk characteristics to capture the risk of loss, even when individual assets are not experiencing a deterioration in credit quality. This may be a change for entities that evaluate assets individually. An asset can be individually assessed when it doesn't share risk characteristics with other assets.

Processes and controls need to be implemented to reassess pools on a periodic basis.

For details, refer to our publication, Financial reporting developments, Credit impairment for short-term receivables under ASC 326.