



ACCOUNTING STANDARDS UPDATE

No. 2025-05

July 2025

Financial Instruments—Credit Losses (Topic 326)

Measurement of Credit Losses for Accounts Receivable and Contract Assets

An Amendment of the *FASB Accounting Standards Codification*®

Financial Accounting Standards Board

The *FASB Accounting Standards Codification*® is the source of authoritative generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. An Accounting Standards Update is not authoritative; rather, it is a document that communicates how the Accounting Standards Codification is being amended. It also provides other information to help a user of GAAP understand how and why GAAP is changing and when the changes will be effective.

Copyright © 2025 by Financial Accounting Foundation. All rights reserved. Certain portions may include material copyrighted by American Institute of Certified Public Accountants. Content copyrighted by Financial Accounting Foundation, or any third parties who have not provided specific permission, may not be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, electronic, mechanical, photocopying, recording, or otherwise, without the prior written permission of Financial Accounting Foundation or such applicable third party. Financial Accounting Foundation claims no copyright in any portion hereof that constitutes a work of the United States Government.



Accounting Standards Update

No. 2025-05
July 2025

Financial Instruments—Credit Losses (Topic 326)

Measurement of Credit Losses for Accounts Receivable
and Contract Assets

An Amendment of the *FASB Accounting Standards Codification*®

Financial Accounting Standards Board
801 Main Avenue • Norwalk, CT • 06851

Accounting Standards Update 2025-05

Financial Instruments—Credit Losses (Topic 326)

Measurement of Credit Losses for Accounts Receivable and Contract Assets

July 2025

CONTENTS

	Page Numbers
Summary	1–3
Amendments to the <i>FASB Accounting Standards Codification</i> ®	4–18
Background Information and Basis for Conclusions	19–33
Amendments to the GAAP Taxonomy	34

Summary

Why Is the FASB Issuing This Accounting Standards Update (Update)?

The Board is issuing this Update to address challenges encountered when applying the guidance in Topic 326, Financial Instruments—Credit Losses, to current accounts receivable and current contract assets arising from transactions accounted for under Topic 606, Revenue from Contracts with Customers. The Private Company Council (PCC) initiated this project in response to concerns raised by private company stakeholders.

Stakeholders indicated that identifying, analyzing, and documenting macroeconomic data (such as unemployment rates and property values, among others) as part of developing reasonable and supportable forecasts when estimating expected credit losses for these balances under Subtopic 326-20, Financial Instruments—Credit Losses—Measured at Amortized Cost, can be costly and complex and generally does not have a material effect on the estimate of expected credit losses for short-term assets.

In addition, stakeholders observed that estimating expected credit losses for current accounts receivable and current contract assets that were collected before the date that the financial statements were available to be issued can require significant effort and documentation and can result in recording expected credit losses for amounts that have been subsequently collected. As such, stakeholders noted that the ability to consider collection activity after the balance sheet date when estimating expected credit losses would provide investors and other financial statement users with decision-useful information while significantly reducing complexity for preparers.

To address this feedback, the amendments in this Update introduce a practical expedient for all entities and an accounting policy election for entities other than public business entities related to applying Subtopic 326-20 to current accounts receivable and current contract assets arising from transactions accounted for under Topic 606.

Who Is Affected by the Amendments in This Update?

The amendments in this Update affect entities that apply the practical expedient and accounting policy election (if applicable) when estimating expected credit losses on current accounts receivable and/or current contract assets arising from transactions under Topic 606, including those assets acquired in a transaction accounted for under Topic 805, Business Combinations.

The practical expedient may be applied by all entities, and the accounting policy election may be applied by entities other than public business entities.

What Are the Main Provisions?

The amendments in this Update provide (1) all entities with a practical expedient and (2) entities other than public business entities with an accounting policy election when estimating expected credit losses for current accounts receivable and current contract assets arising from transactions accounted for under Topic 606, as follows:

1. Practical expedient. In developing reasonable and supportable forecasts as part of estimating expected credit losses, all entities may elect a practical expedient that assumes that current conditions as of the balance sheet date do not change for the remaining life of the asset.
2. Accounting policy election. An entity other than a public business entity that elects the practical expedient is permitted to make an accounting policy election to consider collection activity after the balance sheet date when estimating expected credit losses.

How Do the Main Provisions Differ from Current Generally Accepted Accounting Principles (GAAP) and Why Are They an Improvement?

The current credit loss guidance in Topic 326 requires that an entity consider available information that is relevant to assessing the collectibility of cash flows when developing an estimate of expected credit losses. The historical credit loss experience of financial assets with similar risk characteristics generally provides a basis for an entity's assessment of expected credit losses. However,

an entity is required to consider adjustments to that information to reflect the extent to which management expects current conditions and reasonable and supportable forecasts to differ from the conditions that existed for the period over which historical information was evaluated. Those adjustments may be qualitative in nature and should reflect current conditions and forecasted changes related to relevant data (such as changes in unemployment rates, property values, commodity values, delinquency, or other factors that are associated with credit losses on the financial asset or in the group of financial assets). In addition, under current guidance, an entity would not consider collection activity after the balance sheet date when developing its estimate of expected credit losses.

The amendments are expected to provide decision-useful information to investors and other financial statement users while reducing the time and effort necessary to analyze and estimate credit losses for current accounts receivable and current contract assets.

When Will the Amendments Be Effective and What Are the Transition Requirements?

An entity that elects the practical expedient and the accounting policy election, if applicable, should apply the amendments in this Update prospectively.

The amendments will be effective for annual reporting periods beginning after December 15, 2025, and interim reporting periods within those annual reporting periods. Early adoption is permitted in both interim and annual reporting periods in which financial statements have not yet been issued or made available for issuance.

An entity other than a public business entity that elects the practical expedient and, if applicable, the accounting policy election after the effective date would not need to perform a preferability assessment in accordance with paragraph 250-10-45-2.

Amendments to the *FASB Accounting Standards Codification*[®]

Introduction

1. The Accounting Standards Codification is amended as described in paragraphs 2–6. In some cases, to put the change in context, not only are the amended paragraphs shown but also the preceding paragraphs. Terms from the Master Glossary are in **bold** type. Added text is underlined, and deleted text is ~~struck-out~~.

Amendments to Master Glossary

2. Add the following Master Glossary terms to Subtopic 326-20:

Contract Asset

An entity's right to consideration in exchange for goods or services that the entity has transferred to a **customer** when that right is conditioned on something other than the passage of time (for example, the entity's future performance).

Current Assets

Current assets is used to designate cash and other assets or resources commonly identified as those that are reasonably expected to be realized in cash or sold or consumed during the normal operating cycle of the business. See paragraphs 210-10-45-1 through 45-4.

Customer

A party that has contracted with an entity to obtain goods or services that are an output of the entity's ordinary activities in exchange for consideration.

Financial Statements Are Available to Be Issued

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.

Operating Cycle

The average time intervening between the acquisition of materials or services and the final cash realization constitutes an operating cycle.

Amendments to Topic 326

3. Add paragraphs 326-20-30-10A through 30-10H, 326-20-50-12A through 50-12B, and 326-20-55-40A through 55-40Q and the related headings and amend paragraph 326-20-55-17, with a link to a transition paragraph 326-10-65-6, as follows:

Financial Instruments—Credit Losses—Measured at Amortized Cost

Initial Measurement

> Developing an Estimate of Expected Credit Losses

326-20-30-7 When developing an estimate of expected credit losses on financial asset(s), an entity shall consider available information relevant to assessing the collectibility of cash flows. This information may include internal information, external information, or a combination of both relating to past events, current conditions, and reasonable and supportable forecasts. An entity shall consider relevant qualitative and quantitative factors that relate to the environment in which the entity operates and are specific to the borrower(s). When financial assets are evaluated on a collective or individual basis, an entity is not required to search all possible information that is not reasonably available without undue cost and effort. Furthermore, an entity is not required to develop a hypothetical pool of financial assets. An entity may find that using its internal information is sufficient in determining collectibility.

326-20-30-8 Historical credit loss experience of financial assets with similar risk characteristics generally provides a basis for an entity's assessment of expected credit losses. Historical loss information can be internal or external

historical loss information (or a combination of both). An entity shall consider adjustments to historical loss information for differences in current asset specific risk characteristics, such as differences in underwriting standards, portfolio mix, or asset term within a pool at the reporting date or when an entity's historical loss information is not reflective of the contractual term of the financial asset or group of financial assets.

326-20-30-9 An entity shall not rely solely on past events to estimate expected credit losses. When an entity uses historical loss information, it shall consider the need to adjust historical information to reflect the extent to which management expects current conditions and reasonable and supportable forecasts to differ from the conditions that existed for the period over which historical information was evaluated. The adjustments to historical loss information may be qualitative in nature and should reflect changes related to relevant data (such as changes in unemployment rates, property values, commodity values, delinquency, or other factors that are associated with credit losses on the financial asset or in the group of financial assets). Some entities may be able to develop reasonable and supportable forecasts over the contractual term of the financial asset or a group of financial assets. However, an entity is not required to develop forecasts over the contractual term of the financial asset or group of financial assets. Rather, for periods beyond which the entity is able to make or obtain reasonable and supportable forecasts of expected credit losses, an entity shall revert to historical loss information determined in accordance with paragraph 326-20-30-8 that is reflective of the contractual term of the financial asset or group of financial assets. An entity shall not adjust historical loss information for existing economic conditions or expectations of future economic conditions for periods that are beyond the reasonable and supportable period. An entity may revert to historical loss information at the input level or based on the entire estimate. An entity may revert to historical loss information immediately, on a straight-line basis, or using another rational and systematic basis.

326-20-30-10 An entity's estimate of expected credit losses shall include a measure of the expected risk of credit loss even if that risk is remote, regardless of the method applied to estimate credit losses. However, an entity is not required to measure expected credit losses on a financial asset (or group of financial assets) in which historical credit loss information adjusted for current conditions and reasonable and supportable forecasts results in an expectation that nonpayment of the amortized cost basis is zero. Except for the

circumstances described in paragraphs 326-20-35-4 through 35-6, an entity shall not expect nonpayment of the amortized cost basis to be zero solely on the basis of the current value of collateral securing the financial asset(s) but, instead, also shall consider the nature of the collateral, potential future changes in collateral values, and historical loss information for financial assets secured with similar collateral.

• > Practical Expedient and Accounting Policy Election for Current Accounts Receivable and Current Contract Assets

326-20-30-10A An entity may elect the practical expedient described in paragraphs 326-20-30-10C through 30-10D and an entity other than a public business entity may elect the accounting policy described in paragraphs 326-20-30-10E through 30-10H when developing an estimate of expected credit losses on current accounts receivable and current **contract asset** balances arising from transactions accounted for under Topic 606 on revenue from **contracts** with **customers**. This includes those asset balances acquired in a transaction accounted for under Topic 805 on business combinations or recognized through the consolidation of a variable interest entity that is not a business as described in paragraph 810-10-30-3 that arose from transactions that the acquiree or variable interest entity accounted for under Topic 606.

326-20-30-10B When elected, the practical expedient and accounting policy election shall be applied consistently to all current accounts receivable and current contract assets described in paragraph 326-20-30-10A. When determining whether an accounts receivable or contract asset balance is a **current asset**, an entity should use a one-year period unless an entity's **operating cycle** exceeds 12 months, in which case the longer period shall be used (see paragraph 210-10-45-3).

• • > Practical Expedient

326-20-30-10C For assets described in paragraph 326-20-30-10A, an entity may elect a practical expedient to assume that current conditions as of the balance sheet date do not change for the remaining life of the asset.

326-20-30-10D When developing an estimate of expected credit losses for assets to which the practical expedient is applied, an entity shall continue to adjust historical loss information to reflect current conditions to the extent that historical loss information does not reflect current conditions. For example, an entity that has identified an individual customer that is experiencing financial

distress would consider that information in its estimate of expected credit losses for that customer even if that information has not yet affected its historical loss experience (that is, even if the customer has not defaulted as of the balance sheet date). Similarly, an entity that has expanded its credit policies before the balance sheet date to offer credit to lower-credit-quality customers would consider that information in its estimate of expected credit losses even if that change has not yet affected its historical loss experience (that is, even if the new, lower-credit-quality customers have not defaulted as of the balance sheet date). As another example, if an entity determined that economic conditions as of the balance sheet date were different from the conditions that existed over the period during which historical data were collected because of the onset of a severe economic recession before the balance sheet date, the entity should consider whether an adjustment to historical loss information is necessary. See paragraph 326-20-50-12A for related disclosure requirements and paragraphs 326-20-55-40A through 55-40Q for an illustrative Example.

• • > Accounting Policy Election

326-20-30-10E An entity other than a **public business entity** that elects the practical expedient in paragraphs 326-20-30-10C through 30-10D may also elect an accounting policy when estimating expected credit losses to consider collection activity after the balance sheet date but before the entity's **financial statements are available to be issued** (or before any alternative date selected by the entity that is after the balance sheet date but before the financial statements are available to be issued). For example, under this accounting policy election, the allowance for credit losses related to those asset balances described in paragraph 326-20-30-10A that are collected before an entity's financial statements are available to be issued (or before the alternative date selected by the entity) would be zero. See paragraphs 326-20-50-12A through 50-12B for specific disclosure requirements applicable to this accounting policy election.

326-20-30-10F An entity other than a public business entity that applies the practical expedient and the accounting policy election shall estimate its expected credit losses on current accounts receivable and current contract asset balances in the following sequence:

- a. The entity shall first consider subsequent collections of those asset balances described in paragraph 326-20-30-10A that were outstanding as of the balance sheet date. No credit loss allowance shall be recorded

for asset balances that have been collected before the financial statements are available to be issued (or before the alternative date selected by the entity).

- b. The entity shall then evaluate any remaining uncollected amounts as of the date that the financial statements are available to be issued (or as of the alternative date selected by the entity) using the practical expedient in paragraphs 326-20-30-10C through 30-10D. That evaluation shall be based on the delinquency status of those uncollected balances as of the date that the financial statements are available to be issued (or the alternative date selected by the entity). See paragraphs 326-20-55-40J through 55-40Q for an illustrative Example.

326-20-30-10G For entities estimating expected credit losses using an aging schedule (as illustrated in paragraphs 326-20-55-37 through 55-40Q), an entity other than a public business entity that elects to consider subsequent collection activity is permitted, but not required, to update historical loss rates for collection activity after the balance sheet date when determining the allowance for credit losses for amounts outstanding as of the balance sheet date that remain uncollected as of the date that the financial statements are available to be issued (or the alternative date selected by the entity).

326-20-30-10H A change in the date through which an entity considers subsequent collection activity when applying the accounting policy election is not a change in an accounting principle in accordance with Topic 250 on accounting changes and error corrections.

Disclosure

> Allowance for Credit Losses

• > Practical Expedient and Accounting Policy Election for Current Accounts Receivable and Current Contract Assets

326-20-50-12A An entity shall disclose that it has elected the practical expedient described in paragraphs 326-20-30-10C through 30-10D or, for an entity other than a public business entity, that it has elected both the practical expedient and the accounting policy election described in paragraphs 326-20-30-10E through 30-10H.

326-20-50-12B In annual reporting periods, an entity other than a public

business entity that has elected the accounting policy described in paragraphs 326-20-30-10E through 30-10H shall disclose the date through which it has considered subsequent collection activity.

Implementation Guidance and Illustrations

> Illustrations

326-20-55-17 The following Examples illustrate certain initial and subsequent measurement guidance in this Subtopic to account for expected credit losses on financial assets:

- a. Example 1: Estimating expected credit losses using a loss-rate approach (collective evaluation)
- b. Example 2: Estimating expected credit losses using a loss-rate approach (individual evaluation)
- c. Example 3: Estimating expected credit losses on a vintage-year basis
- d. Example 4: Estimating expected credit losses using both a collective method and an individual asset method
- e. Example 5: Estimating expected credit losses for trade receivables using an aging schedule
- ee. Example 5A: Practical expedient and accounting policy election for estimating expected credit losses on current accounts receivable and current **contract assets**

[The remainder of this paragraph is not shown here because it is unchanged.]

• > Example 5A: Practical Expedient and Accounting Policy Election for Estimating Expected Credit Losses on Current Accounts Receivable and Current Contract Assets

326-20-55-40A This Example illustrates how to apply the practical expedient and accounting policy election for estimating credit losses on current accounts receivable and current contract assets arising from transactions accounted for under Topic 606 on revenue from **contracts** with **customers** in accordance with paragraphs 326-20-30-10A through 30-10H. The accounting policy election to consider subsequent collection activity described in paragraphs 326-20-30-10E through 30-10H is applicable only to entities other than **public**

business entities. Assume that Entity R is not a public business entity and does not have any contract assets.

326-20-55-40B Entity R manufactures and sells products to a broad range of customers that are primarily retail stores. Entity R provides customers with payment terms of 30 days. Entity R recognizes revenue and corresponding accounts receivable related to the sale of products in accordance with Topic 606 (referred to as “receivable(s)” in the remainder of this Example). Entity R monitors payment activity and, for purposes of estimating expected credit losses, classifies outstanding receivables on the basis of the number of days past due (delinquency) when a receivable has not been collected in accordance with the payment terms. Delinquent receivables are assessed to determine whether they continue to share similar risk characteristics with other receivables in the portfolio. Entity R uses its historical collection information to calculate a credit loss rate for each portfolio segment of receivables.

326-20-55-40C On December 31, 20X0, the outstanding balance and historical credit loss rates for each portfolio segment of Entity R’s receivables are as follows.

[For ease of readability, the new table is not underlined.]

Past-Due Status	Outstanding Receivables Balance	Credit Loss Rate
Current	\$ 5,984,698	0.3%
1–30 days past due	8,272	8%
31–60 days past due	2,882	26%
61–90 days past due	841	58%
91–120 days past due	554	82%
More than 120 days past due	342	99%
Total	<u>\$ 5,997,589</u>	

326-20-55-40D Entity R has determined that its historical loss rates are a reasonable basis on which to estimate expected credit losses for outstanding receivables because of the similar risk characteristics of its customers (paragraph 326-20-30-8) and because its payment terms have not changed significantly over time. Management determined that current conditions as of the balance sheet date are consistent with conditions that existed during the period that historical data were collected.

• • > **Case 1: Election of Practical Expedient**

326-20-55-40E Entity R elects the practical expedient in paragraphs 326-20-30-10C through 30-10D to estimate expected credit losses related to its receivables classified as current in accordance with paragraph 210-10-45-3. The practical expedient allows Entity R to assume that current conditions as of the balance sheet date do not change for the remaining life of the assets. Entity R has determined that the current conditions as of the balance sheet date are consistent with those conditions that existed during the period that the historical data were collected. Accordingly, Entity R determines that no adjustment to its historical loss information is necessary. Entity R develops its estimate of expected credit losses as follows.

[For ease of readability, the new table is not underlined.]

Past-Due Status	Outstanding Receivables Balance	Credit Loss Rate	Expected Credit Loss Estimate
Current	\$ 5,984,698	0.3%	\$ 17,954
1–30 days past due	8,272	8%	662
31–60 days past due	2,882	26%	749
61–90 days past due	841	58%	488
91–120 days past due	554	82%	454
More than 120 days past due	342	99%	339
Total	<u>\$ 5,997,589</u>		<u>\$ 20,646</u>

326-20-55-40F Entity R discloses that it has elected the practical expedient to assume that current conditions as of the balance sheet date do not change for the remaining life of the assets in accordance with the requirement in paragraph 326-20-50-12A.

• • > **Case 2: Application of Practical Expedient When Receivable Does Not Share Similar Characteristics**

326-20-55-40G Assume the same facts and circumstances as Case 1, except that Entity R has an outstanding receivable balance of \$2,000 aged 30-days past due at the balance sheet date from Customer S, who filed for bankruptcy on December 15, 20X0. The entirety of the balance is not expected to be collected. As a result, Entity R determines that the receivable due from Customer S no longer shares similar risk characteristics with receivables due

from other customers. Therefore, Entity R measures expected credit losses from Customer S individually.

326-20-55-40H Entity R has not identified other information that is expected to affect the collectibility of the remaining portfolio of receivables and estimates expected credit losses on the remaining portfolio collectively using the practical expedient. Entity R develops its estimate of expected credit losses as follows.

[For ease of readability, the new table is not underlined.]

<u>Past-Due Status</u>	<u>Outstanding Receivables Balance</u>	<u>Credit Loss Rate</u>	<u>Expected Credit Loss Estimate</u>
Current	\$ 5,984,698	0.3%	\$ 17,954
1–30 days past due	6,272 ^(a)	8%	502
31–60 days past due	2,882	26%	749
61–90 days past due	841	58%	488
91–120 days past due	554	82%	454
More than 120 days past due	342	99%	339
Collectively assessed subtotal	5,995,589		20,486
Individually assessed subtotal (Customer S)	2,000		2,000
Total	<u>\$ 5,997,589</u>		<u>\$ 22,486</u>

(a) Outstanding receivable balance reduced by \$2,000 to reflect individual assessment of Customer S.

326-20-55-40I Entity R discloses that it has elected the practical expedient to assume that current conditions as of the balance sheet date do not change for the remaining life of the assets in accordance with the requirement in paragraph 326-20-50-12A.

• • > Case 3: Practical Expedient Accompanied by Accounting Policy Election—Entity R Selects March 1 as Evaluation Date for Subsequent Collection Activity

326-20-55-40J Assume the same facts and circumstances as Case 1, except that Entity R also elects to consider collection activity after the balance sheet date when estimating expected credit losses (that is, it elects to apply the accounting policy election in paragraphs 326-20-30-10E through 30-10H). Entity R considers collection activity through March 1, 20X1, which is the date that the **financial statements are available to be issued**.

326-20-55-40K Entity R has not identified other information that is expected to affect the collectibility of its receivables other than the collection activity detailed

in paragraph 326-20-55-40L. Entity R has not updated its historical credit loss rates for collection activity after the balance sheet date.

326-20-55-40L Entity R's December 31, 20X0 financial statements are available to be issued on March 1, 20X1. Entity R has observed the following subsequent collection activity for all outstanding receivables as of the balance sheet date (December 31, 20X0).

[For ease of readability, the new table is not underlined.]

Balance Sheet Date 12/31/20X0		Date The Entity Has Selected To Consider Subsequent Collection Activity 3/1/20X1			
Past-Due Status	Outstanding Receivables Balance	Collections between Balance Sheet Date and 3/1/20X1	Remaining Balance Uncollected	Past-Due Status	Expected Credit Loss Estimate
Current	\$ 5,984,698	\$ (5,925,118)	\$ 59,580	31–60 days past due	26% \$ 15,491
1–30 days past due	8,272	(3,676)	4,596	61–90 days past due	58% 2,666
31–60 days past due	2,882	(441)	2,441	91–120 days past due	82% 2,002
61–90 days past due	841	(300)	541	More than 120 days past due	99% 536
91–120 days past due	554	(149)	405	More than 120 days past due	99% 401
More than 120 days past due	342	(43)	299	More than 120 days past due	99% 296
Total	\$ 5,997,589	\$ (5,929,727)	\$ 67,862		\$ 21,392

(a) Credit loss rate based on the collection status as of the date the entity has selected to consider subsequent collection activity.

Entity R develops its estimate of expected credit losses by determining which receivables have been collected between the balance sheet date and the date that the entity has selected to consider subsequent collection activity (in this Case, March 1, 20X1) and by recognizing an allowance for the amounts that are uncollected based on its historical loss rates as of the balance sheet date that correspond to the uncollected balance's delinquency status as of the date the entity has selected to consider subsequent collection activity (in this Case, March 1, 20X1).

326-20-55-40M Entity R discloses that it has elected the practical expedient to assume that current conditions as of the balance sheet date do not change for the remaining life of the assets and the accounting policy election to consider subsequent collection activity, along with the date through which collection activity was considered (in this Case, March 1, 20X1), in accordance with the requirements in paragraphs 326-20-50-12A through 50-12B.

• • > Case 4: Practical Expedient Accompanied by Accounting Policy Election—Entity R Selects May 31 as Evaluation Date for Subsequent Collection Activity

326-20-55-40N Assume the same facts and circumstances as Case 1, except that Entity R also elects to consider collection activity after the balance sheet

date when estimating expected credit losses (that is, it elects to apply the accounting policy election in paragraphs 326-20-30-10E through 30-10H). Entity R considers subsequent collection activity through May 31, 20X1.

326-20-55-40O Entity R has not identified other information that is expected to affect the collectibility of its receivables other than the collection activity detailed in paragraph 326-20-55-40P. Entity R has not updated its historical credit loss rates for collection activity after the balance sheet date.

326-20-55-40P Entity R's December 31, 20X0 financial statements are available to be issued on June 15, 20X1. As of May 31, 20X1, Entity R has observed the following collection activity for outstanding receivables as of the balance sheet date (December 31, 20X0).

[For ease of readability, the new table is not underlined.]

Balance Sheet Date			Date The Entity Has Selected To Consider Subsequent Collection Activity			
12/31/20X0			5/31/20X1			
Past-Due Status	Outstanding Receivables Balance	Collections between Balance Sheet Date and 5/31/20X1	Remaining Balance Uncollected	Past-Due Status	Credit Loss Rate ^(a)	Expected Credit Loss Estimate
Current	\$ 5,984,698	\$ (5,968,449)	\$ 16,249	More than 120 days past due	99%	\$ 16,087
1-30 days past due	8,272	(8,272)	-	More than 120 days past due	99%	-
31-60 days past due	2,882	(2,279)	603	More than 120 days past due	99%	597
61-90 days past due	841	(623)	218	More than 120 days past due	99%	216
91-120 days past due	554	(289)	265	More than 120 days past due	99%	262
More than 120 days past due	342	(145)	197	More than 120 days past due	99%	195
Total	\$ 5,997,589	\$ (5,980,057)	\$ 17,532			\$ 17,357

(a) Credit loss rate based on the collection status as of the date the entity has selected to consider subsequent collection activity.

As part of the estimate of expected credit losses, Entity R applies a credit loss rate of 99 percent to the receivables that are uncollected as of the date through which it considers subsequent collection activity (in this Case, May 31, 20X1) because all remaining amounts have been outstanding for more than 120 days.

326-20-55-40Q Entity R discloses that it has elected the practical expedient to assume that current conditions as of the balance sheet date do not change for the remaining life of the assets and the accounting policy election to consider subsequent collection activity, along with the date through which collection activity was considered (in this Case, May 31, 20X1), in accordance with the requirements in paragraphs 326-20-50-12A through 50-12B.

4. Add paragraph 326-10-65-6 and its related heading as follows:

Financial Instruments—Credit Losses—Overall

Transition and Open Effective Date Information

> Transition Related to Accounting Standards Update No. 2025-05, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses for Accounts Receivable and Contract Assets*

326-10-65-6 The following represents the transition and effective date information related to Accounting Standards Update No. 2025-05, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses for Accounts Receivable and Contract Assets*:

Effective date and early adoption

- a. All entities shall apply the pending content that links to this paragraph for annual reporting periods beginning after December 15, 2025, and interim reporting periods within those annual reporting periods.
- b. Early adoption of the pending content that links to this paragraph is permitted in both interim and annual reporting periods in which financial statements have not yet been issued or made available for issuance. If an entity adopts the pending content that links to this paragraph in an interim reporting period, it shall apply the pending content as of the beginning of the annual reporting period that includes that interim reporting period.

Transition method

- c. An entity shall apply the pending content that links to this paragraph prospectively to estimates of expected credit losses on asset balances described in paragraph 326-20-30-10A performed after the date of adoption.
- d. An entity other than a public business entity that elects the practical expedient and, if applicable, the accounting policy election after the effective date would not need to perform a preferability assessment in accordance with paragraph 250-10-45-2.

Amendments to Status Sections

5. Amend paragraph 326-10-00-1, by adding the following item to the table, as follows:

326-10-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
326-10-65-6	Added	2025-05	07/30/2025

6. Amend paragraph 326-20-00-1, by adding the following items to the table, as follows:

326-20-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Contract Asset	Added	2025-05	07/30/2025
Current Assets	Added	2025-05	07/30/2025
Customer	Added	2025-05	07/30/2025
Financial Statements Are Available to Be Issued	Added	2025-05	07/30/2025
Operating Cycle	Added	2025-05	07/30/2025
326-20-30-10A through 30-10H	Added	2025-05	07/30/2025
326-20-50-12A	Added	2025-05	07/30/2025
326-20-50-12B	Added	2025-05	07/30/2025

Paragraph	Action	Accounting Standards Update	Date
326-20-55-17	Amended	2025-05	07/30/2025
326-20-55-40A through 55-40Q	Added	2025-05	07/30/2025

The amendments in this Update were adopted by the unanimous vote of the seven members of the Financial Accounting Standards Board:

Richard R. Jones, *Chair*
Hillary H. Salo, *Vice Chair*
Christine A. Botosan
Frederick L. Cannon
Susan M. Cospers
Marsha L. Hunt
Dr. Joyce T. Joseph

Background Information and Basis for Conclusions

Introduction

BC1. The following summarizes the Board's considerations in reaching the conclusions in this Update. It includes the Board's basis for endorsing the PCC's conclusions and the Board's basis for expanding certain provisions to other entities. Individual Board members gave greater weight to some factors than others. The PCC's input was critical in identifying this issue, and private company stakeholders provided the Board with valuable feedback throughout deliberations and the exposure period.

BC2. In September 2024, the PCC added a project to its technical agenda to address challenges encountered when applying the guidance in Topic 326 to current accounts receivable and current contract assets arising from transactions accounted for under Topic 606. Private company stakeholders indicated that estimating expected credit losses for current accounts receivable and current contract assets under Subtopic 326-20 on an ongoing basis may be overly burdensome because of the short-term nature of those assets. In addition, stakeholders indicated that applying the current guidance generally does not result in a materially different estimate of expected credit losses than if the estimate was based on historical loss information. The Board received similar feedback from not-for-profit entities and public companies about the challenges associated with applying Topic 326 to those assets. In addition, stakeholders observed that estimating expected credit losses for current accounts receivable and current contract assets that were collected after the balance sheet date but before the financial statements were available to be issued can require significant effort and documentation and can result in recording expected credit losses for amounts that have been subsequently collected.

BC3. To address stakeholder feedback, the PCC decided to provide private companies with a practical expedient and an accounting policy election to improve the operability of the guidance in Subtopic 326-20 for current accounts receivable and current contract assets arising from transactions accounted for under Topic 606. In October 2024, the Board endorsed the PCC's decision and decided to expand the scope of the project to include current accounts

receivable and current contract assets arising from transactions accounted for under Topic 606 held by not-for-profit entities (excluding not-for-profit entities that have issued, or are conduit bond obligors for, securities that are traded, listed, or quoted on an exchange or over-the-counter market).

BC4. On December 3, 2024, the Board issued proposed Accounting Standards Update, *Financial Instruments—Credit Losses (Topic 326)—Measurement of Credit Losses for Accounts Receivable and Contract Assets for Private Companies and Certain Not-for-Profit Entities*, for public comment with the comment period ending on January 17, 2025. The Board received 29 comment letters.

BC5. Most comment letter respondents supported the amendments in the proposed Update, with a few exceptions. Comment letter respondents that supported the proposed amendments generally stated that the proposed amendments would improve an entity's ability to apply Topic 326 to the short-term assets within the proposed amendments' scope and agreed that the amendments were clear and operable. Respondents that did not support the proposed amendments expressed concern that the proposed amendments may not adequately address stakeholders' feedback, questioned whether the amendments would be operable, and stated that the amendments may be inconsistent with certain other areas of GAAP.

BC6. In March 2025, the PCC evaluated the comment letter feedback received on the proposed Update. The PCC made decisions on the asset scope, practical expedient, accounting policy election, disclosures, transition, and effective date. In April 2025, the Board endorsed those PCC decisions. In addition, the Board decided to expand the scope of the practical expedient to all entities, while retaining a narrower scope for the accounting policy election (that is, only for entities other than public business entities). The PCC played a key role in identifying the issue and deliberating the amendments, and, generally, the Board's considerations in this Update are consistent with the PCC's considerations in reaching its decisions.

Background Information

BC7. Current credit loss guidance in Topic 326 requires that when developing an estimate of expected credit losses, an entity should consider available information relevant to assessing the collectibility of cash flows. This

information may include internal information, external information, or a combination of both relating to past events, current conditions, and reasonable and supportable forecasts. The historical credit loss experience of financial assets with similar risk characteristics generally provides a basis for an entity's assessment of expected credit losses. However, when an entity uses historical loss information, it is required to consider the need 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 for the period over which historical information was evaluated. Those adjustments may be qualitative in nature and reflect changes related to relevant data (such as changes in unemployment rates, property values, commodity values, delinquency, or other factors that are associated with credit losses).

BC8. Stakeholders observed that identifying, analyzing, and documenting macroeconomic data (such as unemployment rates and real estate values, among others) as part of developing a reasonable and supportable forecast can be costly and generally does not have a material effect on the allowance for short-term assets. In certain instances, the limited availability of relevant economic data, such as the unemployment rate in the local area where an entity operates, makes it more challenging to apply the current expected credit loss (CECL) guidance.

Benefits and Costs

BC9. The objective of financial reporting is to provide information that is useful to existing and potential investors, creditors, donors, and other capital market participants in making rational investment, credit, and similar resource allocation decisions. However, the benefits of providing information for that purpose should justify the related costs. The *Private Company Decision Making Framework: A Guide for Evaluating Financial Accounting and Reporting for Private Companies*, augments the existing FASB Conceptual Framework for Financial Reporting to provide additional considerations in making user-relevance and cost-benefit evaluations for private companies. The Board and the PCC's assessment of the costs and benefits of issuing new guidance is unavoidably more qualitative than quantitative because there is no method to objectively measure the costs to implement new guidance or to quantify the value of improved information in financial statements.

BC10. The Board and the PCC considered the expected benefits and the expected costs of the practical expedient and the accounting policy election and determined that users will receive decision-useful information at a reduced cost to preparers and practitioners.

BC11. The Board expects that the amendments in this Update will reduce uncertainty inherent in developing reasonable and supportable forecasts, simplify the process of preparing the estimate of expected credit losses, and eliminate the need for certain documentation. The Board did not identify significant additional costs of applying the practical expedient because an entity would no longer be required to identify, analyze, or document macroeconomic data, such as changes in unemployment rates, property values, commodity values, or other economic factors after the balance sheet date as part of developing a reasonable and supportable forecast. The Board decided that the benefits of allowing all entities to apply the practical expedient would justify the expected costs.

BC12. The Board expects that the accounting policy election to consider subsequent collection activity after the balance sheet, which is applicable only to entities other than public business entities, will result in estimates of expected credit losses that are based on information that is more relevant, timely, and objective. The Board expects the outcome of applying the accounting policy election to be useful for investors and other users of private company financial statements because no estimate of expected credit losses would be recorded for amounts that are collected as of the date the financial statements are issued or made available for issuance (or as of the alternative date selected by an entity). The Board expects limited incremental costs of applying the accounting policy election, including costs to incorporate information about the collection of receivables after the balance sheet date into the estimate of expected credit losses. Therefore, the Board expects that the amendments in this Update related to the accounting policy election will reduce the cost of applying the expected credit loss guidance for entities other than public business entities. The Board concluded that the benefits of the accounting policy election justify the expected costs for entities other than public business entities.

BC13. In analyzing the expected benefits and the expected costs of the amendments in this Update to private companies and their users, the Board and the PCC considered factors from the Private Company Decision-Making

Framework. That analysis included determining whether, based on relevance to users, the practical expedient and accounting policy election will benefit private companies and their users. The Board and the PCC agreed that, consistent with the Framework, the practical expedient and accounting policy election will provide decision-useful information to investors and other users of private company financial statements while reducing the time and effort necessary for private companies to estimate expected credit losses for assets within the scope of the amendments.

Basis for Conclusions

Scope—Entities

BC14. The PCC and private company stakeholders provided feedback that Topic 326 was difficult to apply to current accounts receivable and current contract assets arising from transactions accounted for under Topic 606 and that applying Topic 326 generally does not result in a materially different estimate of the expected credit losses than if the estimate had been based on historical loss information. In addition, not-for-profit entity stakeholders, including the Board's Not-for-Profit Advisory Committee, communicated similar concerns.

BC15. In response to that feedback, the Board decided that the amendments in the proposed Update would apply to private companies and not-for-profit entities (excluding not-for-profit entities that have issued, or are conduit bond obligors for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market).

BC16. Comment letter respondents noted that the scope of entities that were able to apply the amendments in the proposed Update was too narrow. Respondents suggested expanding the scope of the amendments in the final Update to all not-for-profit entities, including not-for-profit entities that have issued, or are conduit bond obligors for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market. Respondents indicated that those entities are similar to other not-for-profit entities because they also have limited resources for accounting and financial reporting and longer reporting timelines such that the accounting policy election to consider subsequent cash collections would be meaningful. Therefore, the Board decided to expand the scope to permit all not-for-profit entities to apply the

practical expedient and accounting policy election in the amendments in the final Update.

BC17. In addition, the Board also received feedback on expanding the scope of the practical expedient to public business entities. Comment letter respondents noted that, similar to private companies and not-for-profit entities, it is costly to apply Topic 326 to current accounts receivable and current contract assets for public business entities. In addition, developing reasonable and supportable forecasts, including identifying, analyzing, and documenting macroeconomic data, generally does not have a material effect on the estimate of expected credit losses for short-term assets for public business entities. This feedback had also been previously discussed as part of the post-implementation review process of Accounting Standards Update No. 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The Board observed that this guidance is specific to certain types of assets, rather than specific to certain types of entities, and that the nature of those assets does not differ significantly between public business entities and other types of entities. Therefore, the Board decided to expand the scope of the practical expedient to all entities.

BC18. However, the Board concluded that the accounting policy election to consider subsequent collection activity should be limited to entities other than public business entities. The Board concluded that because public business entities typically have shorter reporting deadlines and interim reporting requirements, the accounting policy election to consider subsequent collection activity would likely not result in a reduction of costs for those entities.

BC19. The Board also decided to use the terms *public business entity* and *entities other than public business entities* to define the scope of the amendments in this Update. The scope of the practical expedient was expanded to all entities, and the scope of the accounting policy election was expanded to entities other than public business entities, which includes employee benefit plans and all not-for-profit entities.

Scope—Assets

BC20. On the basis of feedback received by the PCC and private company stakeholders about the cost and complexity of applying Topic 326 to short-term assets, the Board decided that the amendments in the proposed Update should

apply to current accounts receivable and current contract assets arising from transactions accounted for under Topic 606.

BC21. Comment letter respondents stated that the scope of the proposed amendments should be expanded to include current accounts receivable and current contract assets acquired in a business combination accounted for under Topic 805 including assets recognized in the consolidation of a variable interest entity that is not a business. The Board agreed with those respondents, noting that expanding the scope of the amendments in this Update to include those assets would promote consistency in applying Topic 326 regardless of how the assets were generated (that is, whether the assets are originated through sales in the normal course of operations or acquired).

BC22. In addition, the Board notes that, as a result of including acquired current accounts receivable and current contract assets in the scope of the amendments, the allowance for expected credit losses for current accounts receivable and current contract assets does not need to be tracked or measured differently from the allowance for expected credit losses for other current accounts receivable or current contract assets after the acquisition date. Some Board members emphasized that because Topic 805 requires acquired accounts receivable to be recorded at fair value, which would incorporate an entity's evaluation of amounts that are not expected to be collected, any incremental allowance for credit losses under Topic 326 upon acquisition is often insignificant.

BC23. The Board previously considered the accounting for acquired contract assets and received feedback that it is unclear whether establishing an allowance for expected credit losses for contract assets under Topic 326 is required at the acquisition date. The amendments in this Update address *how* an entity should determine an estimate of expected credit losses for acquired contract assets; however, the amendments do not address *when* that allowance should be established. Consistent with previous feedback, the Board believes that the accounting for expected credit losses in accordance with Topic 326 for acquired contract assets is not a significant issue for most entities.

BC24. Some comment letter respondents indicated that the types of assets included in the scope of the amendments in the proposed Update should be expanded to include certain other short-term assets that are perceived to have limited credit risk. Specifically, some comment letter respondents suggested

including contributions receivable for employee benefit plans. Those respondents asserted that contributions receivable are similar in nature to current accounts receivable and current contract assets arising from transactions accounted for under Topic 606. Other comment letter respondents suggested including insurance premiums receivable in the scope of the proposed amendments, noting that insurance premiums receivable are short-term in nature and have a low collection risk because the insurance provider can cancel the customer's insurance policy if premiums become past due. While some Board members were sympathetic to those arguments, the Board decided that other types of receivables, such as short-term loan receivables, insurance premiums receivables, employer contributions receivables for employee benefits plans, and other short-term assets have different risks. Thus, expanding the scope of the amendments to those assets could have unintended consequences.

BC25. Receivables that arise from other Topics that reference Topic 606 are not included in the scope of the amendments in this Update (for example, transactions accounted for under Subtopic 610-20, Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets). A few comment letter respondents indicated that the proposed amendments required further clarification or references to other Topics, specifically related to the term *receivable* in Topic 606. The term *accounts receivable* as used in the amendments is intended to be consistent with the term *receivable* as discussed in paragraph 606-10-45-4. The targeted scope is intended to avoid potential unintended consequences resulting from applying the amendments to assets arising from nonrevenue transactions. The Board considered that transactions other than those accounted for under Topic 606 are more varied in nature, and, therefore, the practical expedient and accounting policy election may not be appropriate.

BC26. The amendments in this Update apply to current accounts receivable and current contract assets, consistent with balance sheet classification guidance related to those amounts. Determining whether a contract asset is a current asset should be based on when that contract asset is expected to be realized, rather than when that contract asset is expected to be converted to a receivable. The Board decided to limit the scope of the amendments to current accounts receivable and current contract assets to exclude longer term assets with a significant financing component between the company and customer. The Board also decided that the estimate of expected credit losses on

noncurrent assets may be more affected by macroeconomic factors because they have a longer remaining life.

BC27. The Master Glossary defines *current assets* as follows:

Current assets is used to designate cash and other assets or resources commonly identified as those that are reasonably expected to be realized in cash or sold or consumed during the normal operating cycle of the business. See paragraphs 210-10-45-1 through 45-4.

BC28. Some comment letter respondents recommended clarifying the terms *current accounts receivable* and *current contract assets* in the amendments in this Update to avoid confusion about the use of the term *current* as a description of past-due status. Comment letter respondents were concerned that entities may be confused and may apply the practical expedient and accounting policy election to receivables that do not meet the definition of *current assets* under Topic 210, Balance Sheet. The Board determined that no further clarification was necessary because using the term *current* was consistent with Topic 210. Additionally, the Board noted that paragraph 326-20-30-10B clarifies whether a receivable or contract asset meets the definition of a current asset and does not refer to the collection status or past-due status.

BC29. The Board considered whether the amendments in this Update should be limited to receivables outstanding for a specified period of time (for example, 90 days or 120 days). The Board noted that any period of time selected would be arbitrary and potentially could limit the application of the amendments. Therefore, the Board determined that the expected benefits of applying the amendments only to receivables that are outstanding for a short period of time would not justify the expected costs.

BC30. In conclusion, the Board decided that the amendments in this Update should be applied to current accounts receivable and current contract asset balances arising from transactions accounted for under Topic 606, including those asset balances acquired in a business combination accounted for under Topic 805 or recognized in the consolidation of a variable interest entity that is not a business accounted as described in paragraph 810-10-30-3 that arose from transactions that the acquiree or variable interest entity accounted for under Topic 606.

Practical Expedient

BC31. Under current guidance, an entity is required to assess and document its forecast of future economic conditions and the effect of those conditions on estimated expected credit losses as of the balance sheet date. The amendments in this Update provide a practical expedient under which an entity assumes that current conditions as of the balance sheet date do not change for the remaining life of the asset, thereby eliminating the requirement to identify, analyze, and document macroeconomic data as part of developing a reasonable and supportable forecast when estimating expected credit losses.

BC32. Comment letter respondents generally supported the practical expedient. Those respondents explained that the practical expedient is operable and would improve the application of Topic 326 to short-term assets within the scope of the guidance.

BC33. Some comment letter respondents provided feedback that not permitting public business entities to apply the practical expedient could imply that a complex macroeconomic forecast was necessary to estimate expected credit losses for short-term assets within the scope of the amendments in the proposed Update for public business entities. The Board considered that feedback and decided to expand the practical expedient to all entities as discussed in paragraph BC17.

BC34. When applying the practical expedient, an entity is still required to consider other information that affects collectibility such as adjustments to historical loss information to reflect the extent to which current conditions differ from the conditions that existed for the periods over which the historical information was gathered. In applying Topic 326, an entity also is required to reflect customer-specific and company-specific information that is expected to have an effect on the collectibility of outstanding receivables and contract assets.

BC35. For example, if an entity determined that economic conditions as of the balance sheet date differed from the conditions that existed over the period during which historical data were collected because of the onset of a severe economic recession before the balance sheet date, the entity should consider whether an adjustment to historical loss information is necessary. Additionally, an entity that identifies an individual customer that is experiencing financial distress should consider that information in its estimate of expected credit

losses even if that information has not yet affected its historical loss experience or current conditions (that is, even if the customer has not defaulted on existing receivables as of the balance sheet date). Similarly, an entity that has expanded its credit policies before the balance sheet date to offer credit to lower-credit-quality customers should consider that information in its estimate of expected credit losses even if that change has not yet affected its historical loss experience (that is, even if the new, lower-credit-quality customers have not defaulted as of the balance sheet date).

BC36. Some Board members observed that an entity applying the current requirements within Subtopic 326-20 may conclude that macroeconomic variables do not affect their estimates of expected credit losses for current accounts receivable and current contract assets because those variables are not likely to be relevant to the collection of short-term assets arising from revenue contracts. They noted that paragraph 326-20-30-9 states that an entity should *consider the need* to adjust historical information to reflect changes to *relevant* data. Therefore, some Board members view the practical expedient as clarifying existing guidance.

Accounting Policy Election

BC37. The amendments in this Update permit an entity other than a public business entity that applies the practical expedient to apply an accounting policy election that allows the entity to consider collection activity after the balance sheet date when estimating expected credit losses. If an entity makes this accounting policy election, it will record a credit loss allowance of zero for asset balances within the scope of the amendments as described in paragraph 326-20-30-10A 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).

BC38. Comment letter respondents questioned whether entities other than public business entities would be required to update the credit loss rates that would be applied to balances that remain outstanding after an entity has evaluated post-balance-sheet collection activity under the accounting policy election. Specifically, those respondents asked whether the Board intended that the credit loss rates applied in the illustrative Examples used to calculate estimates of expected credit losses should be updated for collection activity after the balance sheet date.

BC39. In considering that feedback, the Board noted that the remaining population of assets to be evaluated after applying the proposed accounting policy election is likely to be significantly lower than the population at the balance sheet date. Additionally, the remaining outstanding receivables that were not collected would have further aged, making it more likely that those receivables would have credit loss allowances nearly equal to the full value of the associated receivable balances (depending on how an entity applies credit loss rate estimates to receivables that are significantly overdue). Therefore, the Board determined that these factors would reduce the effect of any potential adjustment to the balance sheet date credit loss rates applied to assets that remain outstanding. The Board decided to clarify in paragraph 326-20-30-10G that entities are permitted, but not required, to update historical credit loss rates for collection activity observed between the balance sheet date and the date through which an entity evaluates collections after the balance sheet date when applying the accounting policy election.

BC40. Some comment letter respondents expressed concern that the accounting policy election to consider subsequent collection activity represents a departure from how subsequent events are considered under existing guidance. However, the Board views the accounting policy election as a practical method of estimating expected credit losses when evidence of subsequent collections is present prior to an entity finalizing its financial statements. Some Board members also noted that including a projection of future events in a balance sheet date assessment of collectibility is an inherent part of an expected credit loss model and that subsequent collection activity represents the result of those future events.

BC41. Comment letter respondents requested clarification on whether an entity other than a public business entity would be permitted to change the date through which subsequent collection activity is evaluated under the accounting policy election and if a preferability assessment would be required under Topic 250, Accounting Changes and Error Correction, to change that date. The Board decided that an entity other than a public business entity that applies the accounting policy election may change the date through which subsequent collection activity is considered in future periods without it being considered a change in accounting principle in accordance with Topic 250 and, therefore, does not need to be assessed for preferability. The Board observed that there are a variety of reasons why an entity may want to change the date through which it considers subsequent collection activity, including situations in which

an entity changes the date that its financial statements are made available for issuance. For example, an entity that is in the process of obtaining financing may accelerate the date that it finalizes its financial statements to provide financial statements to lenders or investors. As such, the Board concluded that an entity should be able to change the date through which it evaluates collection activity based on its specific facts and circumstances. As discussed in paragraph BC45, the Board decided to require disclosure of the date that an entity elects to evaluate collection activity under the accounting policy election so investors and other users of financial statements have a clear understanding of changes in this date.

BC42. Comment letter respondents questioned whether the accounting policy election should be available only to those entities other than public business entities that elect the practical expedient as would have been required by the amendments in the proposed Update. The Board observed that applying the practical expedient requires that an entity only consider current conditions at the balance sheet date when developing its reasonable and supportable forecast, which limits the forward-looking inputs and assumptions that are incorporated into the estimate of expected credit losses. The Board noted that applying the accounting policy election is consistent with this approach because it permits an entity to further refine its reasonable and supportable forecast using collection activity after the balance sheet date. In the Board's view, it would be more costly to apply the accounting policy election and *not* apply the practical expedient (than to apply both) because an entity would incur incremental costs to develop a reasonable and supportable forecast without applying the practical expedient. Furthermore, the Board concluded that applying only the accounting policy election to consider collection activity after the balance sheet date without applying the practical expedient would result in an inconsistency between the estimate of expected credit losses for balances that were collected, which would reflect actual collection activity after the balance sheet date, and the estimate of expected credit losses for balances that were not collected, which (without application of the practical expedient) would incorporate forward-looking information consistent with the current guidance in Topic 326.

BC43. The Board considered feedback from comment letter respondents about whether the election to use the accounting policy to consider subsequent collection activity represents a change in accounting principle in accordance with Topic 250. Comment letter respondents also asked how an entity other

than a public business entity should determine whether it could stop applying the accounting policy election. Paragraph 250-10-45-13 explains that the issuance of a Codification update is sufficient support for changing an accounting principle (that is, establishing preferability is not required). The Board notes that the transition guidance in paragraph 326-10-65-6(d) specifies that establishing preferability is not required upon initial application of this guidance after the effective date for an entity other than a public business entity. A subsequent change in the accounting policy election following initial application should be accounted for as a change in accounting principle.

Disclosures

BC44. The Board decided that an entity should disclose when it has applied the practical expedient and accounting policy election. Most comment letter respondents supported this requirement. Those respondents indicated that it would provide increased transparency, while also facilitating greater comparability and understandability of the estimates of expected credit losses across entities. Comment letter respondents also noted that the disclosure requirement is consistent with required disclosures for other practical expedients and accounting policy elections.

BC45. In addition, the Board decided to require entities other than public business entities that apply the accounting policy election to disclose the date through which collection activity is evaluated after the balance sheet date. Because the Board observed that an entity may change the date through which it evaluates collections under the accounting policy election (as discussed in paragraph BC41), the Board determined that it is important to provide transparency about the date through which the entity is evaluating collection activity when determining its estimate of expected credit losses.

Effective Date and Transition

BC46. The Board decided that the amendments in this Update should be applied prospectively. The Board determined that prospective transition was appropriate because the amendments are expected to be straightforward to apply and prospective application would reduce the cost and complexity of applying the amendments, which is consistent with this project's overall objective.

BC47. PCC members noted that in some scenarios a private company may not elect the amendments in this Update by their effective date because of that company's specific facts and circumstances or because it is unaware of the practical expedient and accounting policy election until after the amendments' effective date. As such, the Board decided to specify that entities other than public business entities that initially apply the amendments after the effective date will not need to perform a preferability assessment in accordance with paragraph 250-10-45-2 to use the practical expedient and accounting policy election. The Board decided against providing a similar transition provision for public business entities because it is generally expected that public business entities will decide whether to adopt the new guidance in the reporting period of the effective date (or the first reporting period in which the guidance will be applicable).

BC48. The amendments in this Update are effective for interim and annual periods beginning after December 15, 2025. The Board also decided to permit all entities to early adopt the amendments. Early adoption is permitted in both interim and annual reporting periods in which financial statements have not yet been issued or made available for issuance. If an entity early adopts in an interim reporting period, the entity must apply the amendments as of the beginning of the annual reporting period that contains that interim reporting period.

Amendments to the GAAP Taxonomy

The amendments to the *FASB Accounting Standards Codification*® in this Accounting Standards Update require improvements to the GAAP Financial Reporting Taxonomy and SEC Reporting Taxonomy (collectively referred to as the “GAAP Taxonomy”). Those improvements, which will be incorporated into the proposed 2026 GAAP Taxonomy, are available through [GAAP Taxonomy Improvements](#) provided at www.fasb.org, and finalized as part of the annual release process.