

PIK DIVIDENDS ON EQUITY-CLASSIFIED PREFERRED STOCK ARE INITIALLY MEASURED AT THE STATED RATE

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SUMMARY

The Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2026-01, *Initial Measurement of Paid-in-Kind Dividends on Equity-Classified Preferred Stock*, to require issuers to initially measure paid-in-kind (PIK) dividends using the PIK dividend rate stated in the preferred stock agreement. ASU 2026-01 applies to all entities that issue equity-classified preferred stock, including instruments classified as temporary equity.

BACKGROUND

PIK dividends on preferred stock are dividends that an issuer satisfies either by delivering to the holder additional preferred stock with the same terms as the original preferred stock or by increasing the value of the original preferred stock in accordance with the preferred stock agreement (for example, by increasing the original preferred stock's liquidation value). Before ASU 2026-01, U.S. GAAP did not address how to initially measure PIK dividends on equity-classified preferred stock, which affects equity and also income available to common shareholders for earnings per share. Diversity in practice reduced comparability across entities. The amendments address this issue.

MAIN PROVISIONS

Scope

The amendments apply to all entities for PIK dividends on instruments summarized in the following table.

	IN SCOPE	NOT IN SCOPE
INSTRUMENTS	<ul style="list-style-type: none">▶ Equity-classified preferred stock (whether convertible or nonconvertible), including instruments classified as temporary equity under ASC 480-10-S99-3A (see BDO's Blueprint, Issuer's Accounting for Complex Financial Instruments).	<ul style="list-style-type: none">▶ Preferred stock classified as a liability under ASC 480, <i>Distinguishing Liabilities from Equity</i>.

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	IN SCOPE	NOT IN SCOPE
TRANSACTIONS	<ul style="list-style-type: none"> ▶ Dividends for which the monetary value of the PIK dividends varies based on the additional preferred stock issued or the increase in liquidation value of the original preferred stock. 	<ul style="list-style-type: none"> ▶ Dividends settled by issuing a variable quantity of the same preferred stock with a fixed monetary value. ▶ Dividends related to separate transactions that represent deemed dividends (such as some redemptions of preferred stock). ▶ Dividends settled in equity instruments with terms that differ from the original preferred stock, such as dividends paid in common shares or in preferred shares with different rights. ▶ Dividends that are a nonmonetary distribution under ASC 845, <i>Nonmonetary Transactions</i>.

Measurement

ASU 2026-01 requires an issuer to initially measure in-scope PIK dividends using the PIK dividend rate in the preferred stock agreement. Dividend rates are typically stated as a percentage of either the liquidation or stated value of the preferred stock, though the terminology used can differ among instruments. The liquidation value generally represents the amount due to the holder if a liquidation or deemed liquidation event occurs, which is the original issuance price when preferred stock was not issued at a discount or premium. Accordingly, after adopting ASU 2026-01, if, for example, the agreement provides for the PIK dividend calculated as the stated PIK rate multiplied by the liquidation value of the preferred stock, the issuer measures the dividend using that amount.

ASU 2016-01 does not change:

- ▶ When an issuer recognizes PIK dividends.
- ▶ How an issuer subsequently measures PIK dividends on preferred stock classified as temporary equity.

See BDO's Blueprint, [Issuer's Accounting for Complex Financial Instruments](#), for guidance.

EFFECTIVE DATE AND TRANSITION

The following table summarizes the effective date and transition for ASU 2026-01:

ALL ENTITIES	
Effective date	Annual reporting periods beginning after December 15, 2026, and interim reporting periods within those annual reporting periods.
Early adoption	Allowed in both interim and annual reporting periods in which financial statements have not yet been issued or made available for issuance. If adopted in an interim period, adopt as of the beginning of the annual reporting period that includes that interim period.

ALL ENTITIES

Transition	An entity may adopt the ASU using either : <ul style="list-style-type: none">▶ A prospective approach: Apply the guidance to PIK dividends recognized on or after the initial application date, regardless of when the related preferred stock was originally issued.▶ A modified retrospective approach: Apply the guidance to PIK dividends on preferred stock outstanding as of the initial application date by recording a cumulative-effect adjustment to retained earnings (or other applicable equity accounts) at the beginning of the earliest period presented.
Transition disclosures	An entity must provide specific disclosures based on the transition approach selected. See ASU 2026-01 for details.

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Link to ASU [2026-01](#)

CONTACTS**THOMAS FAINETEAU**

Professional Practice Principal, Accounting

tfaineteau@bdo.com**ADAM BROWN**

National Managing Principal, Accounting

abrown@bdo.com

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