BDO BULLETIN

FASB ISSUES ASU 2025-12, CODIFICATION IMPROVEMENTS

DECEMBER 2025

SUMMARY

The Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) 2025-12, *Codification Improvements*, to correct, clarify, and otherwise improve U.S. GAAP.

While ASU 2025-12 includes 33 improvements that span a wide range of topics, this Bulletin focuses on the following amendments:

- **Issue 4:** Clarifying diluted earnings per share (EPS) calculation when a loss from continuing operations exists
- **Issue 5:** Clarifying disclosure requirements for lease receivables from sales-type or direct financing leases
- **Issue 6:** Revising the calculation of the reference amount for beneficial interests to prevent double counting credit losses
- **Issue 10:** Clarifying the permissible methods to account for treasury stock retirements
- **Issue 20:** Clarifying the guidance for transfers of receivables from contracts with customers

POTENTIAL EFFECTS OF ASU 2025-12 MUST NOT BE OVERLOOKED

Although most of the amendments are not intended to significantly affect current practices, they could change how the guidance is applied, particularly where the original guidance was ambiguous or conflicted with other U.S. GAAP.

Accordingly, management should review ASU 2025-12 to identify any implications for the entity's accounting policies, processes, or disclosures, even if the changes seem minor.

MAIN PROVISIONS

KEY ISSUE	SUMMARY OF AMENDMENTS
Issue 4: **Clarifying diluted EPS calculation when a loss from continuing operations exists**	▶ ASU 2025-12 clarifies guidance in Accounting Standards Codification (ASC) 260, *Earnings Per Share*, on calculating diluted EPS when an entity reports a loss from continuing operations and has a contract (recorded as an asset or liability) that may be settled in stock or cash. ▶ In that situation, an entity must adjust the numerator for any gain or loss as if the contract were classified as equity and determine whether the combined numerator adjustment and potential common shares are dilutive. An entity cannot assume that all potential shares are antidilutive because the entity reports a loss from continuing operations. ▶ ASU 2025-12 also clarifies that potentially dilutive shares excluded from quarterly computations due to losses are included in year-to-date diluted EPS on a weighted-average basis if the combined effect of numerator and denominator adjustments is dilutive.
Issue 5: **Clarifying disclosure requirements for lease receivables from sale-type or direct financing leases**	▶ ASU 2022-02, *Troubled Debt Restructurings and Vintage Disclosures*, enhanced disclosure requirements about refinancing and restructuring loans to borrowers experiencing financial difficulty. These requirements apply to receivables within the scope of ASC 310, *Receivables*, including financing receivables. ▶ ASU 2025-12 clarifies that lease receivables from sales-type or direct financing leases are excluded from the enhanced disclosures required by ASU 2022-02.
Issue 6: **Revising the calculation of the reference amount for beneficial interests**	▶ Previously, ASC 325-40-35-4B did not specify whether the allowance for credit losses is included when calculating the reference amount for beneficial interests, which affects accretable yield and interest income recognition. This lack of clarity raised concerns about potential double counting of credit losses. ▶ ASU 2025-12 clarifies that the reference amount for beneficial interests is reduced by the allowance for credit losses and explains how interest income is recognized.
Issue 10: **Clarifying methods to account for treasury stock retirements**	▶ Previously, ASC 505-30-30-8 allowed two methods for accounting for any excess of repurchase price over par or stated value when treasury shares are retired or constructively retired: • Allocate the excess between additional paid-in-capital (APIC) and retained earnings. • Charge the excess entirely to retained earnings. ▶ A third method, deducting the entire excess from APIC, was inadvertently excluded from ASC 505-30-30-8. ▶ ASU 2025-12 clarifies that deducting the entire excess from APIC is explicitly permitted, if this deduction does not cause APIC to become negative.

KEY ISSUE	SUMMARY OF AMENDMENTS
Issue 20: **Clarifying the guidance for transfers of receivables from contracts with customers**	▶ Under ASC 606, *Revenue from Contracts with Customers,* an entity may have an unconditional right to consideration from a customer that generates a receivable before the entity transfers control of a good or service to the customer. ▶ Diversity in practice arose over whether sales of such receivables constituted transfers of financial instruments in the scope of ASC 860, *Transfers and Servicing*, or sales of future revenues in the scope of ASC 470, *Debt*. ▶ ASU 2025-12 clarifies that the receivables meet the definition of a financial asset and therefore, transfers of such assets are in the scope of ASC 860.

OTHER PROVISIONS

The following table lists other amendments in ASU 2025-12:

ISSUE	CODIFICATION	AREA OF IMPROVEMENT
Issue 1	ASC 320, *Investments — Debt Securities* and Master Glossary	Remove the Master Glossary term “amortized cost”
Issue 2	ASC 205, *Presentation of Financial Statements*	Clarify comparative financial statement presentation requirements
Issue 3	ASC 220, *Income Statement — Reporting Comprehensive Income*	Correct error in comprehensive income example
Issue 7	ASC 326, *Financial Instruments — Credit Losses*	Link to Master Glossary term class of financing receivable
Issue 8	ASC 360, *Property, Plant, and Equipment*	Remove previously superseded paragraph related to leases guidance
Issue 9	ASC 410, *Asset Retirement and Environmental Obligations*	Update references to capitalization guidance for environmental remediation costs
Issue 11	ASC 606	Correct error in repurchase agreement illustrative example
Issue 12	ASC 740, *Income Taxes*	Align intraperiod tax allocation guidance
Issue 13	ASC 815, *Derivatives and Hedging*	Remove reference to the pooling-of-interests method
Issue 14	ASC 820, *Fair Value Measurement*	Update references for investments in equity securities guidance

ISSUE	CODIFICATION	AREA OF IMPROVEMENT
Issue 15	ASC 825, *Financial Instruments*	Update references for NFP presentation guidance
Issue 16	ASC 825	Add reference to other-than-temporary impairment (OTTI) for equity method investments
Issue 17	ASC 852, *Reorganizations*	Update illustrative statement of cash flows for an entity that is in reorganization
Issue 18	ASC 852	Update fresh-start illustrative example
Issue 19	ASC 860	Remove reference to cost method investments
Issue 21	ASC 860	Correct sentence fragment in transfers and servicing implementation guidance
Issue 22	ASC 944, *Financial Services — Insurance*	Remove OTTI guidance
Issue 23	ASC 954, *Health Care Entities*	Clarify the applicability of NFP consolidation guidance
Issue 24	ASC 954 and ASC 958, *Not-for-Profit Entities*	Remove the phrase “recognized and unrecognized” from NFP and health care entities income statement guidance
Issue 25	ASC 958	Clarify accounting for specific receivables by NFP entities
Issue 27	ASC 958	Clarify impairment guidance for institutions of higher education
Issue 28	ASC 958	Remove reference to equity securities in the NFP other investment guidance
Issue 29	ASC 958	Remove reference to a probability assessment in evaluating whether to recognize part of a transaction as a contribution
Issue 30	ASC 958	Update NFP business combinations guidance to reference exceptions to the recognition principle
Issue 31	ASC 958	Clarify relevant guidance for an NFP that is an acquirer
Issue 32	ASC 958	Add cross-reference to hedge documentation and hedge effectiveness guidance for specific NFPs
Issue 33	ASC 962, *Plan Accounting — Defined Contribution Pension Plans*	Update defined contribution plan illustrative example
Issue 34	ASC 970, *Real Estate — General*	Update real estate guidance to refer to the use of the proportional amortization method

The FASB did not finalize Issue 26 from the Proposed Accounting Standards Update (which related to clarifying the guidance for equity securities in ASC 958-310, *Not-for-Profit Entities - Receivables*), in favor of further research.

EFFECTIVE DATE AND TRANSITION

The following table summarizes transition for ASU 2025-12:

	ALL ENTITIES
Effective date	Annual reporting periods beginning after December 15, 2026, and interim reporting periods within those annual reporting periods.
Early adoption	▶ Permitted 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, apply as of the beginning of the annual reporting period that includes that interim period. ▶ An entity may early adopt ASU 2025-12 on an issue-by-issue basis.
Transition	▶ ASC 260 (Issue 4): • Apply amendments **retrospectively** to all prior reporting periods presented. • Provide transition disclosures in accordance with ASC 250-10-50-1 in interim and annual periods, except for specific disclosures required by ASC 250-10-50-1(b)(2) and ASC 250-10-50-1(c). ▶ All other amendments: • Apply amendments **prospectively or retrospectively,** on an issue-by-issue basis. • Disclose the nature and reason for the change. • If **retrospectively** applied, provide specific transition disclosures.

BDO INSIGHTS: EFFECT OF RETROSPECTIVE EPS CHANGES

We believe the clarified guidance in ASC 260 (Issue 4) will often require entities to retrospectively revise diluted EPS if prior calculations excluded numerator adjustments during periods in which they had a loss from continuing operations. These revisions may affect trend analysis, investor reporting, and key performance metrics, particularly for entities that previously assumed diluted EPS equals basic EPS in loss periods.

Entities must calculate EPS using the new guidance for all periods presented and evaluate potential common shares and related numerator adjustments using ASU 2025-12.

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Link to ASU 2025-12

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