

FASB PROVIDES PRACTICAL EXPEDIENTS TO SIMPLIFY MEASUREMENT OF CREDIT LOSSES FOR ACCOUNTS RECEIVABLE AND CONTRACT ASSETS

AUGUST 2025

SUMMARY

The Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) 2025-05, *Measurement of Credit Losses for Accounts Receivable and Contract Assets*, in response to stakeholders' challenges in applying guidance in Accounting Standards Codification (ASC) 326, *Financial Instruments—Credit Losses*, to current accounts receivable and current contract assets arising from transactions under ASC 606, *Revenue from Contracts with Customers*. The ASU amends ASC 326-20, *Financial Instruments—Credit Losses – Measured at Amortized Cost*, to introduce:

- ▶ A practical expedient available for all entities to assume that current conditions as of the balance sheet date do not change for the remaining life of current accounts receivable and contract assets.
- ▶ An accounting policy election available for entities other than public business entities to consider collection activity after the balance sheet date when estimating expected credit losses for current accounts receivable and contract assets arising from ASC 606 transactions.

The practical expedient and accounting policy elections apply when estimating expected credit losses on current accounts receivable and contract assets arising from transactions under ASC 606, including such assets acquired in business combinations under ASC 805 or recognized through the consolidation of a variable interest entity that is not a business.

See our Blueprints, [Business Combinations Under ASC 805](#) and [Control and Consolidation Under ASC 810](#), for more guidance on assets acquired or recognized in those transactions. See also our publication entitled [CECL for Non-financial Institutions](#) for more information on applying ASC 326 to those transactions.

BACKGROUND

ASC 326 requires entities to estimate expected credit losses using all relevant information, including historical loss experience, current conditions, and reasonable and supportable forecasts. Adjustments to historical data must reflect changes in economic factors such as unemployment rates and property values not only to reflect current conditions but also to reflect changes expected to occur during the term of the receivable. Stakeholders indicated that gathering and documenting macroeconomic data for future periods for short-term assets is often costly and provides limited benefit. Estimating credit losses for receivables and contract assets already collected before financial statements are issued

FASB publications excerpted in this publication were reprinted with permission. Copyright 2025 by Financial Accounting Foundation, Norwalk, Connecticut.

Material discussed in this Bulletin is meant to provide general information and should not be acted upon without first obtaining professional advice appropriately tailored to your individual facts and circumstances.

BDO is the brand name for the BDO network and for each of the BDO Member Firms. BDO USA, P.C., a Virginia professional corporation, is the U.S. member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms. For more information, visit: www.bdo.com. Copyright © 2025, BDO USA, P.C.

can also result in unnecessary effort and less useful information for private companies who may release their financials several months after the balance sheet date.

To address these concerns, the ASU provides a practical expedient for all entities and an accounting policy election for entities other than public business entities when applying ASC 326-20 in estimating expected credit losses for current accounts receivable and current contract assets arising from transactions under ASC 606.

MAIN PROVISIONS



FASB REFERENCES

ASC 326-20-30-10A through 30-10H, ASC 326-20-50-12A through 50-12B

The ASU applies to current accounts receivable and current contract assets (as defined in ASC 210, *Balance Sheet*), arising from ASC 606 transactions. This includes such assets acquired in business combinations under ASC 805 or recognized through the consolidation of a variable interest entity that is not a business, provided those assets arose from transactions accounted for under ASC 606.

To determine if an asset is current, entities generally use a one-year period, unless their operating cycle exceeds 12 months, in which case the longer period applies. The amendments specifically exclude longer-term assets with significant financing components, focusing only on assets classified as current under ASC 210.

Entities must apply the practical expedient and accounting policy election consistently to all current accounts receivable and current contract assets within scope.

MAIN PROVISION	SUMMARY
Practical Expedient	<ul style="list-style-type: none"> ▶ Entities may elect a practical expedient to assume that current conditions as of the balance sheet date do not change for the remaining life of current accounts receivable and contract assets within scope. ▶ When applying this expedient, entities must continue to adjust historical loss information to reflect current conditions if historical data do not capture those conditions. For example, entities must consider customer-specific financial distress, changes in credit policies, or significant economic events occurring before the balance sheet date, even if these factors have not yet impacted historical loss experience.
Accounting Policy Election	<ul style="list-style-type: none"> ▶ Entities other than public business entities that elect the practical expedient may also elect an accounting policy to consider collection activity after the balance sheet date but before the financial statements are available to be issued (or an alternative selected date). ▶ Under this policy, no credit loss allowance is recorded for asset balances collected during this period. The entity must first exclude collected balances from the allowance calculation, then estimate expected credit losses on any remaining uncollected balances as of the financial statement issuance date, using the practical expedient. ▶ Entities using an aging schedule may, but are not required to, update historical loss rates for post-balance-sheet collection activity. ▶ Entities other than public business entities that apply the accounting policy election may change the dates through which subsequent collection activity is considered in future

Practical Expedient

- ▶ Entities may elect a practical expedient to assume that current conditions as of the balance sheet date do not change for the remaining life of current accounts receivable and contract assets within scope.
- ▶ When applying this expedient, entities must continue to adjust historical loss information to reflect current conditions if historical data do not capture those conditions. For example, entities must consider customer-specific financial distress, changes in credit policies, or significant economic events occurring before the balance sheet date, even if these factors have not yet impacted historical loss experience.

Accounting Policy Election

- ▶ Entities other than public business entities that elect the practical expedient may also elect an accounting policy to consider collection activity after the balance sheet date but before the financial statements are available to be issued (or an alternative selected date).
- ▶ Under this policy, no credit loss allowance is recorded for asset balances collected during this period. The entity must first exclude collected balances from the allowance calculation, then estimate expected credit losses on any remaining uncollected balances as of the financial statement issuance date, using the practical expedient.
- ▶ Entities using an aging schedule may, but are not required to, update historical loss rates for post-balance-sheet collection activity.
- ▶ Entities other than public business entities that apply the accounting policy election may change the dates through which subsequent collection activity is considered in future

MAIN PROVISION	SUMMARY
	periods without it being considered a change in accounting principle in ASC 250, <i>Accounting Changes and Error Corrections</i> .
Disclosure - Allowance for Credit Losses	<div><div>▶</div>Entities electing the practical expedient must disclose this election in their financial statements.</div> <div><div>▶</div>Entities other than public business entities electing the accounting policy to consider subsequent collection activity must disclose both elections.</div> <div><div>▶</div>In annual reporting periods, entities that have elected the accounting policy must disclose the date through which they have considered subsequent collection activity when estimating expected credit losses.</div>

The ASU also provides examples on applying the practical expedient and accounting policy election for estimating expected credit losses on current accounts receivables and current contract assets.

EFFECTIVE DATE AND TRANSITION

The following table summarizes transition for ASU 2025-05:

ENTITIES ELECTING THE PRACTICAL EXPEDIENT AND THE ACCOUNTING POLICY	
Effective Date	Annual reporting periods beginning after December 15, 2025, 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.
Transition	Prospective.

* * * * *

Link to [ASU 2025-05](#)

CONTACTS

ANGELA NEWELL

Professional Practice Principal, Accounting
ajnewell@bdo.com

ADAM BROWN

Professional Practice Principal, Accounting
abrown@bdo.com

The experienced professionals in BDO's [Accounting Advisory](#) practice can help navigate the complexities of applying U.S. GAAP and adopting new accounting guidance.

Contact Us to Learn How BDO Can Help