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# FASB Proposes Guidance on the Measurement of Credit Losses for Certain Entities

## Overview

On December 3, 2024, the FASB issued a [proposed ASU](#)<sup>1</sup> that would amend ASC 326<sup>2</sup> to permit private companies and certain not-for-profit entities<sup>3</sup> to elect a practical expedient and accounting policy related to their estimation of expected credit losses for current accounts receivable and current contract assets that arise from transactions accounted for under ASC 606.<sup>4</sup> The Board developed the proposed guidance in conjunction with the Private Company Council (PCC) to address concerns from stakeholders that estimating expected credit losses can be costly and complex for such transactions. The FASB is seeking feedback on whether, among other questions, the scope of the proposed ASU should be expanded to include additional entities, such as public business entities or all not-for-profit entities, or additional assets. Comments on the proposal are due by January 17, 2025.

## Background

Under the current guidance in ASC 326-20, when an entity estimates expected credit losses, it must consider available information that is relevant to its assessment of the collectibility of cash flows, including historical losses, current economic conditions, and reasonable and supportable forecasts. An entity may need to adjust its historical losses to estimate expected credit losses if historical conditions differed from current conditions or from reasonable and

<sup>1</sup> FASB Proposed Accounting Standards Update (ASU), *Measurement of Credit Losses for Accounts Receivable and Contract Assets for Private Companies and Certain Not-for-Profit Entities*.

<sup>2</sup> FASB Accounting Standards Codification (ASC) Topic 326, *Financial Instruments — Credit Losses*.

<sup>3</sup> The proposed ASU specifies that such entities would exclude “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.”

<sup>4</sup> FASB Accounting Standards Codification Topic 606, *Revenue From Contracts With Customers*.

supportable forecasts. In addition, when developing its estimate of expected credit losses, an entity currently does not consider collections received after the balance sheet date.

## Main Provisions

As stated in the proposal, the amendments would add the following:

1. Practical expedient. In developing reasonable and supportable forecasts, an entity may elect a practical expedient that assumes that current conditions as of the balance sheet date persist throughout the forecast period.
2. Accounting policy election. An entity that elects the practical expedient would be eligible to make an accounting policy election to consider collection activity after the balance sheet date when estimating expected credit losses.

The proposed ASU also provides examples of how an entity would estimate expected credit losses upon applying (1) the practical expedient only and (2) both the practical expedient and the accounting policy election.

## Disclosure

An entity would be required to disclose whether it has elected to use the practical expedient and if, so, whether it has also applied the accounting policy election.

## Proposed Effective Date and Transition

The proposed guidance would be applied prospectively, and the FASB and PCC will determine the effective date after considering stakeholder feedback. Early adoption would be permitted.

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