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# FASB Amends Guidance on the Measurement of Credit Losses for Accounts Receivable and Contract Assets

## Overview

On July 30, 2025, the FASB issued [ASU 2025-05](#),<sup>1</sup> which amends ASC 326-20<sup>2</sup> to provide a practical expedient (for all entities) and an accounting policy election (for all entities, other than public business entities, that elect the practical expedient) related to the estimation of expected credit losses for current accounts receivable and current contract assets that arise from transactions accounted for under ASC 606.<sup>3</sup> The Board developed the new guidance in conjunction with the Private Company Council to address concerns from stakeholders that estimating expected credit losses can be costly and complex for such transactions.<sup>4</sup>

## Background

Under the current guidance in ASC 326-20 (i.e., before the adoption of ASU 2025-05), 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 supportable forecasts. In addition, when

<sup>1</sup> FASB Accounting Standards Update (ASU) No. 2025-05, *Measurement of Credit Losses for Accounts Receivable and Contract Assets*.

<sup>2</sup> FASB Accounting Standards Codification (ASC) Subtopic 326-20, *Financial Instruments — Credit Losses: Measured at Amortized Cost*.

<sup>3</sup> FASB Accounting Standards Codification Topic 606, *Revenue From Contracts With Customers*.

<sup>4</sup> The [proposed ASU](#) on which ASU 2025-05 is based would have limited eligibility for the practical expedient and accounting policy election to private companies and certain not-for-profit entities.

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 ASU 2025-05, the amendments in the ASU add the following:

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.

The 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

Under ASU 2025-05, an entity is required to disclose whether it has elected to use the practical expedient and, if so, whether it has also applied the accounting policy election. An entity that makes the accounting policy election is required to disclose the date through which subsequent cash collections are evaluated.

## Effective Date and Transition

ASU 2025-05 is effective for annual reporting periods beginning after December 15, 2025, and interim reporting periods within those annual reporting periods, with early adoption permitted. Entities should apply the new guidance prospectively.

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