



FASB issues ASU

Simplified credit loss guidance under Topic 326

July 31, 2025



FASB provides additional practical expedient and accounting policy election for estimating credit losses.

Source and applicability

- ASU 2025-05, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses for Accounts Receivable and Contract Assets*
- All entities with current accounts receivable and current contract assets arising from transactions accounted for under Topic 606.

Fast facts, impacts, actions

The ASU is designed to reduce the cost and complexity of applying Topic 326 (credit losses) to current accounts receivable and current contracts assets arising from transactions accounted for under Topic 606 (revenue from contracts with customers). This includes those assets acquired in a business combination or recognized through the consolidation of a variable interest entity that is not a business if those assets arose from transactions that the acquiree or variable interest entity accounted for under Topic 606. It does this by introducing a practical expedient and an accounting policy election.

- **Practical expedient.** The practical expedient permits an entity to assume current conditions as of the balance sheet date do not change for the remaining life of the current accounts receivable and current contract assets. This practical expedient is available to all entities.
- **Accounting policy election.** This election allows an entity to consider cash collection activity after the balance sheet date when estimating expected credit losses on current accounts receivable and current contract assets. The election is available to entities other than public business entities, and it may only be made if the above practical expedient is also elected.

The ASU will become effective very soon – in interim and annual periods for fiscal years beginning after December 15, 2025. Early adoption is permitted for financial statements that have not yet been issued (or made available for issuance).



The effective date for all entities is the same. However, if an entity other than a public business entity elects to apply the practical expedient and accounting policy, if applicable, after the effective date, it is not required to justify that such methods are preferable.

Background

Under the current credit loss model, an entity estimates expected credit losses based on relevant information about past events, current economic conditions, and reasonable and supportable forecasts of future economic conditions that affect the collectibility of the reported amounts.

Stakeholders have indicated that estimating credit losses for current accounts receivable and current contract assets can be costly and complex. ASU 2025-05 tackles some of the cost and complexity by (1) allowing all entities to forego developing reasonable and supportable forecasts of economic conditions and (2) allowing some entities to consider subsequent cash collections.

Practical expedient for forecasting

Both public and private entities may apply a practical expedient for current accounts receivable and current contract assets arising from transactions accounted for under Topic 606. This includes those assets acquired in a business combination or recognized through the consolidation of a variable interest entity that is not a business if those assets arose from transactions that the acquiree or variable interest entity accounted for under Topic 606. This expedient allows an entity to assume that current conditions as of the balance sheet date do not change for the remaining life of the asset. Therefore, an entity will not need to develop reasonable and supportable forecasts of future economic conditions.

The practical expedient applies only to current accounts receivable and current contract assets. When determining whether such items are current, an entity uses a one-year period unless its operating cycle exceeds 12 months, in which case the longer operating cycle is used.

Entities electing to apply the practical expedient must do so consistently across all current accounts receivable and current contract assets arising from transactions accounted for under Topic 606.

Accounting policy election for post-balance sheet collection activity

When estimating expected credit losses on current accounts receivable and current contract assets, entities other than public business entities may make an accounting policy election to consider cash collection activity after the balance sheet date but before the date the financial statements are available to be issued (or before any alternative date selected by the entity that is after the balance sheet date but before financial statements are available to be issued). Public business entities are not permitted to make this accounting policy election because the FASB recognized that the election would likely not result in reduced cost for these entities' due to their typically shorter reporting deadlines and interim reporting requirements.

The accounting policy may be elected only if the practical expedient is also elected, and if elected must be applied consistently across all current accounts receivable and current contract assets arising from transactions accounted for under Topic 606.

The election will allow an entity to reflect its actual collection experience in its estimate of the allowance for credit losses at year-end. This approach may be particularly beneficial for entities with short collection cycles, as it enables more timely recognition of actual credit performance.

Example

As of December 31, Year 1, ABC Corp, a nonpublic entity, has an outstanding balance of \$200,000 in current accounts receivable arising from transactions accounted for under Topic 606. The receivables are 25 days past due and have a historical loss rate of 7%.

ABC determined that current and reasonable supportable forecasted economic conditions have deteriorated as compared with the economic conditions included in the historical loss information and estimates the loss rate will increase by 1%.

By March 15, Year 2 when the financial statements are available to be issued, \$190,000 of the current accounts receivable are collected. The delinquency status of the uncollected receivables as of the date the financial statements are available for issuance is over 90 days past due. The historical loss rate that corresponds to that delinquency status is 74%. The 74% is not adjusted for the forecasted 1% deterioration in the economic conditions.

Before Adoption

As of December 31, Year 1, ABC estimates expected credit losses for the current accounts receivable is \$16,000 ($\$200,000 \times 8\%$).

After Adoption

ABC elects both the practical expedient and accounting policy election. There is no allowance recorded for the \$190,000 in current accounts receivable that have been fully collected before the financial statements are available to be issued.

ABC applies a credit loss rate of 74% to the uncollected receivable balance of \$10,000. As of December 31, Year 1, ABC estimates expected credit losses for the current accounts receivable is \$7,400.

Disclosure

Entities are required to disclose whether they have applied the practical expedient and/or the accounting policy election. Entities electing the accounting policy must also disclose the date through which subsequent cash collections were evaluated.

Effective Dates and Transition

Effective dates	All Entities
Annual periods – Fiscal years beginning after	December 15, 2025
Interim periods – In fiscal years beginning after	December 15, 2025
Early adoption permitted?	Yes, for financial statements that have not yet been issued or made available for issuance

If an entity other than a public business entity elects to apply the practical expedient and accounting policy, if applicable, after the effective date, it is not required to justify that such methods are preferable.

Once adopted, the ASU is applied prospectively.

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