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Private Companies & NFPs May Get CECL Relief for Accounts Receivables

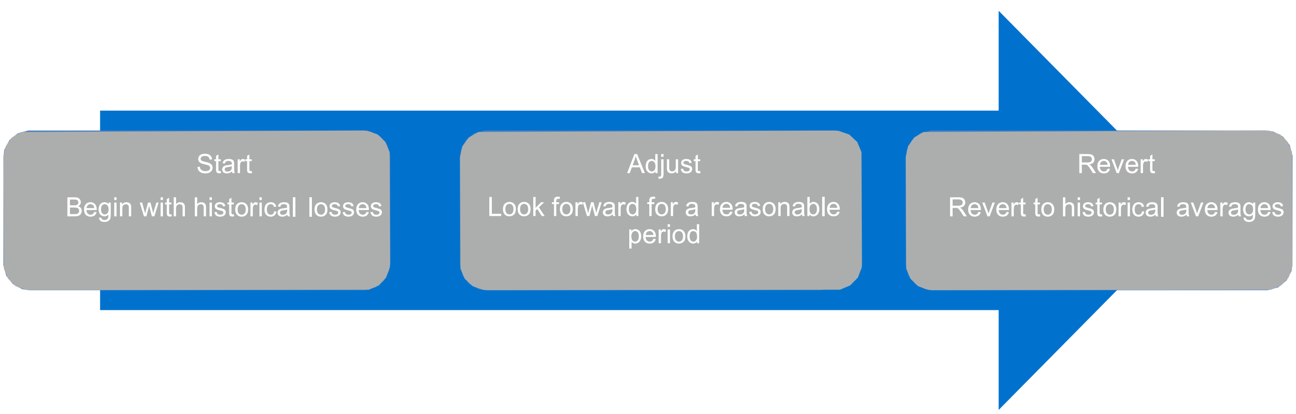
On December 3, 2024, FASB issued a highly anticipated proposal to introduce a practical expedient and an accounting policy election to reduce the costly and time-consuming operational challenges of applying the CECL model to accounts receivable balances. Comments are requested by January 17, 2025.

The tentative project timeline indicated that a final Accounting Standards Update could be issued as soon as the second quarter of 2025. If approved, early adoption would be permitted for 2024 financial statements that have not been made available for issuance.

Background & Current Guidance

For many private companies and nonprofits (NFPs), applying Accounting Standards Codification (ASC) 326, *Financial Instruments—Credit Losses* (CECL), to short-term trade receivables is time-consuming and results in minor changes in credit loss provisions.

ASC 326 requires the credit loss estimate to include relevant information about past events, current conditions, and reasonable and supportable forecasts. For periods when an entity is unable to make a reasonable and supportable forecast, it would revert to historical credit loss experience. An entity is required to consider adjustments to data if management expects current conditions and reasonable and supportable forecasts to differ from the historical data evaluated. Those adjustments may be qualitative in nature and should reflect changes related to relevant data (such as changes in unemployment rates, property values, commodity values, or delinquency) during the forecast period. ASC 326 currently prohibits an entity from considering collections received after the balance sheet date when developing its expected credit loss estimate.



Scope

The amendments would apply to private companies and NFPs, excluding NFPs 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.

The proposal will cover “current” accounts receivables and contract assets arising from transactions accounted for under ASC 606, *Revenue from Contracts with Customers*. Under the proposal, “current” would be defined as the longer of a one-year period or an entity’s operating cycle if it exceeds 12 months. Determining whether a contract asset is a current asset should be based on when the asset is expected to be realized, rather than when it is expected to be converted to a receivable.

This scope would exclude receivables accounted for under other accounting guidance, *e.g.*, ASC 610-20, *Gains and Losses from the Derecognition of Nonfinancial Assets*.

Practical Expedient

The proposal would introduce a new practical expedient, permitting entities to use historical loss information without adjusting for changes in economic data when developing a reasonable and supportable forecast. In other words, entities can assume that current economic conditions as of the balance sheet date will continue throughout the reasonable and supportable forecast period.

This practical expedient does not eliminate the requirement for an entity to consider reasonably available information that affects collectability, such as adjustments to historical loss information if current conditions differ from the conditions that existed during the historical period used, *e.g.*, pre and post COVID. An entity also would be required to reflect customer-specific and company-specific information expected to have an effect on the collectability of outstanding receivables, *e.g.*, if the entity has identified a customer experiencing financial distress.

Accounting Policy Election

If the practical expedient is elected, an accounting policy election would allow a private company to consider collection activity after the balance sheet date but before the financial statements are available to be issued to inform the credit loss allowance. An entity could record a zero-credit loss allowance if all outstanding receivables have been collected before the financial statements are issued.

The proposal includes the following sequence to apply these accounting alternatives:

(a) Step 1: Subsequent Collection Activity Election. An entity should first consider subsequent collection of current accounts receivables and contract assets outstanding at the balance sheet date. No credit loss allowance would be recorded for balances collected in full before the date the financial statements are available to be issued.

(b) Step 2: Practical Expedient for Remaining Uncollected Balances. An entity would then evaluate any remaining uncollected balances as of the date the financial statement is available to be issued. Using the practical expedient, the company would assume current conditions as of the balance sheet date exist through the forecast period.

The consideration of collection activity after the balance sheet date does not affect the company's recognition of subsequent events activity under ASC 855, *Subsequent Events.* It only allows an entity to use this information to inform its estimate of credit losses at the balance sheet date.

Disclosures

An entity must disclose if it has elected to use the practical expedient and related accounting policy election.

Effective Date & Transition

If approved, FASB will determine the effective date after a review of comment letter feedback. Early adoption would be permitted in periods if financial statements have not been made available for issuance. Adoption would be on a prospective basis. Similar to the existing private company elections, an entity could adopt at any time without demonstrating preferability.

Conclusion

The assurance team at Forvis Mazars delivers extensive experience and skilled professionals to assist with your objectives. Our proactive approach includes candid and open communication to help address your financial reporting needs. At the end of the day, we know how important it is for you to be able to trust the numbers; our commitment to independence and objectivity helps provide the security and confidence you desire. Whether you are publicly traded or privately held, Forvis Mazars can help provide an independent and objective view into your financial reporting. We leverage some of the latest technologies and process automation tools to provide companies assurance on their financial statements in meeting stakeholders' needs.

Contributor

Anne Coughlan

Director, Professional Standards Group

anne.coughlan@us.forvismazars.com