

Proposed Accounting Standards Update

Issued: January 22, 2025
Comments Due: April 22, 2025

Codification Improvements

The Board issued this Exposure Draft to solicit public comment on proposed changes to the *FASB Accounting Standards Codification*[®]. Individuals can submit comments in one of three ways: using the electronic feedback form on the FASB website, emailing comments to director@fasb.org, or sending a letter to “Technical Director, File Reference No. 2025-ED100, FASB, 801 Main Avenue, PO Box 5116, Norwalk, CT 06856-5116.”

Notice to Recipients of This Exposure Draft of a Proposed Accounting Standards Update

The Board invites comments on all matters in this Exposure Draft until April 22, 2025. Interested parties may submit comments in one of three ways:

- Using the electronic feedback form available on the FASB website at [Exposure Documents Open for Comment](#)
- Emailing comments to director@fasb.org, File Reference No. 2025-ED100
- Sending a letter to “Technical Director, File Reference No. 2025-ED100, FASB, 801 Main Avenue, PO Box 5116, Norwalk, CT 06856-5116.”

All comments received are part of the FASB’s public file and are available at www.fasb.org.

The *FASB Accounting Standards Codification*[®] is the source of authoritative generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. An Accounting Standards Update is not authoritative; rather, it is a document that communicates how the Accounting Standards Codification is being amended. It also provides other information to help a user of GAAP understand how and why GAAP is changing and when the changes will be effective. A copy of this Exposure Draft is available at www.fasb.org.

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Summary and Questions for Respondents

Why Is the FASB Issuing This Proposed Accounting Standards Update (Update)?

The Board has a standing project to address suggestions received from stakeholders on the Accounting Standards Codification and to make other incremental improvements to generally accepted accounting principles (GAAP). This evergreen project facilitates Codification updates for a broad range of Topics arising from technical corrections, unintended application of the Codification, clarifications, and other minor improvements. The resulting amendments are collectively referred to as Codification improvements.

The Board decided that the types of issues that it will consider through this project are improvements that are not expected to have a significant effect on current accounting practice or result in significant costs to most entities.

An explanation of why each amendment in this proposed Update is being made is provided in the “Amendments to the *FASB Accounting Standards Codification*®” section. Therefore, there is no separate section for the Board’s basis for conclusions in this proposed Update.

Who Would Be Affected by the Amendments in This Proposed Update?

The amendments in this proposed Update would affect a wide variety of Topics in the Codification and would apply to all reporting entities within the scope of the affected accounting guidance.

What Are the Main Provisions?

Thirty-four issues are addressed in this proposed Update. Respondents should review the entire document to assess what effect the proposed amendments would be expected to have.

The Board would specifically like to highlight Issues 1, 4, 6, 20, and 25 to ensure that stakeholders provide feedback on those issues.

Issue 1—Remove the Master Glossary Term *Amortized Cost*

The Master Glossary term *amortized cost*, which was originally included in AICPA Statement of Position 03-3, *Accounting for Certain Loans or Debt Securities Acquired in a Transfer*, is not linked to any Topics in the Codification. The definition of the term *amortized cost* was previously included in paragraphs 310-30-35-8 and 310-30-35-10, which were superseded in Accounting Standards Update No. 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. Although the term *amortized cost* was not defined in the amendments in Update 2016-13, the Master Glossary term *amortized cost basis* was updated in the amendments in Update 2016-13. The term *amortized cost* frequently is used interchangeably throughout Subtopic 320-10, *Investments—Debt Securities—Overall*, with the linked and defined Master Glossary term *amortized cost basis*. The amendments in this proposed Update would remove the Master Glossary term *amortized cost*.

Issue 4—Clarify the Calculation of Earnings per Share When a Loss from Continuing Operations Exists

The current guidance in Topic 260, *Earnings Per Share*, is not clear about how to calculate diluted earnings per share (EPS) when an entity has a loss from continuing operations and has a contract that may be settled in stock or cash that is reported as an asset or liability for accounting purposes. The amendments in this proposed Update would clarify that an entity should consider whether including the potential common shares would have a dilutive effect on the diluted EPS computation, even if a loss from continuing operations exists, by evaluating the combined effect of the adjustments to the numerator and denominator. As a result of the proposed amendments, diluted EPS would not always be the same as basic EPS when an entity reports a loss from continuing operations.

Issue 6—Clarify Calculation of the Reference Amount for Beneficial Interests

Paragraph 325-40-35-4B does not specifically discuss whether the allowance for credit losses should be included or excluded when calculating the reference amount for beneficial interests described in paragraphs 325-40-35-4 through 35-4A. The reference amount affects the calculation of the accretable yield and, therefore, the recognition of interest income over the life of the beneficial interest. Stakeholders have questioned whether not specifying that the calculation of the reference amount should be reduced by the allowance for credit losses results in double counting credit losses (in both the allowance for credit losses and the accretable yield). The amendments in this proposed Update would revise the description of the calculation of the reference amount for beneficial interests in paragraph 325-40-35-4B to reduce the reference amount by the amount of the allowance for credit losses.

Issue 20—Clarify Guidance for the Transfer of Receivables from Contracts with Customers

Paragraph 606-10-45-4 indicates that (1) a receivable is an entity's right to consideration that is unconditional and (2) a right to consideration is unconditional if only the passage of time is required before payment of that consideration is due. An entity may have an unconditional right to consideration from a customer that gives rise to a receivable before the entity transfers control of a good or service to the customer. The Board has received questions about whether Topic 470, Debt, or Topic 860, Transfers and Servicing, applies to the transfer of those receivables. Those receivables are financial assets, and guidance for evaluating transfers of financial assets is provided in Subtopic 860-10, Transfers and Servicing—Overall. Therefore, the amendments in this proposed Update would clarify that the transfer of receivables from contracts with customers recognized in accordance with the guidance in paragraph 606-10-45-4 is accounted for as a transfer of financial assets and subject to the requirements of Subtopic 860-10.

Issue 25—Clarify Accounting for Certain Receivables by Not-for-Profit Entities

Subtopic 326-20, Financial Instruments—Credit Losses—Measured at Amortized Cost, applies to all entities, including not-for-profit entities (NFPs).

Stakeholders noted that paragraph 958-310-35-3 should have been updated by the amendments in Update 2016-13 because that paragraph requires receivables arising from exchange transactions to be reported at net realizable value if the amounts are due within one year, which is inconsistent with the guidance in Subtopic 326-20. This proposed Update would amend paragraph 958-310-35-3 to refer to Subtopic 326-20 for guidance on the accounting for credit losses on receivables arising from exchange transactions. That amendment would clarify that all entities, including NFPs, would need to measure receivables arising from exchange transactions using the credit losses guidance in Subtopic 326-20. The amendments in the proposed Accounting Standards Update, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses for Accounts Receivable and Contract Assets for Private Companies and Certain Not-for-Profit Entities*, if finalized by the Board, would introduce a practical expedient and an accounting policy election for private companies and certain NFPs to simplify the application of the guidance in Subtopic 326-20 to current accounts receivable and current contract assets arising from transactions accounted for under Topic 606, Revenue from Contracts with Customers.

Other Issues

The following table summarizes the 29 other amendments in this proposed Update.

Area of Improvement	Summary of Proposed Amendments
<p>Issue 2: Clarify Comparative Financial Statement Presentation Requirements</p>	<p>Clarify comparative financial statement requirements in paragraph 205-10-45-2 by replacing the list of individually named financial statements with the phrase <i>financial statements</i>.</p>
<p>Issue 3: Correct Error in Comprehensive Income Example</p>	<p>Clarify the illustration in paragraph 220-10-55-7 by (a) updating the “other comprehensive income, before tax” line item to “other comprehensive income, net of tax” and (b) correcting the arithmetic errors in the illustration.</p>

Area of Improvement	Summary of Proposed Amendments
<p>Issue 5: Clarify Disclosure Requirements for a Lessor's Net Investment in Leases or Lease Receivables Arising from Sales-Type Leases or Direct Financing Leases</p>	<p>Add a subparagraph in paragraph 310-10-50-40 to clarify that a lessor's net investment in leases or lease receivables arising from sales-type leases or direct financing leases should be excluded from the enhanced disclosure requirements introduced by the amendments in Accounting Standards Update No. 2022-02, <i>Financial Instruments—Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures</i>.</p>
<p>Issue 7: Link to Master Glossary Term <i>Class of Financing Receivable</i></p>	<p>Link the Master Glossary term <i>class of financing receivable</i> to paragraphs 326-20-30-4A, 326-20-35-8A, and 326-20-45-5.</p>
<p>Issue 8: Remove Previously Superseded Paragraph Related to Leases Guidance</p>	<p>Remove paragraph 360-10-40-2, which was previously amended as part of Accounting Standards Update No. 2014-09, <i>Revenue from Contracts with Customers (Topic 606)</i>, and subsequently superseded as part of the amendments in Accounting Standards Update No. 2017-05, <i>Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets</i>.</p>
<p>Issue 9: Update References to Capitalization Guidance for Environmental Remediation Costs</p>	<p>Update paragraph 410-30-25-17 to include references to relevant capitalization guidance for environmental remediation costs.</p>

Area of Improvement	Summary of Proposed Amendments
Issue 10: Clarify Methods to Account for Treasury Stock Retirements	Clarify the treasury stock retirement guidance in paragraph 505-30-30-8 to explicitly permit the excess of repurchase price over par or stated value to be accounted for entirely as a deduction from additional paid-in capital (APIC).
Issue 11: Correct Error in Repurchase Agreement Illustrative Example	Clarify the repurchase agreement illustrative example for a call option in paragraph 606-10-55-404 by correcting the error in the date that the option lapses unexercised.
Issue 12: Align Intraproduct Tax Allocation Guidance	Amend paragraph 740-10-55-38(b)(1) to reflect the intraproduct tax allocation guidance in paragraph 740-20-55-12C.
Issue 13: Remove Reference to Pooling-of-Interests Method	Remove reference to pooling-of-interests method in paragraph 815-40-55-5.
Issue 14: Update References for Investments in Equity Securities Guidance	Update the references in paragraph 820-10-55-53 for investments in equity securities to Subtopics 321-10, Investments—Equity Securities—Overall, and 958-321, Not-for-Profit Entities—Investments—Equity Securities.
Issue 15: Update References for NFP Presentation Guidance	Update the scope of the NFP fair value option guidance in paragraph 825-10-15-7(c) to reference the relevant presentation guidance in paragraphs 958-220-45-9 through 45-12.
Issue 16: Add Reference to Other-Than-Temporary Impairment (OTTI) for Equity Method Investments	Add a reference to OTTI in paragraph 825-10-25-4(e) to reflect that it would not be appropriate to elect the fair value option for an equity method investment

Area of Improvement	Summary of Proposed Amendments
	upon recording an OTTI for that investment.
Issue 17: Update Illustrative Statement of Cash Flows for an Entity That Is in Reorganization	Amend the illustrative statement of cash flows for an entity that is in reorganization in paragraph 852-10-55-3 to correct labeling errors.
Issue 18: Update Fresh-Start Illustrative Example	Update the illustrations in paragraphs 852-10-55-9 through 55-10 to reflect that reorganization value in excess of amounts allocable to identifiable assets is required to be recognized as goodwill in accordance with paragraph 852-10-45-20.
Issue 19: Remove Reference to Cost Method Investments	Update paragraph 860-10-55-3 to replace cost method investments with investments accounted for in accordance with Topic 321, Investments—Equity Securities.
Issue 21: Correct Sentence Fragment in Transfers and Servicing Implementation Guidance	Correct the sentence fragment in paragraph 860-10-55-42B.
Issue 22: Remove OTTI Guidance	Remove the OTTI guidance in paragraph 944-360-45-5.
Issue 23: Clarify the Applicability of NFP Consolidation Guidance	Clarify in paragraph 954-810-15-3(b) that an NFP business-oriented health care entity with an investment in a for-profit entity, other than a limited partnership or similar legal entity (such as a limited liability company that has governing provisions that are the functional equivalent of a limited

Area of Improvement	Summary of Proposed Amendments
	partnership), should apply the guidance in the General Subsections of Subtopic 810-10, Consolidation—Overall, to determine whether that interest constitutes a controlling financial interest.
Issue 24: Remove the Phrase <i>Recognized and Unrecognized</i> from NFP and Health Care Entities Income Statement Guidance	Remove the phrase <i>recognized and unrecognized</i> from the NFP and health care entities income statement guidance in paragraphs 954-220-45-6 and 958-220-45-9(c).
Issue 26: Clarify NFP Receivables Guidance for Equity Securities	Update Subtopic 958-310, Not-for-Profit Entities—Receivables, to remove the qualifier <i>with readily determinable fair values</i> after <i>equity securities</i> and add references to Topic 320, Investments—Debt Securities, for guidance on debt securities and to Topic 321 and Subtopic 958-321 for guidance on equity securities in footnote (b) in the illustrative Example in paragraph 958-310-55-1.
Issue 27: Clarify Impairment Guidance for Institutions of Higher Education	Add a reference in paragraph 958-325-35-1 to other GAAP for impairment guidance for other types of investments applicable to Subtopic 958-325, Not-for-Profit Entities—Investments—Other.
Issue 28: Remove Reference to Equity Securities in the NFP Other Investment Guidance	Remove the phrase <i>are not equity securities</i> from the NFP other investment guidance in paragraphs 958-325-35-5 and 958-325-35-7.
Issue 29: Remove Reference to a Probability Assessment in Evaluating Whether to Recognize Part of a Transaction as a Contribution	Remove paragraphs 958-360-50-4(d) and 958-605-55-25 related to the use of a probability assessment in evaluating whether to recognize part of a transaction as a contribution.

Area of Improvement	Summary of Proposed Amendments
Issue 30: Update NFP Business Combinations Guidance to Reference Exceptions to the Recognition Principle	Update paragraph 958-805-25-21 to reference the exceptions discussed in paragraphs 805-20-25-16 through 25-17 and related guidance.
Issue 31: Clarify Relevant Guidance for an NFP That Is an Acquirer	Update paragraph 958-805-30-5 to clarify that an NFP that is an acquirer should apply the guidance in Subtopic 958-805, Not-for-Profit Entities—Business Combinations, instead of the guidance in Subtopic 805-20, Business Combinations—Identifiable Assets and Liabilities, and Any Noncontrolling Interest, or Subtopic 805-30, Business Combinations—Goodwill or Gain from Bargain Purchase, Including Consideration Transferred.
Issue 32: Add Cross-Reference to Hedge Documentation and Hedge Effectiveness Guidance for Certain NFPs	Add paragraph 958-815-25-2 to reference relevant guidance for the timing of hedge documentation and hedge effectiveness assessments for certain NFPs.
Issue 33: Update Defined Contribution Plan Illustrative Example	Update the illustrative financial statements and disclosures of a defined contribution plan in paragraph 962-325-55-17 to remove the reference to (a) allowance for credit losses and (b) transfers between Level 1 and Level 2 of the fair value hierarchy.
Issue 34: Update Real Estate Guidance to Refer to the Use of the Proportional Amortization Method	Update paragraph 970-323-05-4 to reference the use of the proportional amortization method to investments made primarily for the purpose of receiving income tax credits and other income tax benefits.

How Would the Main Provisions Differ from Current Generally Accepted Accounting Principles (GAAP) and Why Would They Be an Improvement?

The amendments in this proposed Update represent changes to the Codification that would (1) clarify, (2) correct errors, or (3) make minor improvements. The proposed amendments would make the Codification easier to understand and apply.

The amendments in this proposed Update are varied in nature and may affect the application of guidance in cases in which the original guidance may have been unclear.

When Would the Amendments Be Effective?

Generally, the amendments in this proposed Update are not intended to result in significant changes for most entities. However, the Board recognizes that changes to guidance may result in accounting changes for some entities. Therefore, the Board is providing transition guidance for the proposed amendments.

In the period of adoption, an entity would apply the amendments to Topic 260 in this proposed Update (that is, Issue 4) retrospectively to each prior reporting period presented.

An entity would apply all other amendments in this proposed Update using one of the following transition methods, in the period of adoption:

1. Prospectively to all new transactions recognized on or after the date that the entity first applies the proposed amendments
2. Retrospectively to the beginning of the earliest comparative period presented. An entity would adjust the opening balance of retained earnings (or other appropriate components of equity or net assets in the statement of financial position) as of the beginning of the earliest comparative period presented.

The Board will determine the effective date and whether early application should be permitted after it considers feedback on the amendments in this proposed Update.

Questions for Respondents

The Board invites individuals and organizations to comment on all matters in this proposed Update, particularly on the issues and questions below. Comments are requested from those who agree with the proposed guidance as well as from those who do not agree. Comments are most helpful if they identify and clearly explain the issue or question to which they relate. Those who disagree with the proposed guidance are asked to describe their suggested alternatives, supported by specific reasoning.

Overall

Question 1: Do you agree with the amendments to the Codification in this proposed Update? If not, please explain which proposed amendment(s) you disagree with and why.

Question 2: Would any of the proposed amendments result in unintended consequences? If so, please explain.

Question 3: Are there other changes that should be made that are directly or indirectly related to the proposed amendments? Please note that the Board will conduct Codification Improvement projects on a periodic basis, and additional changes may be addressed in a subsequent Codification Improvement project.

Question 4: The proposed amendments would apply to public and nonpublic entities. Would any of the proposed amendments require special consideration for nonpublic entities? If so, which proposed amendment(s) would require special consideration and why?

Issue 1—Remove the Master Glossary Term *Amortized Cost*

Question 5: The proposed amendments would remove the Master Glossary term *amortized cost*. Although that term is not linked to the Master Glossary, it frequently is used interchangeably with the linked and defined Master Glossary

term *amortized cost basis* in Subtopic 320-10. Are there any operational concerns or unintended consequences if the existing instances of the term *amortized cost* were replaced with the Master Glossary term *amortized cost basis*? Please explain, including any specific instances where the term *amortized cost* should not be replaced.

Issue 4—Clarify the Calculation of Earnings per Share When a Loss from Continuing Operations Exists

Question 6: Are the proposed amendments to Topic 260 on the application of the diluted EPS computation when an entity has a loss from continuing operations (and has a contract that may be settled in stock or cash that is reported as an asset or liability for accounting purposes) clear and understandable? Would the proposed amendments result in any unintended consequences? Please explain.

Issue 6—Clarify Calculation of the Reference Amount for Beneficial Interests

Question 7: The proposed amendments to paragraph 325-40-35-4B would update the description of the calculation of the reference amount for beneficial interests in paragraph 325-40-35-4B to include the allowance for credit losses. Do you anticipate that this proposed amendment would result in a significant and appropriate change in practice? For example, would this proposed amendment impose significant incremental costs or materially change estimated expected credit losses? Please explain.

Issue 20—Clarify Guidance for the Transfer of Receivables from Contracts with Customers

Question 8: The proposed amendments to paragraphs 860-10-55-5 and 860-10-55-14A would clarify that the transfer of receivables from contracts with customers recognized in accordance with the guidance in paragraph 606-10-45-4 should be accounted for in accordance with the transfer of financial assets guidance. Are you aware of significant diversity in accounting for these transactions under current GAAP? Do you agree with the proposed amendments? Please explain.

Issue 25—Clarify Accounting for Certain Receivables by Not-for-Profit Entities

Question 9: The proposed amendments to paragraph 958-310-35-3 would refer to Subtopic 326-20 for guidance on the accounting for receivables arising from exchange transactions. This would clarify that all entities, including NFPs, would need to measure receivables arising from exchange transactions using the credit losses guidance in Subtopic 326-20.

- a. Do you anticipate that this proposed amendment would result in a significant change in practice? For example, would this proposed amendment impose significant incremental costs or result in a significant change in outcome? Please explain. Additionally, how would your responses be affected if the Board finalized the amendments in the proposed Accounting Standards Update, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses for Accounts Receivable and Contract Assets for Private Companies and Certain Not-for-Profit Entities*, which would introduce a practical expedient and an accounting policy election for private companies and certain NFPs related to the application of the guidance in Subtopic 326-20 to current accounts receivable and current contract assets arising from transactions accounted for under Topic 606?
- a. Paragraph 326-20-15-1 currently indicates that Subtopic 326-20 on current expected credit losses (CECL) applies to all entities, including NFPs. Therefore, receivables arising from exchange transactions are subject to the CECL guidance in Topic 326. Do you think it is necessary to add a reference for Topic 326 on credit losses to the guidance on the accounting for receivables arising from exchange transactions in paragraph 958-310-35-3? Please explain.

Transition

Question 10: Would any of the proposed amendments (other than Issue 4) result in substantive changes to the application of existing guidance that would require transition provisions specific to that proposed amendment? If so, please describe.

Question 11: In the period of adoption, an entity would be required to apply the proposed amendments to Topic 260 retrospectively to each prior reporting

period presented (Issue 4). An entity would be permitted to apply all other proposed amendments prospectively or retrospectively. Are the proposed transition requirements operable, and do you foresee any auditability challenges? Please explain. If the proposed transition requirements are not operable, please explain what transition method would be more appropriate and why.

Effective Date

Question 12: In evaluating the effective date, how much time would be needed to implement the proposed amendments? Should the effective date for entities other than public business entities be different from the effective date for public business entities? Should early adoption be permitted? If so, and an entity elects to early adopt the proposed amendments, should the entity be required to adopt those proposed amendments as of the beginning of an annual reporting period? Please explain.

Amendments to the *FASB Accounting Standards Codification*[®]

Summary of Proposed Amendments to the Accounting Standards Codification

1. The following table provides a summary of the proposed amendments to the Accounting Standards Codification.

Issue(s)	Codification Topic	Paragraphs
1	Master Glossary	3 and 4
2	Presentation of Financial Statements (Topic 205)	5–7
3	Income Statement—Reporting Comprehensive Income (Topic 220)	8–11
4	Earnings Per Share (Topic 260)	12–17
5	Receivables (Topic 310)	18–21
6	Investments—Other (Topic 325)	22–24
7	Financial Instruments—Credit Losses (Topic 326)	25 and 26
8	Property, Plant, and Equipment (Topic 360)	27 and 28
9	Asset Retirement and Environmental Obligations (Topic 410)	29 and 30
10	Equity (Topic 505)	31–33
11	Revenue from Contracts with Customers (Topic 606)	34 and 35
12	Income Taxes (Topic 740)	36 and 37

Issue(s)	Codification Topic	Paragraphs
13	Derivatives and Hedging (Topic 815)	38 and 39
14	Fair Value Measurement (Topic 820)	40 and 41
15 and 16	Financial Instruments (Topic 825)	42–45
17 and 18	Reorganizations (Topic 852)	46–50
19–21	Transfers and Servicing (Topic 860)	51–57
22	Financial Services—Insurance (Topic 944)	58 and 59
23	Health Care Entities (Topic 954)	60–62
24	Health Care Entities (Topic 954) and Not-for-Profit Entities (Topic 958)	63–65
25–32	Not-for-Profit Entities (Topic 958)	66–84
33	Plan Accounting—Defined Contribution Pension Plans (Topic 962)	85–88
34	Real Estate—General (Topic 970)	89 and 90
Transition	Generally Accepted Accounting Principles (Topic 105)	91

Introduction

2. The Accounting Standards Codification is amended as described in paragraphs 3–91. In some cases, to put the change in context, not only are the amended paragraphs shown but also the preceding and following paragraphs. Terms from the Master Glossary are in **bold** type. Added text is underlined, and deleted text is ~~struck-out~~.

Amendments to Master Glossary

Issue 1

3. The Master Glossary term *amortized cost*, which was originally included in AICPA Statement of Position 03-3, *Accounting for Certain Loans or Debt Securities Acquired in a Transfer*, is not linked to any Topics in the Codification. The definition of the term *amortized cost* was previously included in paragraphs 310-30-35-8 and 310-30-35-10, which were superseded in Accounting Standards Update No. 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The term *amortized cost* frequently is used interchangeably throughout Subtopic 320-10, *Investments—Debt Securities—Overall*, with the linked and defined Master Glossary term *amortized cost basis*, which was updated in the amendments in Update 2016-13. However, the use of the term *amortized cost* in Subtopic 320-10 is not linked to the Master Glossary term *amortized cost*. The proposed amendments would remove the Master Glossary term *amortized cost*.

4. Supersede the Master Glossary term *Amortized Cost*, with a link to transition paragraph 105-10-65-10, as follows:

~~Amortized Cost~~

~~The sum of the initial investment less cash collected less write-downs plus yield accreted to date.~~

Amendments to Subtopic 205-10

Issue 2

5. Paragraph 205-10-45-2 provides guidance on comparative financial statements, specifically that the statement of financial position, the income statement, and the statement of changes in equity should typically be presented for one or more preceding years, as well as for the current year. However, paragraph 205-10-45-1A indicates that a full set of financial statements should include other statements, such as the statement of cash flows and the statement of other comprehensive income. Additionally, some entities, such as defined benefit plans and investment companies, may not be required to present certain statements, such as a statement of cash flows.

Therefore, paragraph 205-10-45-2 does not comprehensively list all the statements an individual entity may be required to provide.

6. The proposed amendments would replace the list of individually named financial statements in paragraph 205-10-45-2 with the phrase *financial statements* to be inclusive of all the statements that an individual entity may need to provide, as well as acknowledge in paragraph 205-10-45-1A that an entity may not be required to provide certain statements in accordance with other Topics.

7. Amend paragraphs 205-10-45-1A through 45-2, with a link to transition paragraph 105-10-65-10, as follows:

Presentation of Financial Statements—Overall

Other Presentation Matters

> Comparative Financial Statements

205-10-45-1 The presentation of comparative financial statements in annual and other reports enhances the usefulness of such reports and brings out more clearly the nature and trends of current changes affecting the entity. Such presentation emphasizes the fact that statements for a series of periods are far more significant than those for a single period and that the accounts for one period are but an installment of what is essentially a continuous history.

205-10-45-1A A full set of financial statements for a period shall show all of the following (unless not required to do so by other Topics):

- a. Financial position at the end of the period
- b. Earnings (**net income**) for the period, (which may be presented as a separate statement or within a continuous statement of **comprehensive income** [see paragraph 220-10-45-1A])
- c. Comprehensive income (total nonowner changes in equity) for the period in one statement or two separate but consecutive statements (if the reporting entity is required to report comprehensive income, see paragraph 220-10-15-3)
- d. Cash flows during the period
- e. Investments by and distributions to owners during the period.

205-10-45-2 In any one year it is ordinarily desirable that the financial statements~~statement of financial position, the income statement, and the statement of changes in equity~~ be presented for one or more preceding years, as well as for the current year.

Amendments to Subtopic 220-10

Issue 3

8. The illustration of the consolidated statement of comprehensive income in paragraph 220-10-55-7 contains a label error and an arithmetic error. The sentence above the illustration states that comprehensive income components are shown *net of* tax effects. However, the line-item description in the illustration states “Other comprehensive income, before tax.” The following paragraph, paragraph 220-10-55-8, is intended to illustrate components of other comprehensive income *before* tax under the same fact pattern as an alternative to *net of* tax in paragraph 220-10-55-7.

9. Additionally, the “Defined benefit pension plans” subtotal appears to include a footing error because it illustrates adding to (\$2,500) but the current amounts add to (\$3,100). However, if the “Net loss arising during period” was (\$1,000) instead of (\$1,600), the subtotal would correctly foot to (\$2,500). The (\$1,000) appears to be the correct amount because in paragraph 220-10-55-8 the “Net loss arising during period” before tax is (\$1,333), and, therefore, net of a 25 percent tax rate as illustrated in the Example, “Net loss arising during period” after tax should be (\$1,000).

10. The proposed amendments would amend the illustration in paragraph 220-10-55-7 by (a) updating the “other comprehensive income, before tax” line item to “other comprehensive income, net of tax” and (b) correcting the arithmetic errors in the illustration.

11. Amend paragraph 220-10-55-7, with a link to transition paragraph 105-10-65-10, as follows:

Income Statement—Reporting Comprehensive Income— Overall

Implementation Guidance and Illustrations

> Illustrations

• > Example 1: Presenting Comprehensive Income

• • > Single Continuous Statement

220-10-55-7 The following illustrates the statement of comprehensive income for the year ended December 31, 201X, with other comprehensive income components shown net of tax effects.

Entity XYZ
Consolidated Statement of Comprehensive Income
Year Ended December 31, 201X

Revenues		\$ 140,000
Expenses		(65,700)
Other gains and losses		8,000
Gain on sale of securities		2,500
Income from operations before tax		<u>84,800</u>
Income tax expense		<u>(21,200)</u>
[Net income		63,600]
Less: net income attributable to the noncontrolling interest	<u>\$ (12,720)</u>	
Net income attributable to Entity XYZ shareholders	<u>50,880</u>	
Earnings per share		
Basic and diluted	0.46	
Other comprehensive income, <u>net of</u> before tax:		
Foreign currency translation adjustments ^(a)		8,000
Unrealized gains on debt securities: ^(b)		
Unrealized holding gains arising during period	13,000	
Less: reclassification adjustment for gains included in net income	<u>(1,500)</u>	11,500
Defined benefit pension plans: ^(c)		
Prior service cost arising during period	(1,600)	
Net loss arising during period	<u>(1,000) (1,600)</u>	
Less: amortization of prior service cost included in net periodic pension cost	<u>100</u>	<u>(2,500)</u>
[Other comprehensive income		<u>17,000]</u>
[Comprehensive income		80,600]
Less: comprehensive income attributable to the noncontrolling interest		<u>(16,120)</u>
Comprehensive income attributable to Entity XYZ shareholders		<u>\$ 64,480</u>

- (a) It is assumed that there was no sale or liquidation of an investment in a foreign entity. Therefore, there is no reclassification adjustment for this period.
- (b) This illustrates the gross display of amounts reclassified out of accumulated other comprehensive income. Alternatively, a net display can be used, with disclosure of the gross amounts (current-period gain and reclassification adjustment) in the notes to financial statements.
- (c) This illustrates the gross display of amounts reclassified out of accumulated other comprehensive income. Alternatively, a net display can be used, with disclosure of the gross amounts (prior service cost and net loss for the defined benefit pension plans less amortization of prior service cost) in the notes to financial statements.

Amendments to Subtopic 260-10

Issue 4

12. The Emerging Issues Task Force (EITF) received an agenda request on the application of Topic 260, Earnings Per Share, to the diluted earnings per share (EPS) computation when an entity has a loss from continuing operations. The EITF Agenda Committee decided that this issue could be more efficiently addressed by the Board as part of the FASB's Codification Improvements project. The Board deliberated this issue and decided to include the amendments as part of this proposed Update.

13. The EITF agenda request indicated diversity in practice on how an entity calculates diluted EPS when a loss from continuing operations exists and the entity has a contract that may be settled in stock or cash that is reported as an asset or a liability for accounting purposes. The issue arises because paragraphs 260-10-45-19 through 45-20 state that when a loss from continuing operations exists (a) including potential common shares in the denominator of a diluted EPS calculation will always result in an antidilutive per-share amount and (b) diluted EPS should be computed in the same manner as basic EPS. However, instrument-specific guidance in paragraphs 260-10-45-45 and 260-10-45-46 indicates that an adjustment to the numerator in the diluted EPS calculation may be required in certain situations. Therefore, when applying that guidance, an entity should consider whether including the potential common shares would have a dilutive effect on the diluted EPS computation by evaluating the combined effect of adjustments to the numerator and denominator.

14. The Board noted that including potential common shares in the denominator is generally antidilutive when a loss from continuing operations exists. However, if an entity reports a loss from continuing operations in a period and the entity has a contract that may be settled in stock or cash that is reported as an asset or liability for accounting purposes, the combined effect of the numerator adjustment and the inclusion of potential common shares in the denominator may not always be antidilutive. Therefore, the Board decided to amend the guidance to clarify that an entity should include an adjustment to the numerator of the diluted EPS computation for any gain or loss that would result if the contract had been reported as an equity instrument. As a result, the proposed amendments would result in an entity considering whether the

combined effect of the numerator adjustment and the inclusion of potential common shares in the denominator would have a dilutive effect on the diluted EPS computation when a loss from continuing operations exists. In such cases, diluted EPS would not always be the same as basic EPS when an entity reports a loss from continuing operations. The Board also decided to clarify that including the potential common shares in the diluted EPS computation when an entity reports a loss from continuing operations would generally, but not *always*, result in an antidilutive per-share amount.

15. The Board observed that investors use both basic and diluted EPS measures for financial statement analysis and modeling purposes. As a result, the Board has generally required modified retrospective application or full retrospective application for past changes to the computation of basic or diluted EPS to provide investors with comparable prior-period EPS information in the period of adoption. Accordingly, the Board decided to require that the amendments to Topic 260 be applied retrospectively to each prior reporting period presented.

16. Amend paragraphs 260-10-45-19 through 45-20, 260-10-45-45, 260-10-55-3A, 260-10-55-45 through 55-46, 260-10-55-85 through 55-87, and 260-10-55-90 through 55-91 and their related heading, supersede paragraph 260-10-55-3B, and add paragraphs 260-10-55-3C and 260-10-55-91A, with a link to transition paragraph 260-10-65-5, as follows:

Earnings Per Share—Overall

Other Presentation Matters

> Diluted EPS and Related Topics

- **> No Antidilution**

260-10-45-19 Including potential common shares in the denominator of a diluted per-share computation for continuing operations generally~~always~~ will result in an antidilutive per-share amount when an entity has a loss from continuing operations or a loss from continuing operations available to common stockholders (that is, after any preferred dividend deductions). ~~Although including those potential common shares in the other diluted per-share computations may be dilutive to their comparable basic per-share amounts, no potential common shares shall be included in the computation of any diluted~~

~~per-share amount when a loss from continuing operations exists, even if the entity reports net income.~~ However, certain contracts also may require an adjustment to the numerator, such as contracts accounted for in accordance with the guidance in paragraphs 260-10-45-45 and 260-10-45-46. In those circumstances, an entity shall determine whether including the potential common shares would have a dilutive effect on the diluted EPS computation even if a loss from continuing operations exists by evaluating the combined effect of the adjustments to the numerator and denominator.

260-10-45-20 The control number for determining whether including potential common shares in the diluted EPS computation would be antidilutive should be income (or loss) from continuing operations (or a similar line item above net income if it appears on the income statement). ~~As a result, if~~ When there is a loss from continuing operations, diluted EPS would be computed in the same manner as basic EPS is computed, ~~even if an entity has net income after adjusting for a discontinued operation.~~ if the combined effect of the adjustments to the numerator and denominator is antidilutive. This would be the case even if an entity has net income after adjusting for a discontinued operation. Similarly, if an entity has income from continuing operations but its preferred dividend adjustment made in computing income available to common stockholders in accordance with paragraph 260-10-45-11 results in a loss from continuing operations available to common stockholders, diluted EPS would be computed in the same manner as basic EPS if the combined effect of the adjustments to the numerator and denominator is antidilutive.

• **> Contracts That May Be Settled in Stock or Cash**

260-10-45-45 The effect of potential share settlement shall be included in the diluted EPS calculation (if the effect is more dilutive) for an otherwise cash-settleable instrument that contains a provision that requires or permits share settlement (regardless of whether the election is at the option of an entity or the holder, ~~or~~ the entity has a history or policy of cash settlement, or a loss from continuing operations exists). An example of such a contract accounted for in accordance with this paragraph and paragraph 260-10-45-46 is a written call option that gives the holder a choice of settling in common stock or in cash. An election to share settle an instrument, for purposes of applying the guidance in this paragraph, does not include circumstances in which share settlement is contingent upon the occurrence of a specified event or circumstance (such as **contingently issuable shares**). In those circumstances (other than if the

contingency is an entity's own share price), the guidance on contingently issuable shares should first be applied, and, if the contingency would be considered met, then the guidance in this paragraph should be applied. Share-based payment arrangements that are payable in common stock or in cash at the election of either the entity or the grantee shall be accounted for pursuant to this paragraph and paragraph 260-10-45-46, unless the share-based payment arrangement is classified as a liability because of the requirements in paragraph 718-10-25-15 (see paragraph 260-10-45-45A for guidance for those instruments). If the payment of cash is required only upon the final liquidation of an entity, then the entity shall include the effect of potential share settlement in the diluted EPS calculation until the liquidation occurs.

260-10-45-46 A contract that is reported as an asset or liability for accounting purposes may require an adjustment to the numerator for any changes in income or loss that would result if the contract had been reported as an equity instrument for accounting purposes during the period. That adjustment is similar to the adjustments required for convertible debt in paragraph 260-10-45-40(b).

Implementation Guidance and Illustrations

> Implementation Guidance

• > Applying the Treasury Stock Method: Year-to-Date Computations

260-10-55-3A Computation of year-to-date diluted EPS when an entity has a year-to-date loss from continuing operations including one or more quarters with income from continuing operations and when in-the-money options or warrants were not included in one or more quarterly diluted EPS computations because there was a loss from continuing operations in those quarters (and the entity determined that the effect of doing so would be antidilutive) is as follows. In computing year-to-date diluted EPS, year-to-date income (or loss) from continuing operations shall be the basis for determining whether or not dilutive potential common shares not included in one or more quarterly computations of diluted EPS shall be included in the year-to-date computation.

260-10-55-3B Paragraph superseded by Accounting Standards Update No. 2025-XX. Therefore:

- a. ~~When there is a year-to-date loss, potential common shares should never be included in the computation of diluted EPS, because to do so would be antidilutive.~~
- b. ~~When there is year-to-date income, if in-the-money options or warrants were excluded from one or more quarterly diluted EPS computations because the effect was antidilutive (there was a loss from continuing operations in those periods), then those options or warrants should be included in the diluted EPS denominator (on a weighted-average basis) in the year-to-date computation as long as the effect is not antidilutive. Similarly, contingent shares that were excluded from a quarterly computation solely because there was a loss from continuing operations should be included in the year-to-date computation unless the effect is antidilutive. [Content amended and moved to paragraph 260-10-55-3C]~~

~~Example 12 (see paragraph 260-10-55-85) illustrates this guidance. [Content moved to paragraph 260-10-55-3C]~~

260-10-55-3C When there is year-to-date income, if in-the-money options or warrants were excluded from one or more quarterly diluted EPS computations because the effect was antidilutive (there was a loss from continuing operations in those periods), then those options or warrants should be included in the diluted EPS denominator (on a weighted-average basis) in the year-to-date computation as long as the effect is dilutive~~not antidilutive~~. Similarly, contingent shares that were excluded from a quarterly computation ~~solely because there the effect was antidilutive~~ a loss from continuing operations should be included in the year-to-date computation ~~if~~ unless the effect is dilutive~~antidilutive~~. **[Content amended as shown and moved from paragraph 260-10-55-3B(b)]** Example 12 (see paragraph 260-10-55-85) illustrates this guidance. **[Content moved from paragraph 260-10-55-3B]**

> Illustrations

• > Example 1: Computation of Basic and Diluted EPS and Income Statement Presentation

260-10-55-45 The following tables illustrate calculation of diluted EPS for the third quarter.

Third Quarter 20X1

Diluted EPS Computation

Income available to common stockholders		\$ 495,000
Plus: Income impact of assumed conversions		
Preferred stock dividends	<u>\$ 5,000</u>	
Effect of assumed conversions		<u>5,000</u>
Income available to common stockholders + assumed conversions		500,000
Loss on discontinued operations		<u>(2,000,000)</u>
Net loss available to common stockholders + assumed conversions		<u><u>\$ (1,500,000)</u></u>
Weighted-average shares		4,266,666
Plus: Incremental shares from assumed conversions		
Warrants	51,643 ^(a)	
Convertible preferred stock	<u>100,000</u>	
Dilutive potential common shares		<u>151,643</u>
Adjusted weighted-average shares		<u><u>4,418,309</u></u>
Diluted EPS		
Income from continuing operations	\$ 0.11	
Loss on discontinued operations	\$ (0.45)	
Net loss	\$ (0.34)	

The equation for computing diluted EPS is:

$$\frac{\text{Income available to common stockholders + Effect of assumed conversions}}{\text{Weighted-average shares + Dilutive potential common shares}}$$

(a) $[(\$71 - \$60) \div \$71] \times 500,000 = 77,465$ shares; $77,465 \times 2/3 = 51,643$ shares

Note that the incremental shares from assumed conversions are included in computing the diluted per-share amounts for the discontinued operation and net loss even though they are antidilutive. This is because the incremental shares are dilutive to the control number (income from continuing operations, adjusted for preferred dividends) ~~was income, not a loss~~. (See paragraphs 260-10-45-18 through ~~45-19~~45-20.)

260-10-55-46 The following tables illustrate calculation of basic and diluted EPS for the fourth quarter.

Fourth Quarter 20X1

Basic and Diluted EPS Computation

Net loss	\$ (500,000)
Plus: Preferred stock dividends	(5,000)
Net loss available to common stockholders	<u><u>\$ (505,000)</u></u>

Dates Outstanding	Shares Outstanding	Fraction of Period	Weighted-Average Shares
October 1–December 31	4,600,000	3/3	<u>4,600,000</u>
Weighted-average shares			<u><u>4,600,000</u></u>

Basic and Diluted EPS

Net loss	\$ (0.11)
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The equation for computing basic (and diluted) EPS is:

$$\frac{\text{Income available to common stockholders}}{\text{Weighted-average shares}}$$

Note that the incremental shares from assumed conversions are not included in computing the diluted per-share amounts for net loss because the effect of including those incremental shares would be antidilutive to the control number (net loss adjusted for preferred dividends) was a loss, not income. (See paragraphs 260-10-45-18 through ~~45-19~~45-20.)

• > Example 12: Computing Year-to-Date Weighted-Average Shares Outstanding

260-10-55-85 The following Cases illustrate the guidance in paragraphs 260-10-55-3A through ~~55-3B~~and 260-10-55-3C for the quarterly and annual computations of basic and diluted EPS for a company with options outstanding (equal to 20,000 incremental shares) that were in the money for the entire year (for simplicity purposes, this Example assumes that the stock price never changed). Case A addresses year-to-date loss, and Case B addresses year-to-date income. Note that in Case A, ~~due to a loss for the period,~~ zero incremental shares are included because the effect would be antidilutive. Note that in Case B, zero incremental shares are included in the quarterly diluted EPS computations for the first and second quarters or in the year-to-date diluted EPS computations for the three- and six-month periods because the effect would be antidilutive due to loss in the period.

• • > **Case A: Year-to-Date Loss**

260-10-55-86 The following tables illustrate the computation of quarterly and year-to-date EPS.

<u>Quarterly</u>	<u>First Quarter</u>	<u>Second Quarter</u>	<u>Third Quarter</u>	<u>Fourth Quarter</u>
Income from continuing operations	\$50,000	\$(150,000)	\$50,000	\$(200,000)
Common shares	100,000	100,000	100,000	100,000
Incremental shares	20,000	0 (a)	20,000	0 (a)
Basic EPS	\$ 0.50	\$ (1.50)	\$ 0.50	\$ (2.00)
Diluted EPS	\$ 0.42	\$ (1.50)	\$ 0.42	\$ (2.00)

(a) ~~Due to a loss for the period, zero~~Zero incremental shares are included because the effect would be antidilutive.

<u>Year-to-Date</u>	<u>Three Months</u>	<u>Six Months</u>	<u>Nine Months</u>	<u>Full Year</u>
Income from continuing operations	\$50,000	\$(100,000)	\$(50,000)	\$(250,000)
Common shares	100,000	100,000	100,000	100,000
Incremental shares	20,000	0 (a)	0 (a)	0 (a)
Basic EPS	\$ 0.50	\$ (1.00)	\$ (0.50)	\$ (2.50)
Diluted EPS	\$ 0.42	\$ (1.00)	\$ (0.50)	\$ (2.50)

(a) ~~Due to a loss for the period, zero~~Zero incremental shares are included because the effect would be antidilutive.

• • > **Case B: Year-to-Date Income**

260-10-55-87 The following tables illustrate the computation of quarterly and year-to-date EPS.

<u>Quarterly</u>	<u>First Quarter</u>	<u>Second Quarter</u>	<u>Third Quarter</u>	<u>Fourth Quarter</u>
Income from continuing operations	\$ (5,000)	\$ (5,000)	\$110,000	\$200,000
Common shares	100,000	100,000	100,000	100,000
Incremental shares	0 (a)	0 (a)	20,000	20,000
Basic EPS	\$ (0.05)	\$ (0.05)	\$ 1.10	\$ 2.00
Diluted EPS	\$ (0.05)	\$ (0.05)	\$ 0.92	\$ 1.67

(a) Zero incremental shares are included because the effect would be antidilutive due to loss in the period.

<u>Year-to-Date</u>	<u>Three Months</u>	<u>Six Months</u>	<u>Nine Months</u>	<u>Full Year</u>
Income from continuing operations	\$ (5,000)	\$(10,000)	\$ 100,000	\$ 300,000
Common shares	100,000	100,000	100,000	100,000
Incremental shares	0 (a)	0 (a)	20,000 (b)	20,000 (c)
Basic EPS	\$ (0.05)	\$ (0.10)	\$ 1.00	\$ 3.00
Diluted EPS	\$ (0.05)	\$ (0.10)	\$ 0.83	\$ 2.50

(a) Zero incremental shares are included because the effect would be antidilutive due to loss in the period.

(b) Nine-month computation: $(20 + 20 + 20) \div 3$

(c) Full-year computation: $(20 + 20 + 20 + 20) \div 4$

Note that if the options had been out of the money in any quarter, zero incremental shares would have been included for that quarter in the year-to-date averaging.

• > Example 14: Potential Antidilutive Securities

260-10-55-90 This Example illustrates the guidance in ~~paragraph~~paragraphs 260-10-45-18 through 45-20.

260-10-55-91 Assume that Entity A has income from continuing operations of \$2,400, a loss from discontinued operations of \$(3,600), a net loss of \$(1,200),

and 1,000 common shares outstanding and 200 potential common shares outstanding. Entity A's basic per-share amounts would be \$2.40 for continuing operations, \$(3.60) for the discontinued operation, and \$(1.20) for the net loss. Entity A would include the 200 potential common shares in the denominator of its diluted per-share computation for continuing operations because the resulting \$2.00 per share is dilutive. (For illustrative purposes, assume no numerator impact of those 200 potential common shares because they are from an equity classified instrument.) Because income from continuing operations is the control number, Entity A also must include those 200 potential common shares in the denominator for the other per-share amounts, even though the resulting per-share amounts [\$(3.00) per share for the loss from discontinued operation and \$(1.00) per share for the net loss] are antidilutive to their comparable basic per-share amounts; that is, the loss per-share amounts are less.

260-10-55-91A However, assume that Entity A has a loss from continuing operations of \$(380), a loss from discontinued operations of \$(3,600), a net loss of \$(3,980), and 1,000 common shares outstanding and 200 potential common shares outstanding from a liability classified instrument. During the period, Entity A recognized a fair value gain of \$200, net of income tax, for the liability classified instrument. Entity A's basic per-share amounts would be \$(0.38) for continuing operations, \$(3.60) for the discontinued operation, and \$(3.98) for the net loss. For the diluted per-share computation, Entity A would make the following adjustments:

- a. Adjust the numerator to remove the effect of the fair value gain of \$200 recognized in the period for the liability classified instrument, resulting in an adjusted loss from continuing operations of \$(580) and an adjusted net loss of \$(4,180).
- b. Adjust the denominator by including the 200 potential common shares.

Because loss from continuing operations is the control number and the combined effect of the adjustments has a dilutive effect, Entity A must include those adjustments in the diluted per-share computations and would report diluted per-share amounts of \$(0.48) for continuing operations, \$(3.00) for discontinued operations, and \$(3.48) for the net loss for the period.

17. Add paragraph 260-10-65-5 and its related heading as follows:

Transition and Open Effective Date Information

> Transition Related to the Topic 260 Amendments in Accounting Standards Update No. 2025-XX, Codification Improvements

260-10-65-5 The following represents the transition and effective date information related to the Topic 260 amendments in Accounting Standards Update No. 2025-XX, *Codification Improvements*:

Effective date and early adoption

- a. For public business entities, the pending content that links to this paragraph shall be effective for annual reporting periods beginning after [date to be inserted after exposure], including interim reporting periods within those annual reporting periods.
- b. For all other entities, the pending content that links to this paragraph shall be effective for annual reporting periods beginning after [date to be inserted after exposure], including interim reporting periods within those annual reporting periods.
- c. Early adoption of the pending content that links to this paragraph [is or is not] permitted.

Transition method

- d. In the period of adoption, an entity shall apply the pending content that links to this paragraph retrospectively to each prior reporting period presented. When an adjustment affects both the numerator and denominator in a prior period, an entity shall recast the diluted per-share computation when an adjustment has a dilutive effect on the computation but shall not recast when an adjustment has an antidilutive effect.

Transition disclosures

- e. An entity applying the pending content that links to this paragraph shall provide the transition disclosures required by paragraph 250-10-50-1(a) through (b)(1), (b)(2) for any prior periods recast, and (b)(3) through (b)(4), in both the interim reporting period (if applicable) and the annual reporting period of the change.

Amendments to Subtopic 310-10

Issue 5

18. The amendments in Accounting Standards Update No. 2022-02, *Financial Instruments—Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures*, enhanced the disclosure requirements for certain loan refinancings and restructurings to borrowers experiencing financial difficulty. Those disclosure requirements apply to receivables within the scope of Topic 310, Receivables, which are itemized in paragraph 310-10-15-2 and include “financing receivables.” The term *financing receivable* is defined in the Master Glossary as follows:

A financing arrangement that has both of the following characteristics:

- a. It represents a contractual right to receive money in either of the following ways:
 1. On demand
 2. On fixed or determinable dates.
- b. It is recognized as an asset in the entity’s statement of financial position.

See paragraphs 310-10-55-13 through 55-15 for more information on the definition of financing receivable, including a list of items that are excluded from the definition (for example, debt securities).

19. Paragraph 310-10-55-14(f) identifies “lease receivables arising from sales-type leases or direct financing leases” as an example of a financing receivable. It was not the Board’s intent to include lease receivables arising from sales-type leases or direct financing leases in the enhanced disclosure requirements in the amendments in Update 2022-02.

20. The proposed amendments would add a subparagraph in paragraph 310-10-50-40 to clarify that a lessor’s net investment in leases or lease receivables arising from sales-type leases or direct financing leases should be excluded from the enhanced disclosure requirements introduced by the amendments in Update 2022-02.

21. Amend paragraph 310-10-50-40, with a link to transition paragraph 105-10-65-10, as follows:

Receivables—Overall

Disclosure

> Modifications

• > Modifications to Debtors Experiencing Financial Difficulty

310-10-50-40 The guidance in paragraphs 310-10-50-42 through 50-44 does not apply to the following financing receivables:

- a. Receivables measured at fair value with changes in fair value reported in earnings
- b. Receivables measured at lower of amortized cost basis or fair value
- c. Except for credit card receivables, trade accounts receivable that have both of the following characteristics:
 1. They have a contractual maturity of one year or less.
 2. They arose from the sale of goods or services.
- d. Participant loans in defined contribution pension plans.
- e. A lessor's net investment in leases or lease receivables arising from sales-type leases or direct financing leases.

Amendments to Subtopic 325-40

Issue 6

22. Paragraph 325-40-35-4B does not specifically discuss whether the allowance for credit losses should be included or excluded when calculating the reference amount for beneficial interests described in paragraphs 325-40-35-4 through 35-4A. The reference amount affects the calculation of the accretable yield and, therefore, the recognition of interest income over the life of the beneficial interest. Stakeholders have questioned whether not specifying that the calculation of the reference amount should be reduced by the allowance for credit losses results in double counting credit losses in both the allowance for credit losses and the accretable yield.

23. The proposed amendment would revise the description of the calculation of the reference amount for beneficial interests in paragraph 325-40-35-4B to reduce the reference amount by the amount of the allowance for credit losses.

24. Amend paragraph 325-40-35-4B, with a link to transition paragraph 105-10-65-10, as follows:

Investments—Other—Beneficial Interests in Securitized Financial Assets

Subsequent Measurement

> Accretable Yield

325-40-35-4B The reference amount in paragraphs 325-40-35-4 through 35-4A is equal to the initial investment (or initial amortized cost basis for beneficial interests that apply the accounting for purchased financial assets with credit deterioration) minus cash received to date minus writeoff of amortized cost basis minus the allowance for credit losses plus the yield accreted to date.

Amendments to Subtopic 326-20

Issue 7

25. The Master Glossary term *class of financing receivable* originates from Accounting Standards Update No. 2010-20, *Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*, and was further amended by Update 2016-13. Several paragraphs throughout Subtopic 326-20, *Financial Instruments—Credit Losses—Measured at Amortized Cost*, reference *class of financing receivable*, consistent with the Master Glossary definition, but are not linked to the Master Glossary term (although the term is already linked to Subtopic 326-20). The proposed amendments would link the Master Glossary term *class of financing receivable* to several Sections of Subtopic 326-20.

26. Amend paragraphs 326-20-30-4A, 326-20-35-8A, and 326-20-45-5, with a link to transition paragraph 105-10-65-10, as follows:

Financial Instruments—Credit Losses—Measured at Amortized Cost

Initial Measurement

> Developing an Estimate of Expected Credit Losses

326-20-30-4A As an accounting policy election for each {add glossary link}class of financing receivable{add glossary link} or major security type, an entity may adjust the effective interest rate used to discount expected cash flows to consider the timing (and changes in timing) of expected cash flows resulting from expected prepayments.

Subsequent Measurement

> Writeoffs of Financial Assets

326-20-35-8A An entity may make an accounting policy election, at the {add glossary link}class of financing receivable{add glossary link} or the major security-type level, to write off accrued interest receivables by reversing interest income or recognizing credit loss expense or a combination of both. This accounting policy election should be considered separately from the accounting policy election in paragraph 326-20-30-5A. An entity may not analogize this guidance to components of amortized cost basis other than accrued interest.

Other Presentation Matters

326-20-45-5 An entity may make an accounting policy election, at the {add glossary link}class of financing receivable{add glossary link} or major security-type level, to present separately on the statement of financial position or within another statement of financial position line item the accrued interest receivable balance, net of the allowance for credit losses (if any). An entity that presents the accrued interest receivable balance, net of the allowance for credit losses (if any), within another statement of financial position line item shall apply the disclosure requirements in paragraph 326-20-50-3A.

Amendments to Subtopic 360-10

Issue 8

27. The amendments in Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, made conforming amendments to paragraph 360-10-40-2 as a result of a change in the guidance for derecognition of nonfinancial assets. Subsequently, the amendments in

Accounting Standards Update No. 2017-05, *Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets*, superseded the guidance in paragraph 360-10-40-2, which was pending content from Update 2014-09. However, only the pending content associated with that paragraph was removed from the Codification, while the original paragraph that had been amended in Update 2014-09 remained. The proposed amendment would remove paragraph 360-10-40-2, which was previously amended as part of Update 2014-09 and subsequently superseded as part of the amendments in Update 2017-05.

28. Supersede paragraph 360-10-40-2 and its related heading, with a link to transition paragraph 105-10-65-10, as follows:

Property, Plant, and Equipment—Overall

Derecognition

~~➤ Sale of Leased Property~~

~~**360-10-40-2** Paragraph superseded by Accounting Standards Update No. 2025-XX. Paragraph 840-20-40-5 states that if a sale to a third party of property subject to an operating lease (or of property that is leased by or intended to be leased by the third-party purchaser to another party) is not to be recorded as a sale because the entity has not transferred control over the promised asset to the third party in accordance with paragraph 606-10-25-30, the transaction shall be accounted for as a borrowing.~~

Amendments to Subtopic 410-30

Issue 9

29. Paragraphs 410-30-25-18 through 25-19—originally included in EITF Issue No. 90-8, “Capitalization of Costs to Treat Environmental Contamination”—provide guidance on when it may be appropriate to capitalize environmental remediation costs. However, paragraph 410-30-25-17—originally included in AICPA Statement of Position 96-1, *Environmental Remediation Liabilities*—references paragraphs 410-30-25-18 through 25-21 as providing that capitalization guidance. Paragraphs 410-30-25-20 through 25-21 are not relevant in determining what remediation costs to capitalize—

paragraph 410-30-25-20 is not used, and paragraph 410-30-25-21 provides guidance on remediation liabilities in property acquisitions. The proposed amendment would update the reference in paragraph 410-30-25-17 for when it may be appropriate to capitalize environmental remediation costs to paragraphs 410-30-25-18 through 25-19.

30. Amend paragraph 410-30-25-17, with a link to transition paragraph 105-10-65-10, as follows:

Asset Retirement and Environmental Obligations— Environmental Obligations

Recognition

> Criteria to Capitalize Environmental Treatment Costs

410-30-25-16 In general, environmental contamination treatment costs shall be charged to expense.

410-30-25-17 In certain situations, such as those described in paragraphs 410-30-25-18 through ~~25-19~~25-21), it may be appropriate to capitalize environmental remediation costs.

Amendments to Subtopic 505-30

Issue 10

31. Paragraph 505-30-30-8 provides two methods for how to account for an excess of repurchase price over par or stated value when treasury shares are retired or repurchased for constructive retirement. These methods were originally included in paragraph 7 of ARB 43, Chapter 1B, “Prior Opinions—Opinion Issued by Predecessor Committee,” and are (a) to allocate the excess between capital surplus (additional paid-in capital [APIC]) and retained earnings or (b) to charge the excess entirely to retained earnings. However, ARB 43, Chapter 1B, discussed a third method to record the retirement of treasury stock by deducting the entire excess from APIC.

32. This third method has been inadvertently excluded from paragraph 505-30-30-8. Stakeholder feedback has indicated that (a) this method has remained generally accepted in practice and (b) no amendments subsequent to ARB 43,

Chapter 1B, have superseded this method. The proposed amendments would amend paragraph 505-30-30-8 to explicitly permit the excess of repurchase price over par or stated value to be accounted for entirely as a deduction from APIC.

33. Amend paragraph 505-30-30-8, with a link to transition paragraph 105-10-65-10, as follows:

Equity—Treasury Stock

Initial Measurement

> Allocating the Cost of Treasury Shares to Components of Shareholder Equity Upon Formal or Constructive Retirement

505-30-30-8 When a corporation's stock is retired, or repurchased for constructive retirement (with or without an intention to retire the stock formally in accordance with applicable laws), *an excess of repurchase price over par or stated value* may ~~be~~ allocated between additional paid-in capital and retained earnings. **[Content amended and moved to paragraph 505-30-30-8(a)]** Alternatively, the excess may be charged entirely to retained earnings in recognition of the fact that a corporation can always capitalize or allocate retained earnings for such purposes. **[Content amended and moved to paragraph 505-30-30-8(b)]** If a portion of the excess is allocated to additional paid-in capital, it shall be limited to the sum of both of the following: **[Content moved to paragraph 505-30-30-8(a)]**

- a. ~~Allocated~~ allocated between additional paid-in capital and retained earnings. If a portion of the excess is allocated to additional paid-in capital, it shall be limited to the sum of both of the following: **[Content moved from paragraph 505-30-30-8]** All additional paid-in capital arising from previous retirements and net gains on sales of treasury stock of the same issue **[Content moved to paragraph 505-30-30-8(a)(1)]**
 1. All additional paid-in capital arising from previous retirements and net gains on sales of treasury stock of the same issue **[Content moved from paragraph 505-30-30-8(a)]**
 2. The pro rata portion of additional paid-in capital, voluntary transfers of retained earnings, capitalization of stock dividends, and so forth, on the same issue. For this purpose, any remaining additional paid-in capital applicable to issues fully retired (formal or constructive) is

deemed to be applicable pro rata to shares of common stock.

[Content moved from paragraph 505-30-30-8(b)]

- b. ~~Alternatively, the excess may be charged~~Reflected entirely to retained earnings in recognition of the fact that a corporation can always capitalize or allocate retained earnings for such purposes. **[Content amended as shown and moved from paragraph 505-30-30-8]** ~~The pro rata portion of additional paid-in capital, voluntary transfers of retained earnings, capitalization of stock dividends, and so forth, on the same issue. For this purpose, any remaining additional paid-in capital applicable to issues fully retired (formal or constructive) is deemed to be applicable pro rata to shares of common stock.~~ **[Content moved to paragraph 505-30-30-8(a)(2)]**
- c. Reflected entirely as a deduction from additional paid-in capital.

Amendments to Subtopic 606-10

Issue 11

34. In paragraphs 606-10-55-400 through 55-404, Case A of Example 62 illustrates repurchase agreement guidance for a call option. In paragraph 606-10-55-404, the date that the option lapses unexercised—December 31, 20X7—was inadvertently changed to January 1, 20X7, during the processing of Editorial and Maintenance Update 2015-05. The proposed amendments would change the date in paragraph 606-10-55-404 to December 31, 20X7—the date the contract ends as indicated by paragraph 606-10-55-402 and the date that was originally included in this paragraph in Update 2014-09.

35. Amend paragraph 606-10-55-404, with a link to transition paragraph 105-10-65-10, as follows:

Revenue from Contracts with Customers—Overall

Implementation Guidance and Illustrations

> Illustrations

- **> Repurchase Agreements**

- • **> Example 62—Repurchase Agreements**

606-10-55-401 An entity enters into a contract with a customer for the sale of a tangible asset on January 1, 20X7, for \$1 million.

••• > **Case A—Call Option: Financing**

606-10-55-402 The contract includes a call option that gives the entity the right to repurchase the asset for \$1.1 million on or before December 31, 20X7.

606-10-55-403 Control of the asset does not transfer to the customer on January 1, 20X7, because the entity has a right to repurchase the asset and therefore the customer is limited in its ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset. Consequently, in accordance with paragraph 606-10-55-68(b), the entity accounts for the transaction as a financing arrangement because the exercise price is more than the original selling price. In accordance with paragraph 606-10-55-70, the entity does not derecognize the asset and instead recognizes the cash received as a financial liability. The entity also recognizes interest expense for the difference between the exercise price (\$1.1 million) and the cash received (\$1 million), which increases the liability.

606-10-55-404 On December 31~~January 1~~, 20X7, the option lapses unexercised; therefore, the entity derecognizes the liability and recognizes revenue of \$1.1 million.

Amendments to Subtopic 740-10

Issue 12

36. Paragraph 740-20-55-12C was added by the amendments in Accounting Standards Update No. 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*, and reflects the Board's most current guidance on intraperiod tax allocations. Paragraph 740-10-55-38(b) was not updated as part of the amendments in Update 2019-12 to reflect the updated intraperiod tax allocation guidance and, therefore, conflicts with paragraph 740-20-55-12C. The proposed amendments would amend paragraph 740-10-55-38(b)(1) to reflect the intraperiod tax allocation guidance in paragraph 740-20-55-12C.

37. Amend paragraph 740-10-55-38, with a link to transition paragraph 105-10-65-10, as follows:

Income Taxes—Overall

Implementation Guidance and Illustrations

> Implementation Guidance

- > **Application of Accounting Requirements for Income Taxes to Specific Situations**

- • > **Operating Loss and Tax Credit Carryforwards and Carrybacks**

- • • > **Reporting the Tax Benefit of Operating Loss Carryforwards or Carrybacks**

740-10-55-38 Except as noted in paragraph 740-20-45-3, the manner of reporting the tax benefit of an operating loss carryforward or carryback is determined by the source of the income or loss in the current year and not by the source of the operating loss carryforward or taxes paid in a prior year or the source of expected future income that will result in realization of a deferred tax asset for an operating loss carryforward from the current year. **Deferred tax expense (or benefit)** that results because a change in circumstances causes a change in judgment about the future realization of the tax benefit of an operating loss carryforward is allocated to continuing operations (see paragraph 740-10-45-20). Thus, for example:

- a. The tax benefit of an operating loss carryforward that resulted from a loss on discontinued operations in a prior year and that is first recognized in the financial statements for the current year:
 1. Is allocated to continuing operations if it offsets the current or deferred tax consequences of income from continuing operations
 2. Is allocated to a gain on discontinued operations if it offsets the current or deferred tax consequences of that gain
 3. Is allocated to continuing operations if it results from a change in circumstances that causes a change in judgment about future realization of a tax benefit.
- b. The current or deferred tax benefit of a loss from continuing operations in the current year is allocated to continuing operations regardless of whether that loss offsets the current or deferred tax consequences of a gain on discontinued operations that:

1. Occurred in the current year, provided that any tax benefit related to the continuing operations loss would have been realizable absent the gain on discontinued operations
2. Occurred in a prior year (that is, if realization of the tax benefit will be by carryback refund)
3. Is expected to occur in a future year.

[Paragraph 740-20-55-12C is shown below for context.]

Income Taxes—Intraperiod Tax Allocation

Implementation Guidance and Illustrations

> Illustrations

• > Example 2: Allocations of Income Taxes to Continuing Operations and One Other Item

• • > Case A1: Loss from Continuing Operations with a Gain on Discontinued Operations (Tax Benefit Not Realizable)

740-20-55-12C The effect of the \$500 loss from continuing operations was to offset an equal amount of capital gains that otherwise would be taxed at a 30 percent tax rate. However, the guidance in paragraph 740-20-45-7 requires that an entity determine the tax effects of pretax income from continuing operations by a computation that does not consider the tax effects of items that are not included in continuing operations. The entity has determined that, absent the capital gain from discontinued operations, a valuation allowance would have been needed on the deferred tax asset resulting from the \$500 loss from continuing operations. Thus, zero tax benefit is allocated to continuing operations. The \$120 incremental income tax expense related to the gain on discontinued operations is the difference between \$120 of total tax expense and the zero tax benefit allocated to continuing operations.

Amendments to Subtopic 815-40

Issue 13

38. Paragraph 815-40-55-5, which originally was included in EITF Issue No. 00-19, “Accounting for Derivative Financial Instruments Indexed to, and

Potentially Settled in, a Company's Own Stock," mentions pooling of interests, which implies that the pooling-of-interests method is permitted to account for a business combination. However, FASB Statement No. 141, *Business Combinations*, eliminated the pooling-of-interests accounting method. The proposed amendments would amend paragraph 815-40-55-5 to delete reference to the pooling-of-interests method.

39. Amend paragraph 815-40-55-5, with a link to transition paragraph 105-10-65-10, as follows:

Derivatives and Hedging—Contracts in Entity's Own Equity

Implementation Guidance and Illustrations

> Implementation Guidance

• > Additional Conditions for Equity Classification—Net Cash Settlement and Consideration to Holders of Underlying Shares

815-40-55-5 Similarly, a change-in-control provision could specify that if all stockholders receive stock of an acquiring entity upon a change in control, the contract will be indexed to the shares of the purchaser ~~(or issuer in a business combination accounted for as a pooling of interests)~~ specified in the business combination agreement, without affecting classification of the contract.

Amendments to Subtopic 820-10

Issue 14

40. The amendments in Accounting Standards Update No. 2016-01, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, added Topic 321, Investments—Equity Securities, which addresses the accounting and reporting for investments in equity securities. Before the amendments in Update 2016-01, the guidance on equity securities was included in Topic 320, formerly titled Investments—Debt and Equity Securities. After the amendments in Update 2016-01, Topic 320, Investments—Debt Securities, no longer addresses accounting and reporting for investments in equity securities. Paragraph 820-10-55-53 includes references to guidance on equity securities in Subtopics 320-10 and 958-320, Not-for-Profit Entities—Investments—Debt Securities.

The proposed amendments would update the references in paragraph 820-10-55-53 to Subtopics 321-10, Investments—Equity Securities—Overall, and 958-321, Not-for-Profit Entities—Investments—Equity Securities, to reflect the addition of Topic 321.

41. Amend paragraph 820-10-55-53, with a link to transition paragraph 105-10-65-10, as follows:

Fair Value Measurement—Overall

Implementation Guidance and Illustrations

> Illustrations

- **> Example 6: Restricted Assets**

- **> Case A: Restriction on the Sale of an Equity Instrument**

- **> Restriction Not Taken into Account**

820-10-55-53 As discussed in paragraph 820-10-15-5, this Topic applies to equity securities with restrictions that expire within one year that are measured at fair value in accordance with Subtopics 321-10~~320-10~~ and 958-321~~958-320~~.

Amendments to Subtopic 825-10

Issue 15

42. Paragraph 825-10-15-7(c) incorrectly references Subtopic 958-10, Not-for-Profit Entities—Overall, instead of paragraphs 958-220-45-9 through 45-12 for presentation guidance on unrealized gains and losses on items for which the fair value option has been elected for not-for-profit entities (NFPs). The proposed amendments would amend paragraph 825-10-15-7(c) to reference the relevant presentation guidance in paragraphs 958-220-45-9 through 45-12.

43. Amend paragraph 825-10-15-7, with a link to transition paragraph 105-10-65-10, as follows:

Financial Instruments—Overall

Scope and Scope Exceptions

Fair Value Option

> Other Considerations

• > Application by Not-for-Profit Entities

825-10-15-7 Not-for-profit entities (NFPs) shall apply the provisions of the Fair Value Option Subsections with the following modifications:

- a. References to an income statement shall be replaced with references to a statement of activities, statement of changes in net assets, or statement of operations.
- b. References to earnings shall be replaced with references to changes in net assets, except as indicated in (c).
- c. Paragraph 954-825-45-1 explains that health care entities subject to Topic 954 shall report unrealized gains and losses on items for which the fair value option has been elected within the performance indicator or as a part of discontinued operations, as appropriate. Unlike other NFPs, health care entities subject to that Topic present performance indicators analogous to income from continuing operations. Consistent with the provisions of paragraphs 958-220-45-9 through 45-12~~Subtopic 958-40~~, NFPs may present such gains and losses either within or outside of other intermediate measures of operations unless such gains or losses are part of discontinued operations. This includes intermediate measures of operations presented by NFPs other than health care entities and any additional intermediate measures of operations presented within the performance indicator by not-for-profit health care entities.
- d. The disclosure requirements in paragraph 825-10-50-30 shall apply not only with respect to the effect on performance indicators or other intermediate measures of operations, if presented, but also with respect to the effect on the change in each of the net asset classes (without donor restrictions or with donor restrictions), as applicable.

Issue 16

44. The amendments in Update 2016-13 removed references to other-than-temporary impairment (OTTI) from several Subtopics, including from

paragraph 825-10-25-4(e), to reflect that the notion of OTTI would no longer exist for available-for-sale debt securities within the scope of Subtopic 326-30, Financial Instruments—Credit Losses—Available-for-Sale Debt Securities. However, the notion of OTTI still exists for equity method investments, and, therefore, it is necessary to reference OTTI in paragraph 825-10-25-4(e) to reflect that it would not be appropriate to elect the fair value option for an equity method investment upon recording an OTTI for that investment. The proposed amendments would add a reference to OTTI in paragraph 825-10-25-4(e).

45. Amend paragraph 825-10-25-4, with a link to transition paragraph 105-10-65-10, as follows:

Recognition

Fair Value Option

> Overall Guidance

• > Election Dates

825-10-25-4 An entity may choose to elect the fair value option for an eligible item only on the date that one of the following occurs:

- a. The entity first recognizes the eligible item.
- b. The entity enters into an eligible **firm commitment**.
- c. Financial assets that have been reported at fair value with unrealized gains and losses included in earnings because of specialized accounting principles cease to qualify for that specialized accounting (for example, a transfer of assets from a subsidiary subject to Subtopic 946-10 to another entity within the consolidated reporting entity not subject to that Subtopic).
- d. The accounting treatment for an investment in another entity changes because the investment becomes subject to the equity method of accounting.
 1. Subparagraph superseded by Accounting Standards Update No. 2016-01.
 2. Subparagraph superseded by Accounting Standards Update No. 2016-01.
- e. An event that requires an eligible item to be measured at fair value at the time of the event but does not require fair value measurement at

each reporting date after that, excluding the recognition of impairment under lower-of-cost-or-market accounting, the recognition of other-than-temporary impairment for equity method investments in accordance with Topic 323 on investments—equity method and joint ventures, or accounting for securities in accordance with either Topic 321 on investments—equity securities or Topic 326 on measurement of credit losses.

Amendments to Subtopic 852-10

Issue 17

46. Paragraphs 852-10-55-2 through 55-3 include an example that illustrates financial statement reporting practices during the period that an entity is in reorganization. In the statement of cash flows in paragraph 852-10-55-3, the last line of cash flows used in financing activities is labeled *net cash provided by financing activities*. Because the amount is a use of cash and is a *negative* cash flow, the line should be labeled *net cash used in financing activities*. Additionally, to be consistent with the other headings in the illustration, the heading for this section should be referred to as *cash flows from financing activities*, instead of *cash flow used by financing activities*. The proposed amendments would amend paragraph 852-10-55-3 to correct labeling errors in the statement of cash flows illustration.

47. Amend paragraph 852-10-55-3, with a link to transition paragraph 105-10-65-10, as follows:

Reorganizations—Overall

Implementation Guidance and Illustrations

> Illustrations

• > Example 1: Illustrative Financial Statements and Notes to Financial Statements for an Entity Operating Under Chapter 11

852-10-55-3 XYZ Company is a manufacturing concern headquartered in Tennessee, with a fiscal year ending on December 31. On January 10, 19X1, XYZ filed a **petition** for relief under Chapter 11 of the federal bankruptcy laws.

The following financial statements (balance sheet and statements of operations and cash flows) are presented as of and for the year ended December 31.

Illustrative Financial Statements and Notes to Financial Statements for an Entity Operating Under Chapter 11

[The Balance Sheet and Statement of Operations are not shown here because they are unchanged.]

XYZ Company
(Debtor-in-Possession)
Statement of Cash Flows
For the Year Ended December 31, 19X1
Increase in Cash and Cash Equivalents
(000s)

	19X1
Cash flows from operating activities:	
Cash received from customers	\$ 2,220
Cash paid to suppliers and employees	(2,070)
Interest paid	(3)
Net cash provided by operating activities before reorganization items	147
Operating cash flows from reorganization items:	
Interest received on cash accumulated because of the Chapter 11 proceeding	1
Professional fees paid for services rendered in connection with the Chapter 11 proceeding	(50)
Net cash used in by reorganization items	(49)
Net cash provided by operating activities	98
Cash flows from investing activities:	
Capital expenditures	(5)
Proceeds from sale of facility due to Chapter 11 proceeding	40
Net cash provided by investing activities	35
Cash flows from flow used by financing activities:	
Net borrowings under short-term credit facility (post petition)	25
Repayment of cash overdraft	(45)
Principal payments on prepetition debt authorized by court	(3)
Net cash used in provided by financing activities	(23)
Net increase in cash and cash equivalents	110
Cash and cash equivalents at beginning of year	-
Cash and cash equivalents at end of year	\$ 110
Reconciliation of net loss to net cash provided by operating activities	
Net loss	\$ (118)
Adjustments to reconcile net loss to net cash provided by operating activities	
Depreciation	20
Loss on disposal of facility	60
Provision for rejected executory contracts	10
Loss on discontinued operations	56
Increase in postpetition payables and other liabilities	250
Increase in accounts receivable	(180)
Net cash provided by operating activities	\$ 98

The accompanying notes are an integral part of the financial statements.

[The Notes to Financial Statements are not shown here because they are unchanged.]

Issue 18

48. Paragraphs 852-10-55-4 through 55-11 include an example that illustrates fresh-start related guidance. The illustrations in paragraphs 852-10-55-9 through 55-10 include an amount for *reorganization value in excess of amounts allocable* separate from the goodwill amount.

49. The guidance that was incorporated into Topic 852, Reorganizations, was amended in March 2003 to reflect conforming changes as a result of the guidance in Statement 141 and FASB Statement No. 142, *Goodwill and Other Intangible Assets*. Specifically, amendments were made to paragraph 852-10-45-20 to require that the reorganization value of an entity be assigned in conformity with Subtopic 805-20, Business Combinations—Identifiable Assets and Liabilities, and Any Noncontrolling Interest. However, conforming amendments were not made throughout all of the illustrations in Topic 852. The proposed amendments would update the illustrations in paragraphs 852-10-55-9 through 55-10 to reflect that reorganization value in excess of amounts allocable to identifiable assets is required to be recognized as goodwill in accordance with paragraph 852-10-45-20.

50. Amend paragraphs 852-10-55-9 through 55-10, with a link to transition paragraph 105-10-65-10, as follows:

Implementation Guidance and Illustrations

> Illustrations

- **> Example 2: Fresh-Start Reporting and Illustrative Notes to Financial Statements**

852-10-55-9 The following entries record the provisions of the plan and the adoption of fresh-start reporting.

Entries to record debt discharge:

Liabilities subject to compromise	\$ 1,100,000	
Senior debt—current		\$ 50,000
Senior debt—long-term		225,000
IRS note		50,000
Cash		150,000
Subordinated debt		175,000
Common stock (new)		86,000
Additional paid-in capital		215,000
Gain on debt discharge		149,000

Entries to record exchange of stock for stock:

Preferred stock	325,000	
Common stock (old)	75,000	
Common stock (new)		14,000
Additional paid-in capital		386,000

Entries to record the adoption of fresh-start reporting and to eliminate the deficit:

Inventory	50,000	
Property, plant, and equipment	175,000	
Goodwill (new) Reorganization value in excess of amounts allocable to identifiable assets	175,000	
Gain on debt discharge	149,000	
Additional paid-in capital	351,000	
Goodwill (old)		200,000
Deficit		700,000

852-10-55-10 The effect of the plan of reorganization on XYZ Company's balance sheet, as of June 30, 19X2, is as follows.

	Adjustments to Record Confirmation of Plan			XYZ Company's Reorganized Balance Sheet
	Preconfirmation	Debt discharge	Exchange of stock	
Assets:				
Current Assets				
Cash	\$ 200,000	\$ (150,000)		\$ 50,000
Receivables	250,000			250,000
Inventory	175,000			225,000
Assets held for sale	25,000			25,000
Other current assets	25,000			25,000
	<u>675,000</u>	<u>(150,000)</u>		<u>575,000</u>
Property, plant, and equipment	175,000			350,000
Assets held for sale	50,000			50,000
Goodwill—old	200,000			(200,000)
Goodwill—new Reorganization value in excess of amounts allocable to identifiable assets				175,000
	<u>\$ 1,100,000</u>	<u>\$ (150,000)</u>		<u>\$ 1,150,000</u>
Liabilities and Shareholders' Deficit:				
Liabilities Not Subject to Compromise				
Current liabilities				
Short-term borrowings	\$ 25,000			\$ 25,000
Current maturities of senior debt		\$ 50,000		50,000
Accounts payable trade	175,000			175,000
Other liabilities	100,000			100,000
	<u>300,000</u>	<u>50,000</u>		<u>350,000</u>
Liabilities Subject to Compromise				
Prepetition liabilities	1,100,000	(1,100,000)		
IRS note		50,000		50,000
Senior debt, less current maturities		225,000		225,000
Subordinated debt		175,000		175,000
Shareholders' deficit:				
Preferred stock	325,000		\$ (325,000)	
Additional paid-in capital		215,000	386,000	\$ (351,000)
Common stock—old	75,000		(75,000)	
Common stock—new		86,000	14,000	100,000
Retained earnings (deficit)	(700,000)	149,000		700,000
				<u>(149,000)</u>
	<u>(300,000)</u>	<u>450,000</u>	<u>-</u>	<u>350,000</u>
	<u>\$ 1,100,000</u>	<u>\$ (150,000)</u>	<u>\$ -</u>	<u>\$ 200,000</u>
				<u>\$ 1,150,000</u>

Amendments to Subtopic 860-10

Issue 19

51. The amendments in Update 2016-01 and Accounting Standards Update No. 2023-02, *Investments—Equity Method and Joint Ventures (Topic 323)*:

Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method, eliminated the cost method for equity investments. Paragraph 860-10-55-3(c) provides examples of transactions and activities that are within the scope of Topic 860, Transfers and Servicing, including *transfers of cost method investments*. The proposed amendments would amend paragraph 860-10-55-3(c) to replace *cost method investments* with *investments accounted for in accordance with Topic 321*.

52. Amend paragraph 860-10-55-3, with a link to transition paragraph 105-10-65-10, as follows:

Transfers and Servicing—Overall

Implementation Guidance and Illustrations

> Implementation Guidance

• > Scope

• • > Examples of Transactions and Activities That Are Included in the Scope

860-10-55-3 The guidance in this Topic applies to the following transactions and activities, among others:

- a. All **loan participations**
- b. Transfers of equity method investments
- c. Transfers of ~~cost method investments~~ accounted for in accordance with Topic 321 on investments—equity securities
- d. With respect to the guidance in paragraph 860-10-40-5 only, transfers of financial assets in securitization transactions.

Issue 20

53. Paragraph 606-10-45-4 indicates that (a) a receivable is an entity's right to consideration that is unconditional and (b) a right to consideration is unconditional only if the passage of time is required before payment of that consideration is due. An entity may have an unconditional right to consideration from a customer that gives rise to a receivable before the entity transfers control of a good or service to the customer. The Board has received questions

about whether Topic 470, Debt, or Topic 860 applies to the transfer of those receivables.

54. Those receivables are financial assets, and guidance for evaluating transfers of financial assets is provided in Subtopic 860-10, Transfers and Servicing—Overall. Therefore, the proposed amendments would clarify that the transfer of receivables from contracts with customers recognized in accordance with the guidance in paragraph 606-10-45-4 is accounted for as a transfer of financial assets and subject to the requirements of Subtopic 860-10.

55. Amend paragraph 860-10-55-5 and add paragraph 860-10-55-14A and its related heading, with a link to transition paragraph 105-10-65-10, as follows:

Implementation Guidance and Illustrations

> Implementation Guidance

• > Scope

• • > Application of the Term Financial Asset

860-10-55-5 The following implementation guidance addresses whether certain instruments are financial assets, the transfer of which is subject to the guidance in this Subtopic, specifically:

- a. **Lease receivables** from **sales-type leases** and **direct financing leases**
- b. Securitized stranded costs
- c. Judgment from litigation
- d. Forward contract on a financial instrument
- e. Ownership interest in a consolidated subsidiary by its parent if the subsidiary holds nonfinancial assets
- f. Investment in a nonconsolidated investee.
- g. Receivables from **contracts with customers**.

• • > Receivables from Contracts with Customers

860-10-55-14A An entity may have an unconditional right to consideration from a customer that gives rise to a receivable before the entity transfers control of a good or service to the customer. A receivable recognized in accordance with

paragraph 606-10-45-4 meets the definition of a financial asset and, therefore, is subject to the requirements of this Subtopic.

Issue 21

56. The amendments in Accounting Standards Update No. 2009-16, *Transfers and Servicing (Topic 860): Accounting for Transfers of Financial Assets*, added paragraph 860-10-55-42B from Question 55 of the FASB Special Report, *A Guide to Implementation of Statement 140 on Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*. The amendment to add this guidance in paragraph 70 of Update 2009-16 did not include the full sentence as written in the source documentation, resulting in a sentence fragment at the end of paragraph 860-10-55-42B. The proposed amendments would correct the sentence fragment in paragraph 860-10-55-42B.

57. Amend paragraph 860-10-55-42B, with a link to transition paragraph 105-10-65-10, as follows:

Implementation Guidance and Illustrations

> Implementation Guidance

• > Effective Control

• • > Rights to Reacquire (Call) Transferred Assets

• • • > Call Options

860-10-55-42B Sale accounting is not appropriate if a cleanup call on a group of financial assets in a securitization entity is held by a party other than the servicer. A transferor's call option on the transferred financial assets in the securitization entity is not a cleanup call for accounting purposes because it is not the servicer or an affiliate of the servicer. This is the case even when~~in which~~ the fair value of beneficial interests obtained by a transferor of financial assets that is not the servicer or an affiliate of the servicer is adversely affected by the amount of transferred financial assets declining to a low level.

Amendments to Subtopic 944-360

Issue 22

58. The amendments in Update 2016-13 removed references to OTTI from several Subtopics within GAAP. However, the reference to Subtopic 320-10 in paragraph 944-360-45-5 was inadvertently retained. The proposed amendments would remove the guidance in paragraph 944-360-45-5 to conform to the changes made by the amendments in Update 2016-13.

59. Supersede paragraph 944-360-45-5, with a link to transition paragraph 105-10-65-10, as follows:

Financial Services—Insurance—Property, Plant, and Equipment

Other Presentation Matters

> Other-Than-Temporary Impairment

944-360-45-5 Paragraph superseded by Accounting Standards Update No. 2025-XX. ~~Losses arising from an other-than-temporary impairment shall be presented in accordance with Subtopic 320-10.~~

Amendments to Subtopic 954-810

Issue 23

60. Subtopic 954-810, Health Care Entities—Consolidation, addresses consolidation accounting for health care entities within the scope of Topic 954, Health Care Entities. In addition, Subtopic 954-810 provides consolidation guidance for reporting relationships with other entities and refers to guidance in other areas of GAAP.

61. The amendments in Accounting Standards Update No. 2017-02, *Not-for-Profit Entities—Consolidation (Subtopic 958-810): Clarifying When a Not-for-Profit Entity That Is a General Partner or a Limited Partner Should Consolidate a For-Profit Limited Partnership or Similar Entity*, added paragraph 954-810-15-3(dd), which references consolidation guidance to be applied by NFP,

business-oriented health care entities that are the general or limited partner of a for-profit limited partnership or similar legal entity. However, this paragraph has a perceived conflict with paragraph 954-810-15-3(b), which references relevant consolidation guidance to be applied by NFP, business-oriented health care entities that have an investment in a for-profit entity. The proposed amendments would add language in paragraph 954-810-15-3(b) to exclude limited partnerships or similar legal entities.

62. Amend paragraph 954-810-15-3, with a link to transition paragraph 105-10-65-10, as follows:

Health Care Entities—Consolidation

Scope and Scope Exceptions

> Entities

954-810-15-3 If the reporting entity is a not-for-profit business-oriented health care entity, this Subtopic provides consolidation guidance for reporting relationships with other entities in addition to the guidance in the following locations:

- a. Pursuant to paragraph 810-10-15-17, not-for-profit business-oriented health care entities are not subject to the Variable Interest Entities Subsections of Subtopic 810-10 unless the not-for-profit entity is used by a business entity in a manner similar to a VIE in an effort to circumvent the provisions of those Subsections.
- b. If the not-for-profit, business-oriented health care entity has an investment in a for-profit entity (other than a limited partnership or similar legal entity [such as a limited liability company that has governing provisions that are the functional equivalent of a limited partnership]), it shall use the guidance in the General Subsections of Subtopic 810-10 to determine whether that interest constitutes a controlling financial interest.
- c. If the not-for-profit, business-oriented health care entity has a contractual management relationship with another entity (for example, a physician practice), it shall use the guidance in the Consolidation of Entities Controlled by Contract Subsections of Subtopic 810-10 to determine whether the arrangement constitutes a controlling financial interest.

- d. Subparagraph superseded by Accounting Standards Update No. 2015-02.
- dd. If the not-for-profit, business-oriented health care entity is the general partner or limited partner of a for-profit limited partnership or similar **{remove glossary link}legal entity{remove glossary link}** (such as a limited liability company that has governing provisions that are the functional equivalent of a limited partnership), it shall apply the guidance in paragraphs 958-810-25-11 through 25-29 and 958-810-55-16A through 55-16I.

[The remainder of this paragraph is not shown here because it is unchanged.]

Amendments to Subtopics 954-220 and 958-220

Issue 24

63. Paragraphs 954-220-45-6 and 958-220-45-9 were originally included in FASB Statement No. 117, *Financial Statements of Not-for-Profit Organizations*, paragraph 23, which stated:

For example, within a class or classes of changes in net assets, an organization may classify items as *operating* and non-operating, expendable and nonexpendable, **earned and unearned**, recurring and nonrecurring, or in other ways. [Emphasis added.]

64. The phrase *earned and unearned* in paragraphs 954-220-45-6 and 958-220-45-9 was replaced with *recognized and unrecognized* by the guidance in Update 2014-09 because *earned* was no longer a criterion for recognizing revenue. However, the use of *unrecognized* is not appropriate because if income is not recognized, it would not be in the statement of activities. The proposed amendments would supersede the phrase *recognized and unrecognized* in paragraphs 945-220-45-6 and 958-220-45-9(c).

65. Amend paragraphs 954-220-45-6 and 958-220-45-9, with a link to transition paragraph 105-10-65-10, as follows:

Health Care Entities—Income Statement—Reporting Comprehensive Income

Other Presentation Matters

> Performance Indicator and Intermediate Operating Measures

954-220-45-6 Classifying revenues, expenses, gains, and losses within classes of net assets does not preclude incorporating additional classifications within the performance indicator. For example, within a class or classes of changes in net assets, an NFP may classify items as operating and nonoperating, expendable and nonexpendable, ~~recognized and unrecognized~~, recurring and nonrecurring, or in other ways.

Not-for-Profit Entities—Income Statement—Reporting Comprehensive Income

Other Presentation Matters

> Measure of Operations

958-220-45-9 Classifying revenues, expenses, gains, and losses within classes of net assets does not preclude incorporating additional classifications within a statement of activities. For example, within a class or classes of changes in net assets, an NFP may classify items as follows:

- a. Operating and nonoperating
- b. Expendable and nonexpendable
- c. Subparagraph superseded by Accounting Standards Update No. 2025-XX. Recognized and unrecognized
- d. Recurring and nonrecurring
- e. In other ways.

Amendments to Subtopic 958-310

Issue 25

66. Paragraph 958-310-35-3 requires that receivables arising from exchange transactions be reported at net realizable value if the amounts are due within one year. The term *net realizable value* in that paragraph is not defined in or linked to the Master Glossary term *net realizable value*. The term *net realizable value* is linked to several other Topics and is defined in the Master Glossary as

“estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation.”

67. Paragraph 326-20-15-1 indicates that Subtopic 326-20 applies to all entities, including NFPs. Furthermore, paragraph 326-20-15-2(a)(3) indicates that Subtopic 326-20 applies to “receivables that result from revenue transactions within the scope of Topic 605 on revenue recognition, Topic 606 on revenue from contracts with customers, and Topic 610 on other income.” Therefore, the guidance in paragraph 958-310-35-3 should have been amended by the amendments in Update 2016-13. The proposed amendments would amend paragraph 958-310-35-3 to refer to Subtopic 326-20 for guidance on the accounting for receivables arising from exchange transactions. The amendments in the proposed Accounting Standards Update, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses for Accounts Receivable and Contract Assets for Private Companies and Certain Not-for-Profit Entities*, if finalized by the Board, would introduce a practical expedient and an accounting policy election for private companies and certain NFPs to simplify the application of the guidance in Subtopic 326-20 to current accounts receivable and current contract assets arising from transactions accounted for under Topic 606.

68. Amend paragraph 958-310-35-3, with a link to transition paragraph 105-10-65-10, as follows:

Not-for-Profit Entities—Receivables

Subsequent Measurement

> Receivables from Exchange Transactions

958-310-35-3 See Subtopic 326-20 on credit losses for guidance on the accounting for receivables Receivables arising from exchange transactions shall be reported at net realizable value if the amounts are due within one year.

Issue 26

69. The illustrative Example in paragraph 958-310-55-1 references equity and debt securities pursuant to Subtopic 958-320. The amendments in Update 2016-01 reorganized the guidance for equity securities and debt securities into Topic 321 and Topic 320, respectively. However, footnote (b) to Example 1 in

paragraph 958-310-55-1 was not updated to add the reference to Topic 321 and Subtopic 958-321 for guidance on equity securities and to Topic 320 for guidance on debt securities to conform with that reorganization.

70. Additionally, the amendments in Update 2016-01 allow equity investments that do not have readily determinable fair values to be remeasured at fair value either upon the occurrence of an observable price change or upon identification of an impairment. Therefore, equity securities as described in footnote (b) of the illustrative Example in paragraph 958-310-55-1 and in paragraphs 958-310-35-11 through 35-12 (the guidance that paragraph 958-310-55-1 is illustrating) should include equity securities *with or without* a readily determinable fair value.

71. The proposed amendments would update Subtopic 958-310, Not-for-Profit Entities—Receivables, to remove the qualifier *with readily determinable fair values* after “equity securities” and add references in footnote (b) in paragraph 958-310-55-1 to Topic 320 for guidance on debt securities and to Topic 321 and Subtopic 958-321 for guidance on equity securities to conform with the amendments in Update 2016-01.

72. Amend paragraphs 958-310-35-11 through 35-12 and 958-310-55-1, with a link to transition paragraph 105-10-65-10, as follows:

Subsequent Measurement

• > Changes in the Fair Value of Underlying Noncash Assets—Gifts of Certain Securities

958-310-35-11 The value of a contribution receivable arising from an unconditional promise to give equity securities ~~with readily determinable fair values~~ or debt securities may change between the date the unconditional promise to give is recognized and the date the asset promised is received because of changes in the future fair value of the underlying securities. For purposes of subsequent measurement, the method of determining the future fair value of the underlying securities shall be the same as the method used for determining that amount for purposes of initial measurement. Thus, if a promise to give securities is measured based on the fair value of the underlying securities at the date of gift, as described in paragraph 958-605-30-8, an observed change in the current fair value of the underlying securities shall be recognized. The change shall be reported as an increase or a decrease in

contribution revenue in the period(s) in which the change occurs. The change shall be recognized in the net asset class in which the contribution was originally reported or in the net asset class in which the net assets are represented.

- **> Changes in the Fair Value of Underlying Noncash Assets—Gifts of Other Assets**

958-310-35-12 The value of a contribution receivable arising from an unconditional promise to give noncash assets other than equity securities ~~with readily determinable fair values~~ or debt securities may change between the date the unconditional promise to give is recognized and the date the asset promised is received because of changes in the future fair value of the underlying noncash assets. For purposes of subsequent measurement, the method for determining the future fair value of the underlying noncash asset shall be the same as the method used for determining that amount for purposes of initial measurement. Accordingly, assumed relationships, such as the relationship between the market price of the noncash asset at the time the initial measurement is made and its projected market price at the date the asset is expected to be received, shall be presumed to continue in determining whether the future fair value of the underlying noncash asset has changed.

Implementation Guidance and Illustrations

> Illustrations

- **> Example 1: Accounting for Changes in the Value of Unconditional Promises to Give**

958-310-55-1 This Example illustrates the accounting for changes in the value of **unconditional promises to give** after initial recognition but before collection, pursuant to paragraphs 958-310-35-7 through 35-13, if those **promises to give** are not measured subsequently at **fair value**. The following table illustrates the reason for the change in value.

Underlying Asset	Reason for the Change in Value			
	Change in Collectibility of the Receivable		Change in the Fair Value of the Underlying Asset	
	Increase in Value	Decrease in Value	Increase in Future Fair Value	Decrease in Future Fair Value
Cash	No adjustment ^(a)	Recognize expense or loss (bad debt)	Not applicable	Not applicable
Securities ^(b)	No adjustment ^(a)	Recognize expense or loss (bad debt)	Recognize additional contribution revenue	Recognize a decrease in contribution revenue
Other assets	No adjustment ^(a)	Recognize expense or loss (bad debt)	No adjustment	Recognize a decrease in contribution revenue

(a) Recoveries of previously recognized decreases in value resulting from changes in estimates of collectibility (up to the amount of decreases previously recognized), however, shall be recognized as reductions of bad debt expense or loss.

(b) For purposes of this table, *securities* are defined as equity securities ~~with readily determinable fair values~~ and all debt securities, consistent with the use of ~~those~~ the terms in Topic 321 and Subtopic 958-321 and in Topic 320 and Subtopic 958-320, respectively.

Amendments to Subtopic 958-325

Issue 27

73. The amendments in Update 2016-13 to paragraph 958-325-35-1 changed the impairment requirements for institutions of higher education. While Topic 326, Financial Instruments—Credit Losses, applies to financial instruments, the scope of Subtopic 958-325, Not-for-Profit Entities—Investments—Other, is broader than financial instruments. The proposed amendments would add a reference in paragraph 958-325-35-1 to other GAAP for impairment guidance for other types of investments applicable to Subtopic 958-325.

74. Amend paragraph 958-325-35-1, with a link to transition paragraph 105-10-65-10, as follows:

Not-for-Profit Entities—Investments—Other

Subsequent Measurement

> Institutions of Higher Education

958-325-35-1 Institutions of higher education, including colleges, universities, and community or junior colleges, shall subsequently report other investments at either of the following measures:

- a. Carrying value—that is, those that were acquired by purchase are reported at cost, and those that were contributed are reported at their **fair value** at the date of the gift. ~~However, if an asset is subject to the subsequent measurement provisions of other generally accepted accounting principles (GAAP), the carrying value shall be reduced in accordance with the guidance in the applicable Subtopic. An allowance for credit losses shall be recognized (if applicable) for financial assets subject to the guidance in (if applicable) under Topic 326.~~
- b. Fair value.

Issue 28

75. The amendments in Update 2016-01 superseded the guidance in the Subsequent Measurement Section of Subtopic 958-325 about equity securities accounted for under the cost method. As a result, Section 958-325-35 on other investments no longer provides guidance for equity securities. However, paragraphs 958-325-35-5 and 958-325-35-7 refer to other investments that are *not equity securities*, which is an unnecessary clarification after the amendments in Update 2016-01. The proposed amendments would make a conforming amendment to remove the phrase *are not equity securities* from paragraphs 958-325-35-5 and 958-325-35-7.

76. Amend paragraphs 958-325-35-5 and 958-325-35-7, with a link to transition paragraph 105-10-65-10, as follows:

Subsequent Measurement

> Voluntary Health and Welfare Entities

958-325-35-5 ~~If other investments are not equity securities and the fair value of the portfolio of other these investments is below the recorded amount, it may~~

be necessary to reduce the carrying amount of the portfolio to fair value or to provide an allowance for decline in fair value. If it can reasonably be expected that the voluntary health and welfare entity will suffer a loss on the disposition of an investment, an impairment loss shall be recognized in the period in which the decline in fair value occurs.

> Other Not-for-Profit Entities

958-325-35-7 If other investments ~~are not equity securities and~~ are carried at the lower of cost or fair value, declines in the value of those investments shall be recognized if their aggregate fair value is less than their carrying amount; recoveries of aggregate fair value in subsequent periods shall be recorded in those periods subject only to the limitation that the carrying amount shall not exceed the original cost.

Amendments to Subtopics 958-360 and 958-605

Issue 29

77. Paragraphs 958-360-50-4(d) and 958-605-55-25 should have been superseded when Accounting Standards Update No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, was issued. Those paragraphs refer to the use of a probability assessment in evaluating whether to recognize part of a transaction as a contribution. The amendments in Update 2018-08 removed the probability assessment for contributions with conditions and provided additional guidance on distinguishing contributions from exchange transactions that has led to more transactions by NFPs with governmental entities, including many grants and contracts, being considered contributions instead of exchange transactions. In addition, for those transactions still considered exchange transactions, the amendments in Update 2014-09 provided new guidance for accounting for nonfinancial assets received from a customer. The proposed amendments would remove paragraphs 958-360-50-4(d) and 958-605-55-25 to be consistent with the amendments in Update 2018-08.

78. Amend paragraph 958-360-50-4 and supersede paragraph 958-605-55-25, with a link to transition paragraph 105-10-65-10, as follows:

Not-for-Profit Entities—Property, Plant, and Equipment

Disclosure

> Liquidity and Use

958-360-50-4 For example, the following information shall be provided:

- a. Property, plant, and equipment pledged as collateral or otherwise subject to lien
- b. Donor or legal limitations on the use of or proceeds from the disposal of plant, property, and equipment
- c. Property, plant, and equipment acquired with restricted assets if title may revert to another party, such as a resource provider
- d. Subparagraph superseded by Accounting Standards Update No. 2025-XX. ~~The terms of exchange transactions (other than lease transactions), such as federal contracts, in which the resource provider retains legal title during the term of the arrangement but it is probable that the NFP will be permitted to keep the assets when the arrangement terminates.~~

Not-for-Profit Entities—Revenue Recognition

Implementation Guidance and Illustrations

Contributions Received

> Implementation Guidance

• > Contributions of Use of Property, Utilities, or Advertising Time

958-605-55-25 Paragraph superseded by Accounting Standards Update No. 2025-XX. ~~Property and equipment used in exchange transactions (other than lease transactions), such as federal contracts, in which the resource provider retains legal title during the term of the arrangement should be reported as a contribution at fair value at the date received by the NFP only if it is probable that the NFP will be permitted to keep the assets when the arrangement terminates.~~

Amendments to Subtopic 958-805

Issue 30

79. The amendments in Accounting Standards Updates No. 2016-02, *Leases (Topic 842)*, and No. 2021-08, *Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers*, added paragraphs 805-20-25-28A through 25-28C to the limited exceptions to the recognition principle applicable to business combinations, which made the existing reference in paragraph 958-805-25-21 incomplete. The proposed amendments would amend paragraph 958-805-25-21 to reference paragraphs 805-20-25-16 through 25-17 and related guidance to include the exceptions to the recognition principle.

80. Amend paragraph 958-805-25-21, with a link to transition paragraph 105-10-65-10, as follows:

Not-for-Profit Entities—Business Combinations

Recognition

Acquisition by a Not-for-Profit Entity

> Recognizing the Identifiable Assets Acquired, the Liabilities Assumed, and Any Noncontrolling Interest in the Acquiree

• > Additional Exceptions to the Recognition Principle

958-805-25-21 This Subsection provides the following limited exceptions to the recognition principle in paragraph 805-20-25-1, which are incremental to the exceptions discussed in~~provided by~~ paragraphs 805-20-25-16 through 25-17 ~~and related guidance~~25-28:

- a. Donor relationships
- b. **Collections**
- c. **Conditional promises to give.**

Issue 31

81. Paragraph 958-805-30-5 describes items that are measured in accordance with Topic 805, Business Combinations. The specific measurement guidance for the items listed in paragraph 958-805-30-5(a) through (c) is in both Subtopic 805-20 and Subtopic 805-30, Business Combinations—Goodwill or Gain from Bargain Purchase, Including Consideration Transferred. However, paragraph 958-805-30-5 only references Subtopic 805-30. The proposed amendments would add a reference to Subtopic 805-20 in paragraph 958-805-30-5.

82. Amend paragraph 958-805-30-5, with a link to transition paragraph 105-10-65-10, as follows:

Initial Measurement

Acquisition by a Not-for-Profit Entity

958-805-30-5 A **not-for-profit entity** (NFP) that is an **acquirer** applies the guidance in this Subsection instead of Subtopics 805-20 and Subtopic 805-30 for the measurement of the following items:

- a. **Goodwill** acquired, whether recognized as an asset or an immediate charge to the statement of activities
- b. A **contribution** received in an acquisition
- c. Consideration transferred, including **contingent consideration**.

Amendments to Subtopic 958-815

Issue 32

83. Paragraph 815-20-25-143 discusses hedge accounting provisions applicable to certain NFPs. However, the Recognition Section of Subtopic 958-815, Not-for-Profit Entities—Derivatives and Hedging, does not reference Subtopic 815-20, Derivatives and Hedging—Hedging—General. To provide clarity, the proposed amendments would add a reference to the guidance in Section 958-815-25 to relevant guidance in Subtopic 815-20.

84. Amend paragraph 958-815-05-1 and add paragraph 958-815-25-2, with a link to transition paragraph 105-10-65-10, as follows:

Not-for-Profit Entities—Derivatives and Hedging

Overview and Background

958-815-05-1 This Subtopic ~~only~~ provides a link to guidance on embedded derivatives in an obligation arising from an irrevocable split-interest agreement and guidance on hedge documentation and hedge effectiveness assessments for certain not-for-profit entities.

Recognition

958-815-25-2 See paragraphs 815-20-25-3A and 815-20-25-143 about timing of hedge documentation and hedge effectiveness assessments for certain not-for-profit entities.

Amendments to Subtopic 962-325

Issue 33

85. Paragraph 962-325-55-17 includes illustrative financial statements and disclosures of a defined contribution plan.

86. The summary of accounting policies in Note B related to notes receivable from participants includes a statement that no allowance for credit losses has been recorded. Paragraph 326-20-15-3(c) states that the guidance in Topic 326 does not apply to loans made to participants by defined contribution employee benefit plans. Therefore, Note B should not reference an allowance for credit losses. The proposed amendments would remove the reference to allowance for credit losses in paragraph 962-325-55-17.

87. Additionally, the summary of accounting policies in Note C related to fair value measurements includes a reference to transfers between Level 1 and Level 2 of the fair value hierarchy. The amendments in Accounting Standards Update No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*, removed the disclosure requirement in Topic 820 for the amount of, and reasons for, transfers between Level 1 and Level 2 of the fair value hierarchy. The proposed amendments would remove the reference to transfers between Level 1 and Level 2 of the fair value hierarchy in paragraph 962-325-55-17.

88. Amend paragraph 962-325-55-17, with a link to transition paragraph 105-10-65-10, as follows:

Plan Accounting—Defined Contribution Pension Plans— Investments—Other

Implementation Guidance and Illustrations

> Illustrations

• > Example 2: Illustrative Financial Statements and Disclosures of a Defined Contribution Plan

962-325-55-17 This Example illustrates certain applications of the provisions of this Subtopic to the annual financial statements of a defined contribution plan. The following are illustrative financial statements and disclosures.

[The illustrative financial statements and Note A are not shown here because they are unchanged.]

Notes to Financial Statements

B. Summary of Accounting Policies

[The beginning three sections of Note B are not shown here because they are unchanged.]

Notes Receivable from Participants

Notes receivable from participants are measured at their unpaid principal balance plus any accrued but unpaid interest. Interest income is recorded on the accrual basis. Related fees are recorded as administrative expenses and are expensed when they are incurred. ~~No allowance for credit losses has been recorded as of December 31, 20X1, or 20X0.~~ Delinquent participant loans are recorded as distributions on the basis of the terms of the Plan agreement.

[The remainder of Note B is not shown here because it is unchanged.]

C. Fair Value Measurements

[The beginning section of Note C is not shown here because it is unchanged.]

Level 3 Transfers between Levels

For years ended December 31, 20X1, and 20X0, there were ~~no significant transfers between Levels 1 and 2 and~~ no transfers in or out of Level 3.

[The remainder of this paragraph is not shown here because it is unchanged.]

Amendments to Subtopic 970-323

Issue 34

89. The amendments in Update 2023-02 expanded the election to apply the proportional amortization method in Subtopic 323-740, Investments—Equity Method and Joint Ventures—Income Taxes, to all investments made primarily for the purpose of receiving income tax credits and other income tax benefits. Previously, the election applied only to investments in qualified affordable housing investments. The proposed amendments would amend paragraph 970-323-05-4 to reflect the amendments in Update 2023-02 on the use of the proportional amortization method.

90. Amend paragraph 970-323-05-4, with a link to transition paragraph 105-10-65-10, as follows:

Real Estate—General—Investments—Equity Method and Joint Ventures

Overview and Background

970-323-05-4 See Subtopic 323-740 for guidance on the use of the proportional amortization method to investments made primarily for the purpose of receiving income tax credits and other income tax benefits~~accounting for qualified affordable housing investments.~~

Amendments to Subtopic 105-10

91. Add paragraph 105-10-65-10 and its related heading as follows:

Generally Accepted Accounting Principles—Overall

Transition and Open Effective Date Information

> Transition Related to Accounting Standards Update No. 2025-XX, Codification Improvements

105-10-65-10 The following represents the transition and effective date information related to Accounting Standards Update No. 2025-XX, *Codification Improvements* (except for entities applying the amendments to Topic 260 on earnings per share, for which transition guidance is provided in paragraph 260-10-65-5):

Effective date and early adoption

- a. For public business entities, the pending content that links to this paragraph shall be effective for annual reporting periods beginning after [date to be inserted after exposure], including interim reporting periods within those annual reporting periods.
- b. For all other entities, the pending content that links to this paragraph shall be effective for annual reporting periods beginning after [date to be inserted after exposure], including interim reporting periods within those annual reporting periods.
- c. Early adoption of the pending content that links to this paragraph [is or is not] permitted in any interim or annual reporting period for which an entity's financial statements have not yet been issued (or made available for issuance).

Transition methods

- d. An entity shall apply the pending content that links to this paragraph using one of the following transition methods:
 1. Prospectively to all new or modified transactions recognized on or after the date that the entity first applies the pending content that links to this paragraph.

2. Retrospectively to the beginning of the earliest comparative period presented in which the pending content that links to this paragraph was first applied. An entity shall adjust the opening balance of retained earnings (or other appropriate components of equity or net assets in the statement of financial position) as of the beginning of the earliest comparative period presented.

Transition disclosures

- e. An entity that applies the pending content that links to this paragraph prospectively in accordance with (d)(1) shall provide the transition disclosures required by paragraph 250-10-50-1(a) in both the interim reporting period (if applicable) and the annual reporting period of the change.
- f. An entity applying the pending content that links to this paragraph retrospectively in accordance with (d)(2) shall provide the transition disclosures required by paragraph 250-10-50-1(a) through (b)(1), (b)(2) for any prior periods retrospectively adjusted, (b)(3), and (c)(2) in both the interim reporting period (if applicable) and the annual reporting period of the change.

The amendments in this proposed Update were approved for publication by the unanimous vote of the seven members of the Financial Accounting Standards Board:

Richard R. Jones, *Chair*
Hillary H. Salo, *Vice Chair*
Christine A. Botosan
Frederick L. Cannon
Susan M. Cospers
Marsha L. Hunt
Dr. Joyce T. Joseph

Amendments to the GAAP Taxonomy

The provisions of this Exposure Draft, if finalized as proposed, would require improvements to the GAAP Financial Reporting Taxonomy and SEC Reporting Taxonomy (collectively referred to as the “GAAP Taxonomy”). We welcome comments on these proposed improvements to the GAAP Taxonomy at xbrled@fasb.org. After the FASB has completed its deliberations and issued a final Accounting Standards Update, the proposed improvements to the GAAP Taxonomy will be finalized as part of the annual release process.