

Early Impression

FASBs' Accounting Standard Update (ASU-2025-05)

Measurement of Credit Losses for Accounts Receivable and Contract Assets (ASC 326)



FOREWORD

In today's dynamic financial reporting landscape, the balance between relevance, reliability, and operational efficiency remains central to effective standard-setting. The issuance of **Accounting Standards Update (ASU) 2025-05**, "*Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses for Accounts Receivable and Contract Assets*," marks a meaningful step forward in this journey.

On July 30, 2025, FASB published an Accounting Standard Update (ASU) 2025-05 simplifying the credit loss estimation process by allowing entities to **assume stable economic conditions for current assets**, and, in certain cases, to **factor in post-balance-sheet cash collections**—thereby aligning accounting outcomes more closely with real-world performance.

The amendment in ASU responds directly to stakeholder feedback, particularly from private companies and not-for-profit entities, on the operational challenges associated with implementing the **Current Expected Credit Loss (CECL) model** for short-term receivables and contract assets. By introducing a **practical expedient** and a focused **accounting policy election**, ASU offers relief without sacrificing the transparency or integrity of credit risk measurement.

This publication intends to help preparers, auditors, and stakeholders navigate the key provisions, implications, and implementation considerations surrounding ASU 2025 05. Through real-world examples, comparative analysis, and interpretive guidance, we aim to support informed and confident application of this important update.

We sincerely hope you find the enclosed publication informative. We will be happy to participate in any discussions required to clarify our views enclosed in the attached publication. We look forward to hearing from you.

Thank you.

Yours faithfully

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Foreword

Background

Key Highlights of Amendment in ASU

Effective date and transition

Uniquis Perspective of amendments

How we can help you in bringing CECL Expertise to your team

Appendix

BACKGROUND

Under the current guidance in ASC 326-20¹ (i.e., before the adoption of ASU 2025-05), an organization must estimate probable credit losses over the course of term of an instrument **using reasonable and supportable forecasts and historical data adjusted for current circumstances**. Existing guidance requires that an entity consider available information relevant to assessing the collectability of cash flows when developing an estimate of expected credit losses.

The historical credit loss experience of financial assets with similar risk characteristics generally provides a basis for an entity's assessment of expected credit losses. An entity is required to consider adjustments to that information to reflect the extent to which management expects current conditions and reasonable and supportable forecasts to differ from the conditions that existed for the period over which historical information was evaluated. Those adjustments may be qualitative in nature and should reflect changes related to relevant data (such as changes in unemployment rates, property values, commodity values, delinquency, or other factors that are associated with credit losses on the financial assets or in the group of financial assets) during the forecast period. In addition, under ASC 326, an entity is not permitted to consider collections received after the balance sheet date when developing its estimate of expected credit losses.

In their feedback, stakeholders indicated that identifying, analyzing, and documenting macroeconomic data—such as unemployment rates and property values when developing reasonable and supportable forecasts under Subtopic 326-20 can be costly and complex. Moreover, such efforts often immaterially impact the estimated credit losses for short-term assets.

They also highlighted that estimating expected credit losses for current accounts receivable and contract assets that are collected prior to the issuance of financial statements can involve significant effort and documentation, frequently resulting in loss allowances for amounts already received. Stakeholders emphasized that permitting consideration of post-balance sheet collection activity would enhance the decision-usefulness of financial information while meaningfully reducing preparer burden.

In response, the amendments in this Update introduce a **practical expedient**—available to **all entities**—and an **accounting policy election**—available to entities other than public business entities—specific to the application of Subtopic 326-20 to current accounts receivable and current contract assets arising from transactions within the scope of Topic 606.

1. For detailed guidance on specifics of ASC 326, Financial Instruments- Credit Losses refer to our recent publication titled "[Uniquis' ASC Insights Series: Guides to Accounting Standards](#)", focusing on "ASC 326, Financial Instruments- Credit Losses".



Foreword

Background

Key Highlights of
Amendment in ASU

Effective date and
transition

Uniquis Perspective of
amendments

How we can help you in
bringing CECL Expertise to
your team

Appendix

KEY HIGHLIGHTS OF AMENDMENT IN ASU

The amendment in ASU allows entities with practical expedients and an accounting policy election, as stated below, when estimating expected credit losses:

Foreword

Background

Key Highlights of
Amendment in ASU

Effective date and
transition

Uniquis Perspective of
amendments

How we can help you in
bringing CECL Expertise to
your team

Appendix

A.

Practical Expedient for forecasting- All Entities

Main Provision

As per existing guidance, the estimation of expected credit losses should reflect available information relevant to assessing the collectability of cash flows. That information should include historical loss information adjusted for:

- Current asset-specific risk characteristics
- Current conditions
- Reasonable and supportable forecasts for future economic conditions

ASU 2025-05 allows **all entities** to use a practical expedient when estimating expected credit losses on current accounts receivable and current contract assets (those from transactions under ASC 606). The practical expedient allows entities to assume that the **economic conditions as of the balance sheet date remain unchanged** throughout the remaining life of the asset—eliminating the need for complex forecasting of future economic conditions. Therefore, an entity will not need to develop reasonable and supportable forecasts of future economic conditions.

Application Guidance

- The practical expedient is **limited to current accounts receivable and current contract assets arising from transactions accounted for under Topic 606**. To determine whether these items are current, entities should apply a one-year threshold, unless their operating cycle exceeds 12 months, in which case the longer cycle applies.
- Entities that elect to apply the practical expedient must do so **consistently across all qualifying current receivables and contract assets** arising from transactions within the scope of Topic 606
- There is no relaxation on adjustment for current asset-specific risk characteristics and for current conditions.
 - **For example;** the Company that has identified an individual customer that is experiencing financial distress would consider that information in its estimate of expected credit losses even if that information has not yet affected its historical loss experience or current conditions (that is, even if the customer has remained current on existing receivables as of the balance sheet date). Similarly, the Company that has recently expanded its credit policies to offer credit to lower-quality customers would consider that information in its estimate of expected credit losses even if that change has not yet affected its historical loss experience (that is, even if the new, lower credit-quality customers have remained current as of the balance sheet date).

B.

Accounting Policy Election- Non Public Business Entities (Non-PBEs)

Main Provision

Entities other than public business entities may elect an accounting policy to incorporate subsequent cash collection activity, occurring after the balance sheet date but before the financial statements are issued (or an alternative cut-off date selected by the entity within that window), when estimating expected credit losses on current accounts receivable and current contract assets.

Application Guidance

- This election is **not available to public business entities**, as the FASB concluded it would not significantly reduce their costs, given the typically **shorter reporting timelines and interim reporting requirements** applicable to those entities.
- The accounting policy election may be made **only in conjunction with the practical expedient**, and if elected, must be applied **consistently** to all current receivables and contract assets arising from transactions under **Topic 606**.
- By allowing entities to reflect **actual post-balance sheet collections**, this approach can lead to more accurate and timely measurement of credit losses, particularly benefiting entities with **short collection cycles**. For instance, a credit loss allowance for current accounts receivable/current contract assets that have been fully collected as of the date the financial statements are available to be issued shall be recorded as zero.



Combined application of Practical expedient and accounting policy election

An entity other than a public business entity, applying the practical expedient and electing the accounting policy, shall estimate its expected credit losses on current accounts receivable and current contract asset balances as follows:

- i. The entity shall first consider subsequent collections of current accounts receivable and current contract asset balances arising from transactions accounted for under Topic 606 that were outstanding as of the balance sheet date. No credit loss allowance shall be recorded for assets that have been fully collected before the date the financial statements are available to be issued (or the date after the balance sheet date but before the financial statements are available to be issued selected by the entity).
- ii. The entity shall then evaluate any remaining uncollected amounts as of the date the financial statements are available to be issued (or the date after the balance sheet date but before the financial statements are available to be issued, selected by the entity) using the practical expedient.

Foreword

Background

Key Highlights of
Amendment in ASU

Effective date and
transition

Uniquis Perspective of
amendments

How we can help you in
bringing CECL Expertise to
your team

Appendix

Illustrative example:

- As of December 31, 2025, ABC, a non-public entity, has \$400,000 in outstanding current accounts receivable resulting from transactions within the scope of Topic 606. These receivables are 20 days past due and carry a historical loss rate of 9%.
- ABC evaluates that the current and forecasted economic conditions as of the reporting date have deteriorated relative to the conditions reflected in historical data. As a result, the entity adjusts the loss rate upward by one percentage point, yielding a revised estimated loss rate of 10%.
- By March 15, 2026, when the financial statements are available to be issued, \$380,000 of the receivables have been collected. The remaining \$20,000 is over 90 days past due, and based on ABC's historical data, this delinquency status corresponds to a loss rate of 74%, which does not reflect any additional forecast adjustment.

Foreword

Background

Key Highlights of Amendment in ASU

Effective date and transition

Uniquis Perspective of amendments

How we can help you in bringing CECL Expertise to your team

Appendix

Before the Adoption of ASU

As of December 31, 2025, ABC estimates the allowance for expected credit losses on its current accounts receivable to be \$40,000, calculated as 10% of the \$400,000 outstanding balance.

After the Adoption of ASU

ABC elects to apply both the practical expedient and the accounting policy election. Accordingly, no allowance is recorded for the \$380,000 in current accounts receivable that were fully collected prior to the date the financial statements are available to be issued.

For the remaining uncollected balance of \$20,000, which is over 90 days past due, ABC applies a credit loss rate of 74%. As a result, the estimated expected credit loss as of December 31, 2025, is \$14,800, calculated as 74% of the uncollected balance of \$20,000.

C.

Disclosure Requirements

Entities must disclose:

- Whether they have adopted the **practical expedient**, and
- If applicable, whether they have also adopted the **accounting policy election**, including the **cut off date** through which subsequent collection activity is assessed.

EFFECTIVE DATE AND TRANSITION

- ✓ This amendment in ASU is applicable for annual and interim reporting periods beginning after December 15, 2025.
- ✓ Early adoption is permitted for financial statements that have not yet been issued.
- ✓ The amendments are to be applied prospectively (i.e., moving forward), not retrospectively.

Foreword

Background

Key Highlights of
Amendment in ASU

Effective date and
transition

Uniquis Perspective of
amendments

How we can help you in
bringing CECL Expertise to
your team

Appendix

UNIQUS PERSPECTIVE OF AMENDMENTS

ASU 2025-05 represents a practical and welcome enhancement to applying the current expected credit loss (CECL) model under ASC 326. By introducing a **practical expedient for all entities** and a **new accounting policy election for nonpublic entities**, the update streamlines the estimation of expected credit losses on **current trade receivables and contract assets**.

From our perspective, this flexibility reduces administrative burden and enhances operational efficiency, especially for private companies and not-for-profit entities that may lack the resources to manage complex modeling. Moreover, the elective approach supports comparability and transparency in financial reporting by giving entities control over adopting methods best suited to their circumstances.

Ultimately, we believe ASU 2025-05 not only bolsters the pragmatic application of ASC 326 but also strengthens the relevance and reliability of financial statements, a positive step forward for users and preparers alike. To further support consistent application, the update includes illustrative examples offering clear implementation guidance on the amendments; the **illustrative examples** are provided in the **Appendix** section of this publication.

In our view, ASU 2025-05 strikes the right balance between simplifying application and preserving decision-useful information for stakeholders.



HOW WE CAN HELP YOU IN BRINGING CECL EXPERTISE TO YOUR TEAM

CECL (Current Expected Credit Loss) service offerings tailored for the **non-financial services sector**—where CECL applies to receivables, contract assets, lease receivables, and certain loan exposures that arise in the normal course of business:

Foreword

Background

Key Highlights of
Amendment in ASU

Effective date and
transition

Uniquis Perspective of
amendments

**How we can help you in
bringing CECL Expertise to
your team**

Appendix

1

Readiness Assessment & Gap Analysis

This includes assistance in evaluating current impairment methodologies, identifying variances from CECL requirements, assessing data adequacy and quality, and delivering a structured roadmap for effective adoption and compliance.

2

Data Preparation & Historical Loss Analysis

This includes assistance in data preparation and historical loss analysis by compiling and mapping receivable and contract asset data to CECL requirements, defining segmentation based on risk and product profiles, and implementing processes for ongoing data integrity and governance.

3

Model Design & Development

This includes designing and developing CECL models tailored for non-financial exposures, selecting suitable estimation techniques, and calibrating outputs with company-specific history and relevant industry benchmarks.

4

Scenario Development & Macroeconomic Overlays

This includes assisting in scenario development and macroeconomic overlay by identifying key economic variables influencing customer payment behavior, constructing baseline and stressed scenarios, and quantifying the impact of forward-looking assumptions on expected credit losses.

5

Model Validation & Back-Testing

This includes independently assessing model design, data integrity, and assumptions, conducting quantitative back-tests against historical outcomes, evaluating sensitivity to economic and operational shifts, and documenting findings for audit and regulatory compliance.



Governance & Documentation

This includes developing formal CECL policies and procedures, documenting model methodologies and assumptions, establishing governance frameworks for oversight and change control, and training internal teams to ensure sustained compliance.



System Implementation & Automation

This includes integrating CECL models into ERP or accounting platforms, automating data, calculation, and reporting workflows, and developing dashboards to support management reporting and financial disclosures.



Ongoing Monitoring & Support

This includes periodically updating CECL parameters, adjusting for changes in business mix, economic conditions, or guidance, and providing continued assistance for internal audits, external audits, and management reviews.

Foreword

Background

Key Highlights of
Amendment in ASU

Effective date and
transition

Uniquis Perspective of
amendments

How we can help you in
bringing CECL Expertise to
your team

Appendix



APPENDIX

326-20-55-17 The following Examples illustrate specific initial and subsequent measurement guidance in this Subtopic to account for expected credit losses on financial assets:

ee. Example 5A: Practical Expedient and Accounting Policy Election for Estimating Expected Credit Losses on Current Accounts Receivable and Current Contract Assets

Foreword

Background

Key Highlights of
Amendment in ASU

Effective date and
transition

Uniquis Perspective of
amendments

How we can help you in
bringing CECL Expertise to
your team

Appendix

326-20-55-40A This Example illustrates how to apply the practical expedient and accounting policy election for estimating credit losses on current accounts receivable and current contract assets arising from transactions accounted for under Topic 606 on revenue from contracts with customers in accordance with paragraphs 326-20-30-10A through 30-10H. The accounting policy election to consider subsequent collection activity described in paragraphs 326-20-30-10E through 30-10H applies only to entities other than public business entities. Assume that Entity R is not a public business entity and does not have any contract assets.

326-20-55-40B Entity R manufactures and sells products to a broad range of customers, primarily retail stores. Entity R provides customers with payment terms of 30 days. Entity R recognizes revenue and corresponding accounts receivable related to the sale of products in accordance with Topic 606 (referred to as “receivable(s)” in the remainder of this Example). Entity R monitors payment activity and, for purposes of estimating expected credit losses, classifies outstanding receivables on the basis of the number of days past due (delinquency) when a receivable has not been collected in accordance with the payment terms. Delinquent receivables are assessed to determine whether they continue to share similar risk characteristics with other receivables in the portfolio. Entity R uses its historical collection information to calculate a credit loss rate for each portfolio segment of receivables.

326-20-55-40C On December 31, 20X0, the outstanding balance and historical credit loss rates for each portfolio segment of Entity R’s receivables are as follows.

Past-Due Status	Outstanding Receivables Balance	Credit Loss Rate
Current	\$ 5,984,698	0.30%
1–30 days past due	8,272	8%
31–60 days past due	2,882	26%
61–90 days past due	841	58%
91–120 days past due	554	82%
More than 120 days past due	342	99%
Total	5,997,589	

326-20-55-40D Entity R has determined that its historical loss rates are a reasonable basis on which to estimate expected credit losses for outstanding receivables because of the similar risk characteristics of its customers (paragraph 326-20-30-8) and because its payment terms have not changed significantly over time. Management determined that the current conditions as of the balance sheet date are consistent with the conditions that existed during the period that historical data were collected.

Case 1

Election of Practical Expedient

326-20-55-40E Entity R elects the practical expedient in paragraphs 326-20-30-10C through 30-10D to estimate expected credit losses related to its receivables classified as current in accordance with paragraph 210-10-45-3. The practical expedient allows Entity R to assume that current conditions as of the balance sheet date do not change for the remaining life of the assets. Entity R has determined that the current conditions as of the balance sheet date are consistent with those conditions that existed during the period that the historical data were collected. Accordingly, Entity R determines that no adjustment to its historical loss information is necessary. Entity R develops its estimate of expected credit losses as follows.

Past-Due Status	Outstanding Receivables Balance	Credit Loss Rate	Expected Credit Loss Estimate
Current	\$ 5,984,698	0.30%	\$ 17,954
1–30 days past due	8,272	8%	662
31–60 days past due	2,882	26%	749
61–90 days past due	841	58%	488
91–120 days past due	554	82%	454
More than 120 days past due	342	99%	339
Total	\$ 5,997,589		\$ 20,646

326-20-55-40F Entity R discloses that it has elected the practical expedient to assume that current conditions as of the balance sheet date do not change for the remaining life of the assets in accordance with the requirement in paragraph 326-20-50-12A.

Case 2

Application of Practical Expedient When Receivable Does Not Share Similar Characteristics

Foreword

Background

Key Highlights of
Amendment in ASU

Effective date and
transition

Uniquis Perspective of
amendments

How we can help you in
bringing CECL Expertise to
your team

Appendix

326-20-55-40G Assume the same facts and circumstances as Case 1, except that Entity R has an outstanding receivable balance of \$2,000 aged 30 days past due at the balance sheet date from Customer S, who filed for bankruptcy on December 15, 20X0. The entirety of the balance is not expected to be collected. As a result, Entity R determines that the receivable due from Customer S no longer shares similar risk characteristics with receivables due from other customers. Therefore, Entity R measures expected credit losses from Customer S individually.

326-20-55-40H Entity R has not identified other information expected to affect the collectibility of the remaining portfolio of receivables and estimates expected credit losses on the remaining portfolio collectively using the practical expedient. Entity R develops its estimate of expected credit losses as follows;

Past-Due Status	Outstanding Receivables Balance	Credit Loss Rate	Expected Credit Loss Estimate
Current	\$ 5,984,698	0.30%	\$ 17,954
1–30 days past due	6,272 ^(a)	8%	502
31–60 days past due	2,882	26%	749
61–90 days past due	841	58%	488
91–120 days past due	554	82%	454
More than 120 days past due	342	99%	339
Collectively assessed subtotal	5,995,589		20,486
Individually assessed subtotal (Customer S)	2,000		2,000
Total	\$ 5,997,589		\$ 22,486

(a) Outstanding receivable balance reduced by \$2,000 to reflect the individual assessment of Customer S.

326-20-55-40I Entity R discloses that it has elected the practical expedient to assume that current conditions as of the balance sheet date do not change for the remaining life of the assets in accordance with the requirement in paragraph 326-20-50-12A.

Case 3

Practical Expedient Accompanied by Accounting Policy Election— Entity R Selects March 1 as Evaluation Date for Subsequent Collection Activity

326-20-55-40J Assume the same facts and circumstances as Case 1, except that Entity R also elects to consider collection activity after the balance sheet date when estimating expected credit losses (that is, it elects to apply the accounting policy election in paragraphs 326-20-30-10E through 30-10H). Entity R considers collection activity through March 1, 20X1, which is the date that the **financial statements are available to be issued**.

326-20-55-40K Entity R has not identified other information expected to affect the collectibility of its receivables other than the collection activity detailed in paragraph 326-20-55-40L. Entity R has not updated its historical credit loss rates for collection activity after the balance sheet date.

326-20-55-40L Entity R's December 31, 20X0 financial statements are available to be issued on March 1, 20X1. Entity R has observed subsequent collection activity for all outstanding receivables as of the balance sheet date (December 31, 20X0).

Balance Sheet Date			
12/31/20X0			
Past-Due Status	Outstanding Receivables Balance	Collections between Balance Sheet Date and 3/1/20X1	Remaining Balance uncollected
Current	\$ 5,984,698	\$ (5,925,118)	\$ 59,580
1–30 days past due	8,272	(3,676)	4,596
31–60 days past due	2,882	(441)	2,441
61–90 days past due	841	(300)	541
91–120 days past due	554	(149)	405
More than 120 days past due	342	(43)	299
Total	\$ 5,997,589		\$ 67,862

Foreword

Background

Key Highlights of
Amendment in ASU

Effective date and
transition

Uniquis Perspective of
amendments

How we can help you in
bringing CECL Expertise to
your team

Appendix

Date The Entity Has Selected To Consider Subsequent Collection Activity			
3/1/20X1			
Remaining Balance uncollected	Past-Due Status	Credit Loss Rate ^(a)	Remaining Balance uncollected
\$ 59,580	31–60 days past due	26%	\$ 15,491
4,596	61–90 days past due	58%	2,666
2,441	91–120 days past due	82%	2,002
541	More than 120 days past due	99%	536
405	More than 120 days past due	99%	401
299	More than 120 days past due	99%	296
\$ 67,862			\$ 21,392

(a) Credit loss rate based on the collection status as of the date the entity has selected to consider subsequent collection activity.

Entity R develops its estimate of expected credit losses by determining which receivables have been collected between the balance sheet date and the date the entity has selected to consider subsequent collection activity (in this Case, March 1, 20X1). By recognizing an allowance for the amounts that are uncollected based on its historical loss rates as of the balance sheet date that correspond to the uncollected balance's delinquency status as of the date the entity has selected to consider subsequent collection activity (in this Case, March 1, 20X1).

326-20-55-40M Entity R discloses that it has elected the practical expedient to assume that current conditions as of the balance sheet date do not change for the remaining life of the assets and the accounting policy election to consider subsequent collection activity, along with the date through which collection activity was considered (in this Case, March 1, 20X1), in accordance with the requirements in paragraphs 326-20-50-12A through 50-12B.

Case 4

Practical Expedient Accompanied by Accounting Policy Election— Entity R Selects May 31 as Evaluation Date for Subsequent Collection Activity

Foreword

Background

Key Highlights of
Amendment in ASU

Effective date and
transition

Uniquis Perspective of
amendments

How we can help you in
bringing CECL Expertise to
your team

Appendix

326-20-55-40N Assume the same facts and circumstances as Case 1, except that Entity R also elects to consider collection activity after the balance sheet date when estimating expected credit losses (that is, it elects to apply the accounting policy election in paragraphs 326-20-30-10E through 30-10H). Entity R considers subsequent collection activity through May 31, 20X1.

326-20-55-40O Entity R has not identified other information expected to affect the collectibility of its receivables other than the collection activity detailed in paragraph 326-20-55-40P. Entity R has not updated its historical credit loss rates for collection activity after the balance sheet date.

326-20-55-40P Entity R's December 31, 20X0 financial statements are available to be issued on June 15, 20X1. As of May 31, 20X1, Entity R has observed the following collection activity for outstanding receivables as of the balance sheet date (December 31, 20X0).

Balance Sheet Date			
12/31/20X0			
Past-Due Status	Outstanding Receivables Balance	Collections between Balance Sheet Date and 3/1/20X1	Remaining Balance uncollected
Current	\$ 5,984,698	\$ (5,968,449)	\$ 16,249
1–30 days past due	8,272	(8,272)	-
31–60 days past due	2,882	(2,279)	603
61–90 days past due	841	(623)	218
91–120 days past due	554	(289)	265
More than 120 days past due	342	(145)	197
Total	\$ 5,997,589		\$ 17,532

Foreword

Background

Key Highlights of
Amendment in ASU

Effective date and
transition

Uniquis Perspective of
amendments

How we can help you in
bringing CECL Expertise to
your team

Appendix

Date The Entity Has Selected To Consider Subsequent Collection Activity			
3/1/20X1			
Remaining Balance uncollected	Past-Due Status	Credit Loss Rate ^(a)	Remaining Balance uncollected
\$ 16,249	More than 120 days past due	99%	\$ 16,087
-	More than 120 days past due	99%	-
603	More than 120 days past due	99%	597
218	More than 120 days past due	99%	216
265	More than 120 days past due	99%	262
197	More than 120 days past due	99%	195
\$ 17,532			\$ 17,357

(a) Credit loss rate based on the collection status as of the date the entity has selected to consider subsequent collection activity.

As part of the estimate of expected credit losses, Entity R applies a credit loss rate of 99 percent to the receivables that are uncollected as of the date through which it considers subsequent collection activity (in this Case, May 31, 20X1) because all remaining amounts have been outstanding for more than 120 days.

326-20-55-40Q Entity R discloses that it has elected the practical expedient to assume that current conditions as of the balance sheet date do not change for the remaining life of the assets and the accounting policy election to consider subsequent collection activity, along with the date through which collection activity was considered (in this Case, May 31, 20X1), in accordance with the requirements in paragraphs 326-20-50-12A through 50-12B.

For more information on the proposed Accounting Standard Update, see the [press release](#) on the FASB's website.

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