

SNAPSHOT

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Changing economic and fiscal policy

Accounting and financial reporting considerations

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The recent evolving changes in economic and policy priorities of the U.S. government have created an environment of uncertainty for many companies. These changes may have a wide-ranging impact across a number of aspects of an entity's business, which could trigger the need for responses in accounting and financial reporting, including disclosures. Additionally, many entities may be indirectly impacted by changes in the domestic and global economy, including the capital markets. This publication discusses accounting and financial reporting considerations under U.S. GAAP that could apply for entities directly or indirectly impacted by the ongoing uncertainty.

A. Estimates & subsequent events

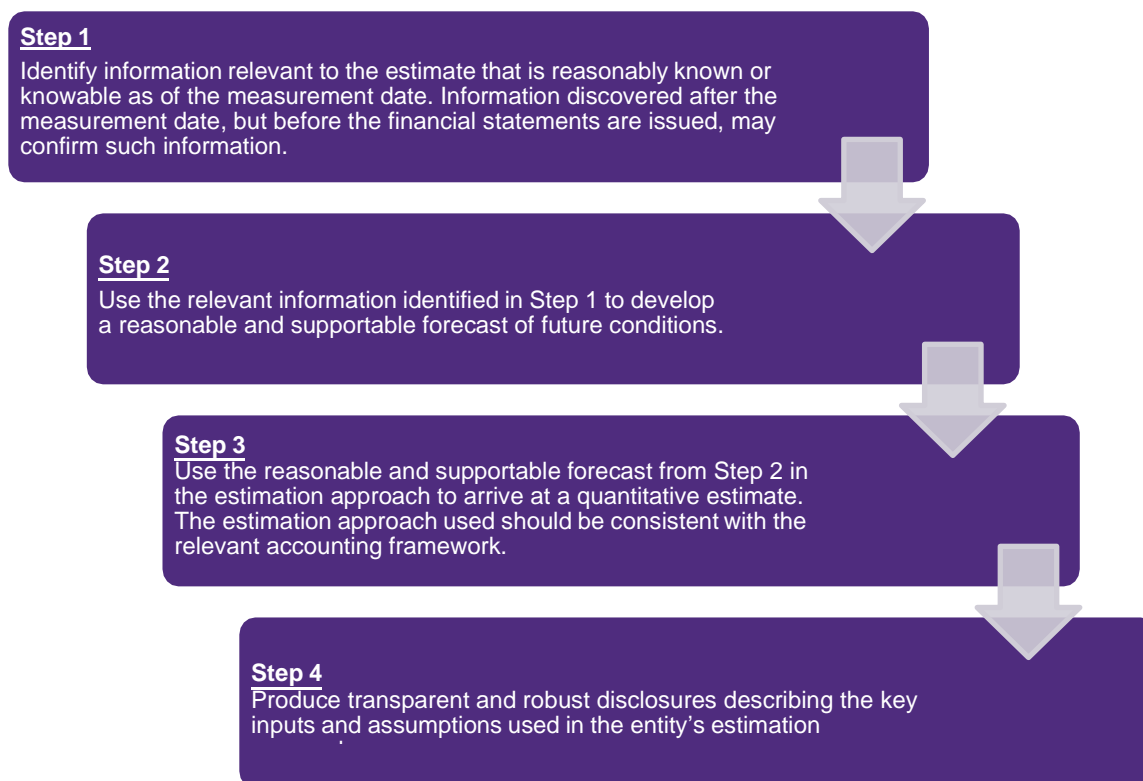
Entities are often required by U.S. GAAP to make assumptions about the economic consequences of disruptive social and political changes and events when determining a variety of accounting estimates. However, forecasting the magnitude and duration of the economic impact of such events is often challenging.

Accounting estimates

Accounting estimates rely on an entity's judgmental assumptions, which must be based on a reasonable interpretation of conditions or events that are either known or knowable as of the measurement date. In other words, the assumptions used by an entity in its estimates must be both reasonable and supportable.

Estimates are expected to include consideration of reasonably possible future events, even though occurrence and impact may be uncertain. For instance, while the extent and duration of tariffs imposed by the U.S. administration may not be precisely predicted, an economic forecast in the current environment that excluded the impacts of tariffs (including the potential for retaliatory tariffs) would likely not be considered reasonable and supportable. Accordingly, entities will generally need to consider whether economic scenarios used as inputs to their current accounting estimates appropriately take into consideration the direct and indirect impact of tariffs based on reasonably known or knowable information as of the estimation date.

Determining what constitutes a "reasonable and supportable" assumption during times of economic uncertainty requires an entity to exercise professional judgment grounded in a well-controlled and supported estimation process. In our experience, a well-controlled and supported estimation process includes the following steps.

Figure 1: Steps in estimation process

Changes in the U.S. government's economic and fiscal policies—particularly the imposition of tariffs and freezes in federal spending for grants and other programs—may have implications for a variety of accounting estimates. In addition to the estimates discussed in this document, the realizability of deferred tax assets under ASC 740, *Income Taxes*, may be impacted by the ongoing uncertainty.

Subsequent events

While entities need not consider every possible future scenario when developing estimates, they may not generally exclude future scenarios from consideration in their estimation process based on uncertainty alone if those scenarios are reasonable and supportable considering known or knowable information at the estimation date. Rather, the uncertainty should impact the weighting that a reasonable and supportable future scenario receives in the entity's estimation process. Entities may need to evaluate whether estimates remain reasonable and supportable based on additional information after the balance sheet date, such as the formal enactment of tariffs.

For example, the imposition of significant and widespread tariffs was a major economic policy position emphasized by the current administration during the 2024 presidential election campaign (and those positions have, in fact, been subsequently manifested in the imposition of significant tariffs). Accordingly, entities may need to consider whether the way in which economic scenarios incorporate the direct and indirect impact of US-imposed tariffs (including the potential for retaliatory tariffs) is reasonable and supportable as of any post-election estimation dates.

In contrast, other fiscal and economic policy positions of the current administration emerged more abruptly, such as funding freezes. It is likely that scenarios predicated on such policies are not reasonable and supportable as of the estimation dates prior to the policies' announcement. However, entities need to consider how economic scenarios used in developing the estimates as of estimation dates arising after the announcement of a new policy should incorporate the direct and indirect implications of the policy.

Entities may become aware of events resulting from the economic and fiscal policies of the current administration after the balance-sheet date, but before the financial statements are either issued or made available to be issued. Such events may include government actions, such as sanctions levied against various countries; disruptions to the entity's supply chains or the supply chains of their customers; or the bankruptcy of customers. The guidance in ASC 855-10-25-1, *Subsequent Events*, requires an entity to evaluate whether those events provide evidence about conditions that existed at the balance-sheet date and to consider all information that becomes available before the financial statements are either issued or made available to be issued.

To the extent that the identified events provide evidence about conditions that existed as of the balance-sheet date, an entity needs to adjust its financial statements to reflect the impact of such events. On the other hand, to the extent that events do not provide evidence about conditions that existed at the balance-sheet date, entities should consider whether it is necessary to disclose the nature of the event and an estimate of its impact in the financial statements (or a statement indicating that such estimate cannot be made) to prevent the financial statements from being misleading.



Grant Thornton insights: Formal enactment of tariffs

Entities need to carefully consider whether to provide disclosures about the impact of economic and fiscal policy uncertainty on their business in the financial statements given the widespread impact on the global and U.S. economies. As tariffs were a major platform policy during the election, it is expected that entities include the potential impact of tariffs when developing their accounting estimates as of any post-election balance-sheet date.

However, entities should carefully evaluate whether events occurring after the balance-sheet date, but before the financial statements are issued or made available to be issued, provide evidence about conditions that existed as of the balance-sheet date. While entities should consider the potential impact of tariffs on their accounting estimates as of estimation dates after the presidential election, we believe specific tariffs should be recognized in the period they become effective (that is, when they are enacted) and should be considered a non-recognized subsequent event for any reporting periods prior to the effective date.

For example, the current administration announced widespread and significant tariffs on April 2, 2025. While entities should consider the potential direct and indirect impacts of tariffs as of a March 31, 2025 estimation date, the extent of the April 2, 2025 tariffs would not have been known or knowable as of March 31, 2025 and would constitute a non-recognized subsequent event as of that date.

B. Asset impairment

The impact of the economic and fiscal policy changes and the resulting uncertainty faced by entities could manifest in a variety of ways, including reduced revenue, supply chain disruptions, exposure to volatile capital markets, or increased costs. These events could be indicators of asset impairment even over a

relatively short duration, which entities need to consider in preparing the financial statements. The following is a high-level discussion of impairment considerations in the current environment of economic and fiscal policy uncertainty.

Goodwill and other indefinite-lived intangibles impairment

The guidance in ASC 350-20, *Intangibles – Goodwill and Other: Goodwill*, requires entities to test goodwill for impairment if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount (the “triggering event”). Similarly, the guidance in ASC 350-30, *General Intangibles Other Than Goodwill*, requires entities to test other indefinite-lived intangibles for impairment if events or changes in circumstances indicate that it is more likely than not that the fair value of the intangible asset is less than its carrying amount (also, a “triggering event”). As a result, an entity should consider the direct and indirect impact of ongoing economic and fiscal policy uncertainty to determine whether a triggering event has occurred for goodwill or other indefinite-lived intangible assets by evaluating all relevant facts and circumstances, including, but not limited to, the factors listed in ASC 350-20-35-3C for goodwill and in ASC 350-30-35-18B and 35-18C for other indefinite-lived intangible assets. See Grant Thornton’s [Impairment: Indefinite-lived intangibles and goodwill](#) for more information.



ASC 350-20-35-3C

In evaluating whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount, an entity shall assess relevant events and circumstances. Examples of such events and circumstances include the following:

- a. Macroeconomic conditions such as a deterioration in general economic conditions, limitations on accessing capital, fluctuations in foreign exchange rates, or other developments in equity and credit markets
- b. Industry and market considerations such as a deterioration in the environment in which an entity operates, an increased competitive environment, a decline in market-dependent multiples or metrics (consider in both absolute terms and relative to peers), a change in the market for an entity’s products or services, or a regulatory or political development
- c. Cost factors such as increases in raw materials, labor, or other costs that have a negative effect on earnings and cash flows
- d. Overall financial performance such as negative or declining cash flows or a decline in actual or planned revenue or earnings compared with actual and projected results of relevant prior periods
- e. Other relevant entity-specific events such as changes in management, key personnel, strategy, or customers; contemplation of bankruptcy; or litigation
- f. Events affecting a reporting unit such as a change in the composition or carrying amount of its net assets, a more-likely-than-not expectation of selling or disposing of all, or a portion, of a reporting unit, the testing for recoverability of a significant asset group within a reporting unit, or recognition of a goodwill impairment loss in the financial statements of a subsidiary that is a component of the reporting unit
- g. If applicable, a sustained decrease in share price (consider in both absolute terms and relative to peers).

**ASC 350-30-35-18B**

In assessing whether it is more likely than not that an indefinite-lived intangible asset is impaired, an entity shall assess all relevant events and circumstances that could affect the significant inputs used to determine the fair value of the indefinite-lived intangible asset. Examples of such events and circumstances include the following:

- a. Cost factors such as increases in raw materials, labor, or other costs that have a negative effect on future expected earnings and cash flows that could affect significant inputs used to determine the fair value of the indefinite-lived intangible asset
- b. Financial performance such as negative or declining cash flows or a decline in actual or planned revenue or earnings compared with actual and projected results of relevant prior periods that could affect significant inputs used to determine the fair value of the indefinite-lived intangible asset
- c. Legal, regulatory, contractual, political, business, or other factors, including asset-specific factors that could affect significant inputs used to determine the fair value of the indefinite-lived intangible asset
- d. Other relevant entity-specific events such as changes in management, key personnel, strategy, or customers; contemplation of bankruptcy; or litigation that could affect significant inputs used to determine the fair value of the indefinite-lived intangible asset
- e. Industry and market considerations such as a deterioration in the environment in which an entity operates, an increased competitive environment, a decline in market-dependent multiples or metrics (in both absolute terms and relative to peers), or a change in the market for an entity's products or services due to the effects of obsolescence, demand, competition, or other economic factors (such as the stability of the industry, known technological advances, legislative action that results in an uncertain or changing business environment, and expected changes in distribution channels) that could affect significant inputs used to determine the fair value of the indefinite-lived intangible asset
- f. Macroeconomic conditions such as deterioration in general economic conditions, limitations on accessing capital, fluctuations in foreign exchange rates, or other developments in equity and credit markets that could affect significant inputs used to determine the fair value of the indefinite-lived intangible asset.

**ASC 350-30-35-18C**

The examples included in the preceding paragraph are not all-inclusive, and an entity shall consider other relevant events and circumstances that could affect the significant inputs used to determine the fair value of the indefinite-lived intangible asset. An entity shall consider the extent to which each of the adverse events and circumstances identified could affect the significant inputs used to determine the fair value of an indefinite-lived intangible asset. An entity also shall consider the following to determine whether it is more likely than not that the indefinite-lived intangible asset is impaired:

- a. Positive and mitigating events and circumstances that could affect the significant inputs used to determine the fair value of the indefinite-lived intangible asset
- b. If an entity has made a recent fair value calculation for an indefinite-lived intangible asset, the difference between that fair value and the then carrying amount
- c. Whether there have been any changes to the carrying amount of the indefinite-lived intangible asset.

If an entity concludes that an indefinite-lived intangible asset trigger has occurred, it must perform a comparison between the fair value of the asset and its carrying amount. If the carrying amount of an intangible asset exceeds its fair value, an entity should recognize an impairment loss. If a goodwill impairment trigger is identified, subject to the order of impairment testing discussed further below, the fair value of the reporting unit should be compared with its carrying value to determine if there is an impairment. However, private and not-for-profit entities that are eligible for and have adopted the accounting alternative in ASC 350-20-35-84 through 35-85 are only required to analyze whether a triggering event for goodwill has occurred as of the end of each financial reporting date.

Given the potential impact of the changing fiscal and economic policies on the global economy, including the impact on market capitalization and capital markets, many entities could experience a triggering event in the current environment. Because goodwill is evaluated for impairment at the reporting unit level, an impairment loss must be recognized in an amount equal to that excess, limited to the total amount of goodwill allocated to that reporting unit, if the reporting unit's carrying amount exceeds its fair value as of the date of the impairment trigger.



Grant Thornton insight: Market capitalization reconciliations

For public entities, the [SEC staff has expressed a view](#) that it is prudent, even in volatile markets, to reconcile the combined fair value of an entity's reporting units to its market capitalization, which is determined by multiplying the entity's share price by the number of outstanding public shares. An entity may conclude that its current market capitalization does not reflect the fair value of the entity as a whole, which is the amount at which the entity as a whole could be sold in a current transaction between willing market participants. For example, the fair value of the entity as a whole may reflect a "control premium" (that is, the value derived from the ability to take advantage of synergies and other benefits as a result of controlling the entity's activities), whereas the entity's public share price would not include a control premium because a single share does not provide a market participant with control over the entity.

Management should support its assertion that all, or a portion, of the difference between an entity's market capitalization and the fair value of the entity as a whole results from a control premium. For instance, when evaluating a control premium, an entity may consider control premiums identifiable in comparable transactions or the cash flows associated with obtaining control of a reporting unit. The SEC staff has noted that they expect the strength of evidence used to support a control premium to increase as the control premium increases.

Additionally, in volatile markets, it may be reasonable to look at market capitalization over a reasonable period of time leading up to the impairment testing date. What constitutes a "reasonable" period of time is a matter of judgment, and an entity should consider relevant recent events and trends in its share

price when determining a reasonable period. Entities need to support the range of dates used to determine market capitalization.



Grant Thornton insight: Subsequent market capitalization declines

An entity should carefully consider whether a decline in share price and, accordingly, in market capitalization that occurs after the reporting date but before the financial statements are issued or made available to be issued denotes an existing condition at the reporting date that might be an indicator of impairment at or before the balance-sheet date. Said differently, an entity should carefully consider facts and circumstance to determine why the decline is *not* related to conditions that existed at period-end, but instead relates to conditions that occurred after the period-end reporting date. Entities are expected to include known and knowable information on the impact of tariffs when evaluating accounting estimates and monitoring for triggering events prior to the balance-sheet date.

Long-lived assets and finite-lived intangible assets

The guidance in ASC 360-10-35-21, *Property, Plant, and Equipment*, requires entities to evaluate long-lived assets for recoverability whenever events or changes in circumstances indicate that the asset's carrying amount may not be recovered. The guidance in ASC 350-30-35-14 requires the same analysis for intangible assets with finite lives. Entities should consider whether the direct and indirect impact of the ongoing economic and fiscal policy uncertainty constitutes an event that would require testing long-lived assets for recoverability, including but not limited to (a) a significant decrease in the market price of the long-lived assets, (b) a significant adverse change in the extent or manner in which long-lived assets are being used or in their physical condition, or (c) a significant adverse change in the business climate that could affect the value of the long-lived assets.

In response to new tariffs, entities with supply chains in China or other countries expected to be subject to significant tariffs may look to expand production in other geographies, such as Southeast Asia or India, to mitigate cost risk. This may include increasing the number of suppliers or expanding production locations. Existing production locations in countries subject to increased tariffs should be monitored for impairment indicators.

The impairment requirements in ASC 360 also apply to right-of-use assets recognized by lessees on leasing transactions accounted for under ASC 842, *Leases*.

Inventory

The current economic and fiscal policy uncertainty may also affect the value of an entity's inventory. For example, an increase in the acquisition costs of materials due to tariffs would increase the cost of inventory or impact an entity's assessment of recoverability, as customer demand and purchasing power may be impacted by increasing costs. Entities should consider the increased costs when evaluating lower of cost or net realizable value to determine whether inventory is impaired. Additional judgment may be required to determine an entity's ability to implement price increases to offset the impact of increased tariffs when evaluating the net realizable value.

ASC 330, *Inventory*, contains guidance for remeasuring inventory, depending on the cost method applied. For all cost methods other than the last-in, first-out (LIFO) method or the retail method, inventory is remeasured using the lower of cost or net realizable value. When applying the LIFO method or the retail method, an entity will need to consider if inventory is at the lower of cost or market. Entities that use LIFO for their inventory will also need to consider tariffs in their LIFO inventory costing approaches as increased tariffs would result in increased costs of acquisition of inventory, which would impact inflation indexes used for determining LIFO layers, for example, when applying a dollar-value LIFO technique.

ASC 270, *Interim Reporting*, specifies that any loss resulting from remeasuring inventory in an interim period should be recognized in the interim period in which the decline occurs. Recoveries that occur in later interim periods within the same fiscal year are recognized as gains in the interim period in which they occur, not to exceed previously recognized losses. In addition, if a decline in an interim period can be reasonably expected to be restored within the same fiscal year, the temporary decline does not need to be recognized at the interim date. However, entities may not recognize recoveries related to impairments recognized in previous fiscal years.

Production capacity issues may result from temporary plant closings or supply chain disruptions in response to increased tariffs or other economic disruptions in the current environment. If inventory production levels drop below normal capacity, fixed overhead costs allocations to individual units of production generally should not increase in order to capitalize most or all of the costs in inventory. Instead, the unallocated overhead costs resulting from this “excess capacity” should be expensed in the period incurred. Judgment is required to determine both the range of normal capacity based on business and industry factors and when actual production levels fall below a reasonable range.

Entities should review firm purchase commitments with inventory suppliers for losses in the same manner as other inventory losses. In addition, if a loss is indicated, there might not be any impairment if an entity has firm sales commitments with customers at prices that would support realizing the cost of future inventory. Often, firm purchase commitments relate to inventory similar to that already on hand. If, for example, an entity concludes that the carrying amount of the inventory on hand purchased at similar price levels is not realizable, there could also be a loss on the related firm purchase commitment.



Grant Thornton insight: Assessing an entity's ability to increase prices in response to tariffs

An entity's ability to increase prices to recover costs incurred associated with tariffs must be evaluated in connection with the assessment of inventory net realizable value. Entities should consider their current market's tolerance for price increases as well as their historic ability to recapture costs through price increases. Such assessments may include judgments, specifically for newly introduced products which may not have historical data to support the entity's assessment.

Excess Inventory

To combat the prospective cost impact of tariffs, entities may choose to expand production locations, increase suppliers, or increase on-hand inventory from lower cost production facilities. Entities that plan to increase (stockpile) inventory should monitor for indicators of excess inventory and evaluate the appropriate classification on the balance sheet, in addition to monitoring for indicators of impairment.

Inventory is generally classified as a current asset within the balance sheet. However, in instances where entities have stockpiled inventory, a portion of the on-hand inventory may be considered a noncurrent asset. Inventory that is reasonably expected to be sold or consumed during the entity's normal operating cycle should be classified as a current asset as it meets the definition of a current asset in ASC 310-10-45-9. Additional stockpiled inventory that the entity does not expect to consume or sell during its normal operating cycle should be classified as noncurrent. Entities should evaluate this noncurrent inventory to determine whether a reserve for excess inventory is required or other indicators of impairment are present.



Grant Thornton insight: Determining an entity's normal operating cycle

ASC 210-10 defines the entity's operating cycle as the time between the acquisition of materials or services and the realization of final cash related to such items. An entity can and may determine that multiple operating cycles exist for different parts of the business, which will further influence an entity's classification of stockpiled inventory. An entity's operating cycle cannot be less than 12 months.

Entities may determine that the time between the acquisition and realization of cash varies significantly based on individual contracts within one section of the business. In such instances, the variation indicates that the entity cannot define its operating cycle. Entities with an undefined operating cycle or an operating cycle that is less than 12 months should utilize 12 months when evaluating classification within the classified balance sheet.

A change in the nature of the item (such as a conversion from work-in-process inventory to finished goods) does not impact the definition of an operating cycle; rather, the reasonable expectation of when an item will be realized in cash is the determinative factor in the conclusion of the operating cycle.

Order of impairment testing

When testing multiple classes of assets for impairment, the order in which the assets are tested is important, because some assets are tested individually for impairment while others are tested as part of a group of assets. For instance, the model for testing goodwill impairment under ASC 350 compares the fair value of a reporting unit to its carrying amount, while the model in ASC 360 for certain tangible long-lived assets and finite-lived intangible assets calls for testing these assets for impairment as part of an asset group. Under ASC 360, an asset group may be comprised solely of an individual asset. The order of testing when evaluating goodwill and asset groups for impairment is important because the impairment assessment for both classes of assets depends on the carrying amount of the reporting unit or asset group. In turn, the carrying amount of the reporting unit or asset group depends on the individual assets within the group being appropriately adjusted for impairment before an entity can assess goodwill or an asset group for impairment. Overall, individual assets are tested before asset groups, and asset groups are tested before reporting units.

Because the goodwill impairment model in ASC 350-20 compares a reporting unit's fair value to its carrying amount, the impairment tests for other types of assets, such as inventory, long-lived assets, indefinite-lived intangible assets (except goodwill), and finite-lived intangible assets, should be completed first, with the carrying amount for those assets and asset groups adjusted for any impairment before conducting the goodwill impairment test, which should be performed last. If impairment testing is not performed in the appropriate order, the impairment testing results for assets tested earlier or later may not be appropriate. For instance, if impairments related to other classes of assets that are included within a

reporting unit are not appropriately recognized, then the carrying value of the reporting unit used to measure goodwill impairment may be an inappropriately greater amount; the reporting unit's carrying value would be higher compared to its fair value because the other asset classes were not first reduced for impairment.

According to the guidance in both ASC 350-20-35-31 and ASC 360-10-35-27, entities should evaluate for impairment assets that are held-for-use based on the unit of account in the following order:

1. *Individual assets* – First, an entity should individually test for impairment assets that must be tested under guidance other than ASC 360, excluding goodwill, as well as tangible long-lived assets tested individually under ASC 360. Those assets tested individually for impairment include indefinite-lived intangible assets, financial assets, deferred tax assets, servicing assets, long-lived assets held-for sale, and inventory.
2. *Asset groups* – Next, an entity should test asset groups for impairment using the model in ASC 360, including long-lived assets held-for-use, finite-lived intangible assets, and right-of-use assets recognized under ASC 842.
3. *Reporting unit* – Finally, after an entity performs all other impairment tests, goodwill should be tested based on the reporting unit model in ASC 350.

C. Cost capitalization

As the current administration continues to evaluate tariffs and other trade related economic and fiscal policies, costs resulting from such policies can impact certain areas of U.S. GAAP. For example, additional tariffs on goods to be capitalized under ASC 360, *Property, Plant, and Equipment*, would be considered acquisition costs (similar to sales, value-added, or excises taxes) and would be capitalized as part of the cost basis of the assets since tariffs are a cost incurred to bring the item to its existing location. Similarly, tariffs on inventory purchases would be considered acquisition costs and would qualify for capitalization under ASC 330, *Inventory*, and should be included in the cost basis of inventory purchases.

D. Fair value measurement, impairment of financial assets, and hedging

Fair value

ASC 820, *Fair Value Measurement*, defines “fair value” for purposes of U.S. GAAP and provides a principles-based framework to estimate fair value. The objective of the fair value framework is to estimate the price at which an orderly transaction to sell an asset or transfer a liability would take place between market participants at the measurement date under current market conditions. Fair value is a market-based measurement, not an entity-specific measurement. Accordingly, an assertion that a current market price is not fair value because the entity would not choose to transact at the current market price is not appropriate because an entity's intention to hold an asset or liability is not relevant to the measurement of fair value.

As the economic and fiscal policy uncertainty continues, there are potential impacts in a variety of markets, including the capital markets, which could make it difficult for entities to assess whether transactions in those markets are “orderly” under ASC 820. However, it is not appropriate to conclude that all transactions in a given market are not orderly because the determination of whether a transaction is orderly is made at the individual transaction level after considering the factors in ASC 820-10-35-54I. A transaction is not considered orderly if the transaction is forced. If an entity does not have sufficient information to conclude whether an observable transaction is orderly, it must take into account the transaction price when estimating fair value. However, the entity may place less weight on such transactions compared to transactions that it knows to be orderly.

In addition to assessing whether observable transactions are orderly, entities need to consider other direct and indirect impacts of the ongoing economic and fiscal policy uncertainty on the fair value of their investments, including changing credit spreads, implied volatility, and market liquidity.

Impairment on investments in debt and equity securities

Financial assets that are not carried at fair value, with changes in fair value recognized in earnings, are generally subject to one of several impairment models. Entities need to carefully identify the appropriate impairment model and determine whether the ongoing economic and fiscal policy uncertainty has triggered an impairment of assets that should be recognized and, if so, the extent of the impairment.

Debt securities

Under ASC 320, *Investments – Debt and Equity Securities*, debt securities may either be classified as trading, held-to-maturity (HTM), or available-for-sale (AFS). Trading securities are measured at fair value, with changes in fair value recognized in earnings.

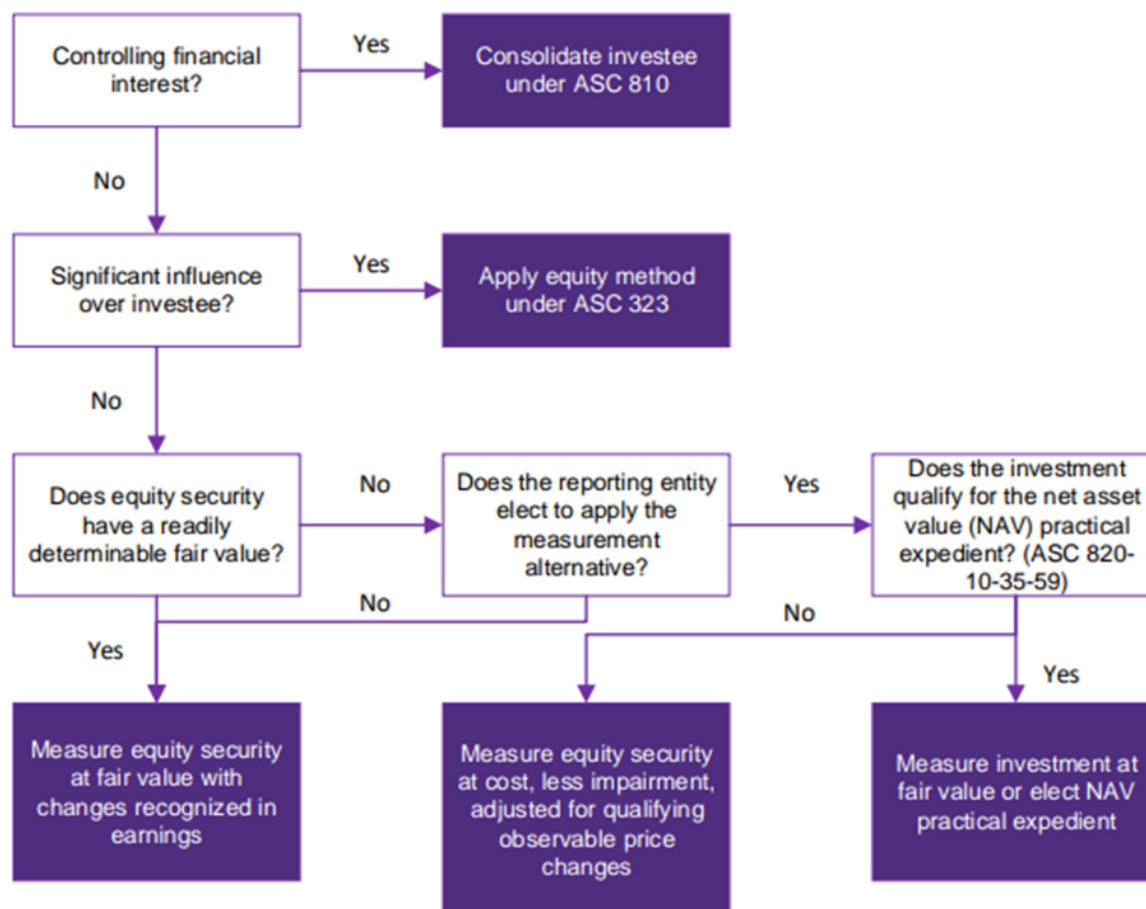
HTM securities are evaluated for credit losses under the current expected credit loss (CECL) model in ASC 326, *Financial Instruments – Credit Losses*. Additionally, if an entity concludes that it may be required to sell or may intend to sell—or in fact does sell—HTM securities, it should carefully scrutinize whether it can continue to support that it has the affirmative intent and ability to hold debt securities to maturity after considering the guidance in ASC 320-10-25-4 through 25-18 and in ASC 320-10-35-8 and 35-9.

AFS debt securities are also subject to the CECL model. Under the guidance in ASC 326-30, *Financial Instruments – Credit Losses: Available-for-Sale Debt Securities*, if an entity intends to sell an impaired security or it is more likely than not that it will be required to sell the security, then the security should be written down to its fair value through earnings. If, however, the entity does not intend to sell the security and it is not more likely than not that it will be required to sell the security, the amount of impairment representing the credit loss is recognized in earnings, limited to the difference between the amortized cost basis and the security's fair value. Any remaining impairment is recognized in other comprehensive income.

Equity securities without a readily determinable fair value

Under ASC 321, *Investments – Equity Securities*, equity securities in investees that are not consolidated or accounted for under the equity method are generally measured at fair value, with changes in fair value recognized in earnings. However, equity investments without a readily determinable fair value may be eligible for a measurement alternative in ASC 321. The measurement alternative allows those investments to be measured at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for an identical or a similar investment of the same issuer.

The following flowchart depicts how an entity should assess whether it may apply the measurement alternative to an investment in an equity security under ASC 321-10-35-2.

Figure 2: Evaluation of the measurement alternative

Equity investments that are measured using the measurement alternative should be qualitatively evaluated for impairment at each reporting period. The impairment indicators include the following:

- A significant deterioration in the earnings performance, credit rating, asset quality, or business prospects of the investee
- A significant adverse change in the regulatory, economic, or technological environment of the investee
- A significant adverse change in the general market condition of either the geographical area or the industry in which the investee operates
- Factors that raise significant concerns about the investee's ability to continue as a going concern

Given the economic and fiscal policy uncertainty, it is possible that some equity securities accounted for using the measurement alternative will exhibit qualitative indicators of impairment.

If a qualitative assessment indicates that an equity investment is impaired, the entity should measure the equity investment's fair value and record the difference between that fair value and the carrying value of the equity investment as an impairment loss in earnings.

See Grant Thornton's NDS 2016-03, "[Accounting for financial instruments](#)," for more information on accounting for equity securities under the measurement alternative.

Equity method investments

The guidance in ASC 323 requires an entity to recognize impairment losses on equity method investments when a decline in fair value to an amount that is below the investment's carrying amount is other than temporary. Note that "other than temporary" does not mean permanent.

An entity is required to evaluate whether such a decline in the fair value of an equity method investment is other than temporary when it becomes aware of evidence that an impairment may exist (that is, when an impairment trigger occurs). Such evidence includes:

- The investee incurs a series of operating losses.
- The investor cannot recover the carrying amount of the investment.
- The investee cannot sustain its historical level of earnings.
- The current fair value of the investment is less than its carrying amount.
- Other investors have ceased providing support to the investee or have otherwise reduced their financial commitment to the investee.
- The investee has recognized impairment losses on its assets.

Entities with equity method investments must have a process in place that considers changing fiscal and economic policies to identify whether such evidence exists. An entity that concludes its equity method investment is other than temporarily impaired should write the investment down to its fair value. The unit of account for evaluating impairment on an equity method investment is the investment as a whole. An equity method investor does not separately test the investee's underlying assets for impairment. However, the investor does recognize its proportionate share of any impairment recognized by the investee in the investor's equity method earnings, including adjustments for basis differences.



Grant Thornton insight: Impact of OTTI on equity method basis differences

Entities that recognize an other-than-temporary loss on equity method investments with basis differences must consider how such an impairment charge affects the investor's basis differences. ASC 323 does not provide guidance in this regard, and there may be diversity in practice on this subject. We believe one acceptable method is to allocate an other-than-temporary impairment (OTTI) to the investee's underlying assets based on their relative fair values.

In accordance with ASC 323-10-35-6, some entities may recognize equity method earnings on a lag, typically no longer than one quarter. However, an entity must evaluate an equity method investment for impairment as of the investor's balance-sheet date.

Impairment of financial assets measured at amortized cost

The CECL model under ASC 326 requires entities to recognize an allowance for credit losses on financial assets measured at amortized cost (such as debt securities classified as held-to-maturity, loans receivable, trade accounts receivable, and net investments in sales-type or direct-financing leases) as the difference between the amortized cost basis of the financial asset and the amount the entity expects to collect. Application of the CECL model can be thought of in five steps:

- Group financial assets with similar risk characteristics into estimation pools.
- Select a method for measuring credit losses for each estimation pool.
- Determine historical losses relevant to each estimation pool.
- Adjust historical losses for current conditions and reasonable and supportable forecasts.
- Revert to historical loss experience for any portion of an asset's contractual term that extends beyond the reasonable and supportable forecast period.

See Grant Thornton's NDS 2016-10, "[Measuring credit losses on financial instruments](#)," for more information about the requirements under ASC 326.

Considering the impact of ongoing economic and fiscal policy uncertainty on CECL

Entities estimating expected credit losses should consider information that was known or knowable as of the measurement date. Such information may be included in the entity's forecasting assumptions used in estimating expected credit losses.

When considering information that is known or knowable as of a measurement date, entities need to evaluate the length of their reasonable and supportable forecast period. For instance, an entity may determine that the period over which it can reasonably and supportably forecast future conditions might be shorter due to the economic and fiscal policy uncertainty.

Additionally, entities also need to evaluate the pattern of reversion used in their estimation approach for financial assets whose contractual lives exceed the entity's reasonable and supportable forecast period. An entity should use a pattern of reversion that results in its best overall estimate of expected credit losses.

Subsequent events and CECL

ASC 855-10-55-2(e) identifies changes in estimated credit losses on receivables arising after the balance-sheet date, but before the financial statements are issued or made available to be issued, as a non-recognized subsequent event. The SEC staff in a [speech](#) delivered at the 2018 AICPA Conference on Current SEC and PCAOB Developments clarified that loan-specific information about factual conditions that existed at the balance-sheet date should be included in an entity's estimate of expected credit losses. Examples of such information include:

- Servicer reports that show the effects of payment experience (including delinquencies and prepayments) that occurred on or before the balance sheet date
- Appraisals that show information about the fair value of loan collateral as of or before the balance sheet date

With regard to information related to forecasting assumptions used in estimating expected credit losses, the SEC staff clarified that information received before an entity has completed an appropriate estimation process could be included in the entity's estimate of expected credit losses. That is, an entity may include information relating to forecasting assumptions used in estimating expected credit losses that is known or knowable as of the balance-sheet date.

For instance, if, after the balance-sheet date but before the entity's financial statements are issued or made available to be issued, the U.S. government announces unemployment rates for a period that includes the balance-sheet date, an entity may include such information in its estimation process for expected credit losses. While the unemployment rates may not have been available to the entity at the balance-sheet date, the rates are known or knowable since the underlying economic condition (the rate of unemployment) exists and the U.S. government had access to the information.

However, an entity may not include in its estimate of expected credit losses any information relating to forecasting assumptions used in estimating expected credit losses that is received before an entity has completed an appropriate estimation process if that information does not relate to the balance-sheet date. To include such information would violate the guidance in ASC 855-10-55-2(e), which precludes recognizing changes in expected credit losses arising after the measurement date.

As noted by the SEC staff, an entity may, but is not required to, include information relating to forecasting assumptions used in estimating expected credit losses that is known or knowable as of the balance-sheet date. Therefore, an entity must develop a clear and consistent policy for assessing whether information related to forecasting assumptions received before the completion of an appropriate expected credit loss estimation process is known or knowable as of the balance-sheet date.

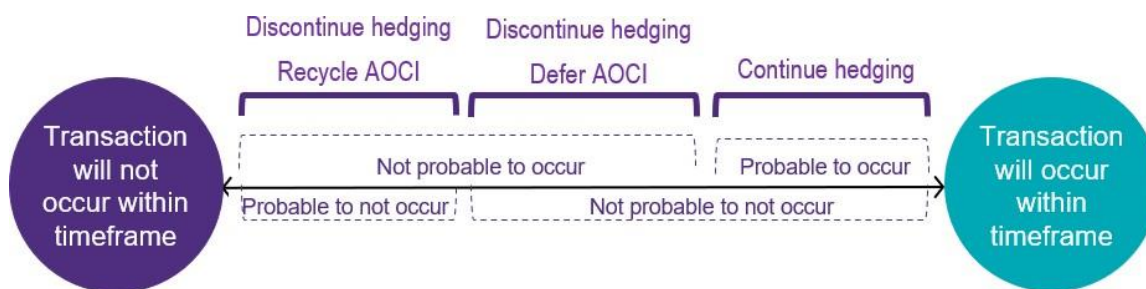
If information related to forecasting assumptions received after the entity has completed an appropriate estimation process, but before the financial statements are issued or made available to be issued, indicates a weakness or deficiency in the entity's estimation process, the entity should recognize that information in its CECL estimation process.

Hedge accounting

Entities that have hedged forecasted transactions in a cash flow hedge under the guidance in ASC 815, *Derivatives and Hedging*, should consider whether the forecasted transactions are still probable of occurring in light of the impact of the changing fiscal and economic policies.

The accounting impact of a change in an entity's assessment of the likelihood of a forecasted transaction occurring, or a change in the anticipated timing of such occurrence, depends on the likelihood that the forecasted transaction will occur within two months of the originally specified time period, as explained in the following bullets and illustration:

- If an entity determines that a hedged forecasted transaction is no longer probable of occurring, ASC 815 requires the entity to discontinue cash flow hedge accounting for that forecasted transaction prospectively.
- If an entity determines that it is not probable that the forecasted transaction will not occur within two months of the originally specified time period, then any derivative gains or losses deferred in accumulated other comprehensive income (AOCI) prior to the change in likelihood should remain in AOCI until the forecasted transaction either impacts earnings or becomes probable of not occurring.
- If an entity determines that it is probable that the forecasted transaction will not occur by the end of the originally specified time period or within a two-month period thereafter, then the entity must immediately reclassify to earnings ("recycle") any amounts previously recognized in AOCI.

Figure 3: Hedge treatment within AOCI

E. Leases

Lessees may receive rent concessions due to the changes in fiscal or economic policies. A concession may take the form of free or reduced rent for a period, the deferral of rent, or some other type of relief.

Under ASC 842, *Leases*, the accounting for a concession depends on whether the lessee has an enforceable right to the concession. A lease contract may provide a lessee with an enforceable right to a concession, such as a “force majeure” clause, or the laws in the jurisdiction governing the lease may create an enforceable right when a concession is legally required. Whether or not an enforceable right to a concession exists is ultimately a legal determination.

If the concession is based on an enforceable right and no other terms of the lease have changed, then the concession is generally not accounted for as a lease modification. If the concession is not based on an enforceable right or if other changes are made to the terms of the lease, then the concession is generally accounted for as a lease modification.

See our comprehensive guide on lease accounting, [Leases: Navigating the guidance in ASC 842](#), for further information about accounting for leases under ASC 842.

F. Loan restructurings

The impact of ongoing economic and fiscal policy uncertainty may result in creditors and borrowers amending loan agreements. The accounting for loan restructurings differs for creditors and borrowers. While both creditors and borrowers must evaluate whether a restructuring should be accounted for as a new loan or a continuation of an existing loan, the borrower must first evaluate whether the restructuring is a troubled debt restructuring; however, creditors are not required to determine whether modified loans are troubled debt restructurings.

Creditor accounting for loan restructurings

Determining whether a restructuring is a modification or an extinguishment of the original loan

To determine whether a restructuring results in a new loan or a continuation of an existing loan, a creditor must first review the terms of the new loan and determine if they are at least as favorable to the creditor as the terms of the creditor’s loans to other customers who are not restructuring loans with a similar collection risk. The creditor would typically make this determination by comparing the effective yield of the restructured loan to the effective yield of the creditor’s loans to other customers. If the terms of the restructured loan are at least as favorable to the creditor as the terms for the creditor’s loans to other customers with similar risk profiles, and if the loan modifications are more than “minor” as defined by

ASC 310-20-35-11, the creditor would account for the restructured loan as a new loan. If a restructured loan is considered a new loan, any unamortized net fees or costs, as well as any prepayment penalties from the original loan, should be recognized in interest income when the new loan is granted.

For restructured loans with terms below market or with only “minor” modifications made to the original loan terms, the creditor would account for these loans as a continuation of an existing loan. Accordingly, the unamortized net fees or costs from the original loan and any prepayment penalties should be carried forward as part of the net investment in the new loan. The net investment in the restructured loan consists of the remaining net investment in the original loan, any additional amounts loaned under the restructuring, any fees received, and direct loan origination costs associated with the refinancing or restructuring.

It is unlikely that loan restructurings would result in the recognition of a new loan under the guidance in ASC 310-20-35-9 through 35-11 because, to be a new loan, the terms of the restructured loan must be at least as favorable to the creditor as the terms for comparable loans made to other customers with similar collection risks who are not restructuring a loan. In other words, a restructuring that contains a concession when compared to market terms does not constitute a new loan.

Disclosures for loans to borrowers experiencing financial difficulty

U.S. GAAP includes disclosure requirements for loan restructurings when borrowers are experiencing financial difficulty. For a description of the required disclosures related to troubled debt restructurings (TDRs), see Grant Thornton’s Snapshot 2022-09, [“FASB eliminates TDR accounting for lenders while enhancing disclosures.”](#)

Evaluating financial difficulty

Entities should evaluate whether a debtor’s creditworthiness has deteriorated since the original issuance of the debt. The following indicators are non-exhaustive factors to be considered in an entity’s assessment of a debtor’s creditworthiness:

- The debtor is currently in payment default on any of its debt, or it is probable that the debtor will be in default in the foreseeable future without the loan restructuring.
- The debtor has declared or is in the process of declaring bankruptcy.
- There is substantial doubt about the debtor’s ability to continue as a going concern.
- The debtor’s securities have been, are in the process of, or are under threat of being delisted.
- Based on the debtor’s current capabilities, it will be unable to service all of its contractual debt payments based on entity-specific cash flow forecasts.
- Without the loan restructuring, the debtor could not obtain other financing on terms equal to those available to non-troubled debtors.

Interest income recognition

During the April 8, 2020 FASB meeting, the FASB staff provided feedback on a technical inquiry regarding the recognition of interest income on a restructured loan that provided a “loan payment holiday” by increasing the term of the loan by six months. In this fact pattern, the restructured loan did not accrue interest during the payment holiday and could be prepaid by the borrower by paying the unpaid principal balance plus accrued interest. The restructured loan was not considered a TDR and was accounted for as a continuation of the original loan, not as a new loan, in accordance with the guidance in ASC 310-20.

The FASB staff said they believe that a creditor may elect to either (a) recognize interest income in accordance with the contractual terms by suspending the recognition of interest income during the payment holiday period and resuming interest recognition when the payment holiday ends, or (b) determine a new effective interest rate that equates the revised contractual cash flows with the net carrying amount of the loan at the restructuring date in accordance with ASC 310-20-35-9 through 35-12. If an entity elects to apply the second approach and recognize interest during the payment holiday, the entity must still consider whether it has concerns about the realization of loan principal or interest. If such concerns exist, the entity should consider whether the recognition of interest income approach is appropriate.

Borrower accounting for loan restructurings

Entities significantly impacted by the changing fiscal and economic policies may request accommodations from their lenders, including temporary payment deferrals, modifications to or waivers of violations of debt covenants, or changes to other terms of their debt agreements. Such debt amendments should be carefully evaluated to determine the appropriate accounting treatment.

When a debt agreement is amended, an entity should first consider whether the modification is a TDR. ASC 470-60, *Debt: Troubled Debt Restructurings by Debtors*, specifies that a restructuring is a TDR if two conditions are met:

- The borrower is experiencing financial difficulty.
- The lender grants a concession.

An entity first considers whether it is experiencing financial difficulty by evaluating the factors included within the “Evaluating financial difficulty” section above. The entity then considers whether the lender has granted a concession. A lender “grants a concession” if the borrower’s effective interest rate on the restructured debt is less than the effective interest rate of the debt immediately before the restructuring. If the restructuring results in a TDR, the borrower should perform the following steps:

- Determine the contractual cash flows of the restructured debt.
- If the total cash flows on the restructured debt are less than the carrying amount of the debt, reduce the carrying amount of the debt to the total contractual cash flows and recognize the reduction in the debt’s carrying amount as a gain.
- If the total cash flows on the restructured debt are greater than the carrying amount of the debt, determine a new effective interest rate that equates the total contractual cash flows to the carrying amount of the debt.

If the restructuring is not a TDR, then entities should consider the modification and extinguishment guidance in ASC 470-50, *Modifications and Extinguishments*. Generally, a liability associated with term debt is considered extinguished if the present value of the cash flows on the restructured debt differs by 10 percent or more from the present value of the cash flows on the original debt, with each set of cash flows discounted using the effective borrowing rate associated with the original debt. If the restructuring does not result in an extinguishment of the original debt, then the entity should determine a new effective borrowing rate on the restructured debt and apply that new rate prospectively.

If the amendment is a debt extinguishment, the entity must include previously deferred issuance costs as part of the extinguishment gain or loss and capitalize debt issuance costs associated with the new debt. If the amendment is a debt modification, the entity must continue to amortize previously deferred issuance costs and expense any new issuance costs related to the amendment.

G. Debt classification

Entities that expect to be significantly impacted by potential changes in economic and fiscal policies of the U.S. government may need to consider whether such changes result in debt covenant violations (for instance, many lending agreements include “material adverse change” provisions that render debt immediately callable by the lender). Entities should evaluate whether any debt covenant violations could have occurred as of the financial reporting date and whether any identified covenant violations impact the classification of the debt as a current or noncurrent liability on the borrower’s balance sheet. Additionally, that analysis should inform the entity’s consideration of its ability to continue as a going concern, as discussed within the “Disclosures” section below.

H. Revenue recognition

Economic and fiscal policy changes may have a variety of impacts on an entity’s revenue recognition. For example, such changes may prompt entities to invoke price-escalation or cost-recovery clauses in existing contracts or to modify contracts without such clauses in an attempt to pass along some of the increased costs to customers. Entities in some industries may experience such dramatic cost increases that their long-term contracts become loss contracts, triggering the need to re-evaluate their pricing and distribution models. The following is a high-level discussion of various considerations that could impact revenue recognition due to ongoing economic and fiscal policy uncertainties. See our comprehensive guide on revenue recognition, [*Revenue from Contracts with Customers: Navigating the guidance in ASC 606 and ASC 340-40*](#), for further information.

Variable consideration

The ongoing economic and fiscal policy changes may impact estimates of variable consideration in contracts with customers. Contracts with automatic price adjustment clauses (such as inflation or other cost-based escalation clauses) must be evaluated within the context of ASC 606. Such clauses are often considered variable consideration and entities must continue to update their estimates of variable consideration as facts and circumstances evolve.

Under ASC 606, entities with customer contracts that include variable consideration (for example, rebates, discounts, or price concessions) are required to estimate the amount of consideration to which they expect to be entitled to in exchange for transferring promised goods or services. Entities should include variable consideration in the contract transaction price only to the extent that it is probable that a significant reversal of cumulative revenue recognized will not occur when any related uncertainties are resolved. Variable consideration that is not included in the transaction price at contract inception (known as “constrained” revenue) is subsequently included when either (a) it becomes probable that a significant reversal will not occur, or (b) the uncertainty related to the variable consideration is resolved.

Entities that enter into contracts with variable consideration must update their estimates of variable consideration over the life of the contract based on facts and circumstances that are known or knowable at each reporting date. As a result, an entity needs to consider the impact of economic and fiscal policies on its estimate of variable consideration.

Presentation of tariffs

The guidance in ASC 606 includes a practical expedient to exclude from the measurement of the transaction price any taxes that are both imposed on and concurrent with certain revenue-producing transactions and are collected by the entity from a customer. Commonly, these include sales, use, value-added, and certain excise taxes.

Tariffs represent duties paid on imports to a country. Tariffs are not considered taxes collected from customers, as the importer alone is responsible for tariff costs; while they may be incurred in connection with the procurement of inventory, they are not incurred concurrent with revenue-producing transactions. Therefore, these import costs are not within the sales tax practical expedient in ASC 606-10-32-2A and should be accounted for in accordance with other cost capitalization guidance.

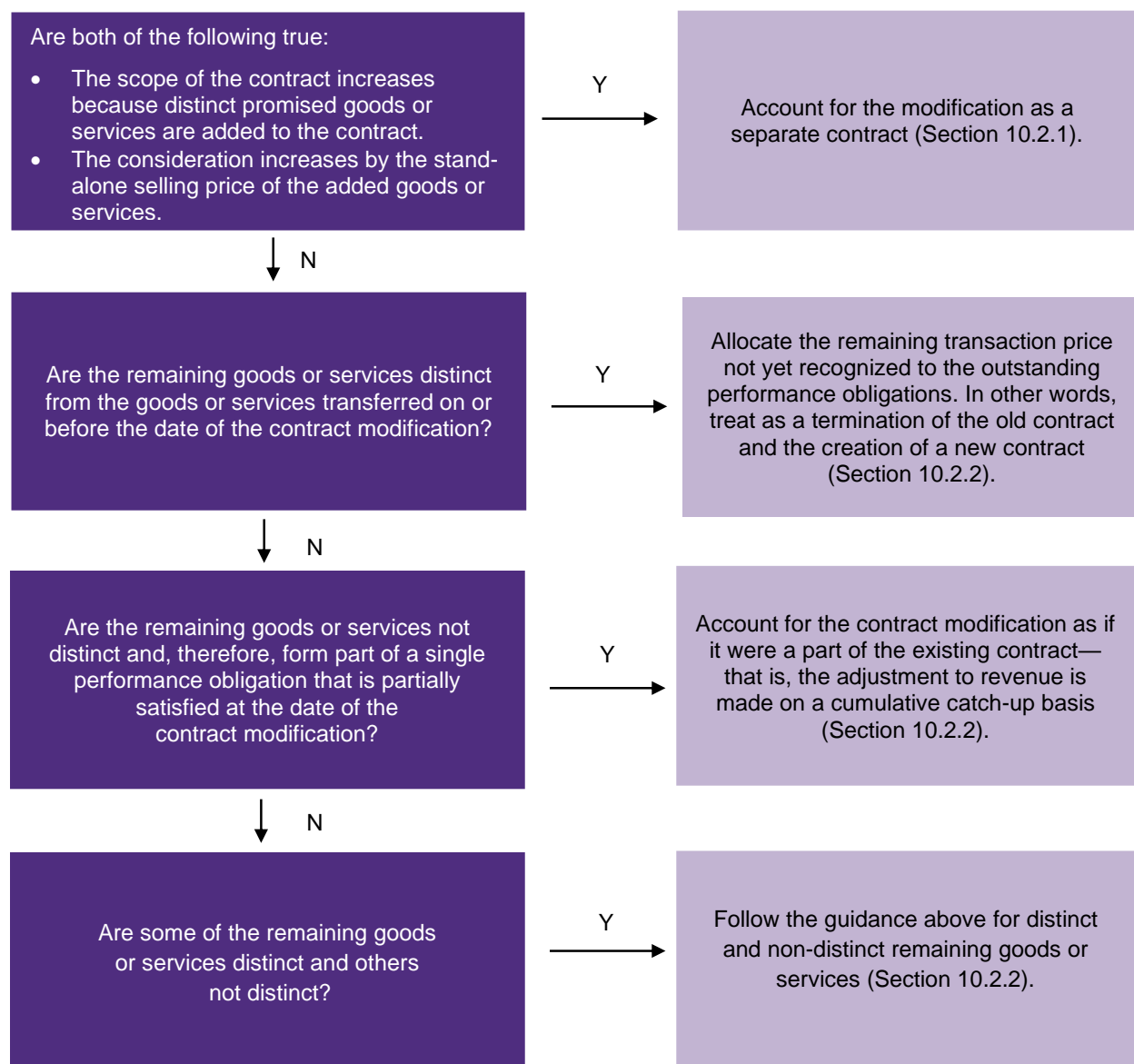
In response to the imposition of tariffs, some entities may utilize existing price adjustment clauses (such as cost-based escalation clauses) while others without existing protections in standard contracts may seek to negotiate price increases within their contracts. Existing price adjustment clauses are often considered variable consideration, and entities must continue to update their estimates of variable consideration as facts and circumstances evolve. Contract amendments to modify pricing would need to follow the modification guidance in ASC 606, as outlined below.

For cost reimbursements, entities should evaluate whether they are acting as a principal or an agent in the transaction. Cost reimbursements are presented within gross revenue for entities that act as a principal. Agents, consistent with the principles in ASC 606, should present revenue net.

Contract modifications

Changing economic and fiscal policy may lead many vendors and customers to modify existing contracts. When there is a change in the scope, price, or both in a contract and the change is enforceable, a contract modification exists, and modification accounting under ASC 606 should be applied.

Entities may re-evaluate their pricing strategies in response to changing policies. Further, entities may agree to lower minimum commitments for purchases in existing contracts. If existing contracts do not include automatic price increase clauses or automatic reductions in minimum quantities, these types of changes in existing contracts must be evaluated under the contract modification guidance. Entities must determine whether the change in price and/or quantities should be accounted for prospectively or if a cumulative catch-up is required based on the scope of the modification.

Figure 4: Accounting for a contract modification

Collectibility

The economic volatility may impact an entity's ability to collect amounts due from customers. Entities may need to consider changes in collectibility with regard to existing account receivable balances.

In addition to evaluating credit losses, entities also need to reassess whether, due to changes in collectibility, an accounting contract continues to exist for the remaining goods or services to be provided under the contract. The probability of collection is part of Step 1 of the five-step process for determining whether a contract exists for accounting purposes in ASC 606. Once a contract meets the Step 1 criteria, an entity is precluded from reassessing whether it continues to pass Step 1, unless there is an indication of significant changes in facts and circumstances. When those significant changes occur, an entity should

reassess collectibility within the context of future consideration for the remaining goods or services under the contract. If it is no longer probable that the entity will collect substantially all of this future consideration, ASC 606 generally requires the entity to stop recognizing further revenue and provides guidance on how to continue to assess Step 1 until either the criteria in Step 1 are subsequently met or the contract is terminated.

Over-time revenue recognition using cost-to-cost percentage completion

Entities that recognize revenue over time and that conclude a cost-based input method best depicts the entity's progress toward satisfaction of its performance obligation should assess whether changes in economic and fiscal policies necessitate updates to its cost estimates. Fiscal policy changes such as tariffs may result in increases to estimated costs to complete a contract. As a result, the total estimated costs may increase while the costs incurred to date may not have changed, resulting in an entity's percentage complete decreasing significantly. If an entity has not negotiated a corresponding increase in the transaction price, this situation may lead to a reversal of cumulative revenue recognized to date for a contract. Entities should closely monitor estimated costs to ensure their assumptions reflect the most up-to-date information at period-end.

Losses on construction-type and production-type contracts

Entities should monitor cost estimates within construction and production-type contracts. ASC 606 retained the guidance within ASC 605-35 for such contracts, including the determination of when a loss contract exists.

Loss contracts exist when an entity's estimate of consideration to be received under the contract is less than the current estimate of total costs. Entities should include cost increases resulting from economic and fiscal policy changes, such as tariffs, within their estimates of total costs under the contract. U.S. GAAP requires the entity to recognize the total loss in operating expense when it determines the contract to be a loss contract.

Go-forward ASC 606 estimates

In addition to reassessing ASC 606 estimates related to existing contracts, entities should similarly consider the impact of the uncertainty on estimates involved with accounting for new contracts with customers that are being executed during this time of uncertainty and volatility. An entity's historical judgments and estimates may be impacted, including collectibility, stand-alone selling prices, potential price concessions, contract assets, and product returns, among other things.

Costs to obtain and fulfill a contract

Costs to obtain and fulfill contracts are capitalized under the guidance in ASC 340-40, *Other Assets and Deferred Costs: Contracts with Customers*. Under that guidance, an entity should recognize an impairment loss in earnings if the consideration that the entity either expects to receive in the future or has received but has not yet recognized as revenue, minus the costs directly related to providing goods or services that have not yet been expensed, is less than the carrying amount of the capitalized costs. Entities should consider whether changes in estimates of either the amount of consideration the entity expects to receive or the costs directly related to providing the goods or services as a result of the ongoing economic and fiscal policy uncertainty indicate that the carrying amount of costs to obtain and fulfill contracts is impaired. However, prior to assessing whether capitalized costs to obtain and fulfill

contracts are impaired, an entity should first perform an impairment assessment on assets related to the contract that are outside the scope of ASC 340 (for example, inventory accounted for under ASC 330). Next, an entity should apply the impairment guidance to assets related to the contract that are recognized in accordance with ASC 340.

Capitalized costs to obtain and fulfill contracts may also be considered for impairment under other accounting guidance. After applying the impairment guidance in ASC 340-40, an entity includes the resulting carrying amount of the asset in the carrying amount of the asset group or reporting unit to which that asset belongs for purposes of applying the impairment guidance in ASC 360 for long-lived assets or in ASC 350 for goodwill.

Finally, for any remaining amount of capitalized costs to obtain and fulfill a contract, an entity should consider whether the manner of amortization should be updated.

Contract assets

Contract assets arising in situations where an entity has met the criteria to recognize revenue under ASC 606, but the entity's right to consideration is conditioned on something other than the passage of time, are subject to the guidance on credit losses in either ASC 310 or ASC 326, as applicable.

I. Disclosures

Entities need to consider the implications of economic or fiscal policy uncertainty on the disclosures included in their financial statements. The scope of disclosures required in an affected entity's financial statements depends on the nature, timing, duration, and extent of the impact on the entity. Developments should continue to be monitored and the appropriateness of disclosures evaluated as changes occur.

Revenue

ASC 606 requires disclosures about changes in judgments and about other matters, such as the impairment of contract assets. Therefore, the impact of an economic or policy uncertainty may trigger the need for incremental disclosures. This may include, as applicable, the methods, inputs, and assumptions used for estimating variable consideration and any constraint; the timing of satisfying performance obligations; and other impacted aspects of revenue recognition.

Going concern

The guidance in ASC 205-40, *Presentation of Financial Statements: Going Concern*, requires an entity to evaluate its ability to continue as a going concern within one year after the financial statements are issued (or available to be issued, as applicable). An entity that concludes that there is substantial doubt about its ability to continue as a going concern or that management's plans alleviate that doubt must provide disclosures to that effect.

ASC 205-40-50-3 requires that management's evaluation be based on relevant conditions and events that are known and those that are reasonably knowable at the date the financial statements are issued. Therefore, an entity should evaluate whether its going concern analysis has sufficiently considered the impact of updates (or of reasonably foreseeable changes) to fiscal and economic policies based on known or knowable information at the date that financial statements are issued.

Entities need to exercise judgment when weighting different scenarios in the current environment—for example, less weight may be assigned to scenarios based on actions that have been proposed but not yet enacted through executive order or legislation, such as proposed tariffs or changes in government grants and other fiscal programs, than to scenarios based on changes that have already been enacted.



Evaluating ability to continue as a going concern after freeze of U.S. foreign aid

Entity A, a not-for-profit entity with a calendar year-end reporting date, receives a significant portion of its annual funding through a grant from USAID. In January 2025, subsequent to Entity A's 2024 year-end but prior to the date when its financial statements were made available to be issued, the grant program facilitated by USAID was indefinitely suspended. This suspension is the subject of various ongoing legal challenges.

In performing the evaluation of its ability to continue as a going concern, Entity A evaluates whether and how to incorporate these developments into its forecast. Considering the guidance in ASC 205-40, *Presentation of Financial Statements: Going Concern*, Entity A determines that it must include the expected effects of the grant program suspension in its forecast. Entity A also decides that it cannot rely upon the success of any of the ongoing legal challenges to this suspension since it cannot predict the ultimate outcome.

Based upon its specific facts and circumstances, Entity A concludes that substantial doubt exists about its ability to continue as a going concern. Entity A also concludes that, in its specific facts and circumstances, its plans to secure replacement funding do not alleviate the substantial doubt about its ability to continue as a going concern. As a result, Entity A provides the disclosures required by ASC 205-40-50-13.

Risks and uncertainties

Under ASC 275, *Risks and Uncertainties*, entities are required to make qualitative disclosures about risks and uncertainties that could significantly impact the amounts reported in the financial statements in the near term (that is, within one year from the date of the financial statements) based on known information available before the financial statements are issued or made available to be issued, as applicable. Entities may need to evaluate whether it is necessary to include specific disclosures related to risks and uncertainties introduced by the imposition of tariffs, suspension of certain government grants or other federal spending, or other changing economic and fiscal policies of the U.S. or other governments, including disclosures related to significant accounting estimates and vulnerabilities due to concentrations in vendors, customers, products, geographies or sources of labor.

MD&A and risk factors

In addition to disclosures in their financial statements, entities may need to provide additional disclosures about the impact of the changing economic and fiscal policies of the U.S. government in their SEC filings under Regulation S-K in both Management's Discussion and Analysis (MD&A) and Risk Factors.

MD&A

Entities need to provide a clear and understandable discussion of known trends or uncertainties that either have or are expected to have a material impact on revenue, income, operations, financial condition, or liquidity in MD&A.

Risk factors

Entities also need to disclose significant risks that could impact their results and the securities they have issued. Entities should consider whether it is necessary to include specific risk factors related to the

changing economic and fiscal policies of the U.S. government and their possible impact on their business.

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