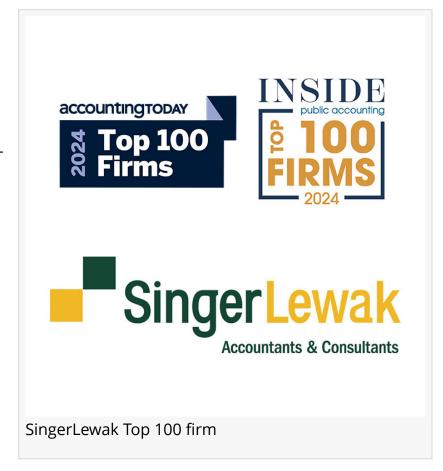


Reducing the CECL Headache: What ASU 2025-05 Means for Private Companies and Not-for-Profits

On July 30, 2025, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2025-05

LOS ANGELES, CA, UNITED STATES,
October 15, 2025 /EINPresswire.com/ -On July 30, 2025, the Financial
Accounting Standards Board (FASB)
issued Accounting Standards Update
(ASU) 2025-05, introducing a new
practical expedient for private
companies and not-for-profit
organizations. The update simplifies
how these entities estimate credit
losses on short-term receivables and
contract assets—providing meaningful
relief from the complexities of the
Current Expected Credit Loss (CECL)
model.

Background: Why CECL Has Been a Challenge



CECL, under Topic 326, requires entities to project lifetime expected credit losses using forward-looking information, including macroeconomic data. While this approach enhances transparency for long-term financial assets, it has proven overly complex for short-term receivables. Many private companies and <u>nonprofits</u>—with predictable payment patterns and minimal loss exposure—have found the CECL process resource-intensive without adding significant value. Key Changes in ASU 2025-05

The new standard allows eligible entities to use subsequent collection information—actual cash received after the reporting date—to estimate credit losses. This expedient applies to:

- Accounts receivable and contract assets from revenue transactions
- Entities reporting under Topic 606 (Revenue from Contracts with Customers)
- Private companies and not-for-profit organizations

This shift aligns accounting more closely with the way these organizations already monitor receivables and assess collectability. Simplification Through Waived **Preferability Assessment** Typically, a change in accounting method requires a preferability assessment, where an entity must prove the new method is superior. ASU 2025-05 waives this requirement, letting entities adopt the expedient without justifying the change. This removes a significant administrative hurdle and allows for quicker, smoother implementation. A Practical Example Consider a privately held manufacturing company that sells food packaging containers on net-30 terms.



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Nearly all receivables are collected within 45 days, and defaults are rare.

Under CECL, the company would need to develop a forecasting model using economic forecasts and credit profiles, despite low risk. With ASU 2025-05, the company can instead base its estimate on actual post-reporting collections. For instance, if 95% of invoices are collected within two weeks after the balance sheet date, minimal credit losses can be recorded without relying on complex projections.

This approach reflects real-world experience while reducing compliance costs and freeing resources for more strategic financial activities.

Implementation Tips

Organizations planning to adopt the expedient should:

- Review receivables aging and collection history
- Clearly document their policy election
- Coordinate early with auditors
- Ensure disclosures explain how subsequent collections inform estimates

This transition also presents an opportunity to simplify other aspects of financial reporting. Effective Date and Early Adoption

- Effective Date: Annual periods beginning after December 15, 2025, including interim periods.
- Early Adoption: Permitted and may be advantageous, particularly if financial statements for the current period have not yet been issued.

Early adoption can help avoid the need to build CECL models for short-term receivables, streamline audits, and align reporting with a more intuitive method.

Broader Implications

ASU 2025-05 highlights FASB's responsiveness to stakeholder feedback and signals a shift toward practical, scalable solutions. By recognizing that one-size-fits-all models like CECL are not always suitable, FASB has provided a framework that is better tailored for smaller, less complex entities.

Conclusion

For organizations dealing primarily with short-term receivables and contract assets, ASU 2025-05 offers a welcome simplification. It reduces compliance burdens, lowers costs, and keeps the focus on clear, reliable financial reporting rather than unnecessary modeling complexity.

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