January 14, 2025

Technical Director
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RE: File Reference No. 2024-ED900

We appreciate the opportunity to provide feedback on the proposed Accounting Standards Update (ASU), *Financial Instruments – Credit Losses (Topic 326)*, dated December 3, 2024. The purpose of the proposed ASU is to introduce a practical expedient and a related accounting policy election for private companies and certain not-for-profit entities related to the application of Subtopic 326-20 to current accounts receivable and current contract assets arising from transactions accounted for under Topic 606.

The views expressed herein are written on behalf of the Professional Standards Committee (PSC) of the Texas Society of CPAs. The committee has been authorized by the Texas Society of CPAs' Leadership Council to submit comments on matters of interest to the membership. The views expressed in this document have not been approved by the Texas Society of CPAs' Leadership Council or Board of Directors and, therefore, should not be construed as representing the views or policy of the Texas Society of CPAs.

The PSC is supportive of the proposed amendments to account for credit losses related to accounts receivable and contract assets arising from transactions accounted for under Topic 606, *Revenue from Contracts with Customers*. The PSC also wants to praise the Private Company Council's efforts to simplify the existing rules, as our constituents have often expressed their challenges when applying the guidance in Topic 326 particularly to accounts receivable. The PSC would like to make the following observations:

- The PSC would support expanding the proposed amendments to include public business entities, all not-for-profit entities or other types of entities. Accounts receivable are typically short-term assets and in our view, of a different nature compared to other financial assets covered by Topic 326. As a result, we believe it is reasonable to account for accounts receivable differently than the Current Expected Credit Loss (CECL) model for accounts receivable. As many public companies only have accounts receivable and no other assets that are subject to Topic 326, adopting the proposed amendments will also simplify their accounting process.
- Even if not expanded to public companies, the PSC also supports applying the proposed amendments to current accounts receivable and contract assets. The PSC believes that long-term financial assets are different in nature from current accounts receivable and contract assets, and those differences support a different consideration process when considering losses on such assets.
- In addition, the PSC believes that the proposed ASU should apply to other transactions such as accounts receivable acquired in a business combination and does not believe there will be unintended consequences in extending the proposed amendments to other current

assets or transactions. For instance, current accounts receivable and current contract assets acquired in a business combination are subject to a valuation process where fair values are determined for these assets. Therefore, applying a CECL approach may be counterintuitive.

- The PSC believes that both the proposed practical expedient and proposed accounting policy election are clear and operable and improve the ability for entities to apply Topic 326 for current accounts receivable and current contract assets. In addition, we believe that the option to consider subsequent collection activity should be made available to all entities and not be limited to those who have elected the practical expedient. The PSC believes that including account receivables that have been subsequently collected prior to the entity's financial statements are available to be issued, or as paragraph 326-20-30-10E states, any date selected by the entity which is after the balance sheet but before the date the financial statements are available to be issued in the allowance estimate, is counterintuitive.
- The PSC believes it is appropriate to require entities to disclose that they are applying the proposed practical expedient and accounting policy election.
- The PSC agrees with the proposed prospective transition requirements, as this results in reduced implementation costs. In addition, entities should be allowed to apply the practical expedient and accounting policy election in any period after the effective date without performing a preferability assessment. The PSC believes the aim of the proposed amendments is to simplify the accounting of credit losses and, therefore, performing a preferability assessment is not needed.
- The PSC supports the proposed amendments to be effective upon issuance of a final Accounting Standards Update. The PSC does not believe significant time will be needed to implement the proposed amendments. If a delay to the effective date is included in the standard, the PSC requests that early adoption be allowed.
- The PSC believes the proposed amendments will reduce costs as the accounting of credit losses will be simplified and enhance the decision usefulness of information as subsequent collection activity is incorporated in the analysis.

We appreciate the opportunity to submit comments on the proposed ASU, *Financial Instruments – Credit Losses (Topic 326).*

Sincerely,

Jeffrey L. Johanns

Jeffrey Johanns, CPA
Chair, Professional Standards Committee
Texas Society of Certified Public Accountants