

Snapshot

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SNAPSHOT 2026-07

ASU 2025-12, Codification Improvements

In December 2025, the FASB issued [ASU 2025-12, Codification Improvements](#), as part of its standing project to correct, clarify, and make narrow improvements to U.S. GAAP. The amendments in this ASU address thirty-three issues across a range of topics.

Although the Codification amendments made pursuant to this standing project are generally not expected to have a significant effect on accounting practice, we believe the following issues addressed in ASU 2025-12 could affect current practice and are therefore worth discussing:

- Issue 4: Clarify the Calculation of Earnings per Share When a Loss from Continuing Operations Exists
- Issue 10: Clarify Methods to Account for Treasury Stock Retirements
- Issue 16: Add Reference to Other-Than-Temporary Impairment (OTTI) for Equity Method Investments

Diluted EPS calculation when a loss from continuing operations exists (Issue 4)

Prior to ASU 2025-12, ASC 260 included conflicting guidance about the effect of potential common shares on diluted earnings per share

(EPS) in periods when an entity reports a loss from continuing operations.

On the one hand, ASC 260-10-45-45 through 45-46 states that the effect of share-settling an instrument that may be settled in either cash or shares should be reflected in diluted EPS if the effect is dilutive, regardless of whether the entity reports a loss or income from continuing operations. If the instrument is classified as an asset or liability, an adjustment to the numerator of the diluted EPS calculation may also be necessary to reverse the share-settleable instrument's effect on earnings. The combined effect of the numerator and denominator adjustments may be dilutive even in periods when the entity reports a loss from continuing operations.

On the other hand, ASC 260-10-45-19 states that when there is a loss from continuing operations in a period, including potential common shares in the denominator of a diluted EPS calculation will *always* have an antidilutive effect, and, therefore, diluted EPS would be computed on the same basis as basic EPS.

Accordingly, there has been diversity in practice with respect to including potential common shares associated with instruments that may be settled in cash or shares in the diluted EPS calculation when both (a) the instrument is presented as an asset or liability and is subsequently measured at fair value,

with changes recognized in earnings, and (b) the entity reports a loss from continuing operations.

The amendments in ASU 2025-12 clarify that when a loss from continuing operations exists, including potential common shares in the denominator is *generally* (as opposed to *always*) antidilutive.

Under the amended guidance, entities incurring losses from continuing operations must consider whether potential common shares are dilutive based on adjustments made to both the numerator, if any, and the denominator in the diluted EPS calculation.



Illustrative example: Warrants that may be settled in cash or stock

Entity A reports a net loss of \$5 million for the quarter ended 3/31/20X6. The entity reports no discontinued operations and has 10 million weighted-average common shares outstanding during the quarter. Basic EPS for the quarter is calculated as follows:

Numerator	\$(5,000,000)
Denominator	10,000,000
Basic loss per share	\$(0.50)

Entity A has outstanding warrants that allow the holder to purchase 500,000 shares at an exercise price of \$2 per share. The warrants are liability-classified under ASC 815-40 because the holder may choose to settle them in either cash or common shares. Entity A recognizes a gain of \$0.5 million for the quarter ended 3/31/20X6 due to changes in the fair value of the warrants during the period. The average share price of Entity A's common stock during the period is \$2.50 per share.

Under the amendments in ASU 2025-12, Entity A must assume that the warrants will be share-settled and include the potential common shares in the diluted EPS calculation if the effect is dilutive, despite reporting a net loss for the period.

Using the treasury stock method, Entity A increases the denominator by 100,000.^(a) The numerator is also adjusted to reverse the \$0.5 million gain that would not have been reported had the warrants been equity-classified. Diluted EPS is calculated as follows:

Numerator	\$(5,500,000)
Denominator	10,100,000
Diluted loss per share	\$(0.54)

As the combined effect of the numerator and denominator adjustments is dilutive, Entity A reports diluted loss per share of \$(0.54).

(a) $100,000 = 500,000 - (500,000 \times \$2) \div \$2.50$.

Transition requirements specific to Issue 4

Entities must apply the amendments to ASC 260 on a retrospective basis for each period presented. When the combined effect of a numerator and denominator adjustment is dilutive for a prior period, the entity must recast the diluted EPS calculation for that period. If the effect is antidilutive, no recast is required.

Accounting for treasury stock retirements (Issue 10)

When an entity retires stock or repurchases stock for constructive retirement, the guidance in ASC 505-30-30-8 explicitly allows two methods to account for any excess repurchase price over par or stated value:

- Allocate the excess between (1) additional paid-in-capital (APIC), limited to the amount attributable to the same issue as the shares being retired, and (2) retained earnings.
- Charge the excess entirely to retained earnings.

However, ASU 2025-12 notes that Accounting Research Bulletin 43, where the guidance in ASC 505-30-30-8 originates, also refers to a third method of accounting: Recognize the excess amount entirely as a reduction to APIC. This method was inadvertently excluded from ASC 505 but has been generally accepted in practice. Accordingly, the amendments add this third method to ASC 505-30-30-8 permitting entities to record the excess entirely to APIC, provided that it does not cause APIC to become negative.

Fair value option election for equity method investments when there is an OTTI (Issue 16)

Under ASC 825, entities are permitted to elect the fair value option for an eligible instrument if an event occurs that requires the instrument to be measured at fair value but does not require remeasurement at fair value thereafter, with certain exceptions.

Before the effective date of the amendments in ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326)*, which introduced the current expected credit losses (CECL) model, one of those exceptions was recognizing an other-than-temporary impairment (OTTI). Specifically, an entity was prohibited from electing the fair value option upon recognizing an OTTI, even though OTTI recognition requires the asset to be written down to its fair value.

Among other things, the amendments in ASU 2016-13 eliminated the OTTI model for available-for-sale debt securities, and the FASB made a

conforming amendment to remove the OTTI exception described above from the fair value option guidance in ASC 825. However, that conforming amendment did not take into account that equity method investments were still subject to an OTTI model after entities adopted the amendments in ASU 2016-13. Therefore, it became unclear whether an entity could elect the fair value option upon recognizing an OTTI on its equity method investment based on the guidance in ASC 825.

As a result, the amendments in ASU 2025-12 correct the unintended removal of the OTTI exception from ASC 825-10-25-4(e) by clarifying that entities are not permitted to elect the fair value option for an equity method investment upon recognizing an OTTI.

Effective date and transition

The amendments in ASU 2025-12 are effective for all entities in annual reporting periods beginning after December 15, 2026 and in interim periods within those annual reporting periods. Early adoption is permitted in both interim and annual periods, and an entity may elect to early adopt the amendments on an issue-by-issue basis.

If an entity adopts the amendments in an interim period, it must adopt them as of the beginning of the respective annual reporting period.

Aside from Issue 4, entities may choose one of the following transition methods, which may also be elected on an issue-by-issue basis:

- Prospectively to all transactions recognized on or after the date when the amendments are first applied
- Retrospectively to the beginning of the earliest period presented

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