

Recent ASUs: Key Amendments Under ASU 2025-12 Explained

Staying current with the latest ASUs can feel like a moving target, but this chapter breaks down ASU 2025-12 in a straightforward way. You'll get a clear summary of the areas targeted for improvement and a practical look at the specific amendments made. Whether you're advising clients or preparing financial statements, understanding what changed—and why—helps you apply the new guidance with confidence and avoid common missteps during the transition period.

CREDIT HOURS 2 | FIELD OF STUDY ACCOUNTING | EXAM QUESTIONS 9

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- Certificate of completion is available in your account.
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Publication Date: February 2026

TABLE OF CONTENTS

CHAPTER

01

Section 3..... 4

1.01 ASU 2023-09: Income Taxes (Topic 740)–Improvements To Income Tax Disclosures 4

Test Your Knowledge..... 12

CHAPTER

02

Section 4 14

2.01 ASU 2023-08: Intangibles–Goodwill And Other–Crypto Assets (Subtopic 350-60): Accounting For And Disclosure Of Crypto Assets. 14

Test Your Knowledge..... 23

CHAPTER

03

Section 5..... 25

3.01 ASU 2023-05: Business Combinations–Joint Venture Formations (Subtopic 805-60)–Recognition And Initial Measurement..... 25

3.02 ASU 2024-03: Income Statement–Reporting Comprehensive Income–Expense Disaggregation Disclosures (Subtopic 220-40)–Disaggregation Of Income Statement Expenses, And..... 38

3.03 ASU 2025-01: Income Statement–Reporting Comprehensive Income–Expense Disaggregation Disclosures(Subtopic 220-40)–Clarifying The Effective Date 38

3.04 ASU 2025-12: Codification Improvements 50

Test Your Knowledge..... 60

Final Exam Copy 89

Glossary 64

Index 64

Section 3

ASU 2023-09: INCOME TAXES (TOPIC 740)–IMPROVEMENTS TO INCOME TAX DISCLOSURES

Effective date – ASU 2023-09

ASU 2023-09 is effective as follows:

- a. Public business entities for annual periods beginning after December 15, 2024.
- b. For entities other than public business entities (including nonpublic entities), annual periods beginning after December 15, 2025 (calendar year 2026).

Overview of ASU 2023-09

In December 2023, the FASB issued ASU 2023-09, *Income Taxes (Topic 740)–Improvements to Income Tax Disclosures*.

The FASB issued ASU 2023-09 to enhance the transparency and decision usefulness of income tax disclosures.

According to the FASB:

1. Investors, lenders, creditors, and other allocators of capital have indicated that:
 - a) The existing income tax disclosures should be enhanced to provide information to better assess how an entity's operations, related tax risks, and tax planning and operational opportunities affect its tax rate and prospects for future cash flows.
 - b) They currently rely on the rate reconciliation table and other disclosures, including total income taxes paid, to evaluate income tax risks and opportunities.
2. Investors and others have suggested possible enhancements in order to better:
 - a) Understand an entity's exposure to potential changes in jurisdictional tax legislation and the ensuing risks and opportunities
 - b) Assess income tax information that affects cash flow forecasts and capital allocation decisions, and
 - c) Identify potential opportunities to increase future cash flows.

As a result, the amendments found in ASU 2023-09:

- Address investor requests for more transparency about income tax information through improvements to income tax disclosures, primarily related to the rate reconciliation and income taxes paid information, and
- Includes certain other amendments to improve the effectiveness of income tax disclosures.

Scope of ASU 2023-09

The amendments in ASU 2023-09 apply to all entities that are subject to ASC 740, Income Taxes.

Certain disclosures that are required by ASU 2023-09 are not required for entities other than public business entities (e.g., nonpublic entities).

General rules – ASU 2023-09

1. The ASU 2023-09 amendments replace certain terms as follows:
 - a) The term “public entity,” as currently used in ASC 740, is replaced with the term “public business entity,” as defined in the Master Glossary of the *Codification*.
 - b) The term “nonpublic entities” is replaced with the term “other than public business entities.”

All entities – new disclosures

1. All entities are required to disclose on an annual basis the following information about income taxes paid in the statement of cash flows:
 - a) The amount of income taxes paid (net of refunds received) disaggregated by:
 - Federal (national)
 - State, and
 - Foreign taxes.
 - b) The amount of income taxes paid (net of refunds received) disaggregated by individual jurisdictions in which income taxes paid (net of refunds received) is equal to or greater than 5 percent of total income taxes paid (net of refunds received).
2. All entities must disclose the following information:
 - a) Income (or loss) from continuing operations before income tax expense (or benefit) is disaggregated between domestic and foreign.
 - b) Income tax expense (or benefit) from continuing operations disaggregated by federal (national), state, and foreign.

Example:

Company X, a nonpublic entity, implements the new ASU 2023-09 disclosures starting in 2026, the effective date for nonpublic entities.

Conclusion

Below is the disclosure required by X.

Company X

Notes to Financial Statements

Year ended December 31, 2026

NOTE X: Supplemental Tax Disclosures:

Supplementary income tax disclosures follow:

Income taxes paid, net of refunds received:

Federal	\$650,000
State:	
California	\$300,000
All other states	20,000
Foreign	<u>70,000</u>
Total income taxes paid	<u>\$1,040,000</u>

Income from continuing operations before income taxes:

Domestic	\$3,600,000
Foreign	<u>700,000</u>
	<u>\$4,300,000</u>

Income tax expense from continuing operations:

Federal	680,000
State	360,000
Foreign	<u>60,000</u>
	<u>\$1,100,000</u>

Public business entities only

A public business entity shall disclose a reconciliation for each annual reporting period, between the amount of reported income tax expense (or benefit) from continuing operations and the amount computed by multiplying the income (or loss) from continuing operations before income taxes by the applicable statutory federal (national) income tax rate of the jurisdiction (country) of domicile.

1. ASU 2023-09 requires that public business entities, on an annual basis, do the following:
 - a) Disclose specific categories in the rate reconciliation, and
 - b) Provide additional information for reconciling items that meet a quantitative threshold.

Note

The quantitative threshold applies if the effect of those reconciling items is equal to or greater than 5 percent of the amount computed by multiplying pretax income [or loss] by the applicable statutory income tax rate.

2. Specific disclosures required by public business entities:

a) Disclose a tabular reconciliation, using both percentages and reporting currency amounts, according to the following requirements:

1) The following specific categories are required to be disclosed within the tabular reconciliation:

- State and local income tax, net of federal (national) income tax effect
- Foreign tax effects
- Effect of changes in tax laws or rates enacted in the current period
- Effect of cross-border tax laws
- Tax credits
- Changes in valuation allowances
- Nontaxable or nondeductible items, and
- Changes in unrecognized tax benefits.

2) Additional items- greater than 5 percent threshold:

Separate disclosure is required for any reconciling item in which the effect of the reconciling item is equal to or greater than 5 percent of the amount computed by multiplying the income (or loss) from continuing operations before income taxes by the applicable statutory federal (national) income tax rate of the jurisdiction (country) of domicile. In applying the 5 percent threshold requirement, the following rules apply:

- If the reconciling item falls within cross-border tax laws, tax credits, or the nontaxable or nondeductible items categories, it must be disaggregated by nature.
- If the reconciling item is within the foreign tax effects category, it is required to be disaggregated by jurisdiction (country) and by nature (except for reconciling items related to changes in unrecognized tax benefits discussed in (4) below).
- If the reconciling item is not within any of the categories listed in (1), it must be disaggregated by nature.

Note

The ASU states that when disaggregating the reconciling items in paragraph 2), by nature, an entity should consider the reconciling item's fundamental or essential characteristics, such as the event that caused the reconciling item and the activity with which the reconciling item is associated. Reconciling items shall be presented on a gross basis unless specific guidance permits net presentation with a related reconciling item.

3) For the purpose of categorizing reconciling items found in previous paragraph (1), except for reconciling items related to changes in unrecognized tax benefits (discussed in paragraph (4), the following rules apply:

- The state and local income tax category should reflect income taxes imposed at the state or local level within the jurisdiction (country) of domicile
- The foreign tax effects category should reflect income taxes imposed by foreign jurisdictions, and
- The remaining categories listed in the previous paragraph 1) should reflect federal (national) income taxes imposed by the jurisdiction (country) of domicile.

4) For the purpose of presenting reconciling items, the following additional rules apply:

- Reconciling items are required to be presented on a gross basis, with two exceptions under which unrecognized tax benefits and the related tax positions, and tax effects of certain cross-border tax laws, and the related tax credits, may be presented on a net basis.
- Reconciling items presented in changes to the unrecognized tax benefits category may be disclosed on an aggregated basis across all jurisdictions.

What happens if a public business entity is not domiciled in the United States?

The ASU states that in circumstances in which a public business entity, as the parent entity, is not domiciled in the United States, the federal (national) income tax rate in that entity's jurisdiction (country) of domicile shall normally be used in the reconciliation, and different rates shall not be used for subsidiaries or segments of the public business entity. When the rate used by a public business entity is other than the United States federal corporate income tax rate, the public business entity shall disclose the rate used and the basis for using that rate.

Example: Company X, a public business entity, has income from continuing operations of \$4,760,000 and income tax expense of \$1,048,600 (22%).

Conclusion: X is required to present a reconciliation of the federal statutory rate of 21% to its effective income tax rate of 22%.

Company X (Public Company)		
Notes to Financial Statements		
Year ended December 31, 20XX		
NOTE X: INCOME TAXES		
A reconciliation of income tax expense to the income tax expense computed at the statutory rate follows:		
	<u>Amount</u>	<u>%</u>
Federal income tax expense- at the statutory rate of 21%	\$1,000,000	21%
Adjustments:		
State income taxes, net of federal tax benefit	286,000	6%
Foreign taxes	48,000	1%
Effect of changes in tax laws and rates	0	0%
Tax credits	(95,000)	(2%)
Changes in valuation accounts	0	0%
Nontaxable and nondeductible items:		
Nontaxable municipal interest income _s	(238,000)	(5%)
Other nontaxable and nondeductible items, net	47,600	1%
Changes in unrecognized tax benefits	<u>0</u>	<u>0%</u>
Total income tax expense	<u>\$1,048,600</u>	<u>22%</u>

3. Other requirements by a public business entity:

- a) For the state and local category within the tabular reconciliation in Paragraph 1), a public business entity is required to provide a qualitative description of the states and local

jurisdictions that make up the majority (greater than 50 percent) of the effect of the state and local income tax category.

- b) A public business entity is required to provide an explanation, if not otherwise evident, of the individual reconciling items disclosed, such as the nature, effect, and underlying causes of the reconciling items and the judgment used in categorizing the reconciling items.

Entities other than public business entities (nonpublic entities, etc.)

1. For entities other than public business entities, the ASU amendments require the following:
 - a) Qualitative disclosure about specific categories of reconciling items and individual jurisdictions that result in a significant difference between the statutory tax rate and the effective tax rate.

Note

Existing ASC 740-10-50-13 states:

“A nonpublic entity other than a public business entity shall disclose the nature of significant reconciling items but may omit a numerical reconciliation.”

ASU 2023-09 replaces the previous language with more expansive qualitative disclosure about specific categories of reconciling items and individual jurisdictions that result in a significant difference between the statutory tax rate and the effective tax rate.

Sample disclosure: ASU 2023-09: (entities other than public business entities)

NOTE X:

The difference between Entity W’s effective tax rate and its statutory tax rate is primarily attributed to tax credits, state taxes, and foreign taxes. More specifically, the foreign tax effects of Entity W’s operations in Ireland had a decreasing effect on its effective tax rate, while the foreign tax effects of Entity W’s operations in France had an increasing effect on its effective tax rate. Entity W received federal research and development tax credits, which decreased its effective tax rate, while state taxes in California increased it.

Items eliminated from ASC 740 by ASU 2023-09

1. The ASU amendments eliminate two provisions from ASC 740:
 - a) The requirement for all entities to: 1) disclose the nature and estimate of the range of the reasonably possible change in the unrecognized tax benefits balance in the next 12 months, or 2) make a statement that an estimate of the range cannot be made.