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PKF Insights: Accounting Considerations for US Tariffs

This newsletter outlines key accounting considerations under FRS 10 – Events after the Reporting Period, with a focus on how entities should assess and disclose the financial reporting impacts of newly imposed tariffs. It is structured in three parts to provide guidance through the relevant scenarios.

Accounting Considerations for US Tariffs

Although tariffs are not new, recent U.S. actions to impose baseline and reciprocal tariffs have reignited concerns over escalating trade tensions. These developments introduce fresh economic uncertainty that may significantly impact the operations, financial performance, and reporting obligations of many entities.

Part 1: This section includes illustrative disclosures on non-adjusting event after reporting period for items such as loan covenants, fair value impacts, impairment assessments, and expected credit losses.

Part 2: This section includes illustrations on current period event and adjusting event after reporting period for items such as loan covenants, fair value impacts, impairment assessments, and expected credit losses.

Part 3: A set of Frequently Asked Questions (FAQs) addressing practical issues such as going concern assessments, capitalisation of tariff-related costs, impairment indicators, expected credit loss adjustments, and onerous contract evaluations.

Part 1:
Entities with financial reporting date as at 31 December 2024

The imposition of new tariffs is a non-adjusting event for entities with 31 December 2024 financial reporting date.

If the event is material, the entity should disclose its nature and an estimate of its financial effect. If the entity is unable to estimate the financial effect, it should disclose that fact.

The entity should consider disclosing impact on the following items*:
- Breach of loan covenants
- Changes in economic & market conditions affecting fair values of assets & liabilities
- Changes in impairment assessment of non-financial assets
- Additional expected credit losses due to declining repayment ability of certain debtors

*list is not exhaustive

Illustrations – Non adjusting events

Loan Covenants:

Following the announcement of new U.S. tariffs in 2025, the Company expects a significant increase in input costs, which may reduce profit margins in the financial year ending 31 December 2025.

While there was no breach of loan covenants as at 31 December 2024, the reduced profitability may affect the Company's ability to comply with certain financial covenants in the upcoming year. If breached, this could result in the reclassification of a $6.0 million loan from non-current to current liabilities in the 2025 financial statements.

Fair Value Impact:

The U.S. tariffs announced in early 2025 are expected to increase the cost of raw materials. As a result, the fair value of financial instruments sensitive to input costs—such as commodity-linked derivatives—is estimated to decline by approximately $1.2 million.

This decline does not affect the financial statements for the year ended 31 December 2024 but may impact the Company's financial performance in 2025.

Impairment Assessment:

The imposition of U.S. tariffs after the reporting date has led to a projected increase in production costs and a potential decline in demand. These developments may significantly affect the profitability of the Company's operations in 2025.

Management has identified indicators of potential impairment for certain non-financial assets. A preliminary assessment suggests that the recoverable amount of these assets may be lower than their carrying amount, which could result in an impairment loss of approximately $2.5 million in the financial year ending 31 December 2025.

Expected Credit Losses:

The U.S. tariffs are expected to increase input costs across the supply chain, which may adversely affect the financial health of customers in 2025.

Based on preliminary analysis, the Company has identified a subset of trade receivables from customers that may be at higher risk of default. If current economic conditions persist, the Company estimates that additional expected credit losses of approximately $1.8 million may be recognised in the financial year ending 31 December 2025.

Part 2:
Entities with financial reporting date on or after 1 January 2025

Depending on the reporting date, the imposition of new tariffs may be classified as a current period event, an adjusting event, or a non-adjusting event. An assessment is required.

If it is determined to be a material non-adjusting event, the entity should disclose the nature of the event and its estimated financial effect. If the effect cannot be estimated that fact should be disclosed (see Part 1).

Illustrations – Current period events

Breach of Loan Covenants:

During the year, the Company experienced a significant decline in EBITDA, primarily due to increased input costs following the imposition of U.S. tariffs on imported raw materials.

As a result, the Company breached a financial covenant under its term loan facility before year-end. The loan of $6.0 million became repayable on demand and has been reclassified from non-current to current liabilities in the statement of financial position as at 31 December 2025.

Fair Value Impact:

As at 31 December 2025, observable market data reflected a sharp decline in commodity prices and increased volatility in financial markets, largely driven by the economic impact of the U.S. tariffs.

The Company remeasured its portfolio of commodity-linked derivatives, resulting in a net fair value loss of $1.4 million recognised in profit or loss for the year ended 31 December 2025.

Impairment Assessment:

The imposition of U.S. tariffs during the year led to a sustained increase in input costs and a decline in customer demand. These conditions existed at year-end and triggered impairment indicators for the Company's manufacturing equipment.

A recoverable amount assessment was performed, resulting in an impairment loss of $2.8 million recognised in the statement of profit or loss for the year ended 31 December 2025.

Expected Credit Losses:

Throughout the year, several key customers in the construction and retail sectors defaulted on payments, with many affected by the rising costs and economic uncertainty caused by the U.S. tariffs.

The Company updated its expected credit loss model to reflect the increased credit risk and recognised an additional ECL provision of $2.1 million in the financial statements for the year ended 31 December 2025.

Illustrations – Adjusting events after reporting period

Breach of Loan Covenants:

On 5 January 2026, the Company was notified by its lender of a breach in financial covenants under its term loan facility. The breach was triggered by a significant decline in EBITDA that had already occurred as at 31 December 2025, primarily due to increased input costs resulting from U.S. tariffs imposed during the year.

As a result, the loan became repayable on demand and has been reclassified from non-current to current liabilities, amounting to $6.0 million in the statement of financial position.

Fair Value Impact:

On 3 January 2026, updated market data confirmed a sharp decline in commodity prices that had already begun before year-end, driven by market reactions to the U.S. tariffs.

This provided evidence that the fair value of the Company's commodity-linked derivatives was overstated as at 31 December 2025. The Company has therefore recognised a fair value loss of $1.4 million in profit or loss for the year ended 31 December 2025.

Impairment Assessment:

Following the reporting date, on 6 January 2026, the Company finalised its year-end sales data and confirmed a significant drop in demand and rising input costs. These conditions were already evident as at 31 December 2025 and were largely driven by the imposition of new U.S. tariffs on imported raw materials, which had been announced and were effective before year-end.

This provided evidence of impairment indicators for certain manufacturing equipment. A recoverable amount assessment was performed, taking into account the reduced cash flow projections and increased cost base. As a result, an impairment loss of $2.8 million was recognised in the financial statements for the year ended 31 December 2025.

Expected Credit Losses:

On 4 January 2026, several major customers defaulted on payments. These defaults were linked to financial difficulties that had already existed as at 31 December 2025, particularly among customers impacted by rising costs due to the U.S. tariffs.

The Company updated its expected credit loss model to reflect this information and recognised an additional ECL provision of $2.1 million in the financial statements for the year ended 31 December 2025.

Part 3:
FAQs

Is going concern assumption still appropriate?

The imposition of new tariffs may affect the entity's ability to continue as a going concern. Management is required to assess going concern up to the date the financial statements are authorised for issue.

If the going concern assumption is no longer appropriate, the financial statements must be prepared on an alternative basis, and this change must be disclosed.

Can the tariffs be capitalised as part of cost of inventory / property, plant and equipment (PPE)?

Yes, these are directly attributable costs to be included in cost of inventory/PPE.

Is any of the entity's non-financial assets (carried at cost) impaired?

Tariffs may result in an indicator of impairment (e.g. decreased sales, increased production costs, impact on investment or business plans etc.)
The entity is to assess the recoverable amount and disclose significant judgement/ley assumptions made.

Are the entity's estimates of expected credit losses (ECL) appropriate?

There is a potential need for entities to adjust the approaches to determine the ECL based on the available information about past events, current conditions and forecast scenarios of future conditions.

Has any of the entity's contracts become onerous?

The newly imposed tariffs may increase costs significantly such that the unavoidable costs of fulfilling the contract exceed the consideration to be received. Entities should review their contracts to determine if any contract has become onerous.

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