



ECONOMIC UNCERTAINTY

Financial Reporting Considerations for Tariffs

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IBDO[®]

FINANCIAL REPORTING CONSIDERATIONS FOR TARIFFS

On February 20, 2026, the U.S. Supreme Court overturned President Donald Trump’s global tariffs imposed throughout 2025 under the International Emergency Economic Powers Act (IEEPA). However, the Supreme Court did not address whether the government must return that revenue, nor did it outline any mechanism or timeline for potential refunds. In response to the Supreme Court ruling, the administration announced that it would pivot to alternative statutes to reinstate the tariffs. The President issued executive orders directing agencies to terminate IEEPA tariff collection “as soon as practicable,” continue the suspension of de minimis treatment, and through a separate Proclamation impose a replacement 10% global tariff under Section 122 of the Trade Act of 1974, to be increased to 15%. See BDO’s publication, [Supreme Court Invalidates IEEPA Tariffs, Administration Replaces With New Surcharge: What Importers Need to Know](#), for more information.

As a result of the continuing uncertainty surrounding tariffs and potential refunds, stock prices of U.S. publicly traded entities have fluctuated, sometimes dramatically. Entities in the retail and consumer markets, manufacturing and distribution, technology, and construction industries might continue to experience significant risk and volatility. Changing tariffs and market fluctuations may expose entities to new risks, including disruptions to supply chains and increased production costs. Shifting consumer demand also can affect entities’ financial projections and asset valuations. As a result, the direct and indirect effects of tariffs and the ensuing economic uncertainty and market volatility can affect financial performance in a variety of ways.

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Changes in tariffs, uncertainty about the process for obtaining refunds, and the resulting economic uncertainty and market disruptions may affect financial statements and disclosures in other ways that are not covered in this publication. Management should consider the full guidance in the Financial Accounting Standards Board Accounting Standards Codification (ASC) and other potential financial reporting risks emerging as tariff measures and the macroeconomic environment evolve. For example, implications may arise for fair value measurements and on the accounting for financial instruments, derivatives, hedges, any lease modifications or terminations, one-time employee benefits, share-based payments, debt modifications, exit and disposal activities, loss contingencies, oil and gas reserves, and foreign currency translation, and the entity's ability to continue as a going concern. Refer to BDO's comprehensive publication, [Accounting and Reporting in Times of Economic Uncertainty](#), which addresses the broader implications of economic uncertainty and market volatility in more detail.

1. ACCOUNTING CONSIDERATIONS

1.1 Revenue Recognition

An entity that imports foreign goods may be required to pay a tariff imposed by the government. The tariff is the importer's own cost of acquiring the goods and must be recognized when incurred. That is, even if the entity is able to pass through some (or all) of the cost to its customers, the ability to do so is separate from its obligation to pay the government. The entity is **not** acting as the government's agent (which differs from when the entity collects sales taxes on behalf of the government from its customers).

However, the imposition of tariffs can still affect an entity's revenue recognition in accordance with ASC 606, *Revenue from Contracts with Customers*, as discussed further below. BDO's Blueprint, [Revenue Recognition Under ASC 606](#) (BDO's Revenue Blueprint) provides more guidance on the following and other topics.

- ▶ **Collectibility of consideration:** An entity may need to reassess the contract existence criteria, including collectibility of the consideration to which it will be entitled, when there is a significant change in facts and circumstances. As tariff measures and the macroeconomic environment evolve, information may arise which indicates that collectibility of the consideration is no longer probable and thus, the revenue model in ASC 606 would not be applied to future purchases under that contract (see Sections 2.2.2.5 and 2.5 of BDO's Revenue Blueprint).
- ▶ **Variable consideration:** Pursuant to an existing price adjustment clause in the contract, an entity could be entitled to pass increased inventory costs (including tariffs) or could be required to pass along refunds of tariffs to a customer. An entity that expects to obtain tariff refunds must consider whether it has a contractual obligation to issue customer refunds and whether it must recognize a liability. An entity that does not have a contractual obligation to issue refunds might instead offer customers coupons or discounts to apply to future purchases. Such price changes, whether increases or decreases, are variable consideration and therefore, the entity must apply the variable consideration guidance in ASC 606 (see Section 4.3 of BDO's Revenue Blueprint). Market uncertainty also may result in a change in the estimate of variable consideration an entity expects to receive or other changes in the transaction price (see Section 4.8 of BDO's Revenue Blueprint).
- ▶ **Contract modifications and terminations:** An entity may negotiate changes to contract terms to charge higher or lower prices to reflect the changing tariff costs incurred. Such changes are contract modifications and, therefore, an entity must determine whether the modified contract is a continuation of an existing contract or the creation of a new contract. Continuation of an existing contract may result in recognizing a cumulative catch-up adjustment to revenue as of the contract modification date. Creation of a new contract does not result in an adjustment to revenue recognized to date but is accounted for prospectively (see Section 7.3 of BDO's Revenue Blueprint).

- ▶ **Standalone selling price (SSP):** If an entity changes its selling prices to reflect evolving tariffs,¹ it must update the SSP of its goods and services in future contracts. However, SSP is determined at contract inception and is not reassessed for an existing contract unless the contract is modified and the modification is accounted for as a separate contract (see Section 5.3 of BDO’s Revenue Blueprint).
- ▶ **Over-time revenue recognition:** Increases or decreases in tariffs may affect the percentage of revenue recognized for contracts accounted for over time. For example, an entity that uses a cost-based input method to measure progress and that does not adjust customer prices for changing tariffs may need to adjust its total expected costs, which in turn may change the percentage of revenue to be recognized (see Sections 6.3 and 6.4 of BDO’s Revenue Blueprint).
- ▶ **Loss contracts:** For contracts within the scope of ASC 605-35, *Construction-Type and Production-Type Contracts*, an entity must recognize a loss on the contract if the estimated costs to complete the contract exceed the total consideration the entity expects to receive, which could be the case if an entity cannot recover cost increases, for example, due to tariffs (see Section 7.6 of BDO’s Revenue Blueprint).
- ▶ **Incremental costs to obtain or fulfill a contract:** Tariffs and changes in the macroeconomic environment may lead to an impairment of assets recognized related to the incremental costs of obtaining a contract or the costs to fulfill a contract (see Section 7.7 of BDO’s Revenue Blueprint). For example, an asset resulting from the incremental costs of obtaining a contract might be recognized over both the current contract and expected future contracts. A change in the likelihood of future contracts being obtained could result in an impairment of the asset.
- ▶ **Presentation:** A tariff is not a sales tax because it is not a tax “*imposed on and concurrent with a specific revenue-producing transaction*” as discussed in ASC 606-10-32-2A. Therefore, an entity cannot apply the practical expedient to exclude tariffs from the transaction price. If an entity passes the tariff on to its customer, the entity must present the revenue and corresponding expense on a gross basis on its income statement (see Section 8.2 of BDO’s Revenue Blueprint).
- ▶ **Disclosures:** An entity must consider whether to update its revenue disclosures as a result of new or changing significant judgments and assumptions, including any judgments about the variable consideration it receives and the constraint on such consideration. An entity should also evaluate whether its presentation, disaggregation, and discussion of revenue are consistent in Management’s Discussion and Analysis (MD&A) and investor presentations (see Section 8.3 of BDO’s Revenue Blueprint and BDO’s publication, [2025 SEC Reporting Insights](#)).

1.2 Impairment of Nonfinancial Assets

Long-lived assets, such as property, plant, and equipment held for use, finite-lived intangibles, and right-of-use assets recognized under ASC 842, *Leases*, are tested for recoverability at the asset group level when events or circumstances indicate that the asset group’s carrying amount may not be recoverable. If the asset group is not recoverable, its carrying amount is reduced to its fair value. In contrast, if an entity decides to sell long-lived assets and the “held for sale” criteria are met, it recognizes a loss, if applicable, to write-down the disposal group to fair value (less costs to sell).

Goodwill is tested for impairment at the reporting unit level at least annually or more frequently if an event occurs or circumstances change that would more likely than not reduce the reporting unit’s fair value below its carrying amount (referred to as a triggering event).² To assess whether a triggering event has occurred, an entity must consider factors that have a negative effect on its earnings and cash flows (including tariffs and whether it will be able to recover those costs from its customers), overall financial performance, events affecting the reporting unit, **sustained** decreases in share price, industry and market conditions, and macroeconomic conditions. In this context, the SEC has previously indicated registrants should consider “recent trends” in market capitalization “over a reasonable period of time.”³ During any period of stock market volatility, management should determine whether there has been a **sustained**

¹ If an entity elects to increase its selling prices because of higher prices, that increase does not represent a distinct performance obligation, even if the increase is reflected as a separate item on the invoice. Instead, the increase is additional consideration related to the goods and services promised in the contract.

² This discussion assumes that the entity has not adopted the accounting alternative for private companies to amortize goodwill. For discussion of that alternative, see our publication, [Accounting for Goodwill Impairment Assessments](#).

³ See remarks of Robert G. Fox III at the [2008 AICPA National Conference on Current SEC and PCAOB Developments](#).

decrease in the entity's share price. As the economic environment continues to evolve, an entity must identify changes in facts and circumstances that are triggering events for goodwill impairment.

For example, for the reporting period ended December 31, 2025, management would need to consider what was known or knowable about tariff measures as of that date. Some measures were known or knowable at that date (for example, the tariffs imposed during 2025 on goods imported from Canada, Mexico, and China). Accordingly, management would need to consider whether the implementation of those tariffs represented a triggering event for goodwill impairment and the expected effects on the entity's cash flow projections and the fair value of its reporting units if so. However, the Supreme Court decision overturning tariffs under IEEPA was announced in February 2026, and the landscape continues to evolve. As discussed in more detail in Section 2.1 below, implementation or reversal of tariffs after the end of a reporting period (but before the financial statements are issued or made available to issue), would represent a non-recognized subsequent event with respect to the reporting period ended December 31, 2025.

If the entity identifies a triggering event during a reporting period, it must determine the fair value of that reporting unit in accordance with ASC 820, *Fair Value Measurement*. In doing so, it would be **inappropriate** to default entirely to hindsight for forecasts and include **only** information that became known or knowable after the measurement date. For example, if management is estimating fair value as of December 31, 2025, it would be inappropriate to do so using forecasts that rely solely on the latest information that became known or knowable after that date. That said, in a December 31, 2025 measurement, it could be reasonable to estimate fair value using different probability-weighted scenarios, and for some scenarios to reflect the projected financial performance associated with higher or lower tariffs.

BDO's publication, [Accounting for Goodwill Impairment Assessments](#), includes more guidance on ASC 350, *Intangibles – Goodwill and Other*, and ASC 360, *Property, Plant and Equipment*. That publication also discusses in more detail the order of impairment tests. Groups of long-lived assets are evaluated for impairment after indefinite-lived intangible assets, and before goodwill. Goodwill is evaluated for impairment only after indefinite-lived intangible assets and other long-term amortizing assets, such as property and equipment and right-of-use assets, have been assessed.

Management also should monitor inventory for possible write-downs if costs outpace the net realizable value of inventory (for inventory measured under the first in, first out or average cost method). See ASC 330, *Inventory*, for more guidance on the measurement of inventory.

1.3 Income Taxes

Tariffs are not income taxes within the scope of ASC 740, *Income Taxes*. However, an entity must consider the costs and effects of tariffs (for example, goodwill impairment, as discussed above), which would likely affect the recognition and measurement of temporary differences and related tax accounting. Accordingly, management should consider the following with respect to the accounting for income taxes in the period that impairments and other adjustments are recognized:

- ▶ For an entity with tax basis in goodwill, large deferred tax assets (DTAs) could originate from goodwill impairments; as such, management must evaluate the future realization of such DTAs considering all available positive and negative evidence as of the reporting date.
- ▶ An entity that has depended on reversing taxable temporary differences related to book intangibles that have no tax basis as a source of income to realize existing DTAs may find this source depleted from impairments to the underlying book intangibles. Management must consider the effects of tariffs on obtaining projected results when evaluating other future taxable income as a source of income. The entity may need to recognize a valuation allowance for its DTAs. It is important to monitor changes in tariffs and update taxable income projections throughout the year to determine whether DTAs continue to be realizable.
- ▶ With respect to book impairments of goodwill that is not deductible for tax purposes for which no DTA is recognized, management should consider the treatment of the related impairment as a reconciling item in the computation of the annual effective tax rate or as a discrete item.
- ▶ Changes to tariffs may affect transfer pricing studies and entities that have historically asserted indefinite reinvestment in foreign operations should revisit this assertion, and consider any contradicting evidence (for example, if the parent or upstream entity plans to stop manufacturing goods in foreign countries and instead manufacture domestically).

1.4 Potential Refunds (Added March 2026)

While the February 2026 Supreme Court ruling creates a basis for importers to claim refunds for IEEPA tariffs, the court did not address whether the government must return that revenue, nor did it outline any mechanism or timeline for potential refunds. As a result, there is considerable uncertainty regarding the procedures an entity must follow to obtain tariff refunds. Until the administrative steps and evidentiary requirements are clarified, entities may face ambiguity about both the timing and likelihood of recovery. Because the path to securing refunds is not yet well-defined, the accounting conclusions will depend heavily on how definitive and accessible the refund process ultimately becomes.

Considering this significant uncertainty, an entity should not recognize a receivable for anticipated refunds as of December 31, 2025, or any period-end preceding the Supreme Court ruling, which we believe is a Type II subsequent event for those periods (see Section 2.1).

For reporting periods that include or follow the Supreme Court ruling, more than one approach may be acceptable for recognizing potential tariff refunds.

- ▶ We believe an entity can apply the principles in ASC 450-30, *Gain Contingencies*, which generally prohibit recognition until realization occurs. An entity must adequately disclose a contingency that might result in a gain but must avoid misleading implications about the likelihood of realization.
- ▶ Alternatively, an entity could consider applying an involuntary conversion (loss recovery) model, as discussed in ASC 410-30-35-8 through 35-10 (and in the AICPA's Technical Questions and Answers Section 5100.35). This model can result in recognition of recoveries earlier compared to the contingent gain model, when reimbursement is probable.

Determining which model is most appropriate will depend on how and when the refund mechanism is established. That is, identifying and understanding the required procedures and administrative hurdles for filing and receiving refund claims is critical, as these factors may drive both the accounting analysis and the timing of any recognized benefit. As such, significant judgment based on an entity's facts and circumstances may be required.

Once an entity determines it can recognize an asset for tariff refunds by applying one of the above approaches, it must assess the appropriate presentation of the gain in the income statement. We believe refunds related to inventory not yet sold must be recorded as a reduction in the cost of that inventory, which will eventually result in lower cost of sales. Judgment is required to determine the appropriate presentation of refunds related to inventory that was sold in a prior period. Acceptable approaches might include reporting the credit as a reduction of current cost of sales or as other income within continuing operations. An entity should select and consistently apply an accounting policy and provide sufficient disclosures to inform readers of the nature, timing, and presentation of income and cash flows.

1.5 Sales of Tariff Receivables (Added April 2026)

An entity might arrange to sell its rights to future tariff refunds to a third party. We believe ASC 860, *Transfers and Servicing*, does not apply to such arrangements because, like taxes receivable, a tariff receivable does not arise from a contract with the government.

Instead, a seller must first determine whether the arrangement is a derivative instrument (or contains an embedded derivative) under ASC 815, *Derivatives and Hedging*. An entity might conclude differently about whether the exception for non-exchange traded contracts is met depending on whether it has adopted Accounting Standards Update (ASU) 2025-07, *Derivatives Scope Refinements and Scope Clarification for Share-Based Noncash Consideration from a Customer in a Revenue Contract*. Before adopting ASU 2025-07, the exception for non-exchange traded contracts in ASC 815-10-15-59(d) generally does not apply because collectibility depends on government administrative action rather than on sales or operating cash flows. After adoption, however, the revised exception in ASC 815-10-15-59(e) may be met relating to the operations or activities specific to one of the parties in the contract, such as regulatory approval. See BDO's Blueprint, [Issuer's Accounting for Complex Financial Instruments \(Debt & Equity\)](#) (BDO CFI Blueprint) Section A.1, and BDO's [Bulletin](#) on ASU 2025-07 for more information.

If the arrangement is not a derivative, the seller must evaluate whether the transaction represents a sale of future revenues under ASC 470, *Debt*. The seller must also determine whether it has significant continuing involvement or if other indicators in ASC 470-10-25-2 require classification of the upfront payment as debt (see BDO CFI Blueprint Section 6.2.7.1).

2 DISCLOSURES

An entity must evaluate the completeness and transparency of its accounting and judgments in its disclosures related to revenue recognition, impairments, accounting for income taxes and potential refunds, as discussed above, as well as any disclosures about other accounting topics identified by the entity. Additionally, entities must consider the disclosure requirements with respect to subsequent events and risks and uncertainties.

2.1 Subsequent Events

Prior to issuing the financial statements, ASC 855, *Subsequent Events*, requires management to consider all available information to determine whether it provides more evidence about conditions that existed as of the balance sheet date. If significant, the financial statements should be adjusted for this type of information (referred to as “recognized subsequent events”). However, caution must be exercised to ensure that financial statements are not adjusted for events and conditions that did not exist as of the balance sheet date (“nonrecognized” or “Type II” subsequent events). If the additional information reflects new events or conditions, an entity must disclose information in the financial statements about the nature of the events and the potential impacts on the financial statements to prevent the financial statements from being misleading. Such disclosures should be tailored to the entity’s facts and circumstances, rather than generic.

As discussed in Sections 1.2 and 1.4, the Supreme Court decision invalidating tariffs under IEEPA and the administration’s implementation of alternate tariffs occurred in February 2026 and represent Type II subsequent events with respect to the reporting period ended December 31, 2025, and any period-end preceding the ruling. The regulatory landscape will continue to evolve. Accordingly, it is critical for management to evaluate what was known (or knowable) as of its reporting date, and to exercise caution and not default solely to hindsight if the event is a nonrecognized subsequent event.

2.2 Risks and Uncertainties

ASC 275, *Risks and Uncertainties*, requires disclosure of risks and uncertainties that could significantly affect the amounts reported in the financial statements in the near term. Risks and uncertainties can stem from the nature of an entity’s operations, the use of estimates in preparing the financial statements, or significant concentrations in an entity’s operations. The tariffs may directly or indirectly affect an entity’s operation. If it becomes known before issuing the financial statements that it is at least reasonably possible that significant estimates will change in the near future and the change would be material, an entity is required to add disclosure to that effect. For example, if an entity determines that a change in a tariff that was **not** known or knowable as of the reporting period end would be a triggering event for a material goodwill impairment in the following period, and that is known or knowable prior to issuing the financial statements, the entity is required to disclose that risk and potential effect.

An entity also may have concentrations that present greater risk to its financial condition or results of operations, such as customers, suppliers, geographic locations, and products. When management is aware that a concentration exists that makes it vulnerable to a risk of loss in the near term and it is at least reasonably possible that events or circumstances may occur that could cause a severe impact in the near term, ASC 275 requires incremental disclosures. If an entity has a concentration in an activity or areas affected by the tariffs or economic uncertainty (for example, increased costs or cancelling of orders due to increased tariffs), disclosure of the potential near-term impact is required. These are “early-warning” disclosures that identify risk areas or known trends or uncertainties. These disclosures are similar to the SEC’s requirement to discuss known trends or uncertainties within MD&A as highlighted in Section 5.3, as well as to provide “early-warning” disclosures in the disclosures of critical accounting estimates.

BDO INSIGHTS — EVALUATE FACTS AND CIRCUMSTANCES WHEN PREPARING DISCLOSURES

The Supreme Court ruling, changing tariffs, and related economic uncertainty may present unique risks and uncertainties and affect operations and financial statements. Management is required to evaluate the entity’s facts and circumstances and the effects separately to determine the appropriate reporting and disclosure consequences. The SEC staff may comment on disclosures that inappropriately commingle tariff considerations into one risk, uncertainty, or effect.

3. SEC REPORTING

The volatility in the imposition of the tariffs and the recent Supreme Court ruling has given rise to economic uncertainty and may cause SEC registrants to consider changes to their strategies. For example, a registrant may decide to renegotiate a supplier contract such that the supplier absorbs part of a higher or new tariff. The registrant may also revisit pricing strategies to reduce compression of profit margins.



AVOID “BOILERPLATE” DISCLOSURES

The SEC staff has often emphasized that registrants should avoid using “boilerplate language” to address risks, trends, and uncertainties in filings and avoid describing the impact of such conditions and events as hypothetical risks when they have impacted the business. Disclosures should address the direct and indirect impacts when they are material to understanding a registrant’s results of operations and liquidity. When economic uncertainty has arisen in the past (for example, as a result of COVID-19 and the war in Ukraine), the SEC staff has asked registrants to not only expand their discussion of market disruption-related risks, but also to address the quantitative impact(s) and any mitigation efforts. For example, in light of current events, a registrant should disclose any plans to adjust prices in response to changing tariffs, modify contracts, or change suppliers to reduce the tariffs owed).

3.1 Regulation S-K Item 101, *Description of Business*

A registrant is required to describe its business and how it operates. It also must include a discussion of recent events, competition, regulations, and seasonality. Tariffs and related market disruptions may cause a registrant to change its overall strategy, operations, customer engagement strategies, or suppliers (such as where it sources its raw materials). If changes have already occurred, or if the registrant plans to make changes in the future, the disclosures should address such changes.

3.2 Regulation S-K Item 105, *Risk Factors*

Risk factors should include material risks that a registrant faces. Some risks may relate to the overall economy, some to the industry or geographic area in which a registrant operates, and some may be unique to the registrant. Risk factors must be specific and address economic conditions and geopolitical matters directly affecting the registrant. As tariffs and macroeconomic conditions evolve, a registrant should assess whether there are any material changes from risk factors previously disclosed that warrant new or revised risk factors.

3.3 Regulation S-K Item 303, *MD&A*

MD&A focuses on management’s perspective on the business results. In this discussion, a registrant is required to discuss known trends and uncertainties that had, or are reasonably likely to have, a material impact on its operations. The effects of tariffs, or other resulting economic conditions, may present known trends for some registrants and may create uncertainties for other registrants. Registrants that have experienced material effects to date, or reasonably expect a material impact in the future, on their financial condition, results of operations, or liquidity due to these factors should include robust discussions of these circumstances. If tariffs affect a registrant’s assumptions for a critical accounting estimate or may cause the estimate to change in the future, the registrant must disclose quantitative and qualitative information about such changes or the sensitivity of the critical accounting estimate. However, if tariffs have not had an impact on results of operations and are not currently expected to affect the registrant in the future, a registrant should consider whether to disclose that fact to pre-empt questions from stakeholders and the SEC staff.



CONSIDER “EARLY WARNING” DISCLOSURES

Registrants should consider whether the tariffs or other economic conditions necessitate early warning disclosures about potential impairments or other charges, or about the potential effects on revenues, gross margins, net income, or other financial metrics. See BDO’s publication, [2025 SEC Reporting Insights](#) for more discussion about MD&A disclosure requirements.

3.4 Regulation S-K Item 305, *Quantitative and Qualitative Disclosures About Market Risks*

An SEC registrant is required to disclose its exposure to market risks such as interest rate risk, credit risk, foreign currency risk, and commodity price risk and how the registrant manages these risks. Registrants should consider disclosing how tariffs and related market disruptions are affecting the registrant, and how they are managing these risks.

3.5 Form 8-K, *Current Report*

Registrants may need to disclose material information related to tariffs or the resulting economic uncertainty in a Form 8-K. For example, a registrant needs to consider whether to disclose the following on Form 8-K:

- ▶ **Entry into, or modification of, a material definitive arrangement with a supplier or customer that was not made in the ordinary course of business:** Reported under item 1.01 on Form 8-K.
- ▶ **Terminating a material definitive arrangement with a supplier or a customer that was not made in the ordinary course of business:** Reported under item 1.02 on Form 8-K.
- ▶ **A material impairment triggered by an increase in costs or a decline in demand:** Such impairments generally must be reported within four business days under Item 2.06 of Form 8-K, unless the conclusion is made in connection with the preparation, review, or audit of financial statements required to be included in a timely filing and such disclosure is included in the timely filed report.
- ▶ **Costs related to exit or disposal activities:** Reported under Item 2.05 of Form 8-K.
- ▶ **Liquidity issues that trigger the violation of debt covenants or the acceleration of obligations:** Reported under Item 2.04 of Form 8-K.

3.6 Non-GAAP Financial Measures

SEC registrants should be mindful of the SEC’s rules, regulations, and guidance when adjusting and presenting non-GAAP financial measures. Registrants are required to explain why such measures are useful to investors and consider whether they are consistent with measures used by management and communicated to the board. Registrants should also keep in mind the following SEC requirements on non-GAAP measures:

- ▶ **Adjustments for costs that are normal, recurring, cash operating expenses relative to a registrant’s operations are not allowed.** An operating expense that is normal, recurring, **or** cash may be considered a normal, recurring, cash operating expense (in other words, the operating expense does not need to be all three). For example, write-downs for excess or obsolete inventory are not cash operating expenses, but are still considered normal, recurring, cash operating expenses.
- ▶ **Adjusting the measurement or recognition principles of U.S. GAAP is not allowed.** Changing the accounting for variable consideration from a customer related to tariffs, removing accelerated depreciation from measures other than EBITDA, and reversing the effects of purchase accounting after the acquisition date are all examples of individually tailored accounting principles.

However, a registrant **may** disclose and quantify the effects of the tariffs in one place and separately list those effects without adjusting its GAAP results. For example, a registrant may include a supplemental table that describes each item and includes dollar amounts. While the non-GAAP rules and SEC staff guidance do not apply to such supplemental information, a registrant that presents such a table should consider explaining how and why this information can help investors analyze the registrant’s results.

Evaluating whether adjustments to non-GAAP measures comply with the SEC regulations may require significant judgment. See BDO's publication, [SEC Updates Compliance and Disclosure Interpretations on Non-GAAP Financial Measures](#), for more guidance.

4. INTERNAL CONTROLS OVER FINANCIAL REPORTING

Management must consider how changes in tariff regimes – including modification, suspension or invalidation, and related uncertainty (for example potential refunds) – may affect the entity's financial statements and its internal controls over financial reporting (ICFR). Effective internal controls help entities comply with tariffs, manage their financial impact, and optimize supply chain strategies to mitigate costs. This may include controls over the identification and monitoring of tariff changes, the application of the correct tariff rates and effective dates, and the accounting and disclosure for tariff-related costs and contingencies (including potential recoveries or refunds where applicable). Consequently, management may need to design and implement new controls or modify existing ones to address the complexities and risks associated with tariffs or the resulting economic uncertainty. This could involve revising controls over estimation processes, particularly for estimates related to future cash flows, including consideration of multiple tariff scenarios. It is critical that entities do not rely excessively on historical information and only include information that was known or knowable as of the measurement date. Management should re-evaluate whether the thresholds used for past sensitivity analyses remain appropriate and consider contrary evidence. For example, an entity may need a more detailed process than previously used for estimating variable consideration related to tariff impacts (including amounts expected to be passed through to customers, absorbed by the entity, or subject to change).

SEC registrants also must evaluate whether they have made any changes to the design of their ICFR that have materially affected, or are reasonably likely to materially affect, their ICFR. If so, a registrant must disclose such changes in its Form 10-Q or Form 10-K.

5. AUDITING CONSIDERATIONS

Audits play a vital role in underpinning, and providing confidence in, financial information about the businesses and institutions in our economies. Even during times of economic uncertainty, auditors need to obtain sufficient appropriate audit evidence to reduce audit risk to an acceptably low level. In the current environment, there may be heightened and new risks of material misstatement or increased difficulty in obtaining sufficient appropriate audit evidence. The guidance below sets out possible implications and suggests potential responses that Audit Committees and management should factor into the oversight and execution of financial reporting.

5.1 Heightened and New Financial Reporting Risks

Auditors need to understand how changes in tariff measures and related economic uncertainty (including changes in legality, effective dates, enforcement, and potential refunds) may affect the entity and adjust their audit plans accordingly. For example, auditors should consider the following questions:

- ▶ Have increased costs adversely affected the entity's cash flow projections or performance?
- ▶ Does the entity operate in a sector particularly affected by tariffs, such as retail and consumer markets, manufacturing and distribution, technology, or construction?
- ▶ Has the entity experienced resource scarcity impacting manufacturing processes or supply chains?
- ▶ Have tariffs or economic events introduced additional going concern risks or affected management plans and assumptions, leading to cash flow issues?
- ▶ Do tariff measures, uncertainty about enforcement and effective dates, or the potential for refunds create additional economic pressures that can increase or result in additional fraud risks (e.g., incentive to misclassify costs, accelerate shipments, or bias estimates)?
- ▶ Have tariff measures changed (or been invalidated or reinstated) in a manner that affects effective dates or the recoverability of amounts previously paid or accrued?
- ▶ Does the entity depend on overseas customers or suppliers and has that dependency been affected by tariffs?
- ▶ Are there any contractual arrangements where performance or terms may be affected by tariffs or economic uncertainty, such as an inability to meet contract terms or fixed contract prices resulting in poorer returns?

As discussed in Sections 1 and 2, there may be heightened risks of misstatement in specific accounting and disclosure areas, including revenue recognition, valuation of assets, risk disclosures, subsequent events, and contingencies for potential refunds or credits. Management should be aware of the potential financial reporting risks for each account or disclosure area as tariff regulations and the macroeconomic environment evolve.

Auditors will also consider the effects on the entity's control environment and internal controls over financial reporting (as discussed in Section 4).

5.2 Obtaining Sufficient Appropriate Audit Evidence

The auditors' responsibility to obtain sufficient and appropriate audit evidence when addressing the risk of material misstatement, including those related to accounting estimates, remains unchanged in times of economic uncertainty. Auditors must continue to adhere to applicable auditing standards (PCAOB or U.S. GAAS), exercise appropriate levels of professional skepticism, and apply professional judgment in evaluating the sufficiency and appropriateness of audit evidence, including evidence related to accounting estimates.

Changes in tariff measures and the ensuing economic uncertainty introduce increased complexity, new risks of material misstatement, and may result in adjusting the nature, timing, and extent of audit procedures. These adjustments may increase effort and cost. For example, an auditor may need to:

- ▶ Adjust the planned reliance on analytical review procedures to reflect changes in circumstances affecting the entity.
- ▶ Perform additional procedures over the transition around effective dates and completeness of tariff-related costs (for example, testing transactions around change dates) and evaluate the recognition, measurement, and disclosure of any refund or credit claims and related contingencies.
- ▶ Reconsider the benchmarks and percentages used to determine materiality.
- ▶ Evaluate whether assumptions in estimates and projections have been appropriately updated to include information known or knowable as of the measurement date (see Section 2.1 for more discussion on the consideration of subsequent events).
- ▶ Obtain more input from valuation and other experts.
- ▶ Increase the time required to discuss, review, and challenge management estimates, calculations, and provisions.

5.3 Effect on the Audit Report

As discussed in Section 2, U.S. GAAP requires entities to disclose significant risks and uncertainties, as well as subsequent events, in addition to specific disclosures related to accounts or line items in the financial statements, such as revenue recognition or goodwill impairments.

Changes in tariff measures – including court decisions affecting the legality of tariffs and the administration's subsequent actions to suspend, terminate, or reinstate tariffs – may represent significant subsequent events. Management and auditors should evaluate whether such events require recognition or disclosure based on the underlying conditions as of the balance sheet date and the timing of the events.

In audits performed in accordance with PCAOB standards, auditors communicate Critical Audit Matters (CAMs). A CAM is any matter arising from the financial statement audit that was communicated or required to be communicated to the audit committee and that relates to material accounts or disclosures involving especially challenging, subjective, or complex auditor judgment. The effects of new tariff measures and resulting economic uncertainty on the entity's financial statements and disclosures may lead auditors to identify new CAMs or revise disclosures related to previously identified CAMs.

In audits performed in accordance with U.S. GAAS, auditors may consider it necessary to draw users' attention to these disclosures by emphasizing the significant uncertainties or unusually important subsequent events in the auditor's report through an "emphasis paragraph." An emphasis paragraph only refers to information already presented or disclosed in the financial statements. The decision to include an emphasis paragraph depends on the auditor's assessment of the entity's facts and circumstances; specifically, whether there is a material uncertainty significant enough to impact users' understanding of the financial statements, thus warranting an emphasis paragraph in the auditor's report to highlight that disclosure. An emphasis paragraph does not modify the auditor's opinion; it merely draws users' attention to the disclosure. Sometimes, the need to include an emphasis paragraph is clear; in other cases, it is a matter of professional judgment.

6. CORPORATE GOVERNANCE AND SHAREHOLDER CONSIDERATIONS

In times of economic uncertainty, boards and audit committees should work closely with management, auditors, and advisors to evaluate risks and form meaningful responses to those risks. Shareholders may have heightened interest in how entities are managing significant challenges and risks, including those to supply chain management, arising from the tariff measures and resulting economic uncertainty and how executives are contingency planning. Timely and frequent communications have taken on increased importance.

6.1 Oversight by Audit Committees

We encourage audit committees to proactively oversee the financial reporting and disclosure process, including internal controls over financial reporting. The effects of tariffs and the resulting economic uncertainty will be unique for each entity. Audit committees should consider the following questions as they engage with management and the auditors:

- ▶ Do financial statement disclosures reflect changing risk factors, such as changes in supply chains, pricing decisions, loss of significant customers, and disruptions to production?
- ▶ Are financial statement disclosures consistent with disclosures regarding risk factors and MD&A?
- ▶ Do the financial statement disclosures reflect subsequent events that were known or knowable before issuing the financial statements (see Section 2.1) that users of financial statements will find meaningful and reflective of industry-specific considerations?
- ▶ Are controls over financial reporting adequate to respond to the effects of tariffs or the resulting economic uncertainty, including the risk of fraud?
- ▶ Will financial statement deadlines be affected by changes to procedures performed by the entity, its specialists, or the auditors?
- ▶ Is the committee meeting often enough, and allocating enough time, with management and the auditors to address challenges as they arise?
- ▶ Is the committee keeping the board apprised of significant matters with respect to risk and disclosure?

6.2 Anticipated Shareholder Questions

Particularly during proxy season and annual shareholder meetings, boards can and should expect shareholder questions about the following:

- ▶ Risk assessment, anticipated effects, and response to tariffs and economic uncertainty (for example, due to changes in product procurement, customer demand, and ultimately on earnings).
- ▶ Fiscal management and liquidity.
- ▶ Adequacy of financial reporting and disclosures to convey risk.
- ▶ Ability to provide timely public financial information.
- ▶ Industry-specific risk mitigation plans (for example, contracts, supply chain, technology).
- ▶ Long-term strategy regarding changes to supply chains or trading partners, including plans for onshoring operations or suppliers.

Other matters for board consideration include communicating to employees and those charged with governance expected adherence to insider trading policies and determining whether restrictions on such activities may be warranted. This includes monitoring trading activities of board members and employees.

Boards – working alongside management, investor relations, human resources, and counsel – need to be thoughtful and proactive in issuing timely, robust, and transparent communications to all stakeholders. This is particularly important as new developments arise. Securing the confidence of stakeholders, particularly during times of economic uncertainty, is paramount.

For more, refer to BDO in the Boardroom Podcast Episode, [Global Trade War: Tariff Considerations for Board of Directors](#).

APPENDIX: OTHER BDO PUBLICATIONS



BDO's Professional Practice – Accounting Group has issued the following Blueprints, which provide detailed accounting guidance, interpretive insights, and practical examples on complex areas of U.S. GAAP:

- ▶ [Statement of Cash Flows Under ASC 230](#)
- ▶ [Segment Reporting Under ASC 280](#)
- ▶ [Equity Method Investments Under ASC 323](#)
- ▶ [Revenue Recognition Under ASC 606](#)
- ▶ [Share-based Payments Under ASC 718](#)
- ▶ [Business Combinations Under ASC 805](#)
- ▶ [Control and Consolidation Under ASC 810](#)
- ▶ [Accounting for Leases Under ASC 842](#)
- ▶ [Issuer's Accounting for Complex Financial Instruments](#)

BDO's Professional Practice – SEC Services Group has issued the following Blueprints to help SEC registrants apply the SEC's rules and regulations related to financial reporting:

- ▶ [Guide to Going Public](#)

Series Overview: Building Knowledge

In addition to Blueprints, BDO's Professional Practice has issued a suite of publications related to U.S. GAAP and SEC rules and regulations:

- ▶ [Bulletins](#): short, timely communications delivering essential news, alerts, and developments in accounting and SEC reporting.
- ▶ [Snapshots](#): summaries of SEC rules and regulations
- ▶ [SEC Reporting Insights](#), updated annually
- ▶ [Conference Highlights: Current SEC & PCAOB Developments](#), updated annually
- ▶ [Effective Date Reminders](#), updated annually
- ▶ [Industry Supplements](#)
- ▶ [Other publications](#) on new accounting standards and SEC rules and regulations.

For more on IFRS, visit BDO's [IFRS and Corporate Reporting](#) for more information.



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