April 8, 2025

Office of the CFO Considerations

Current Policy & Economic Uncertainties

CrossCountry
CONSULTING

To our Clients and Friends:

We at CrossCountry deeply value our long standing relationship and remain available by your side to help navigate the business, financial reporting and forecasting challenges in the current and rather volatile policy and financial markets environment.

Overview

On April 2, 2025, President Trump announced sweeping tariffs ranging from 10% to 50% on trading partners. Starting April 5, 2025, US Custom Officials began collecting the new 10% 'baseline' tariff on imports from many countries. Remaining tariffs are set to go into effect April 9, 2025.

The financial markets have reacted with a precipitous decline since the April 2nd tariff announcement. There is significant uncertainty around Trade Policy and how it could impact Global Commerce and Economies. While the odds of a US recession by a number of forecasters have increased, Federal Reserve Chairman, Jerome Powell has indicated the Fed will likely wait for greater clarity on the inflationary effects of tariffs before making adjustments to monetary policy. The risk of economic slowdown coupled with risk of inflation could make the likelihood or effectiveness of Fed monetary policy as a tool more challenging, particularly in balancing the Fed's Dual Mandate. Additionally, the US high yield corporate bond spreads surged since the day after the tariff announcement, to 461bps as of April 7th from 342bps as of April 2nd; early signs of potential risk aversion in credit markets more broadly.

While there remains the likelihood that the initial tariff announcement could be a negotiation tool by the Administration, markets are bracing for continued volatility and economic uncertainty.

Financial Reporting & Accounting Considerations

We have summarized some matters as they relate to the Office of the CFO, more specifically as they relate to financial reporting and forecasting.

The considerations highlighted for each of the Topics are not intended to be GAAP or financial reporting conclusions, as these would depend on specific facts and circumstances. However, they are intended to highlight matters that could be applicable or of interest in the current environment, including those that could be brought up by external auditors. We of course remain available for a conversation at your convenience on any of the topics of interest to you or help navigate conversations with external auditors, where applicable.

Topic	Considerations
Subsequent Events – ASC 855	Depending on quarterly reporting for public companies or annual reporting for non-public entities, the developments of last week could be considered subsequent events for the reporting periods (March 31 or December 31). Events have to be evaluated for whether they are Recognized or Nonrecognized subsequent events. Recognized subsequent events provide additional evidence of conditions that existed as of balance sheet date and can require adjustment to financial statements for items such as change in accounting estimates. While Nonrecognized subsequent events provide evidence of conditions that arose after balance sheet date but before the financial statements are issued or available to be issued and require disclosure in the financial statements.
Revenue Arrangements – ASC 606	Uncertainties in the current environment may cause customers to seek contract modifications or even terminations, which are also considered a form of modification under ASC 606. Depending on the terms of the modification, the accounting can entail a number of scenarios such as some modifications are accounted for prospectively, while others on a cumulative catch-up basis. Certain modifications may be accounted for as a separate contract, while others combined with the original contract. In addition, any incurred tariff in inventory acquired, even if passed on to customer as tariff surcharge, is not in scope of the practical expedient of tax collected from customer under ASC 606, that can be excluded from revenue presentation.
Allowance for Credit Losses – ASC 326	Customers could be facing financial distress which could impact the estimate of expected credit losses. The credit loss estimate under ASC 326 is forward looking and requires accounting of currently expected credit loss and not just incurred losses.

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Derivatives and Hedging – ASC 815	Forecasts transactions that are designated as hedged transactions in a cash flow hedge, such as forecasted sales or purchases, could be delayed or occur in quantities less than forecasted and hedged. Forecasted transactions could also include forecasted issuance of debt in connection with an anticipated acquisition that may no longer be probable. Evaluation may be necessary of continued probability of occurrence of forecasted hedged transactions, which in turn could impact continued applicability of hedge accounting. If hedge accounting were to cease, because the forecasted transaction is no longer probable, it could result in recognition of mark to market change in fair value of the hedging derivative instrument in earnings resulting in income statement volatility.
Debt Classification – ASC 470 and Going Concern – ASC 205-40	Recent volatility and risk of economic slowdown may cause financial forecasts to decline. Non-compliance with financial covenants in credit agreements, whether current or within one year from reporting date, can impact the classification of debt on the financial statements, i.e., can result in current classification of debt that otherwise has a non-current maturity. In addition, a forecasted debt covenant violation can be a condition or event that raises substantial doubt about the entity's ability to continue as a going concern. Entities may also seek amendments to credit agreements to avoid non-compliance with financial covenants that could trigger current classification and/or raise substantial doubt about the entity's ability to continue as a going concern. Evaluating amendments to credit agreement will require consideration of ASC 470-50 and ASC 470-60 provisions regarding modification vs extinguishment analysis and Troubled Debt Restructuring assessments, respectively.
Income Taxes – ASC 740	Decline in earnings forecasts could impact the assessment of realizability of deferred tax assets. For example, the realizability of deferred tax assets may have been supported by future taxable income, forecasts of which may decline. In addition, recent cumulative losses including the expectation of cumulative losses, constitute significant negative evidence about the realizability of deferred tax assets. These factors could necessitate a valuation allowance against the carrying value of deferred tax assets, that could result in meaningful income statement impacts.

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Share based payments – ASC 718	Entities may have share based payment awards outstanding that vest based on a performance condition. The expense for equity awards based on a performance condition is recognized on the probability assessment of satisfying that performance condition. Should the forecasts decline, it is possible that it results in the satisfaction of the performance condition no longer being probable. Should the assessment result in performance condition no longer being probable, previously recognized compensation expense may be required to be reversed through earnings during the accounting period the assessment of probability changes. In addition, if the entity modifies awards to change the performance condition such that the performance condition is more likely to be achieved, this constitutes a modification of outstanding awards and modification accounting under ASC 718 would be applicable.
Termination benefits – ASC 712 and ASC 420	The current environment could result in involuntary terminations. The accounting for termination benefits including both the timing and recognition depends on whether the termination benefits are contractual or one-time. Contractual termination benefits required pursuant to an existing plan would be accounted for under the provisions of ASC 712, Other Postemployment Benefits. While one-time termination benefits that are not provided under an existing plan, or enhancements to an existing plan will be accounted for under ASC 420, Exit or Disposal Cost Obligations.
Inventories – ASC 330	Any tariffs incurred in acquisition of inventory is an inventoriable cost under ASC 330, i.e., included in the carrying cost of inventory. From a margin perspective, the flow through of the tariff burden will depend on the cost flow assumption. I.e., FIFO (first in first out), LIFO (last in first out) or Weighted Average cost flow assumption. Entities should be prepared for users of the financial statements requesting margin impacts on an economic basis, without the lag for potential GAAP cost flow assumptions.
Asset impairments – ASC 350 and ASC 360	Risk of economic slow-down and potential for declining forecasts could lead to asset impairments. Goodwill at the reporting unit level could be exposed for decline in fair values of reporting units. For public companies, decline in market capitalization (as a result of significant declines in equity markets recently) could put incremental pressure on goodwill impairment testing. Intangible assets other than goodwill, such as customer relationship intangibles or acquired technology could also

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	be at risk of impairment. While intangible assets, including goodwill, are tested under the provisions of ASC 350, long lived assets are tested for impairment at the asset group level under the provisions of ASC 360. Unlike Goodwill or other intangibles, the long lived assets are evaluated at fair value against carrying value only upon failing the recoverability test. The recoverability test compares the undiscounted cash flows of the asset group against the carrying value.
Sale lease back – ASC 842	Entities may seek alternate sources of financing, such as sale lease backs, including those of real estate assets. Sale lease backs have to be carefully structured and their accounting implications evaluated prior to execution. If a lease back satisfies the condition for a finance lease under ASC 842, it can result in a failed sale lease back transaction that could require it be accounted as a financing on the books of the entity. Further, in a failed sale lease back the asset is not de-recognized as a sale and remains on the books of the seller. In addition, credit agreement covenants often consider finance lease as debt and have covenants restricting amount of incremental debt. Further enhancing need for careful evaluation.
Risk Factors – Item 1A	For public entities, the Risk Factors presented in Item 1A pursuant to Regulation S-K requirements could require careful consideration in light of current policy and economic uncertainty. In addition, public entities reporting Q1 interim financial statements on Form 10-Q, will need to consider updates to Risk Factors previously presented in annual Form 10-Ks.
Non GAAP financial measures	Non GAAP financial measures continue to be an area of interest. While there could be specific facts and circumstances where a Non GAAP financial measure or adjustment may be applicable, the provisions of Regulation G, SEC Staff CD&I and Item 10(e) of Regulation S-K should be carefully evaluated for Non GAAP financial adjustments and entities may want to discuss with their Securities Counsel where applicable.

Financial Planning Considerations

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Contingency planning and reforecasting	Tariffs introduce new operational and financial risks that need to be identified and evaluated. Forecasts & budgets may need to be refreshed to identify impacts on the cost structure of the business and relatedly, the impacts they have on customer demand. Finance teams should consider developing contingency plans and modified forecasts that sensitize the impacts tariffs may have on the business leveraging cross functional input from procurement, sales, operations and FP&A to create mitigation strategies that may include analysis on the following: • Development of various scenarios based on range of outcomes (e.g., tariffs of X%, changing FX rates, declining customer demand, elongated procurement lead times and/or use of alternative suppliers, impacts to segment / customer margins, impacts to working capital and cash flow), • Review of key vendor / customer agreements to understand contractual terms of cost or price increases, • Identification of how scenarios may impact lender covenant compliance, and • Establishment of proactive 'milestone triggers' that include financial and operational levers that may need to be pulled (e.g., deferment of certain capital projects, hiring freezes, non-critical vendor stretching, more comprehensive cost cutting), inclusive of a playbook with tactical actions & owners.
Liquidity monitoring and forecasting	The impacts tariffs may have on increased cost structures and customer demand may lead to an increased need to have more accurate cash flow and liquidity forecasting tools in place that can be monitored real time. Tools and processes should be established that include weekly cash flow forecasting & monitoring inclusive of insights into key working capital balances, late-paying customers, slow moving inventory, material purchase orders and sales pipeline tracking.
Evaluation of pricing strategies	Depending on the company's exposure to tariff impacts, steps need to be taken to develop a pricing strategy that balances the need to absorb or pass along tariff costs with the need to ensure both short and long-term profitability. Entities should assess their ability to increase pricing – considering products/segments that will be impacted most, executed customer

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	arrangements (particularly any restrictions or limits to price changes), consumer demand elasticity, and need to maintain market share. The results of the assessment may lead to the need to strategically revaluate where investments will be made and where more comprehensive cost cuts are necessary. Any change in pricing should be coupled with a clear communication strategy and supported with competitive & market insights, if available.
Proactive reporting and dashboarding	FP&A teams should develop and monitor KPIs to track tariff impacts, such as tariff-adjusted COGS, pricing impacts, incremental compliance costs, and margin trends. In the short-term, these will assist with bridging variances against budget and provide context to go forward budgeting, forecasting and scenario planning. Dashboards can help visualize the data to ensure real-time, proactive decision-making.

About CrossCountry Consulting

CrossCountry Consulting is a leading provider of specialized finance, operations, and technology advisory services. As a trusted advisor to Fortune 500 companies, emerging growth market leaders, and private equity sponsors, the firm solves today's most pressing challenges and creates present and future enterprise value.

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