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# Tariffs uncertainty

## Ask the right financial reporting questions

**June 2025**

kpmg.com/us/TariffsAccounting

# Accounting for economic disruption

- The financial reporting, accounting and disclosure obligations posed by the current geopolitical, macroeconomic and risk landscape – including tariffs uncertainty – are a top priority and major undertaking for audit committees in 2025.
- But amid all the uncertainty, there is no change in Job # 1 – stay focused on financial reporting and related internal control risks.

## What's the issue?

- Navigating the complexities of evolving trade and tariff policies is important for financial reporting.
- These policies can lead to supply chain disruptions, increased costs, price fluctuations and shifts in market demand – potentially affecting multiple areas of financial reporting.
- Rapidly evolving policies have led to uncertainty about the applicability and duration of tariffs, which poses challenges in preparing estimates, assumptions and projected financial information.

## What's the impact?

- The impact on financial reporting is pervasive, requiring 360-degree monitoring of the company's environment.
- Both revenue and cost of goods sold may be affected, and contract modifications can involve either suppliers or customers.
- Assets may be impaired, debt arrangements may be modified and covenant relief may be sought. In some cases, there may be doubt about a company's ability to continue as a going concern.
- And strategic decisions may give rise to restructuring and asset disposals.

## What's next?

- This briefing has been prepared for Audit Committee members.
- It includes questions to ask and summaries of key areas of financial reporting under US GAAP that can be most susceptible to the effects or potential effects of tariffs.
- As you consider the effects of tariffs and related policies on your financial reporting, ask yourself the questions we highlight – and use our resources to help orient your thinking.

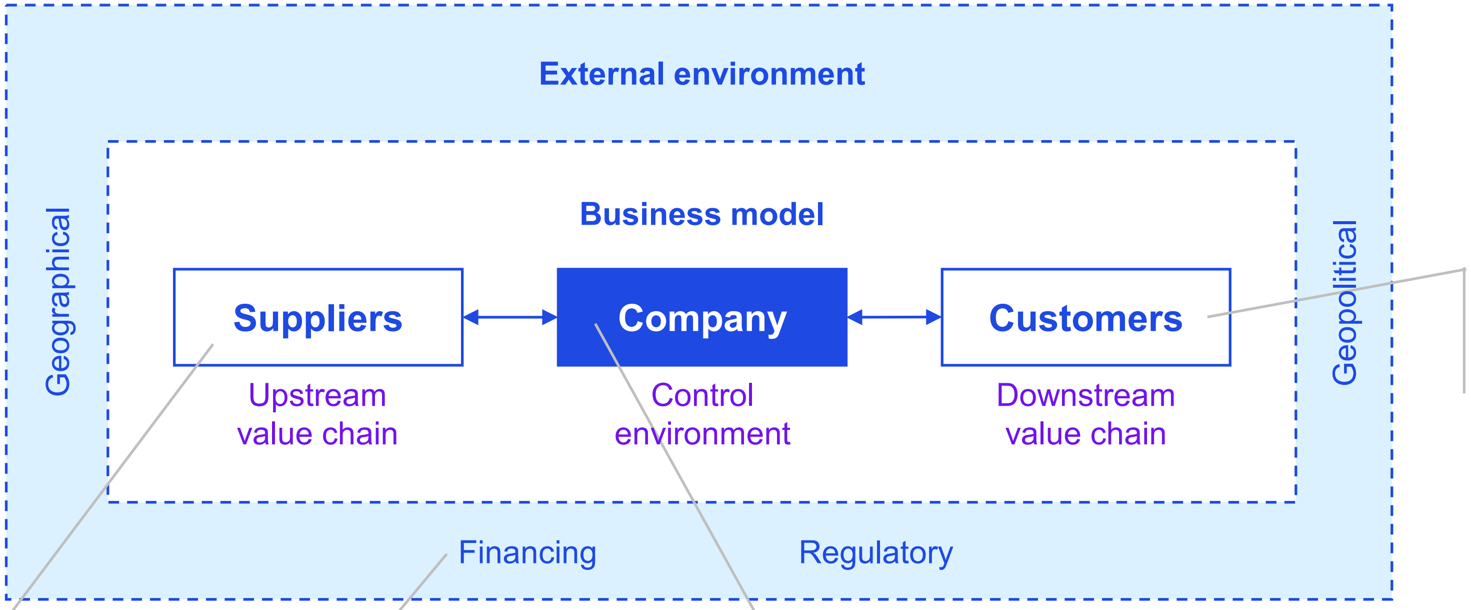
# Contents



Abbreviations >

# 1. The pressures on financial reporting

Every business implication of tariffs uncertainty – throughout the value chain – has a ripple effect on the company's financial reporting. Understanding these connections is a critical step toward reducing uncertainty and taking timely action with greater confidence.




- Revenue
- Contract modifications
- Collection risk

- Inventory, fixed assets
- Contract modifications
- Leases (lessees)

- Debt modifications
- Covenant relief

- Projected financial information
- Impairment
- Going concern
- Restructuring
- Disposals
- Disclosures

## A snapshot

- The financial reporting implications highlighted in this briefing are based on our most frequent discussions.
- They are not intended to be exhaustive, but instead to stimulate thinking and analysis.
- Similarly, the financial reporting basics on the following pages provide just a hint of the accounting.
- Our resources at the end of this briefing will guide your team to more comprehensive guidance.

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# 2. Inventory costs and impairment risk

## Tariffs increase costs

**Financial reporting basics:** Tariffs incurred to import an inventoriable asset increase the cost basis of the inventory.

**Business considerations**

- Tariffs depend on a product's classification, country of origin, value and applicable exceptions. Making these determinations can be challenging.
- Operating in a dynamic, high-tariff environment may require new processes and controls to ensure accuracy of the amounts recorded.

## Mitigation brings other risks

**Business considerations**

- Strategies can mitigate exposure to tariffs but may also introduce compliance and other risks.
- Stockpiling inventory in advance of tariffs could pose an impairment risk.
- If a foreign production facility is operating at a lower capacity to avoid tariffs or due to demand, this may require overhead from abnormally low production to be expensed.

## Tariffs increase impairment risk

**Financial reporting basics**

- Inventory is impaired if its cost (including tariff costs) exceeds its NRV or market (if using LIFO or RIM costing).
- NRV is based on estimated selling prices in the ordinary course of business less reasonably predictable costs to complete.
- Firm purchase commitments are subject to NRV testing.

**Business considerations**

- Elasticity in customer pricing and demand at higher prices may be unclear, making projections riskier (see #5).
- Demand for exports may decline, triggering impairment.
- Suppliers exposed to tariffs may increase the cost of their products. Even if the company is not directly exposed to tariffs, rising costs increase impairment risk.
- LIFO and RIM impairment tests require the company to determine replacement cost, which may be challenging amid supply chain disruption and price volatility.
- Firm purchase commitments may result in a loss accrual before the inventory is purchased.

## Questions to ask

- What are the judgments and risks involved in the tariff positions and strategies taken by the company?
- How will product margins be affected by tariffs?
- Can and will selling prices be raised on affected products?
- Does the company have firm purchase commitments?
- Are controls operating at an appropriate precision and frequency?

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# 3. The myriad effects on revenue

## Pressure from customer transaction prices

### Financial reporting basics

- Increases in customer sales prices are recorded in revenue with the tariffs recognized in cost of sales. Tariffs cannot be net against revenue even if they are explicitly shown on the customer invoice.
- Variable consideration like price concessions, refunds and penalties are estimated and revenue is constrained.
- Changes to customer sales prices trigger a revision of the estimates and judgments used for allocating revenue.

### Business considerations

- Passing along the cost of tariffs to customers when there is an existing contract requires an assessment of whether a company has an enforceable right to do so. If not, no revenue for the increase can be recognized.
- Increases in sales prices could increase the risk of price concessions or refunds, triggering estimation and potential volatility of revenue.
- Companies may be required or intend to provide price concessions on exports to customers to share the tariff burden, which may require estimates.

## Cost-to-cost method vulnerable

### Financial reporting basics

- Companies using a cost-to-cost method to recognize revenue (e.g. customized manufacturing recognized over-time) estimate tariff costs in their estimates to complete.
- This may also include supplier price increases.

### Business considerations

- Increases in estimates to complete can affect the timing of revenue recognition if the contract does not allow for the costs to be passed onto the customer.
- Certain contracts may require loss accruals.

## Heightened penalties and collection risk

### Business considerations

- Supply chain disruption or sourcing decisions to avoid tariffs could trigger penalties in customer contracts, which require estimation.
- Increased prices as well as the overall macroeconomic environment may increase collection risk. This can also affect the amount and timing of revenue recognition.

## Questions to ask

- Are customer prices being increased?
- Does the company have an enforceable right to pass along the cost of tariffs to customers?
- Is there price concession or collectability risk?
- What are the effects of tariffs on over-time or long-term revenue contracts?
- Is the accounting for new contracts appropriately considering changes to selling prices, costs and customer behavior?

# 4. Contract modifications as a response

## Customer perspective

### Financial reporting basics

- Accounting for a modification to increase customer prices generally results in prospective revenue recognition if the future goods are ‘distinct’ – even if the contract states that the customer is paying for previously incurred tariffs.
- A modification that increases the customer’s price may be recognized on a cumulative catch-up basis if the future goods are not distinct.
- Price decreases require analysis to determine if they are accounted for as price concessions or modifications.

### Business considerations

- Customer contracts may be silent, ambiguous or subject to renegotiation if tariffs change.
- Determining whether there is a legally enforceable right to increase prices may be challenging and require judgment from legal counsel.
- If a company negotiates price increases to existing customer contracts that do not include enforceable rights to increase prices, contract modification accounting is triggered.

## Supplier perspective

### Financial reporting basics

- Payments from a supplier generally reduce the purchase price of the goods, but there are exceptions that result in a different outcome.
- A systematic and rational method is used to allocate supplier consideration under a binding arrangement to purchases and recognize the benefit.

### Business considerations

- A company impacted by tariffs may negotiate with suppliers to share the tariff burden by obtaining lower purchase prices on goods.
- Modifications to supply contracts may result in discounts on future purchases, rebates for past purchases or include fixed or variable payments provided by the supplier.
- Some arrangements may require further analysis to determine whether the payments are subject to a binding agreement and, if variable, whether they are probable and reasonably estimable.

## Questions to ask

- Is legal counsel involved in evaluating the contractual rights related to price changes?
- Has the company recognized the benefits of price changes based on estimates before there is an enforceable right?
- Has the company allocated the benefits to the appropriate sales / purchases?

# 5. Projected financial information sensitivity

## The effects of volatile cash flows

### Financial reporting basics

- Projected cash flows are critical to many accounting models, although exact requirements vary depending on the asset.
- Two key areas that rely on cash flow projections to determine a market-based valuation are the impairment testing of nonfinancial assets (#6) and going concern assessments (#7).

### Business considerations

- Evolving tariff policies and ongoing legal disputes over their enforceability complicate the preparation of reliable projected financial information.
- Beyond immediate profit implications, tariffs can influence broader operational and strategic decisions. These changes may improve resilience in the long term, but in the near term create volatility in cost structures and capital allocation.
- Decreased sales demand and higher input costs lead to lower margins or higher working capital needs, which can strain liquidity and negatively impact cash flow projections.

## Discounting cash flows amid uncertainty

- Broadly speaking, a valuation analysis considers two approaches to project cash flows. Theoretically these result in the same outcome.
  - Single cash flow approach (**traditional approach**). Under this approach, a company uses a single most likely cash flow projection.
  - Scenario analysis (**expected cash flow approach**). Under this approach, a company uses multiple probability-weighted cash flow projections.
- Although the traditional approach is more common, it may be more appropriate to use the expected cash flow approach to capture the effect of tariffs.
- For example, the latter approach may be appropriate if significant downside scenarios are more likely and/or more severe than the upside scenarios, or if there are a limited number of distinct outcomes to consider.
- In addition, the discount rate used to discount the cash flows should not reflect adjustments for factors that have been incorporated into the estimated cash flows – and vice versa.

## Questions to ask

- How are cash flows and liquidity being affected?
- Have secondary impacts to the company's planned tariffs response been considered?
- Have uncertain tariff mitigation strategies been appropriately evaluated?
- Has sensitivity analysis been performed to assess the ranges of possible outcomes?
- What is the level of documentation of assumptions and significant judgments?

# 6. Impairment testing essentials

## All-round pressure on nonfinancial assets

### Financial reporting basics

- Goodwill and indefinite-lived intangible assets are tested for impairment at least annually, with an optional qualitative test. The impairment test is based on fair value.
- Long-lived assets are tested for impairment when a trigger exists. In a two-step test, recoverability is first assessed based on undiscounted cash flows. If that test fails, the second test is based on fair value.

### Business considerations

- If tariffs significantly reduce the expected cash flows of a reporting unit – e.g. because of decreased demand, margin compression or supply chain disruption – goodwill may be impaired.
- Intangible assets like customer relationships and trade names may lose value if growth prospects diminish or financial results are expected to decline.
- Companies that import materials to build their own infrastructure may face rising costs, uncertain cash flows from customers and changes to development plans.

## Impairment testing highlights

- Reassess the processes and controls in place to monitor for impairment triggers.
- Consider evaluating the headroom in the company's most recent impairment test to identify assets that might be most at risk.
- Similarly, sensitivity analysis can be performed to gain an understanding of the level of risk of impairment depending on changes to key assumptions such as sales pricing, sales volume and increased costs.
- If a quantitative impairment test is required, considering all the uncertainty and evolving trade environment, it may be more appropriate to use probability-weighted cash flow projections. See #5.
- In measuring fair value, check that the company is considering a market participant or investor view in determining which, and to what extent, tariffs and other measures should be reflected in the testing.

## Questions to ask

- Are tariff policies disrupting supply or demand for products?
- What is the extent, country of origin and nature of products being imported?
- How have tariffs impacted the company's suppliers and customers?
- Is financial performance declining or expected to decline?
- Have multiple scenarios been considered?
- Does the company have any development projects impacted by tariffs?

# 7. Financing implications

## Debt management and restructuring

### Financial reporting basics

- Complexity arises when a debt is modified or exchanged for new debt with the same lenders.
- There are different accounting models for a ‘troubled debt restructuring’ (or TDR) versus other debt modifications.
- If not a TDR, the debt restructuring is subject to:
  - modification accounting when the modification is not ‘substantial’; and
  - extinguishment accounting when the modification is ‘substantial’.

### Business considerations

- Companies experiencing margin compression or cash flow volatility may need to renegotiate existing debt arrangements, extend maturities or seek covenant relief to maintain financial flexibility.
- Accounting for these debt restructurings requires judgment, but management’s assessment of the company’s ability to continue as a going concern may be more complex and require additional judgment.

## Liquidity and capital access

### Financial reporting basics

- Each reporting period, management assesses whether events and circumstances raise substantial doubt about the company’s ability to continue as a going concern.
- If there is substantial doubt, management assesses whether that doubt is alleviated by its plans.
- Even if substantial doubt is alleviated, specific disclosures are required in the financial statements.

### Business considerations

- Trade-related headwinds may impact credit ratings, borrowing costs or the company’s ability to raise capital on favorable terms, especially for companies with significant international exposure or supply chain reliance.
- Operational disruptions may also have broad implications for liquidity and capital access with a consequential effect on the company’s going concern assessment.
- Debt covenant compliance also needs to be considered in the context of going concern assessments, which requires a company to evaluate its ability to meet its obligations as they become due.

## Questions to ask

- Are debt agreements expected to be modified?
- Has debt covenant compliance been projected under revised forecasts?
- Have credit rating agencies been engaged or issued updates recently?
- Is additional borrowing or refinancing required to support near-term liquidity?
- Has a sensitivity analysis been performed to assess the level of risk of a going concern issue?

# 8. Consequential operational changes

## Business considerations

- Companies are reevaluating their supply chains, which may result in plans to relocate or shutdown operations in certain locations. In some cases, companies may be accelerating plans to diversify sourcing or move production closer to end markets, which can lead to significant operational and financial consequences.
- As part of these strategic shifts, existing contractual arrangements – such as facility leases, equipment agreements, and service contracts – may need to be terminated earlier than originally anticipated or may not be renewed as previously planned. These changes can trigger lease terminations, impairments or reassessments.
- This also may result in the disposal of certain assets, possibly comprising a strategic shift that has a major effect on operations and financial results.
- Companies facing sustained tariff-related cost pressures may find it necessary to restructure certain operations.

## Financial reporting basics

### Restructuring

- Restructuring efforts may give rise to severance obligations, contract termination costs, relocation expenses and other restructuring charges.

### Lease contracts (lessee)

- There are separate accounting requirements for lease reassessments, modifications and terminations – as well as specific impairment testing requirements.
- Some of these requirements may result in a loss being recognized.

### Held-for-sale assets and discontinued operations

- Long-lived assets (or disposal groups) held for sale are measured at the lower of their carrying amount and fair value less costs to sell. They are presented separately in the balance sheet.
- Disposal groups that qualify as a discontinued operation are presented separately in the income statement and statement of cash flows.

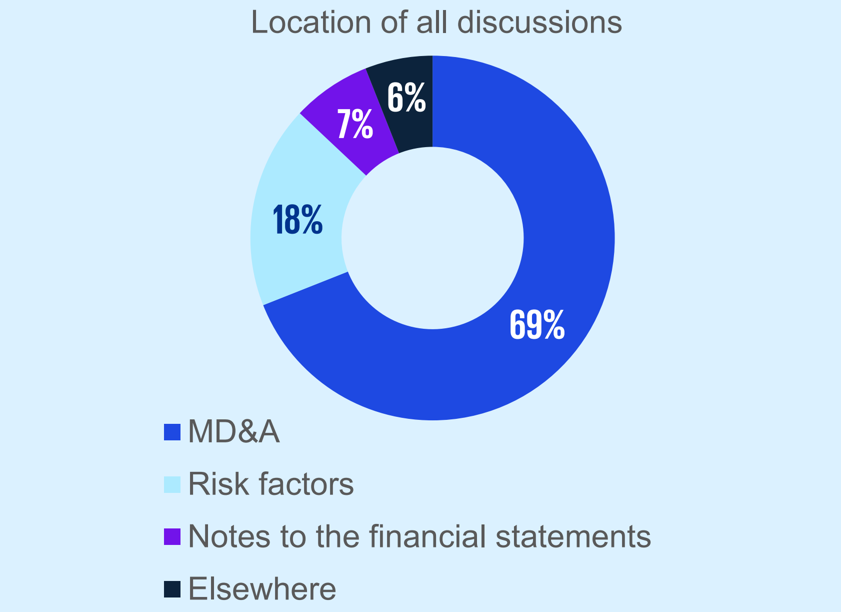
## Questions to ask

- Are agreements being terminated early?
- Have plans been made to abandon assets?
- Will changes be made to the company's workforce?
- What related internal controls and processes are in place?
- Are any assets or businesses being disposed of?

# 9. Disclosure matters

## Disclosures in Form 10-Q filings

- Tariff-related disclosures are becoming more common as registrants begin evaluating the impact on their organizations.
- Nearly all (94%) Form 10-Q filings analyzed between April 1 and June 2 discussed tariff-related matters.




## Common disclosure themes by registrants

- **Economic uncertainty and risk mitigation.** This was the most common theme, with most registrants acknowledging the economic uncertainty brought on by the evolving tariff and trade policy, including retaliatory tariff policies. In most cases, they also acknowledged the uncertainty of the effects on their organizations.
- **Increased costs and financial effects.** Many registrants discussed anticipated future effects in qualitative terms.
- **Operational challenges and supply chain disruptions.** Many registrants discussed their plans to mitigate current or anticipated supply chain disruptions.
- **Strategic planning and adaptation.** Some registrants outlined strategic initiatives as they try to adapt.
- **Regulatory compliance.** Some registrants highlighted increasing compliance costs and the regulatory challenges they are navigating.

All companies (public and private) are required to disclose risks and uncertainties that could significantly affect (1) the amounts reported in the financial statements in the near term, or (2) the near-term functioning of the company.

## Questions to ask

- Are disclosures about estimation uncertainties and the underlying basis for critical judgments adequate?
- Are disclosures company-specific rather than boilerplate?
- Are there certain risks, which may have previously been discussed hypothetically, that should be framed differently amid tariffs uncertainty?
- Are there adequate procedures and controls related to reviewing and updating disclosures?

# 10. Risk assessment reminders

Diligent risk assessment enables both companies and auditors to understand how risks and uncertainties impact the financial reporting process. As a reminder, the following are specific activities involved in executing an effective risk assessment.

| Activity | Description |
| --- | --- |
| **Consideration of materiality** | Materiality involves both quantitative and qualitative considerations, and may be impacted by tariffs uncertainty as it continues to affect companies' businesses, operations and financial results. |
| **Direct and indirect impacts** | • Management should have a process to initiate, authorize and record tariff-related transactions.<br>• In addition, management should have a process for monitoring indirect impacts (e.g. impacts to revenue recognition, supply chain disruptions), including the effects on estimates and related assumptions.<br>• The impact of tariffs may present new risks of material misstatement necessitating new or modified controls. |
| **Identifying and assessing fraud risks** | Management assesses the potential for fraud when evaluating risks to the achievement of its objectives. Tariffs uncertainty increases the risk of potential fraud and may create new fraud risks or change the significance of certain existing fraud risk factors. |

## Questions to ask

- Which executives are responsible for identifying material financial, liquidity and operating risks?
- How is management identifying and mitigating these risks?
- Does management have an incident response plan?
- Have you engaged directly with the independent auditor?

# Keep in touch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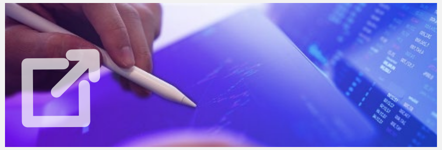
With thanks to the following additional contributors in the KPMG Department of Professional Practice: Kimber Bascom, Frederik Bort, Bryce Ehrhardt, Val Li, Kevin Macfee, Erin McCloskey, Joan Rood.


## Additional resources

Stay up to date and find the resources you need.

**Policy in Motion**

Digital hub with news and insights on tariffs, trade and supply chain, tax policy, regulatory signals, the economy and industry.



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Our approach to tariff modeling leverages the latest technologies while navigating today's global trade disruption.

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**Effects of tariffs on SEC quarterly disclosures**

Understand how evolving tariff and trade policy changes can affect SEC disclosure obligations.

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## Abbreviations

**ICFR:** Internal control over financial reporting

**LIFO:** Last-in, first-out

**NRV:** Net realizable value

**RIM:** Retail inventory method

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