Center for Plain English Accounting

Impact of Tariffs on A&A and Financial Planning

NCACPA Business & Industry Fall Conference

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Today's presenters

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CPEA Firm Training

- **General A&A Update**
- **The Lease Standard- Now What? (Yr. 2 & beyond)**
- **Reimagining Risk Assessment – Now Supporting OnPoint Audit**
- **Implementing Reimagining Risk Assessment**
  - **Prerequisite - Reimagining Risk Assessment**
- **The Revenue Recognition Standard (FASB ASC 606)**
- **Comprehensive Review of Alternative Financial Reporting Frameworks**
- **EBP Audits (DC Plan Focused)**

Reimagining Risk Assessment

Firm Training

Exclusively Offered to firms of the
Center for Plain English Accounting

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General disclaimer

The CPEA provides non-authoritative guidance on accounting, auditing, attestation, compilation and review standards. Please note that the information in this presentation should not be viewed as an official position of the AICPA.

Official AICPA positions are determined through certain specific committee procedures, due process and extensive deliberation. Application of generally accepted accounting principles is the responsibility of a company's management.

A&A Impacts of Tariffs

Reciprocal Tariffs

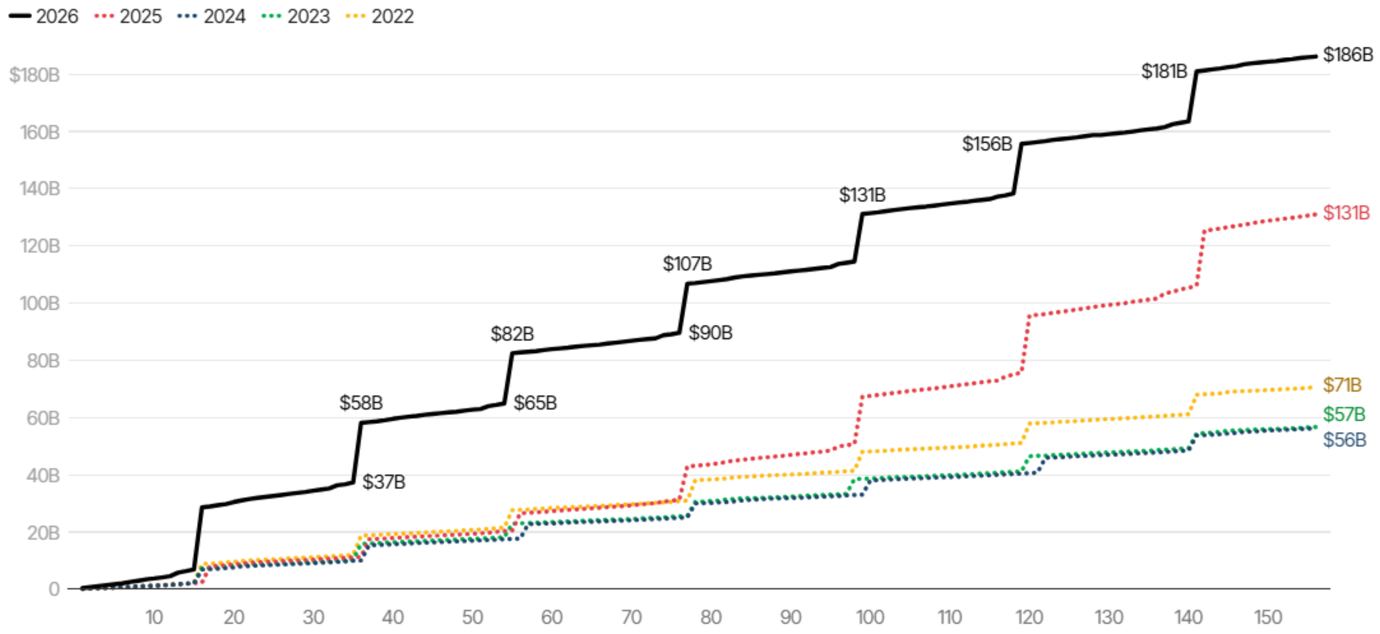
Country	Tariffs Charged to the U.S.A. Including Currency Manipulation and Trade Barriers	U.S.A. Discounted Reciprocal Tariffs
China	67%	34%
European Union	39%	20%
Vietnam	90%	46%
Taiwan	64%	32%
Japan	46%	24%
India	52%	26%
South Korea	50%	25%
Thailand	72%	36%
Switzerland	61%	31%
Indonesia	64%	32%
Malaysia	47%	24%
Cambodia	97%	49%
United Kingdom	10%	10%
South Africa	60%	30%
Brazil	10%	10%
Bangladesh	74%	37%
Singapore	10%	10%
Israel	33%	17%
Philippines	34%	17%
Chile	10%	10%
Australia	10%	10%
Pakistan	58%	29%
Turkey	10%	10%
Sri Lanka	88%	44%
Colombia	10%	10%

A&A Impacts of Tariffs

- **Tariffs have long been a part of international trade**
  - **Many of the financial reporting implications are not new nor do they require new interpretations of accounting guidance**
- **Scale and scope of tariff-related financial reporting implications are poised to be more extensive than any seen in recent decades**
- **Many entities are now having to identify and monitor the financial statement impacts of tariffs for the first time**

A&A Impacts of Tariffs

As of August 13, the U.S. Has Brought in $186 Billion in Revenue From Gross Tariff and Certain Other Excise Taxes in 2026



X-axis = business days into calendar year. Totals represent gross tariff and certain other excise tax revenue. Net tariff revenue - which removes "certain other excise tax revenue" and incorporates tariff rebates/refunds - can range from 80-95% of gross tariff and other excise tax revenue and is reflected in Treasury Monthly Statements. Dollars are not adjusted for inflation.

Source: Daily Treasury Statements • Embed • Download image

Bipartisan Policy Center

Source- Bipartisan Policy Center

A&A Impacts of Tariffs

- **Tariffs have far-reaching impacts on the financial statements of many entities**
- **Based on our experience, we have identified several areas that we feel will most affect the financial reporting of private entities, which are as follows:**
  - **Inventory**
  - **Revenues**
  - **Lawsuits**
  - **Disclosures**

Inventory

A&A Impacts of Tariffs - Inventory

- **Capitalization of tariffs into inventory supported by FASB ASC 330-10-30-1:**
  - **"Historical cost of acquiring an asset includes the costs necessarily incurred to bring it to the condition and location necessary for its intended use**
- **Two main impacts to inventory:**
  - **Indirect tariffs – purchases from suppliers who are the direct tariff payer**
    - **May be built into pricing**
      - **Could potentially lead to purchase price variances if using standard costing**
    - **May be separately charged**
      - **Timing/cutoff risk**

A&A Impacts of Tariffs - Inventory

- Direct tariffs – purchases where the reporting entity is the importer of record and pays the tariff directly
  - Timing/cutoff risk
  - Entity should have a process to capitalize tariffs into inventory -- Two possibilities include:
    - Direct adjustment to raw material prices for the additional cost
    - Include as part of variances/overhead

- Purchases in foreign currency have set processes for how the import value is translated into USD
  - May differ from rates used by the entity and could potentially be significant

A&A Impacts of Tariffs – Inventory Impairment

- Inventory is measured at lower of cost or net realizable value
  - Net realizable value is defined by FASB ASC Master Glossary as estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation
- Determining estimated selling price can be challenging
  - Entities may need to negotiate with customers to pass through increases
  - Requires significant judgment, which many include subsequent events
    - For example – subsequent changes in sales prices that were anticipated as of the reporting date

A&A Impacts of Tariffs – Inventory Impairment

– **SEC Guidance (which some apply broadly) FASB ASC 330-10-S99-2**

– **Question: Does the write-down of inventory to the lower of cost or market, as required by FASB ASC 330, create a new cost basis for the inventory or may a subsequent change in facts and circumstances allow for restoration of inventory value, not to exceed original historical cost?**

– **Interpretive Response: Based on FASB ASC 330-10-35-14, the staff believes that a write-down of inventory to the lower of cost or market at the close of a fiscal period creates a new cost basis that subsequently cannot be marked up based on changes in underlying facts and circumstances**

  – **NOTE: Guidance was not updated for change to FASB ASC to lower of cost or net realizable value**

Revenue

A&A Impacts of Tariffs

Back in May, the company submitted a request asking Lowe's to pay 4% to 5% more for a range of kitchen sinks manufactured in Turkey, which had just been hit with an extra 10% import tariff…Lowe's, which declined to comment, last week finally agreed to a 4% to 5% increase on some sinks, but not all, DeVillers said. He hasn't gone back to ask for more in the wake of the increased tariff, in part because he is not sure that 15% is the final levy. Thompson Traders may "have to eat it," he said. "I'm not sure."

Thompson Traders says Home Depot has agreed to price increases on some items but not all. The company hasn't approached the retailer again about the increased tariff on Turkey.   -WSJ August 30, 2025

A&A Impacts of Tariffs

A contract modification exists when the parties to a contract approve a modification that either creates new or changes existing enforceable rights and obligations of the parties to the contract. A contract modification could be approved in writing, by oral agreement, or implied by customary business practices. If the parties to the contract have not approved a contract modification, an entity shall continue to apply the guidance in this Topic to the existing contract until the contract modification is approved.

-FASB ASC 606-10-25-10

A&A Impacts of Tariffs – Revenue

- **Sales of goods subject to tariffs**
  - **Entity needs to consider the considerations with respect to variable consideration for instances in which the tariff is not in the contracted price but may be recoverable**
    - **Entity should review the guidance in FASB ASC 606-10-32-14 with respect to updating the estimated transaction price at each reporting period**
      - **Generally, expect the recovery to be recorded as additional revenue**
        - **Cannot be presented on a net basis**
  - **Entity also needs to consider if there is an enforceable right to the variable consideration if the customers have not agreed to reimburse the entity for the tariff or agreed to the revised pricing (including the tariff)**

A&A Impacts of Tariffs – Contract Modifications

- **ASC 606-10-25-10 specifies that a contract modification may be in the form of a change order, a variation, or an amendment**
  - **Does not have to be in writing though <u>must be enforceable</u>**
  - **Many examples of written terms required for enforceability**
    - **Uniform Commercial Code (UCC), Statue of Frauds**
  - **Tariffs can create significant issues in how an entity prices its products, as tariff rates have been volatile**

Step 1: Contract Modifications

A If the remaining goods or services are distinct from the goods or services transferred on or before the date of the modification…	B If the remaining goods or services are not distinct and, therefore, form part of a single performance obligation that is partially satisfied at the date of the contract modification…	C If the remaining goods or services are a combination of A & B…
Account for the modification as if it were a termination of the existing contract, and the creation of a new contract. (Standard provides guidance on allocating consideration.)	Account for the modification as if it were a part of the existing contract. Adjust revenue (either up or down) at the date of the contract modification (cumulative catch-up basis).	Account for the effects of the modification on the unsatisfied (including partially unsatisfied) performance obligations in the modified contract in a manner that is consistent with A & B.

A&A Impacts of Tariffs – Example

OLI Machines Example

OLI Machines (OLI) builds machinery to order which qualify for revenue recognition at a point in time based on contractual terms. During 2024, OLI entered into a contract for a $100,000 piece of machinery that did not include provisions for price changes due to tariffs. The anticipated cost of the equipment was $75,000. During 2024, OLI ordered components from a foreign supplier and received the parts in June 2025, incurring tariffs of $15,000 upon import. Between June and November 2025, OLI built and delivered the product. Negotiations over tariff reimbursement continued throughout 2025 and although OLI was confident an agreement would be reached, the customer and OLI did not agree to the reimbursement of $15,000 until February 2026. Thus, the approved, enforceable contract modification did not take place until February 2026.

A&A Impacts of Tariffs – Example

Impacts:

June 2025: Tariff costs of $15,000 are incurred and capitalized into inventory.

June to November 2025: OLI assesses whether a NRV reserve is necessary. It is concluded that even with the $15,000 of tariff costs, the total cost of $90,000 does not exceed the sales price less the costs of disposal and transportation.

November 2025: Revenue is recognized in the amount of $100,000 and costs of goods sold in the amount of $90,000 including the tariff costs, resulting in a margin of $10,000.

February 2026: Additional revenue of $15,000 recognized for the contract modification with no associated costs, resulting in a margin of $15,000.

Poll Question

- **Do you serve at least one client whose financial reporting will be materially impacted by tariffs this year?**

- **Yes**
- **No**
- **Unsure**

Subsequent Events

A&A Impacts of Tariffs – Subsequent Events

- **Entities need to evaluate whether the impact of tariffs represent subsequent events**
- **Two types of subsequent events**

Type I	**Type II**
Existed at the balance sheet date	**Did not exist at the balance sheet date**

A&A Impacts of Tariffs– Subsequent Events

- **Type I Event (Recognized)**
  - **For a subsequent event to be recognized, it must relate to a condition that existed at the balance sheet date**
    - **FASB ASC 855-10-55-1b indicates that a subsequent event affecting the realization of assets or settlement of liabilities would only be recognized when those events represent the culmination of conditions that existed over a relatively long period of time**
    - **If litigation is "settled" after balance sheet date but before issuance of financial statements, the settlement should be considered if the events that gave rise to litigation took place before the balance sheet date (FASB ASC 855-10-55-1)**
      - **Example applies to liabilities but seems appropriate to extend to loss recoveries**

A&A Impacts of Tariffs – Subsequent Events

- **Type II Event (Nonrecognized)**
- **Nonrecognized subsequent events may be of such a nature that they must be disclosed to keep the financial statements from being misleading. For such events, disclose the following:**
  - **The nature of the event**
  - **An estimate of its financial effect, or a statement that such an estimate cannot be made**
  - **Consider presenting pro forma statements**

Sample Public Company Disclosures

U.S. Securities and Exchange Commission

Merchandise Sourcing and Inventory Management

…As of January 31, 2026, our inventory balance was $82.2 million, an increase of $12.4 million compared to February 1, 2025 driven by higher tariffs and inventory levels required to support expected increased sales activity. We are comfortable with the composition and level of our inventory.

Tariffs

As a result of the estimated impact of tariffs and other macroeconomic headwinds on the Company's forward-looking forecasts, in the second quarter of 2025, the Company assessed its goodwill for potential impairment, resulting in the recognition of a non-cash goodwill impairment of $1,021.9 million in the Consumer Products segment. Refer to Note 8, Goodwill and Intangible Assets, in our notes to consolidated financial statements for further details related to goodwill.

The Company recognized approximately $44.9 million of tariff costs within Cost of sales during 2025. While the final impacts of tariffs remain uncertain, the Company continues to execute decisively against the evolving tariff backdrop.

Tariffs, Continued

On February 20, 2026, the U.S. Supreme Court issued a ruling against the International Emergency Economic Powers Act ("IEEPA") Tariffs that we have been paying to the U.S. government since the enactment on April 2, 2025. This could impact our results in 2026 and we are currently evaluating the accounting impacts including our ability to apply for a refund on tariffs previously paid.

Market Concentration Risk

During 2025, the U.S. administration issued executive orders directing the United States to impose new tariffs on imports from several nations, including China. The additional tariffs increased the cost of the products the Company sources from China and has affected shipments from the Company's Chinese-based suppliers. In February 2026, the U.S. Supreme Court ruled that tariffs imposed under the International Emergency Economic Powers Act ("IEEPA") were not authorized by the statute and were deemed illegal. In April 2026, the U.S. Customs and Border Protection launched the Consolidated Administration and Processing of Entries ("CAPE"), a platform for importers of record to submit IEEPA tariff refund requests. The Company has evaluated its eligibility to submit IEEPA tariff refund requests, is complying with all applicable refund procedures and has submitted its eligible entries. The ultimate availability, timing and amount of any potential refunds of such tariffs are highly uncertain and are subject to further legal, regulatory and administrative developments. We continue to monitor these developments and the evolving tariff environment.

Known Trends and Uncertainties

On February 20, 2026, the U.S. Supreme Court ruled that tariffs imposed by the U.S. presidential administration under the International Emergency Economic Powers Act ("IEEPA") exceeded presidential authority and were invalid. Following the ruling, the administration implemented a temporary global tariff under alternative trade authorities and has indicated an intention to increase the tariff rate to as much as 15%. The timing, duration, and final rate of these tariffs remain uncertain. In addition, on April 20, 2026, the U.S. Customs and Border Protection ("CBP") opened a refund portal related to amounts previously paid under the invalidated IEEPA tariffs. While the Company may pursue potential refunds through this process, the timing and amount of refunds, if any, are uncertain.

Known Trends and Uncertainties, Continued

As of the date these financial statements were issued, no amounts related to potential refunds have been recorded in the accompanying financial statements. The Company is evaluating available information and monitoring developments related to the ongoing litigation and CBP's refund process. Due to the uncertainty regarding eligibility, timing, and the final resolution of tariff refund related administrative matters, the Company is unable to reasonably estimate the likelihood, amount or timing of any potential refunds.

Tariffs

Although our employees, production facilities, and customers are predominately located in the U.S., we source a portion of our raw material ingredients and packaging globally, including from Canada and Mexico. Additionally, a portion of our total revenues, less than 8%, are generated from the sale of fruit snack products imported into the U.S. from our Niagara, Ontario, facility. During 2025, the imposition of IEEPA tariffs by the U.S. on goods from Canada and Mexico resulted in additional costs for us, as well as certain of our suppliers, and increased the landed cost in the U.S. of our products produced in Canada that are not exempt under the USMCA. In response to these additional tariffs, we implemented alternative sourcing strategies and pricing arrangements that allowed us to mitigate our known tariff exposure.

Tariffs, Continued

On February 20, 2026, the U.S. Supreme Court ruled against the Trump Administration's use of tariffs under the IEEPA and U.S. Customs and Border Protection halted collections IEEPA tariffs on February 24, 2026. In response, the Trump Administration imposed a new, 10% worldwide tariff effective for 150 days from February 24, 2026. We are currently assessing the impact that the imposition of these new worldwide tariffs may have on our business, as well as our ability to recover any portion of the IEEPA tariffs previously paid.

Subsequent Events

On *February 20, 2026,* the U.S Supreme Court issued a ruling striking down certain tariffs previously imposed under the International Emergency Economic Powers Act ("IEEPA"). The ultimate availability, timing, and amount of any potential refunds of such tariffs remain highly uncertain and are subject to further legal, regulatory, and administrative developments. Following the Supreme Court's decision, the U.S. presidential administration announced its intention to invoke other laws to collect tariffs and announced new tariffs on imports from all countries, in addition to any existing non-IEEPA tariffs. There remains substantial uncertainty regarding the duration of existing and newly announced tariffs, potential changes or pauses to such tariffs, tariff levels, and whether further additional tariffs or other retaliatory actions *may* be imposed, modified, or suspended, and the impacts of such actions on the Company's business. The Company continues to monitor and evaluate these developments and assess their potential impact on its business, financial condition, and results of operations.


IN THE NEWS:
TARIFF
REFUNDS
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Tariffs - Refunds

Key Legal Developments (as of April 2026)

- Feb. 20, 2026 – Supreme Court:
  IEEPA does not authorize the President to impose tariffs; refunds not addressed.
- Mar. 4, 2026 – U.S. Court of International Trade (CIT):
  Court ordered refunds of all IEEPA tariffs.
- Mar. 6, 2026 – CIT / U.S. Customs and Border Protection (CBP):
  Refund order partially suspended due to operational constraints.
- CBP Refund Process:
  Web-based refund portal being developed; ~60% complete.
- Timing Uncertainty:
  No firm refund timeline; historical precedent suggests refunds could take years.

Reuters

World Business Markets Sustainability Legal Commentary More

US says first refunds from Trump tariffs expected around May 11

By Reuters

April 29, 2026 4:29 PM CDT · Updated 17 hours ago

Aa

AICPA

Report
April 22, 2026

Center for Plain English Accounting
AICPA's National A&A Resource Center

Tariff Refund Claims
Accounting Considerations After Supreme Court Ruling

By: Thomas Groskopf, CPA

On February 20, 2026, the Supreme Court of the United States (SCOTUS) held that the International Emergency Economic Powers Act (IEEPA) does not authorize the President to impose tariffs. Writing for the Court, Chief Justice John Roberts stated that, "[b]ased on two words separated by 16 others in [IEEPA]…'regulate' and 'importation' the President asserts the independent power to impose tariffs on imports from any country, of any product, at any rate, for any amount of time. Those words cannot bear such weight." The Court did not address the question of refunds which are now the subject of on-going proceedings at the U.S. Court of International Trade (CIT).

On March 4, 2026, the CIT ordered refunds for "any and all" that were subject to the IEEPA duties. On March 6, 2026, the order was suspended "to the extent it directs immediate compliance" in light of a U.S. Customs and Border Protection (CBP) filing citing operational difficulties refunding approximately 53 million entries for 330,000 importers. CBP has promised a web-based portal "for importers and brokers to submit IEEPA refund requests to CBP" within its Automated Commercial Environment (ACE) system. CBP's filing with CIT also indicated that the refund component is 60% complete. CBP has yet to provide a timeline for issuance of refunds but did note in its March 6, 2026 Declaration that it "is making all possible efforts to have this new ACE functionality [includes refunds] ready for use in 45 days. A Reuters report also noted that CBP was "readying a system within 45 days to process refunds [on IEEPA tariffs]. It should be noted that other commentary from the litigants as well as history with previous smaller invalidated assessments suggest a long process for IEEPA tariff refunds. CBP's March 6, 2026 Declaration foreshadowed a long process indicating:

> CBP has never been ordered to, nor has it attempted to, process a volume of refunds anywhere near the volume of total entries and Entry Summary lines on which IEEPA duties have been deposited. However, where CBP's predecessor, the U.S. Customs Service, was previously ordered to refund to exporters the

Largest Reported Tariff Refunds by Company

WSJ

Tariff Refunds Are Here—and Turbocharging Earnings

Reported refund amounts, USD

Tariff Refunds – WSJ Article Highlights

WSJ

- 5% of Apple's recent quarterly EPS was caused by tariff refunds
- Over 40 S&P 500 companies have reported $9.6 billion in refunds
  - Technology companies have reported highest refunds ($2.5 billion)
    - Apple represents 90% of the total
- For some companies, refunds received are <u>dwarfed by ongoing tariff payments</u>
  - Caterpillar – recorded $392 million in tariffs in most recent quarter
    - Expects $2.2 billion in tariff payments for the year

Tariff Refunds – WSJ Article Highlights

WSJ

- US Customs has accepted $128.7 billion in tariff refunds for processing
- Some companies will be passing-through refunds to customers
  - Fedex has indicated that refunds to customers will start in August
  - IDEX Corp has indicated it will rebate $14.7 million (of the $20 million received) to customers
  - Amazon has identified a “limited set of circumstances” in which it can offer refunds directly to customers

Tariff Refunds – Selected Headlines

Trump administration pays out milestone $100 billion in tariff refunds

That's more than half of the $166 billion owed to thousands of U.S. businesses.

abc NEWS

Corporate America got billions of dollars in tariff refunds. Where's your cut?

CNN Business

You Haven't Heard the Last of Tariff Refunds

Corporations got big tariff refunds while Americans are hurting.

U.S. News & WORLD REPORT

Tariff Refunds

- **Financial reporting impact of tariff refunds depends on whether the entity is the importer of record**
  - **Many importers, especially smaller ones, outsource elements of the importation process to third-party logistic companies (FedEx, UPS, etc.)**
    - **As a result, they are <u>typically not the importer of record</u>**
  - **For these entities, any refunds will be the result of commercial agreements with the third-parties as well as on-going private negotiations between these parties**

Tariff Refunds – Importers of Record

- **Financial reporting considerations**
  - **Refunds**
    - **While the FASB ASC does not provide explicit guidance on loss recoveries other than environmental obligations, FASB ASC 410-30 is widely utilized for these types of losses by analogy**
    - **If this guidance is used, entity must establish that recovery is probable**
  - **Subsequent events**
    - **Entities will need to determine whether the Supreme Court ruling in 2026 represents a Type I (recognized) or Type II (non-recognized) subsequent event**

Tariff Refunds – Subsequent Events

- **CPEA View**
  - **SCOTUS ruling is likely a Type II (nonrecognized) subsequent event**
    - **It potentially could be considered a Type I (recognized) subsequent event, depending upon specific facts and circumstances**
      - **For example, some entities may assert, before the balance sheet date, that the IEEPA tariffs were invalid and paid them under duress**
      - **If these entities have adequate supporting documentation, it is possible that disclosure and recognition as a Type I subsequent event is warranted**
        - **Likely only applicable to a narrow band of sophisticated entities with significant tariff exposure**

Sample Disclosures – Subsequent Events –Type II

On February 20, 2026, the U.S. Supreme Court ruled that tariffs imposed under the International Emergency Economic Powers Act (IEEPA) were not authorized by the statute. [Reporting entity] is the importer of record for certain merchandise that was previously subject to such tariffs under IEEPA. The ruling does not establish a refund process, and significant uncertainty remains regarding how and when any amounts may be recovered. We are evaluating the ruling and potential actions available to us. Because the process, timing, and amount of any recovery are uncertain, we are unable to estimate the financial effects, if any, at this time.

Sample Disclosures – Subsequent Events - Type II

On February 20, 2026, the U.S. Supreme Court issued a ruling relating to tariffs imposed under the International Emergency Economic Powers Act ("IEEPA"). Following the ruling, U.S. Customs and Border Protection and other federal agencies issued or may issue additional guidance and take actions affecting the assessment, collection, refund, and/or protest of certain tariffs. The Company is evaluating the impact of these developments on previously paid tariffs and related matters, including the potential for refunds or other recovery. At this time, the Company cannot reasonably estimate the amount or timing of any recovery, if any, or the ultimate impact of these developments on the Company's consolidated financial statements. Accordingly, no amounts have been recognized in the accompanying consolidated financial statements related to any potential recovery.

Sample Disclosures – Subsequent Events - Type II

On February 20, 2026, the U.S. Supreme Court held in Learning Resources, Inc. v. Trump that the International Emergency Economic Powers Act ("IEEPA") does not authorize a U.S. President to impose tariffs during peacetime national emergencies and that the challenge to the legality of the tariffs imposed under IEEPA (the "incremental tariffs") was within the exclusive jurisdiction of the U.S. Court of International Trade ("CIT"), thus affirming the prior decision of the CIT in V.O.S. Selections, Inc. v. United States. As a result, on February 20, 2026, the U.S. President issued an executive order stating that the incremental tariffs were no longer in effect and ending the collection of the incremental tariffs. However, the U.S. President then issued an additional executive order imposing tariffs pursuant to Section 122 of the Trade Act of 1974 for 150 days, effective on February 24, 2026. The Company is currently assessing the impact of these actions on its operations and consolidated financial statements, including our ability to recover incremental tariffs the Company has paid.

IEEPA Tariff Refunds

During 2025, the U.S. government implemented incremental tariffs on imports from many countries where our products are produced, including under the International Emergency Economic Powers Act (“IEEPA”). In February 2026, the U.S. Supreme Court found unlawful the tariffs imposed under the IEEPA. In April 2026, the U.S. Customs and Border Protection launched its Consolidated Administration and Processing of Entries portal and commenced a phased process to accept claims for potential refunds of IEEPA tariffs previously paid. We paid approximately $66.5 million in tariffs under the IEEPA. The IEEPA tariff refunds are subject to income taxes and other adjustments and may cause us to incur additional costs.

IEEPA Tariff Refunds

During the second quarter of 2026, we concluded that recovery of tariffs under the IEEPA was probable. The total net benefit of the IEEPA tariff refund was $45.6 million for the second quarter of 2026, consisting of a $42.6 million net benefit recognized as a reduction of cost of goods sold and $2.9 million of interest income. We also recognized additional IEEPA tariff refunds of $10.0 million as a reduction of the carrying value of inventory for IEEPA tariffs previously capitalized as cost of inventory.

During the second quarter of 2026, we received cash refund payments totaling $0.7 million for IEEPA tariffs. As of July 4, 2026, our outstanding receivables included $65.8 million of IEEPA tariffs and $2.9 million of interest. Subsequent to July 4, 2026, we received cash refund payments of $16.2 million for IEEPA tariffs and $0.9 million for interest.

Tariff Refunds

On February 20, 2026, the U.S. Supreme Court ruled that tariffs imposed under the International Emergency Economic Powers Act ("IEEPA") were not authorized by the statute. The Company is the importer of record for certain raw materials and products that were previously subject to such tariffs under IEEPA. On March 4, 2026, the U.S. Court of International Trade issued an additional ruling that importers that paid tariffs under the IEEPA are due refunds and ordered U.S. Customs and Border Protection ("CBP") to begin the refund process for all importers who were subject to IEEPA duties. On April 20, 2026, CBP launched Phase 1 of its process for submitting IEEPA refund claims.

Tariff Refunds

As the nature, timing, and amount of any such refunds remain uncertain, the Company elected to account for such refunds under the gain contingency model. During the three and six months ended June 30, 2026, the Company recognized $18.7 million of tariff refunds as a reduction to “Cost of sales” in the Condensed Consolidated Statements of Operations. No portion of the recognized refunds was allocated to inventory, as the underlying inventory to which the refunds related had been sold prior to June 30, 2026. In addition, the Company recognized $0.8 million of interest income related to tariff refunds received through June 30, 2026.

AMERICAN OUTDOOR BRANDS

US Tariff Developments

In March 2026, the U.S. Court of International Trade ("CIT") issued an order directing U.S. Customs and Border Protection ("CBP") to process refunds of certain IEEPA tariffs. In April 2026, the CBP released a new system to process IEEPA tariff refunds, allowing importers to submit refund claims. We believe it is probable that we will recover the IEEPA tariffs previously paid and have recognized an IEEPA tariff refund receivable under the loss recovery accounting model of $15.2 million as of April 30, 2026, which was recorded in other current assets. During the year ended April 30, 2026, we recognized a benefit of $4.4 million related to expected recoveries of previously paid IEEPA tariffs, which was recorded as a reduction of cost of goods sold, representing the expense for IEEPA tariffs on inventory sold to customers since the tariffs were enacted in February 2025. Additionally, we reduced the carrying value of inventory on hand as of April 30, 2026 by $10.7 million for tariffs previously capitalized as cost of inventory.

Tariff Refunds – Non-Importers of Record

- **Financial reporting considerations**
  - **Refunds**
    - **Entities that are not the importer of record have no direct legal recourse to the government**
      - **If a third-party logistic company is used, any refunds will be addressed in the enforceable contracts and/or future negotiations with these third-party companies**
      - **While some logistics companies have issued guidance on refunds to their customers, accounting recognition should be based on contractual provisions**

Tariff Refunds – All

- **Financial reporting considerations**
  - **Entities should consider whether the Supreme Court ruling requires application of the contract modification guidance in FASB ASC 606**
  - **Entities also may need to make a transaction price adjustment if their customers have a reasonable expectation of a tariff refund based on variable consideration guidance in FASB ASC 606**

Tariff Refunds – Income Statement Presentation

- **Tariff recoveries should generally be recorded in the same manner as originally recorded**
  - **For example, if tariffs were originally recorded to inventory**

Inventory still on-hand →	Credit inventory account
Inventory sold to customers →	Credit cost of sales

  - **This view is shared by PWC and EY**

Tariff Refunds – Income Statement Presentation

- **Alternative view (Grant Thornton, BDO)**
  - **If tariff costs have already been recognized in earnings, record tariff refunds received/receivable as additional revenue (i.e. <u>other income</u>) or as a reduction to costs of sales**
    - **Application of either view should be <u>reasonable</u>**

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Thank you