

FASB Votes to Finalize ASU on Net Periodic Benefit Cost

At its meeting yesterday, the FASB redeliberated the amendments in its [proposed Accounting Standards Update¹](#) (ASU) on improving the presentation of net periodic benefit cost; the Board reaffirmed the proposed guidance and authorized its staff to draft a final ASU.

Background and Decisions Made

Under U.S. GAAP, net benefit cost (i.e., defined benefit pension cost and postretirement benefit cost) comprises several components that reflect different aspects of an employer's financial arrangements as well as the cost of benefits earned by employees. These components are aggregated for reporting purposes in the financial statements. Currently, there is no specific guidance on where in the income statement an entity should present net benefit cost. In addition, many stakeholders are critical of net presentation because it combines elements that are different in nature and that users would evaluate differently in analyzing an entity's current and future financial performance. Accordingly, the FASB seeks to improve the usefulness of the presentation of net benefit cost in the income statement.

The Board reaffirmed and further clarified amendments in its proposal that would:

- Require entities in all industries to (1) disaggregate the current service cost component from the other components of net benefit cost and present it with other current compensation costs for the related employees in the income statement and (2) present the remaining components of net benefit cost ("other costs") elsewhere in the income statement and outside of income from operations, if such a subtotal is presented.
- Clarify that the separate presentation of net periodic benefit cost into two categories (current service and other costs) would be the minimum, with further disaggregation allowed.
- Limit the portion of net benefit cost eligible for capitalization (e.g., as part of inventory or property, plant, and equipment) to the service cost component.

In addition, the Board decided to require an entity to disclose the line item(s) in the income statement in which the other costs are included.

Transition

The Board decided to affirm its decisions on transition as follows:

- Separate presentation in the income statement of service and other costs will be applied retrospectively.
- The new requirement to limit the capitalization (e.g., as part of inventory) of benefit costs to only the service cost component will be applied prospectively.
- An entity must disclose the nature of and reason for the change in accounting principle in each of the first interim and annual reporting periods in which the proposed ASU is adopted.

In addition, the Board acknowledged that because of the new limits on capitalization, entities that previously capitalized other components of net periodic benefit cost other than service cost may have difficulties determining the amounts of service cost and other costs for the comparative periods. As a result, the Board voted to add a practical expedient upon transition to allow

¹ FASB Proposed Accounting Standards Update *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*.

an entity to use its previously disclosed service cost and other costs from the prior years' pension and other postretirement benefit plan footnotes in the comparative periods.

Effective Date, Early Adoption, and Expected Issuance of the ASU

The final ASU will be effective for public business entities for annual periods beginning on or after December 15, 2017, including interim and annual periods. For other entities, the amendments will be effective for annual periods beginning after December 15, 2018.

The Board decided that all entities would be allowed to early adopt the amendments as of the date of issuance of the final ASU, as of the beginning of an annual reporting period for which financial statements (interim or annual) have not been issued or made available for issuance. An entity that elects early adoption should adopt all of the amendments in the same period.

The final ASU is expected to be issued in January 2017.

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