

FASB Issues Final Changes to Presentation of Benefit Cost and Disclosures in Financial Statements

The Financial Accounting Standards Board has issued a final Accounting Standards Update that affects pension and postretirement benefit accounting. The update changes the presentation of the benefit cost and allows only the service cost component to be eligible for capitalization. The final provisions are consistent with last year's proposed ASU except, to help entities apply the new rules retrospectively, a practical expedient has been added to accommodate restating prior period income statements based on the prior year's disclosure notes.

Background

The Financial Accounting Standards Board (FASB) had received comments from users of financial statements about inconsistencies and lack of clarity in how an entity reports the net benefit cost for its postretirement benefit plans in its income statement. In response, in June 2015, FASB added a project to its technical agenda to address these concerns and issued two proposed Accounting Standards Updates (ASUs) for changes in the requirements to simplify and improve the reporting of that net benefit cost, one of which has now been finalized.

Summary of Changes in Presentation of Net Benefit Cost

In ASU 2017-07, [Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost](#), FASB made the following changes in the reporting of net periodic benefit cost:

- Service cost is now presented in the same line item or items on the income statement as other employee compensation cost, and the remaining components of net benefit cost are presented in a separate line item or items outside operating items, if applicable.
- Only service cost is eligible to be capitalized into a balance sheet asset.

It is not yet clear whether expense loads historically added to service cost by many plans should be presented with compensation costs or be eligible for capitalization. If the consensus develops that expenses are excluded, this would remove the non-benefit accrual items from service cost.



Transition

The amendments to disclosures would be applied retrospectively for the presentation of service cost and other components of net periodic cost. The update allows a practical expedient for an employer to use amounts disclosed in its pension and other postretirement benefit plan notes for prior periods as the basis for satisfying the retrospective requirements. Use of this option must be disclosed. Changes to the capitalization of the service cost apply prospectively.

The amendments are effective for public business entities for annual periods beginning after December 15, 2017. For other entities, the amendments are effective for annual periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019.

Early adoption is permitted as of the beginning of an annual period for which financial statements (interim or annual) have not been issued or made available for issuance. Some entities may choose to early adopt the changes in presentation to exclude certain items in operational costs, such as prior service cost and actuarial gains or losses, particularly if those amounts are significant.

In Closing

The ASU changes apply to all industries. As such, all entities should be prepared to update their cost accounting systems, policies and processes to reflect the new requirements. In addition, some industries will be particularly affected by the change in capitalization, such as rate-regulated industries and government contractors. Entities within these industries should consider the impact of the guidance on new assets. All entities should evaluate if early adoption is advantageous based on the impact of the changes to both capitalization and operating income.

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