

AN ALERT FROM THE BDO NATIONAL ASSURANCE PRACTICE

# BDO FLASH REPORT

## FASB



### SUBJECT

## FASB UPDATES PRESENTATION OF PENSION AND OTHER POSTRETIREMENT BENEFIT PLAN COSTS

### SUMMARY

The FASB recently issued ASU 2017-07<sup>1</sup> to improve the presentation of net periodic pension cost and net periodic postretirement benefit cost in the income statement, and to narrow the amounts eligible for capitalization in assets. The ASU is available [here](#), and becomes effective for public entities for fiscal years beginning after December 15, 2017, and for private entities one year later.

### DETAILS

#### *Background*

Defined benefit pension cost and postretirement benefit cost (net benefit cost) are components of an employer's financial arrangements and the cost of benefits provided to employees. Those components are aggregated for reporting in the financial statements. Topic 715<sup>2</sup> does not currently prescribe where the amount of net benefit cost should be presented in an employer's income statement, nor does it require entities to disclose by line item the amount of net benefit cost that is included in the income statement or capitalized in assets. This lack of guidance has resulted in diversity in practice in the presentation of such costs.

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<sup>1</sup> Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost

<sup>2</sup> Compensation—Retirement Benefits

### **Main Provisions**

ASU 2017-07 applies to any employer that sponsors a defined benefit pension plan, other postretirement benefit plan, or other types of benefits accounted for under Topic 715. The amendments require that an employer disaggregate the service cost component from the other components of net benefit cost, as follows:

- ▶ Service cost must be presented in the same line item(s) as other employee compensation costs. These costs are generally included within income from continuing operations, but in some cases may be eligible for capitalization, as discussed below.
- ▶ All other components of net benefit cost must be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. These other components are listed in Topic 715 and generally include interest cost, actual return on plan assets, amortization of prior service cost included in accumulated other comprehensive income, and gains or losses from changes in the value of the projected benefit obligation or plan assets.<sup>3</sup> If a separate line item is used to present the other components of net benefit cost, it must be appropriately described. If a separate line item is not used, an entity must disclose the line item(s) in the income statement that includes the other components of net benefit cost.

In addition, the amendments permit capitalizing only the service cost component of net benefit cost, assuming such costs meet the criteria required for capitalization by other U.S. GAAP, rather than total net benefit cost which has been permitted under prior GAAP. For example, an entity might capitalize service cost as part of internally manufactured inventory or fixed assets.

**BDO Comment:** The amendments will generally increase the reported amount of income from operations by shifting non-service cost components of net benefit costs outside of income from operations. However, the amendments may decrease the reported amount of net income as non-service cost components will no longer be eligible for capitalization.

## **EFFECTIVE DATE AND TRANSITION**

The amendments in ASU 2017-07 are effective for public business entities for fiscal years beginning after December 15, 2017, including interim periods within those years. For other entities, the amendments in this Update 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.

The amendments should be applied retrospectively for the presentation of the service cost component and the other components of net periodic pension cost and net periodic postretirement benefit cost in the income statement. The standard will apply prospectively for the capitalization of the service cost component of net periodic pension cost and net periodic postretirement benefit in assets. The amendments allow a practical expedient that permits an employer to use the amounts disclosed in its pension and other postretirement benefit plan note for the prior comparative periods to apply the retrospective presentation requirements. An entity must disclose its use of the practical expedient.

<sup>3</sup> The components of net benefit cost are defined in paragraphs 715-30-35-4 and 715-60-35-9.

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