Unlocking Opportunities

Global Financial Reporting and Valuation Conference

December 2025

KPMG

FASB Accounting Update and Reporting Hot Topics

Global Financial Reporting and Valuation Conference

December 2025

Agenda

FASB current agenda and recent ASUs

FASB technical agenda

Technical Agenda Overview

Revised November 25, 2025

PROJECTS	Next Milestone	Expected Date
Accounting for Debt Exchanges	Final ASU	1Q 2026
Accounting for Environmental Credit Programs	Final ASU	1Q 2026
Accounting for Government Grants	Final ASU	4Q 2025
Accounting for Transfers of Crypto Assets	Board deliberations	Ongoing
Classification of Certain Digital Assets as Cash Equivalents	Board deliberations	Ongoing
Codification Improvements (Evergreen)	Final ASU	4Q 2025
Equity Method of Accounting: Targeted Improvements	Board deliberations	Ongoing
Interim Reporting—Narrow-Scope Improvements	Final ASU	4Q 2025
Initial Measurement of Paid-in-Kind Dividends on Equity-Classified Preferred Stock	Board redeliberations	Ongoing
Statement of Cash Flows Targeted Improvements	Board deliberations	Ongoing

RESEARCH PROJECTS
Accounting for and Disclosure of Intangibles
Accounting for Commodities
Accounting for Derivatives
Agenda Consultation
Consolidation for Business Entities
Financial Key Performance Indicators for Business Entities
Hedge Accounting
Statement of Cash Flows

EITF
Application of Topic 715 to Market-Return Cash Balance Plans
Mortgage Servicing Rights—Recapture

Recently issued ASUs

Update	Title (some titles abbreviated)	Effective Date for Calendar Year-end Public Companies
Update 2025-05	Measurement of Credit Losses for Accounts Receivable and Contract Assets	**2026***
Update 2025-04	Clarifications to Share-Based Consideration Payable to a Customer	**2027***
Update 2025-03	Determining the Accounting Acquirer in the Acquisition of a Variable Interest Entity	**2027***
Update 2024-04	Debt with Conversion and Other Options (Subtopic 470-20): Induced Conversions of Convertible Debt Instruments	**2026***
Update 2024-03	Income Statement—Reporting Comprehensive Income—Expense Disaggregation Disclosures (Subtopic 220-40): Disaggregation of Income Statement Expenses	**2027 (interim periods beginning in 2028)**
Update 2024-01	Compensation—Stock Compensation (Topic 718): Scope Application of Profits Interest and Similar Awards	**2025***
Update 2023-09	Income Taxes (Topic 740): Improvements to Income Tax Disclosures	**2025**
Update 2023-08	Intangibles—Goodwill and Other—Crypto Assets (Subtopic 350-60): Accounting for and Disclosure of Crypto Assets	**2025***
Update 2023-07	Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures	**2024 (interim periods beginning in 2025)**
Update 2023-05	Joint Venture Formations (Subtopic 805-60): Recognition and Initial Measurement	**Effective for JVs formed on or after 1/1/25 (public or private)**

* *including interim periods within the years noted*

Selected finalized/Near finalized standards

Accounting for/disclosure of software costs – Targeted improvements to 350-40

- The internal-use software development cost capitalization threshold will change.
- Link ‘probable’ in the probable-to-complete threshold to the ASC Master Glossary definition.
- As part of the probable-to-complete assessment, entities will assess whether software projects are subject to significant development uncertainty. If so, completion is not probable until such uncertainty is resolved.
- Significant development uncertainty will exist when either the software or its core features/functions are novel, unique or unproven, or the significant performance requirements of the software (i.e. what the software is needed to do – e.g. its functions or features) remain unidentified or subject to substantial further revision.
- Significant development uncertainty stemming from novel, unique or unproven features/functions must be resolved through coding and testing that establishes the software can meet its performance requirements, similar to how ‘high-risk development issues’ are resolved for external-use software under ASC 985-20.
- Retrospective and prospective transition, including an option to prospectively apply to software costs incurred on new and existing software projects after the adoption date with a cumulative effect adjustment for existing, in-process project capitalized costs.

Accounting for government grants

Scope

- Transfers of monetary and tangible nonmonetary assets, other than exchange transactions, from a government to a business entity.
- Scope exceptions:
  - Exchange transactions (e.g. scope of ASC 606 and ASC 610-20)
  - Items accounted for under ASC 740
  - The benefit of below-market interest rate loans
  - Government guarantees

Recognition and Presentation

- Grant not recognized until it is **probable** that:
  - The entity will comply with the conditions attached to the grant; **and**
  - The grant will be received.
- Recognize benefit in earnings on a systematic and rational basis over the period(s) in which the entity expenses the related costs for which the grant is intended to compensate.

- **Grants related to assets:**
  - An adjustment to the carrying amount of the asset (cost accumulation approach); or
  - Deferred income (deferred income approach)
- **Grants related to income:**
  - Separately as other income (gross presentation); or
  - As a deduction to the related expense (net presentation).

Accounting for environmental credit programs (ECPs) – New ASC 818

ASC 818 would...

- Define attributes of environmental credits and ECOs and limit the scope of ASC 818 to credits and obligations meeting these definitions.
- Require environmental credits to be accounted for based on how an entity intends to use the credit
- Environmental credits that are probable of being used to settle an ECO or transferred in an exchange transaction would be recognized as an asset.
- The cost of all other environmental credits would be expensed as incurred.
- Require environmental credits that are probable of being used to settle an ECO (compliance credits) to be recognized at cost with no subsequent remeasurement. All other environmental credits recognized as assets would also be recognized at cost but be tested for impairment at each reporting date.
- Require entities to recognize ECO liabilities based on the amount of credits needed to satisfy the obligation as if the reporting date were the end of the compliance period. A liability would be measured based on the carrying amount of compliance credits on hand (the funded portion). Any unfunded portion would generally be measured based on the fair value of credits the entity would need to purchase to satisfy the obligation.

05

FASB activity – Financial instruments

Topic 815 – Derivative scope refinements

Why

- Feedback received during 2021 FASB ITC, Agenda Consultation about challenges in applying derivatives standard to certain transactions with contingent features controlled by the entity

What

- Creates new scope exception for contracts with certain variables based on operations or activities of the entity
- Clarifies that entities should apply Topic 606 (revenue) when recognizing a share-based payment received from a customer

Effective

For all entities in

2027

Early adoption permitted

Drafting final ASU

Topic 815 – Hedge accounting improvements

Why

Intended to more closely align the financial reporting of hedging activities with the economics of an entity's risk management activities

What

- **Issue 1-** Similar Risk Assessment for Cash Flow Hedges: Allow more individual forecasted transactions to be hedged as a group if they have a similar risk exposure
- **Issue 2-** Change in hedged risk for 'Choose-Your-Rate' Debt Instruments: Provide specific guidance for hedging 'chose-your-rate' debt instruments
- **Issue 3-** Cash Flow Hedges of Non-financial Components: Provide new alternatives for hedging forecasted purchased and sales of nonfinancial assets
- **Issue 4-** Net Written Options: Permit net written options to qualify as hedging instruments
- **Issue 5-** Foreign-currency-denominated debt instrument as hedging instrument and hedged item: Allow a foreign-currency-denominated debt instrument to serve as both a hedging instrument and a hedged item

Effective

For public entities in

2027

and private entities in

2028

Early adoption permitted

Credit losses for revenue receivables

Why

- Currently, standards require an entity to consider whether conditions will remain the same in the forecast period as they existed in the historical information in determining credit losses for receivables
- Current accounts receivable and contract assets are generally short-term in nature
- PCC identified two updates to reduce the time and effort for preparers to analyze and estimate credit losses on certain receivables while still providing decision useful information to investors, which the Board considered

What

- All entities may elect a practical expedient that assumes current conditions as of the balance sheet date persist through the forecast period
- Entities other than public business entities that elect practical expedient can also make an accounting policy election to consider subsequent collections after the balance sheet date in estimating credit losses

Effective

For all entities in

2027

Early adoption permitted

Drafting exposure draft

Measurement of paid-in-kind (PIK) dividends on preferred stock

Why

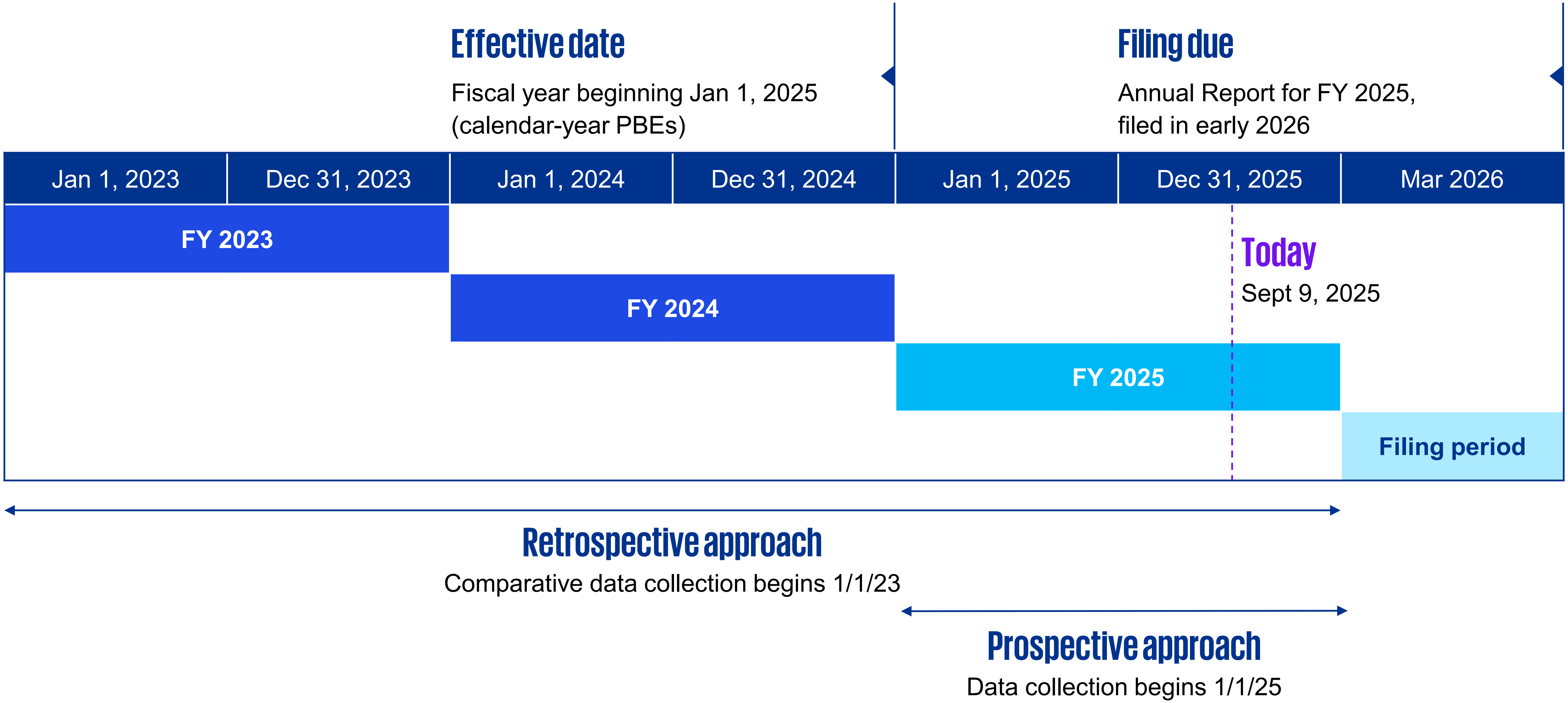
- US GAAP does not currently address measurement for PIK dividends on equity classified preferred stock
- Diversity in practice on accounting for PIK dividends at fair value or the stated dividend rate
- The recognized amount of PIK dividends impacts the carrying amount of preferred stock on the balance sheet and the calculation of income available to common shareholders

What

- Recognize and measure PIK dividends on equity classified preferred stock based on the stated dividend rate on the liquidation preference of the instrument
- Apply the guidance prospectively with an option for retrospective application for equity classified preferred stock instruments outstanding at the effective date of the ASU

Improvements to income tax disclosures ASU 2023-09

Effective date and transition – Public business entities



Overview

Rate Reconciliation

- Public business entities (PBE)
  - Amounts **and** percentages
  - Required categories with further disaggregation in specified categories
  - Disaggregation threshold of 5% of expected tax
- Non-PBEs provide qualitative disclosure

Income taxes paid

- Disaggregated by federal, state, and foreign jurisdictions
- Individual jurisdiction 5% or more of total

Additional disclosures

- Profit before taxes from continuing operations: Domestic and foreign disaggregation
- Total income tax expense: Domestic federal, domestic state and foreign disaggregation

Eliminated disclosures

- Temporary differences for which a deferred tax liability has not been recognized
- Unrecognized tax benefits changes within 12 months of the reporting date

Categories and further disaggregation

<table>
<tr><td rowspan="6">Worldwide</td><td rowspan="3">Domestic</td><td rowspan="2">Federal</td><td>• Tax credits
• Nontaxable or nondeductible items
• Cross-border tax laws
• Other reconciling items</td><td>Further disaggregation by nature based on the 5% threshold</td></tr>
<tr><td>• Changes in tax laws or rates enacted in the current period
• Changes in valuation allowances</td><td>No further disaggregation required</td></tr>
<tr><td>State income taxes, net of federal effect</td><td colspan="2">No further disaggregation required</td></tr>
<tr><td colspan="2" rowspan="2">Foreign tax effects</td><td colspan="2">Further disaggregation by country based on the 5% threshold</td></tr>
<tr><td colspan="2">Further disaggregation by nature based on the 5% threshold</td></tr>
<tr><td colspan="2">Changes in unrecognized tax benefits</td><td colspan="2">No further disaggregation required</td></tr>
</table>

Further disaggregation threshold

	$ (amount)				% (rate)
A	Expected income tax expense (benefit)	=	Pretax income (loss) from continuing operations	x	Statutory tax rate
B	Reported income tax expense (benefit)	÷	Pretax income (loss) from continuing operations	=	Effective tax rate

Expected income tax expense (benefit) = Pretax income (loss) from continuing operations x Statutory income tax rate

$ (amount)		% (rate)	US-domiciled parent
			21%
x 5% threshold		x 5% threshold	x 5%
= **$ amount of expected income tax expense (benefit)**	**Reconciling item thresholds**	= **% of pretax income (loss) from continuing operations**	= 1.05%

Example

	Amount	Percent
US federal statutory income tax rate	2,520	21.0%
Domestic federal		
Tax credits		
• Research credits	(250)	-2.1%
• Other	(20)	-0.2%
Nontaxable and nondeductible items, net	60	0.5%
Cross-border tax laws		
• Global intangible low-taxed income	180	1.5%
• Other	10	0.1%
Excess tax benefits on share-based payments	(400)	-3.3%
Other	50	0.4%
Domestic state and local income taxes, net of federal effect	400	3.3%

	Amount	Percent
Foreign tax effects		
United Kingdom		
• Enactment of new tax laws	-	0.0%
• Nondeductible legal expenses	150	1.3%
• Other	(100)	-0.9%
Ireland		
• Statutory income tax rate differential	(350)	-2.9%
• Other	10	0.1%
Germany		
• Changes in valuation allowances	-	0.0%
• Trade taxes	140	1.2%
• Other	20	0.2%
Singapore	(150)	-1.3%
Other foreign jurisdictions	(300)	-2.5%
Worldwide changes in unrecognized tax benefits	70	0.6%
Total	**2,040**	**17.0%**

Entities other than public business entities

Topic	Disclose…
Reconciliation of the expected tax to the reported tax	• Qualitatively, the nature and effect of significant reconciling items by specific categories and individual jurisdictions.
Income taxes paid	• Income taxes paid (net of refunds received), broken out between federal (national), state/local and foreign. • Income taxes paid (net of refunds received) to an individual jurisdiction when 5% or more of the total income taxes paid (net of refunds received).
Other disaggregated amounts	• Income (or loss) from continuing operations before income taxes, broken out between domestic and foreign. • Income tax expense (or benefit) from continuing operations, broken out between federal (national), state/local and foreign.

FASB ASU 2023-09 – Income tax disclosures

Implementation challenges

- New accounting policies
- Retrospective adoption
- Multi-location considerations
- Evaluation of internal controls
- Materiality considerations

DISE – Disaggregation of income statement expenses ASU 2024-03

Top takeaways

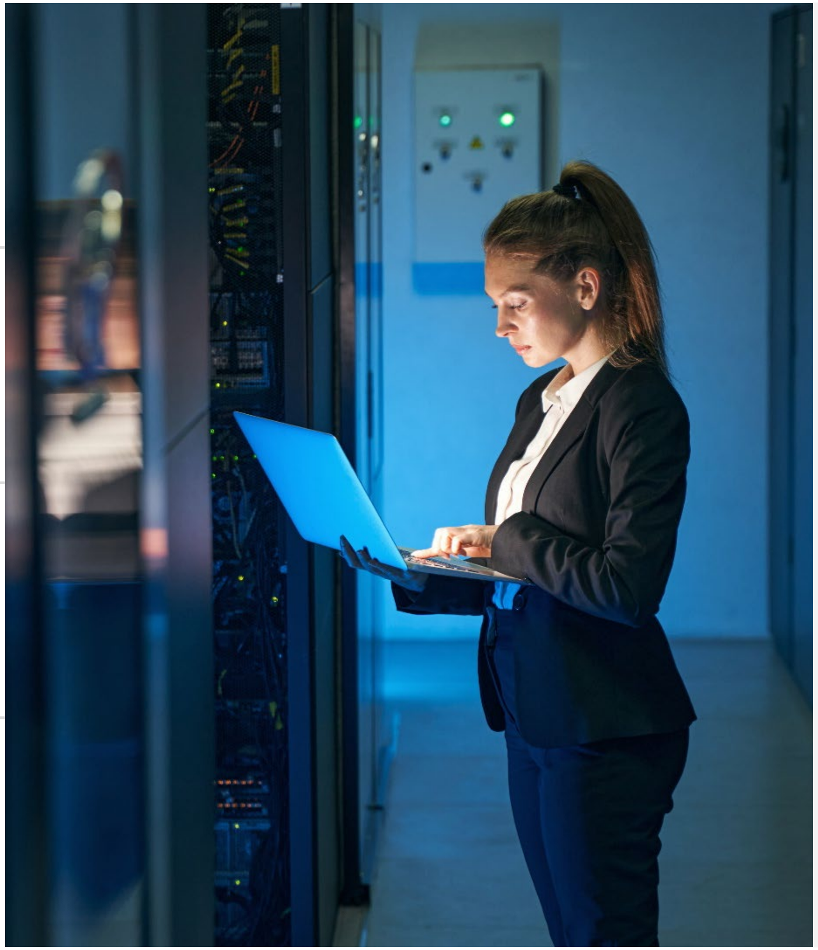
Why did the FASB issue this ASU?

Responds to investor demands for greater transparency

Improves disclosures about commonly presented captions

Helps investors make better judgments about company performance

Works in conjunction with disaggregated revenue and income tax disclosures



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What we heard from investors was they were looking for greater insight into the makeup of those income statement line items and what would drive variability into those line items today and into the future.

– Rich Jones, FASB Chair

[If] you pick up a balance sheet, you can pretty easily go for each balance sheet line item into the footnotes and see what makes up that balance sheet line item. But try to do it for the income statement, particularly the expenses, and very often you can’t do that.

– Rich Jones, FASB Chair

It was through extensive outreach in our agenda consultation that stakeholders were able to come to us and make this standard operable. And the result will be capital allocations decisions made by investors that will be more efficient and more effective.

– Fred Cannon, FASB Board Member

Main provisions

01 Relevant expense captions

Expense caption on the income statement in continuing operations that contains any of the required expense categories.

Examples of relevant captions:

- Costs of services
- Costs of goods sold
- Research & development
- Selling, general, and administrative expenses

02 Required expense categories

Disaggregate any relevant expense caption that includes:

1. Purchases of inventory
2. Employee compensation
3. Depreciation
4. Intangible asset amortization
5. DD&A for oil & gas/depletion expense for all other entities

Inventory basis of presentation:

- Cost-incurred basis
- Expense-incurred basis

03 Additional Items

"One stop shop" table with certain expense disclosures already required by other US GAAP topics to be combined into the same table.

Other category and reconciling items – Qualitative description of other expenses and reconciling items not required to be quantitatively disaggregated

Selling expense – Amount and description

04 Transition and effective date

Transition:

Prospective with option for retrospective

Effective date:

- 2027 annual periods - fiscal periods beginning after December 15, 2026
- 2028 interim periods - interim periods beginning after December 15, 2027
- Early adoption permitted

Required expenses – Purchases of inventory

Purchases of inventory:

Purchases of inventory is one of the required natural expense categories to be included in the DISE disaggregation tabular disclosure. Purchases of inventory is not defined but is intended to capture external third-party spend related to inventory (Topic 330), such as materials and other externally purchased inputs to inventory including those used in the inventory manufacturing process.

May be included:

- External third-party spend on:
  - Raw materials
  - Supplies and inputs
  - Work in process
  - Finished goods
- External spend components of "normal" variances when applying certain inventory costing methods
- External third-party spend on ancillary items such as tariffs, inbound shipping costs, etc.
- Inventory acquired in an asset or asset group acquisition (ASC 805-50)

Excluded:

- Topic 330 inventoriable cost related to labor, depreciation, overhead, manufacturing costs, etc. and related components of "normal" variances when applying certain inventory costing methods
- Other manufacturing costs
- Inventory amounts acquired in a business combination (ASC 805-10)
- Inventory amounts recognized from a joint venture formation (ASC 805-60)
- Inventory from the initial consolidation of a VIE that is not a business combination (ASC 810-10)
- Inventory impairments
- Changes in E&O reserves

Practical expedient:

When substantially all of an entity's income statement caption comprises purchases of inventory within the scope of Topic 330 (such as purchases, purchases of materials, or another similarly named caption), the entity is only required to qualitatively describe the composition of that expense caption instead of disclosing disaggregated amounts for that expense caption.

Acceptable bases to disaggregate

Cost-incurred basis: amounts are disclosed based on amounts capitalized to inventory and directly expensed during the current period.

Expense-incurred basis: amounts are disclosed based on expenses related to the derecognition of inventory, including costs previously capitalized, and directly expensed during the current period.

Challenges:

- **Data:** once costs are capitalized to inventory, their original nature is often lost or obscured as inventory balances are typically tracked in aggregate within reporting systems.
  - Identifying correct and relevant information at an appropriately granular level may require more detailed tracking than currently available
- **Standard costing:** Standard costing is used by certain entities to approximate the cost of inventory, and standard cost variances need to be allocated to the underlying cost nature they relate to for purposes of the disaggregated disclosures.
- **Inventory cost flow assumptions:** Each inventory cost flow assumption (i.e., FIFO, LIFO, average cost, specific identification or RIM) introduces different practical challenges when disaggregating inventory-related cost information by natural expense category.

Observations:

- Elected basis is applied consistently to all categories disclosed within an individual relevant expense caption (i.e., caption-by-caption basis).
- Amounts disclosed for required natural expense categories (e.g., purchases of inventory, employee compensation) or 'other items' may differ under each basis of presentation.

Example: Cost-incurred versus Expense-incurred basis

In the reporting period, ABC Corp. purchases $60 of parts (10 parts with a unit price of $6) and incurs employee compensation for $40 to manufacture 10 finished goods. ABC sells 8 finished goods (i.e., COGS is $80). Opening inventory is zero and closing inventory is $20.

ABC provides the following disclosure to disaggregate the cost of goods sold relevant expense caption depending on which approach it elects.

Cost of goods sold	Cost-incurred basis	Expense-incurred basis
Purchases of inventory	60	48[1]
Employee compensation	40	32[2]
Changes in inventories	(20)	Category does not apply
Total cost of goods sold	**80**	**80**

Notes:

1. 8 units sold x $6 per unit of parts purchases
2. $40 employee compensation x 8/10 (units sold ÷ units produced)

Example: Standard cost variances

In Year 1, ABC Corp, manufactures Product X and sells no inventory. In Year 2, all inventory is sold, ABC uses standard costing and adjusts the cost of inventory on the balance sheet at the end of Year 1 to reflect actual conditions, as follows.

Costs capitalized to inventory	Standard cost set at beginning of Year 1	Cost variance	Cost adjusted at end of Year 1
Purchases of inventory	10	3	13
Employee compensation	5	(2)	3
Costs capitalized to inventory	**15**	**1**	**16**

In Year 1, ABC discloses the following to disaggregate the cost of goods sold relevant expense caption depending on which approach it elects.

Costs of goods sold	Cost-incurred basis[1]	Expense-incurred basis
Purchases of inventory	13	-
Employee compensation	3	-
Changes in inventory	(16)	Category does not apply
Total cost of goods sold	**-**	**-**

Note:
1. Any variances are classified based on their respective nature (i.e., the net cost variance of $1 is reflected as follows: $3 through purchases of inventory and $(2) through employee compensation).

In Year 2, there are no further cost adjustments, and all inventory is sold. ABC discloses the following depending on which approach it elects.

Costs of goods sold	Cost-incurred basis	Expense-incurred basis
Purchases of inventory	-	13
Employee compensation	-	3
Changes in inventory	16	Category does not apply
Total cost of goods sold	**16**	**16**

Required expenses – Employee compensation

Employee compensation is one of the required natural expense categories to be included in the DISE disaggregation tabular disclosure. Employee compensation is defined by its underlying components of employee and compensation.

Components:

- **Employee:** Entity exercises control and within common law definition
  - Excludes any non-employee contractors, subcontractors or other outsourced labor/service arrangements
- **Compensation:** Consistent with the compensation costs in ASC 710, ASC 712, ASC 715 and ASC 718
  - Wages, bonuses, social security contributions, employee benefits and stock-based compensation.
- One time employee termination benefits that are in the scope of ASC 420 are required to be disclosed separately in the tabular disclosure as part of the integration of existing disclosure requirements

Practical expedient:

- For banks and entities that present 'salaries and employee benefits' or similarly named caption on the income statement as per SEC Regulation S-X Rule 9-04.
- If elected, this expedient allows these entities to use the amount determined under Rule 9-04 instead of the ASU's definition of employee compensation.
- Limited to companies in scope of S-X Rule 9-04 and cannot be applied by analogy.

Challenges:

- Scoping and identifying the correct and relevant information.
- Data process and analyzing within HR/Payroll systems: Increased data collection and categorization efforts.
- Accounting system redesign to disaggregate employee and nonemployee compensation costs.
- Ensuring the consistency between existing accounting and reporting policies and new DISE standards.

Required expenses – Depreciation, intangible asset amortization, DD&A, and other depletion

Depreciation:

- Consistent with amounts recorded for long-lived assets under Topic 360.
- Amortization of finance lease right-of-use assets and leasehold improvements arising from Topic 842 are presented under the depreciation or amortization category.

Intangible asset amortization

- Consistent with amounts recorded under Topic 350.
- Amortization of finance lease right-of-use assets and leasehold improvements arising from Topic 842 are presented under the depreciation or amortization category.
- Amortization of other capitalized assets from other Topics (e.g., customer contract acquisition costs) are excluded.

DD&A for oil-and gas producing activities:

- **DD&A:** DD&A of capitalized acquisition, exploration, and development costs recognized as part of oil- and gas-producing activities
- **Depletion:** Depletion expense recognized by industries other than the oil-and-gas industry (e.g., mining) is separately disclosed.
- Included as a separate line item because it represents a potentially significant noncash expense that is recognized systematically, like depreciation and amortization.

Challenges:

- Scoping and identifying the correct and relevant information.
- Ensuring the consistency between existing accounting and reporting policies and new DISE standards.

Examples of existing GAAP disclosures to be integrated in the one-stop shop table

Include if recorded in any relevant expense caption

- Impairment loss related to intangible assets or long-lived assets classified as held and used
- Gains and losses on derivative instruments
- Gains and losses on long-lived assets held for sale and disposed
- Gains and losses on deconsolidation of a subsidiary or group of assets
- Exit or disposal activity costs
- Bargain purchase gain in a business combination

Include only if entirely recorded in one relevant caption

- Provision for expected credit losses
- Amortization/Impairment of costs to obtain/fulfill a contract with a customer
- Loss contingencies
- Warranty expense
- Foreign currency transaction gains or losses
- Asset retirement obligation accretion expense
- Operating, variable, or short-term lease cost
- Net gain or loss from sale and leaseback transactions

Integration is not intended to add any new disclosure requirements.

Other disclosure requirements

01 Qualitative and quantitative disclosure of selling expenses

- Total selling expenses recognized in continuing operations are to be disclosed for interim and annual periods:
  - Annual: Qualitative description and amount
  - Interim: Amount and qualitative description – only if changed
- **“Selling expenses”** are determined using a “management approach” and an entity’s determination, but it should include only items presented as expenses on the income statement. No specification is provided as to whether advertising costs should be included in total selling expenses.

02 Guidance for specific items:

- Certain asset-related expenses: Costs capitalized for non-inventory assets are not required to be disaggregated when capitalized or tracked by nature for future disaggregation. Instead, when the asset is subsequently derecognized (e.g., depreciated), the expense is recognized based on its nature at the time it is recorded in the income statement.
- Certain liability-related expenses: When certain conditions are met, expense amounts based on an obligation that is uncertain in timing and amount do not need to be disaggregated.
- Expenses from equity method investments are specifically excluded from the disaggregation requirements.

Other disclosure requirements

03 Cost-sharing/Cost-reimbursement arrangements:

- Amounts received: disclose amounts separately in the table (with a qualitative description of related natural expense categories) OR net within the related expense categories.
- Amounts paid: disclosed separately in the table.

04 Changes in disclosures:

- Changes to the definition of selling expenses will require recasting unless it is impracticable to do so. A preferability assessment will not be required.
- Changes in basis of presentation (e.g., cost-incurred basis to expense-incurred basis) for disaggregated relevant expense captions that contain amounts recognized in accordance with ASC 330 will require recasting unless it is impracticable.

05 Estimates:

- Estimates and other methods can be used to approximate amounts in the disaggregation process. Estimates will need to consider the relevance and reliability of the inputs (data), methods, and assumptions.

06 Voluntary expense information:

- An entity will not be precluded from disclosing information considered relevant. However, such voluntary disclosures should be separate from the required expense amounts (no override exemption).

Example disclosures

Entity XYZ

Consolidated statement of operations

For the year ended December 31, 20X4

	20X4
Revenues:	
Products	$ 82,144
Services	26,132
Total revenues	**108,276**
Operating expenses:	
Cost of products sold	63,456
Cost of services	10,496
Selling, general, and administrative	20,849
Total operating expenses	**94,801**
Operating income	13,475
Interest expense	4,971
Income before income taxes	8,504
Income tax expense	1,786
Net income	**$ 6,718**

Example disclosures (continued)

Disaggregation of relevant expense captions (cost-incurred basis)

	20X4
Cost of products sold	
Purchases of inventory	$ 20,213
Employee compensation	17,578
Depreciation	10,190
Intangible asset amortization	3,914
Warranty expense	4,394
Other cost of products sold[a]	7,552
Changes in inventories	157
Other adjustments and reconciling items[b]	(542)
Total cost of products sold	**$ 63,456**

(a) Other cost of products sold consists primarily of amounts paid to carriers for outbound freight services related to contract fulfillment and amounts related to the measurement of a liability for an environmental obligation for the years ended December 31, 20X4. Year ended December 31, 20X4, also includes inventory amounts recognized as part of a business combination.

(b) Other adjustments and reconciling items consist of reconciling adjustments attributable to differences in the foreign exchange rates used to translate beginning inventory, ending inventory, and costs incurred from various functional currencies into the reporting currency for the years ended December 31, 20X4.

Example disclosures (continued)

Disaggregation of relevant expense captions (cost-incurred basis)

	20X4
Cost of services	
Employee compensation	$ 6,598
Depreciation	763
Intangible asset amortization	642
Other cost of services[c]	2,493
Total cost of services	**$ 10,496**
Selling, general, and administrative	
Employee compensation	$ 13,242
Depreciation	1,454
PP&E impairment	412
Intangible asset amortization	523
Other SG&A[d]	5,218
Total selling, general, and administrative	**$ 20,849**

(c)

Other cost of services consisted primarily of operating lease and travel costs for the year ended December 31, 20X4.

(d)

Other SG&A consisted primarily of professional services fees; operating lease expense; and the cost paid to third parties for printing, publications, and advertising for the year ended December 31, 20X4.

Path to adoption

Phase 1

- Understand the requirements of the standard
- Identify the key impacts
- Evaluate internal and external assistance needs

Phase 2

- Evaluate relevant data elements and key processes
- Perform gap assessments
- Prepare accounting policy evaluations

Phase 3

- Construct and configure solutions
- Update processes and controls
- Cross functionally train and communicate
- Develop implementation roadmap

Phase 4

- Deploy solutions
- Dry-run updated processes, controls, and disclosure
- Quality assurance testing

Adoption

2025	2026	2027

Broad impacts on your organization?

For many companies, implementation of the new DISE standard is not just an accounting exercise, as many different groups across the organization need to be involved …

DISE standards & corresponding accounting changes

- Impact of DISE standard and mapping to new accounting rules
- New accounting policies – historical results and transition
- Reporting differences and disclosures

DISE automation and ERP upgrades

- Automation and customization of ERP environment
- Impact on ERP systems
- General ledger, sub-ledgers and reporting packages
- Peripheral expense/cost systems and interfaces

Financial and operational process changes

- Expense process allocation and management
- Budget and management reporting
- Communication with financial markets
- Opportunity to rethink business practices
- Coordination with other strategic initiatives

Governance and change

- Governance organization and changes
- Impact on internal resources
- Project management
- Training
- Multi-national locations

SAB Topic 11.M (SAB 74) Disclosures

Purpose

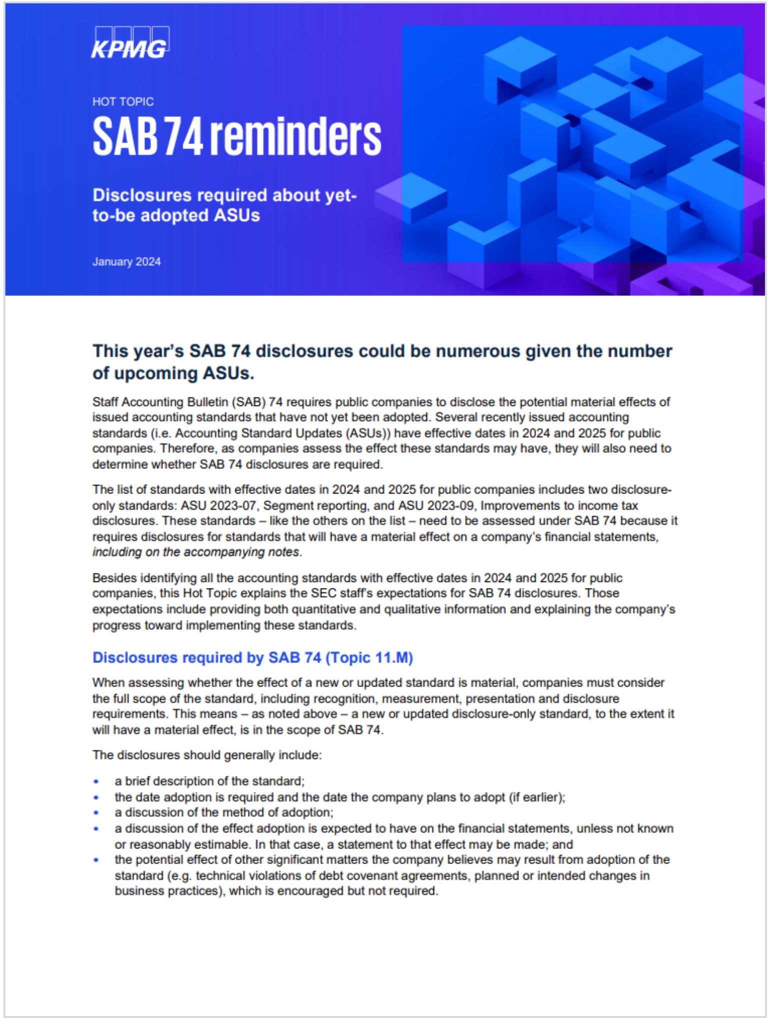
Requires disclosure of the expected impact of recently issued but not yet adopted accounting standards to help investors understand potential future changes in financial reporting

Disclosure expectations

- Description of the ASU
- Qualitative and Quantitative Impact of ASU
- Describe progress toward adoption and adoption date
- Specify transition method selected (if applicable)
- Explain if ASU is expected to have a material impact

Staff focus areas

- Avoid boilerplate language
- Expectation of tailored disclosures based on company specific facts
- Disclosure should evolve to include more specific quantitative and qualitative information as implementation gets closer



HOT TOPIC

SAB 74 reminders

Disclosures required about yet-to-be adopted ASUs

January 2024

This year's SAB 74 disclosures could be numerous given the number of upcoming ASUs.

Staff Accounting Bulletin (SAB) 74 requires public companies to disclose the potential material effects of issued accounting standards that have not yet been adopted. Several recently issued accounting standards (i.e. Accounting Standard Updates (ASUs)) have effective dates in 2024 and 2025 for public companies. Therefore, as companies assess the effect these standards may have, they will also need to determine whether SAB 74 disclosures are required.

The list of standards with effective dates in 2024 and 2025 for public companies includes two disclosure-only standards: ASU 2023-07, Segment reporting, and ASU 2023-09, Improvements to income tax disclosures. These standards – like the others on the list – need to be assessed under SAB 74 because it requires disclosures for standards that will have a material effect on a company's financial statements, *including on the accompanying notes*.

Besides identifying all the accounting standards with effective dates in 2024 and 2025 for public companies, this Hot Topic explains the SEC staff's expectations for SAB 74 disclosures. Those expectations include providing both quantitative and qualitative information and explaining the company's progress toward implementing these standards.

Disclosures required by SAB 74 (Topic 11.M)

When assessing whether the effect of a new or updated standard is material, companies must consider the full scope of the standard, including recognition, measurement, presentation and disclosure requirements. This means – as noted above – a new or updated disclosure-only standard, to the extent it will have a material effect, is in the scope of SAB 74.

The disclosures should generally include:

- a brief description of the standard;
- the date adoption is required and the date the company plans to adopt (if earlier);
- a discussion of the method of adoption;
- a discussion of the effect adoption is expected to have on the financial statements, unless not known or reasonably estimable. In that case, a statement to that effect may be made; and
- the potential effect of other significant matters the company believes may result from adoption of the standard (e.g. technical violations of debt covenant agreements, planned or intended changes in business practices), which is encouraged but not required.

Any questions?

Thank you!

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