



# KSCPA Governmental Non-Profit Accounting & Auditing Conference

FASB Update

June 3, 2025

The views expressed in this presentation are those of the presenter.  
Official positions of the FASB are reached only after extensive due process and deliberations

# Today's Agenda

## Standard Setting Overview

- FASB Introduction
- Technical Agenda and Research Agenda

## Recently Issued Standards

- ASU 2024-03, Income Statement—Reporting Comprehensive Income—Expense Disaggregation Disclosures (Subtopic 220-40): Disaggregation of Income Statement Expenses

## Select Other Topics

- Accounting for and Disclosure of Software Costs
- Interim Reporting
- Invitation to Comment—*Financial Key Performance Indicators for Business Entities*
- Invitation to Comment—*Agenda Consultation*

# Standard Setting Overview

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# FASB Members



***Rich Jones***  
***Chair***  
***2027***  
***Public Accounting***



***Hillary Salo***  
***Vice Chair***  
***2029\****  
***Public***  
***Accounting/SEC/FASB***



***Christine Botosan***  
***2026***  
***Academic***



***Joyce Joseph***  
***2028\****  
***User***



***Fred Cannon***  
***2026\****  
***User***



***Sue Cosper***  
***2029***  
***Public***  
***Accounting/FASB***



***Marsha Hunt***  
***2027***  
***Preparer***

# Technical Agenda

## Technical Agenda Overview

Revised May 15, 2025

PROJECTS	Next Milestone	Expected Date
Accounting for and Disclosure of Software Costs	Final ASU	3Q 2025
Accounting for Debt Exchanges	Exposure Draft	Comments Due May 30, 2025
Accounting for Environmental Credit Programs	Board redeliberations	Ongoing
Accounting for Government Grants	Board redeliberations	Ongoing
Codification Improvements (Evergreen)	Board redeliberations	Ongoing
Credit Losses—Topic 606 Receivables (PCC)	Final ASU	2Q 2025
Financial Instruments—Credit Losses (Topic 326)—Purchased Financial Assets	Final ASU	3Q 2025
Interim Reporting—Narrow-Scope Improvements	Board redeliberations	Ongoing
Measurement of Paid-in-Kind Dividends on Equity-Classified Preferred Stock	Exposure Draft	3Q 2025
Statement of Cash Flows Targeted Improvements	Board deliberations	Ongoing
Topic 815—Derivatives Scope Refinements	Final ASU	3Q 2025
Topic 815—Hedge Accounting Improvements	Final ASU	3Q 2025

# Research Agenda



## Accounting for and Disclosure of Intangibles

*ITC issued December 2024*

*Comments due May 30*



## Financial Key Performance Indicators for Business Entities

*ITC issued November 2024*

*Comments due April 30*



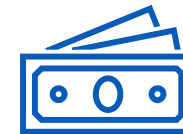
## Accounting for Commodities



## Accounting for Derivatives



## Consolidation for Business Entities



## Statement of Cash Flows



## Agenda Consultation

*ITC issued January 2025*

*Comments due June 30*



## Hedge Accounting

# Disaggregation—Income Statement Expenses (DISE)

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# Identifying Relevant Expense Captions

Entity X  
Consolidated Income Statement  
For the Years Ended December 31, 20X4, 20X3, and 20X2

	20X4	20X3	20X2
Revenues:			
Products	\$ 82,144	\$ 79,137	\$ 75,180
Services	26,132	23,146	21,989
Total revenues	108,276	102,283	97,169
Operating expenses:			
Cost of products sold	63,456	60,898	57,244
Cost of services	10,496	9,568	8,898
Selling, general, and administrative	20,849	18,871	18,116
Total operating expenses	94,801	89,337	84,258
Operating income	13,475	12,946	12,911
Interest expense	4,971	4,213	4,297
Income before income taxes	8,504	8,733	8,614
Income tax expense	1,786	1,834	1,809
Net income	<u>\$ 6,718</u>	<u>\$ 6,899</u>	<u>\$ 6,805</u>

- A relevant expense caption is any expense line item presented on the face of the income statement within continuing operations that contains any of the following **required expense categories**:
  - Purchases of Inventory
  - Employee Compensation
  - Depreciation
  - Intangible Asset Amortization
  - Depreciation, Depletion, and Amortization recognized as part of oil- and gas-producing activities (or other amounts of depletion expense) (collectively, “Depletion”)
- A relevant expense caption that contains expense amounts related to inventory within the scope of Topic 330, Inventory, may be disclosed on **either** cost-incurred or expense-incurred basis.



# Tabular Disclosure Requirements

- Break out “relevant expense lines” into a tabular disclosure, disclosing the following:
  - a. Required expense categories: (i) purchases of inventory, (ii) employee compensation, (iii) depreciation, (iv) intangible asset amortization, and (v) depletion
    - i. *Purchases of inventory* only includes amounts within the scope of Topic 330
  - b. Include certain existing disclosure requirements
  - c. Describe the composition of “other” expenses
  - d. Disclose the aggregate amount of reimbursements paid or received as a separate line item or disclose the expense categories that are net of the allocated reimbursement

# Disclosure Illustration – Cost of Products Sold

Entity X Consolidated Income Statement For the Years Ended December 31, 20X4, 20X3, and 20X2			
	20X4	20X3	20X2
Revenues:			
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## Cost of products sold

### Cost of products sold

	20X4	20X3	20X2
Purchases of inventory	\$ 20,213	\$ 19,199	\$ 16,319
Employee compensation	17,578	16,539	14,078
Depreciation	10,190	9,989	9,650
Intangible asset amortization	3,914	4,050	3,929
Warranty expense	4,394	3,952	3,894
Other cost of products sold <sup>(a)</sup>	7,552	7,606	7,993
Changes in inventories	157	(861)	843
Other adjustments and reconciling items <sup>(b)</sup>	(542)	424	538
Total cost of products sold	\$ 63,456	\$ 60,898	\$ 57,244

- (a) Other cost of products sold consisted 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, 20X3, and 20X2. Year ended December 31, 20X4, also included inventory amounts recognized as part of a business combination.
- (b) Other adjustments and reconciling items consisted 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, 20X3, and 20X2.

The illustration shows the breakout of **cost of products sold** disclosed under the **cost-incurred method**.

**Green** boxes are required expense categories

**Red** boxes are other required disclosures included in the tabular format

**GOLD** boxes are required disclosures included in the tabular format only when disaggregating expense captions containing inventory amounts are disclosed under the cost-incurred method.

Estimates or other methods that produce a reasonable approximation of the amounts required to be disclosed may be used to determine disclosed amounts.

# Selling Expenses Disclosure Requirements

- Disclose **total** amount of selling expenses.
- Disclose a company's **definition** of selling expenses.

- Illustrative Example

*Selling Expenses*

During the years ended December 31, 20X4, 20X3, and 20X2, selling expenses were \$13,425, \$12,123, and \$11,585, respectively. The entity's selling expenses include those expenses related to marketing and promotional activities and client relationship management.

# Interim Reporting, Transition, and Effective Date

## Interim Reporting

- All disclosures are required for interim reporting periods, except how an entity defines selling expenses, which is only required at annual periods.

## Transition

- **Prospective application** is required and retrospective application is optional.

## Effective Date

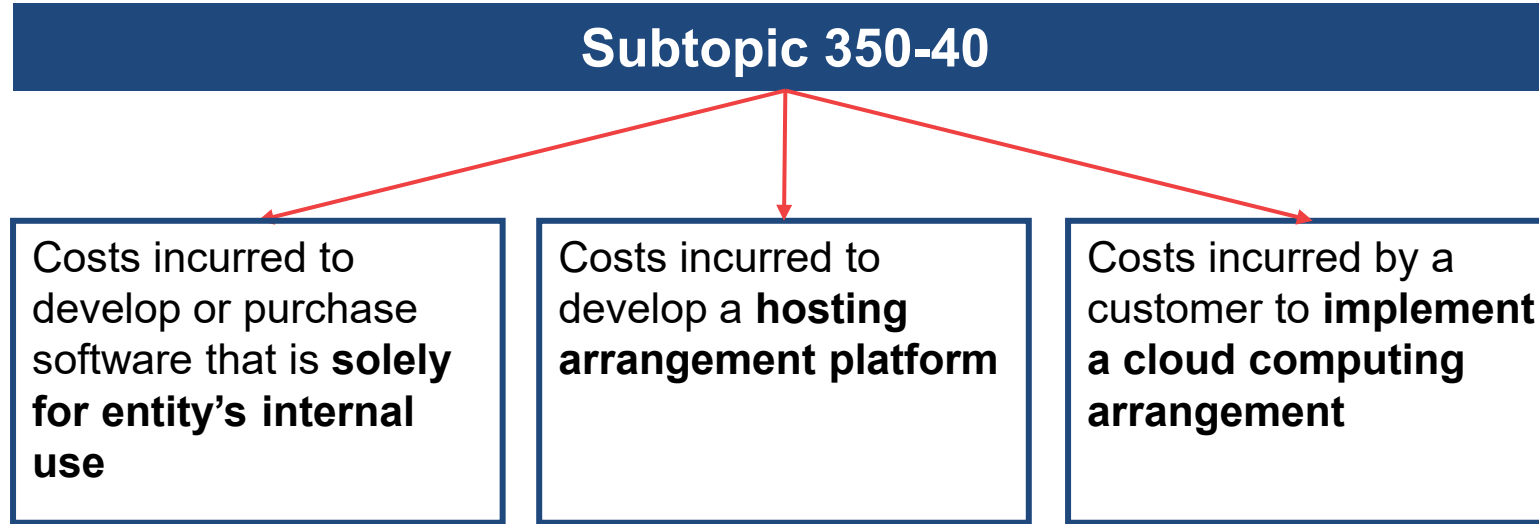
- Amendments will be effective for annual reporting periods beginning after December 15, 2026, and interim reporting periods within reporting periods beginning after December 15, 2027<sup>1</sup>.
- Early adoption is permitted.

<sup>1</sup> ASU 2025-01 *Income Statement—Reporting Comprehensive Income—Expense Disaggregation Disclosures (Subtopic 220-40): Clarifying the Effective Date* was issued on January 6, 2025. It provides a minor clarification to the effective date in ASU 2024-03.

# Accounting for and Disclosure of Software Costs

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# Project Scope and Objective

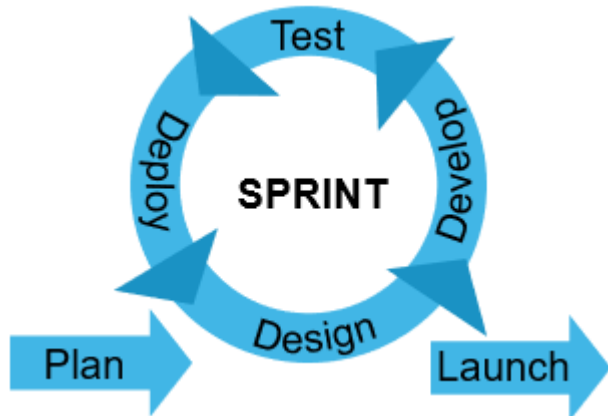


**Objective:** To modernize the accounting for software costs

The Board decided not to make targeted improvements for recognition and measurement to Subtopic 985-20, Software—Costs of Software to be Sold, Leased, or Marketed

# Evolution of Software

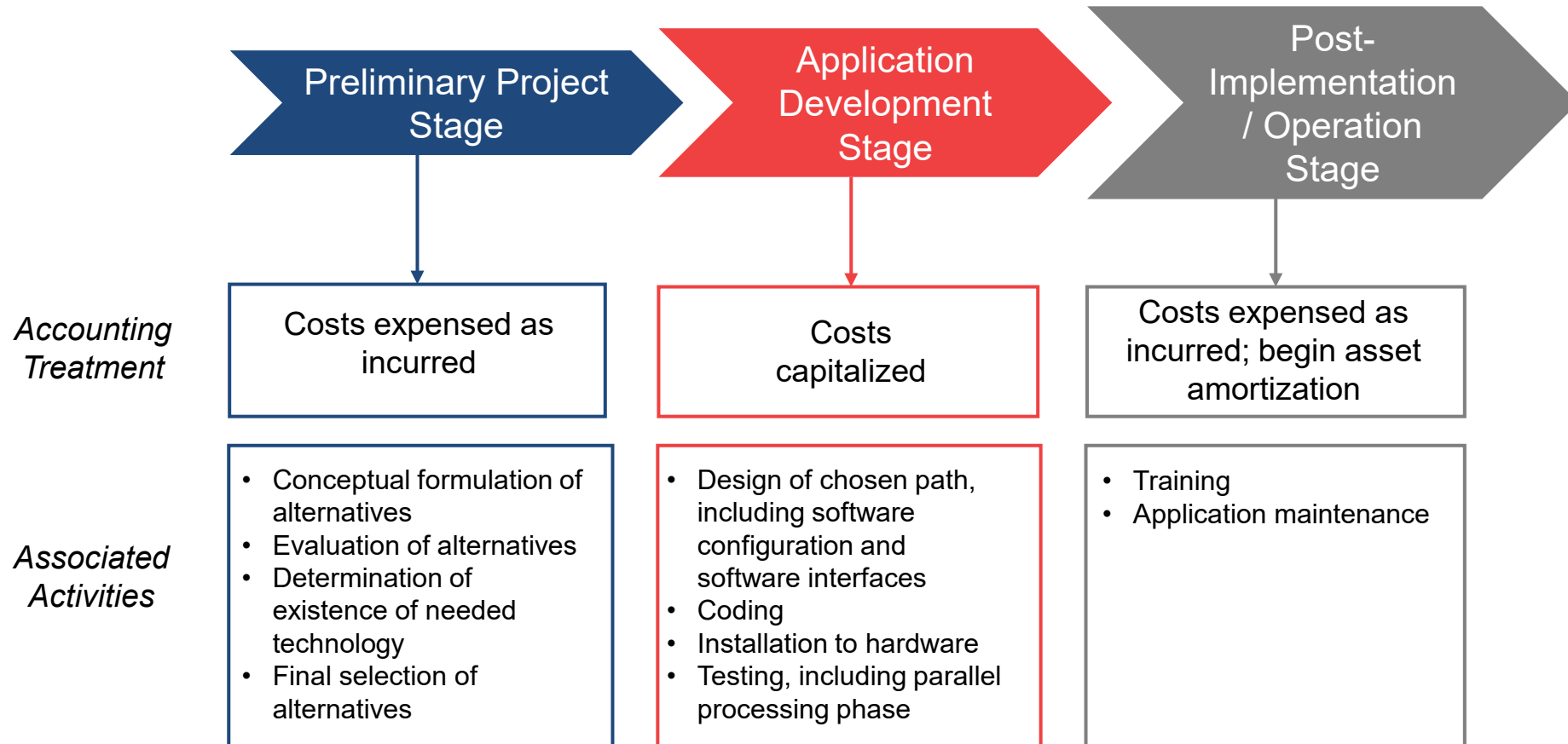
- Companies have historically developed software using the waterfall method, which often is described as a prescriptive, sequential, and formal process
- The agile method emerged to overcome challenges with the waterfall method



- The agile method focuses on incremental and iterative development that allows for software projects to adapt and respond to changes in requirements.
- Within the agile method, a software project is broken down into sprints that focus on a specific function or feature within the software project.
- This iterative environment makes the software project more manageable and allows for companies to quickly incorporate changes.

# Subtopic 350-40

## Intangibles – Goodwill and Other – Internal-Use Software





# Starting Threshold for Capitalization

## Current GAAP (Subtopic 350-40)

Capitalization begins when:

- Preliminary project stage is completed
- Management has authorized and committed to funding the software project
- It is probable that the project will be completed and the software will be used to perform the function intended (the probable-to complete threshold)

## Redeliberation Decisions

As required under current GAAP, capitalization will begin when:

- Management has authorized and committed to funding the software project
- The probable-to-complete threshold has been met

Additionally, entities will have to consider whether significant development uncertainty exists by evaluating:

- Whether the software being developed has novel, unique, unproven functions and features, or technological innovations that have not been resolved through coding and testing
- Whether significant performance requirements have been identified and do not continue to be substantially revised

If significant development uncertainty exists, the probable-to-complete threshold is not considered to be met.

# Other Redeliberation Decisions

## Presentation

No changes to current presentation requirements

## Disclosure

- Current disclosure requirements in other GAAP (PP&E, notes to financial statements, risks and uncertainties, and research and development) should continue to be considered, with a clarification that the PP&E disclosures are required for all capitalized internal-use software costs, regardless of how those costs are classified in the balance sheet
- Certain intangible asset disclosures in Subtopic 350-30 will be limited to the costs of software to be sold, leased, or marketed (Subtopic 985-20)
- No additional disclosures would be required

## Website Development Costs

Website development cost recognition guidance (Subtopic 350-50) will be superseded; certain aspects will be incorporated into the software guidance

# Transition

**The amendments permit an entity to apply the guidance using a prospective approach, a retrospective approach, or an alternative approach.**

## Prospective Approach

- Apply to software costs for new and in-process projects that are incurred on or after the effective date

## Retrospective Approach

- Recast comparative periods and recognize a cumulative-effect adjustment to the opening balance of retained earnings as of the beginning of the first period presented

## Alternative Approach

- Prospective approach to new and in-process projects for which capitalization has not begun as of the adoption date
- Recognize a cumulative-effect adjustment to the opening balance of retained earnings as of the adoption date to reverse previously capitalized amounts for in-process projects that no longer meet the probable to complete threshold under the new guidance

# Effective Date

- The amendments will be effective for all entities for annual reporting periods beginning after December 15, 2027, and interim reporting periods within those annual reporting periods.
- Early adoption is permitted for both interim and annual financial statements.
  - If an entity adopts the amendments in an interim period, the entity is required to adopt them as of the beginning of the annual reporting period that includes that interim period.

# Interim Reporting

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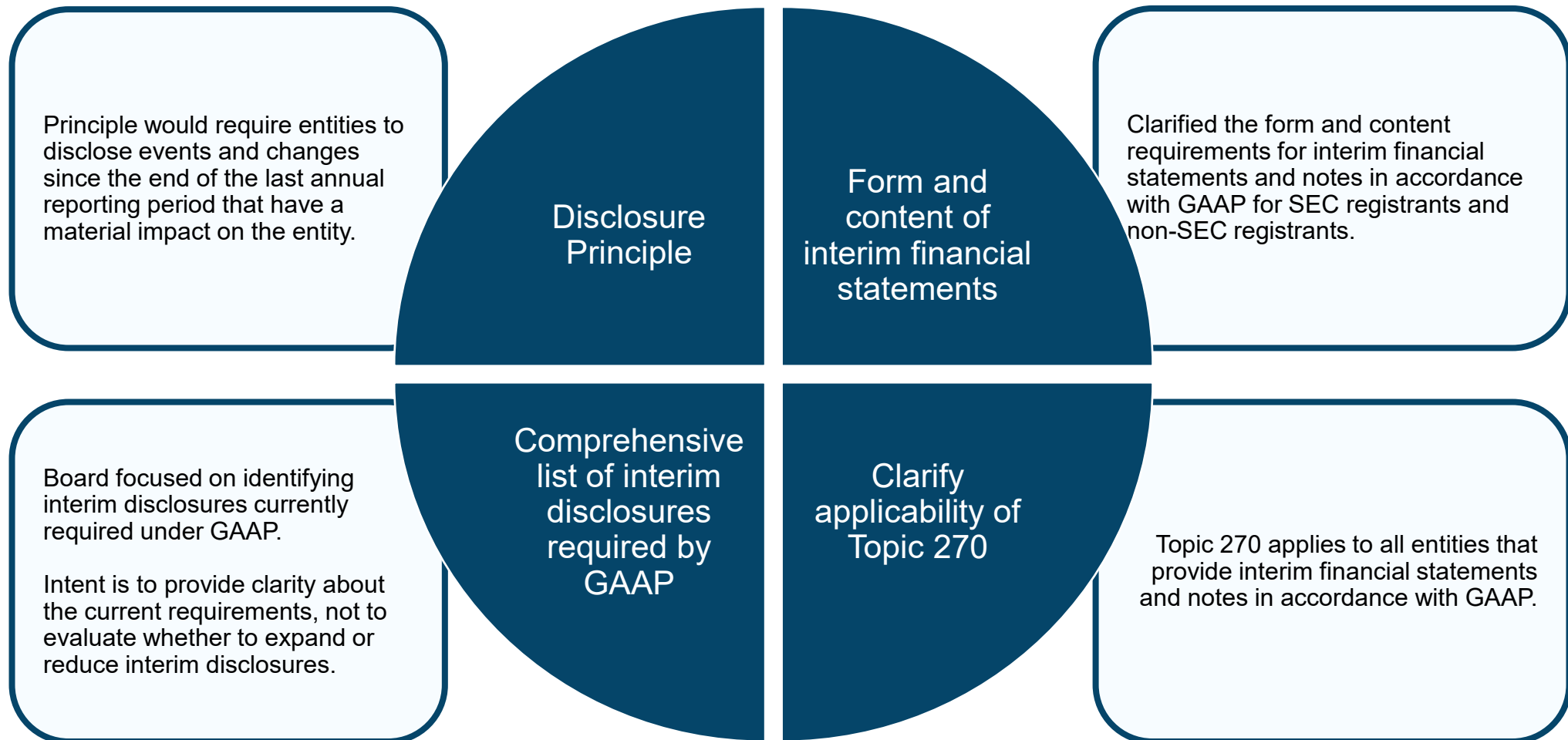
# Interim Reporting – Narrow-Scope Improvements

The project's objective is to:

- Improve the navigability of the required interim disclosures
- Clarify when the guidance in Topic 270 is applicable

Comment period ended March 31, 2025

# Interim Reporting—Narrow-Scope Improvements: Summary of the Proposed Amendments



# Financial KPIs

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# Research Objective and Scope

## ■ Research Objective

- To explore the pervasiveness of perceived issues related to Financial KPIs and whether technically feasible solutions exist.

## ■ What is a Financial KPI (for purposes<sup>1</sup> of the FASB staff's research)

- Any financial measure that is calculated or derived from the financial statements and/or underlying accounting records that is not presented in the GAAP financial statements.
- Do not include:
  - Financial statement performance measures, totals, or subtotals
  - Nonfinancial KPIs.

<sup>1</sup> The FASB is aware that other definitions of Financial KPIs may exist.

# Examples

Financial KPIs		Financial Statement Performance Measures, Totals, and Subtotals	Nonfinancial KPIs
<ul style="list-style-type: none"> <li>• Return on assets (ROA)</li> <li>• Return on equity (ROE)</li> <li>• Current ratio</li> <li>• Debt-to-equity ratio (D/E)</li> <li>• Adjusted revenue</li> <li>• Adjusted gross profit</li> <li>• Adjusted gross margin</li> <li>• Adjusted EBT</li> <li>• Adjusted net income</li> <li>• Adjusted EPS</li> <li>• Adjusted profit margin</li> <li>• FCF, or adjusted FCF</li> <li>• Organic sales growth, or adjusted organic sales growth</li> </ul>	<ul style="list-style-type: none"> <li>• EBIT, or adjusted EBIT</li> <li>• EBITDA, or adjusted EBITDA</li> <li>• EBITDAR, or adjusted EBITDAR</li> <li>• EBITDAX, or adjusted EBITDAX</li> <li>• FFO, or adjusted FFO</li> <li>• Refining margin</li> <li>• Return on invested capital (ROIC)</li> </ul>	<ul style="list-style-type: none"> <li>• Revenue</li> <li>• Gross profit</li> <li>• Gross margin</li> <li>• Pre-tax income (EBT)</li> <li>• Net income</li> <li>• EPS</li> <li>• Profit margin</li> <li>• Operating cash flows (OCF)</li> </ul>	<ul style="list-style-type: none"> <li>• Churn</li> <li>• Same-store sales</li> <li>• Number of subscribers</li> </ul>

# Potential Approaches: Approach 1

- Define certain commonly used Financial KPIs (for example, EBITDA and/or FCF)
- Require (or permit) disclosure of those measures in GAAP financial statements

- Key decisions include:
  - Choose which Financial KPIs to define (commonly used across all entities; industry-specific; both)
  - Decide whether defined financial KPIs should be required or optional disclosures in GAAP financial statements.

## Potential Incremental Disclosures

- Amounts for each component of the Financial KPI
- Identification of financial statement line item(s) where components of Financial KPIs are included
- Comparative periods

# Potential Approaches: Approach 2

- Require (or permit) disclosure of Financial KPIs that management presents outside their financial statements

- Require (or permit) management to bring Financial KPIs presented outside the financial statements into the notes of financial statements
- Similar approach to the requirements for management performance measures (under IFRS 18, Presentation and Disclosure in Financial Statements)
- Key decision would be determining which Financial KPIs would be subject to disclosure (for example, all Financial KPIs that entities present (a) outside the financial statements or (b) in their earnings announcements or other regulatory filings).

## Potential Incremental Disclosures

- Reconciliation to the most comparable GAAP requirement
- Amounts for each component of the Financial KPI
- Identification of financial statement line item(s) where components of Financial KPIs are included
- Comparative periods

# Agenda Consultation

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# Background

In June 2022, the FASB issued the 2021 Agenda Consultation Report, which summarized the robust feedback obtained during our 2021 agenda consultation project and how that feedback has influenced the Board's technical and research agendas and standard-setting process.



Since then, there has been significant progress on the top priorities identified by stakeholders.



In January 2025, the FASB issued Invitation to Comment (ITC), Agenda Consultation, to understand the next priority areas that the Board should address.

**FASB** INVITATION TO COMMENT

Issued: January 3, 2025  
Comments Due: June 30, 2025

Agenda Consultation

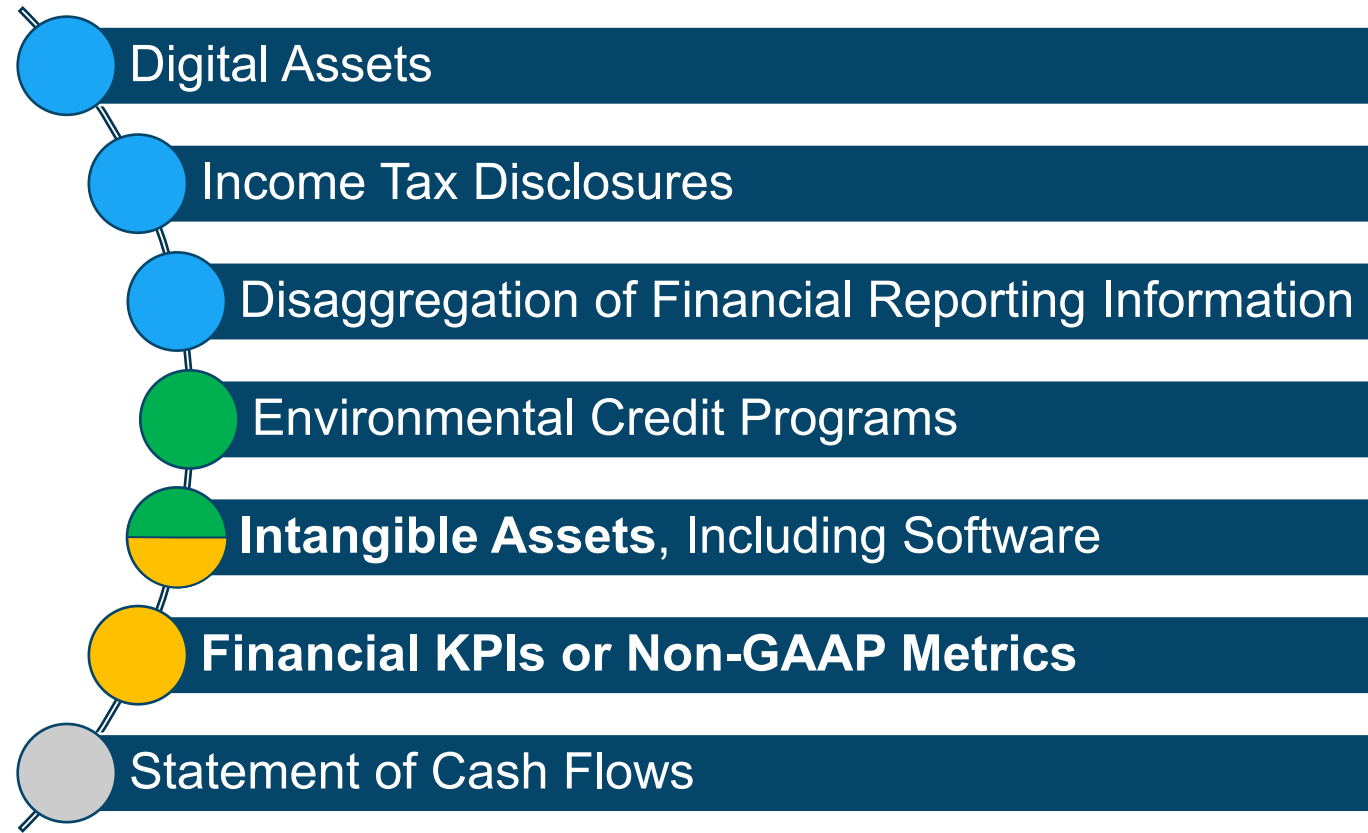
Comments should be addressed to:  
Technical Director  
File Reference No. 2025-ITC100

Financial Accounting Standards Board

# Progress on Investor Priorities

➤ The top priority topics identified by investors during 2021 and 2022 were:

- Final Document Issued
- Proposed Standard Issued
- Invitation to Comment Issued
- On Technical Agenda and Research Agenda



# Themes in the 2024 ITC

- Stakeholders commended the Board on its significant progress on the priorities identified in the 2021 Agenda Consultation and expressed their appreciation that the Board listened to stakeholders and took timely action on the identified priorities.
- Because of this significant progress, most stakeholders, including many investors, said that there is not a case to make major changes to GAAP at this time.
  - This feedback also was received from investors that requested the Board make significant improvements to GAAP as part of the 2021 Agenda Consultation process.
- Many of the topics that were suggested for standard-setting efforts focus on targeted improvements to GAAP with the objective to either:
  - Reduce unnecessary complexity
  - Enhance the decision usefulness of information provided to investors.



# Agenda Consultation ITC Overview

Stakeholders identified topics for potential future standard setting in the following areas:

Combination of entities (Chapter 1)

Financial instruments (Chapter 2)

Intangibles (Chapter 3)

Other assets and liabilities (Chapter 4)

Retirement and other employee benefits (Chapter 5)

Income and expenses (Chapter 6)

Presentation and disclosure of financial reporting information (Chapter 7)

Current research agenda projects (Chapter 8)

# Questions?