

440 - Commitments

440-10 - Overall

440-10-00 - Status

General Note: The Status Section identifies changes to this Subtopic resulting from Accounting Standards Updates. The Section provides references to the affected Codification content and links to the related Accounting Standards Updates. Nonsubstantive changes for items such as editorial, link and similar corrections are included separately in Maintenance Updates.

General

440-10-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Contract	Added	Accounting Standards Update No. 2016-02	02/25/2016
Lease	Added	Accounting Standards Update No. 2016-02	02/25/2016
Lease Payments	Added	Accounting Standards Update No. 2016-02	02/25/2016
Lessee	Added	Accounting Standards Update No. 2016-02	02/25/2016
Lessor	Added	Accounting Standards Update No. 2016-02	02/25/2016
Underlying Asset	Added	Accounting Standards Update No. 2016-02	02/25/2016
440-10-15-4	Amended	Accounting Standards Update No. 2014-09	05/28/2014
440-10-25-1	Amended	Accounting Standards Update No. 2016-02	02/25/2016
440-10-25-2	Amended	Accounting Standards Update No. 2016-02	02/25/2016
440-10-50-1	Amended	Accounting Standards Update No. 2023-06	10/09/2023
440-10-50-1	Amended	Accounting Standards Update No. 2016-02	02/25/2016
440-10-50-3	Amended	Accounting Standards Update No. 2016-02	02/25/2016
440-10-55-1	Amended	Maintenance Update 2014-20	09/29/2014
440-10-60-4	Superseded	Accounting Standards Update No. 2018-07	06/20/2018
440-10-60-5	Superseded	Accounting Standards Update No. 2014-09	05/28/2014
440-10-60-12	Amended	Accounting Standards Update No. 2016-02	02/25/2016
440-10-60-13	Amended	Accounting Standards Update No. 2016-02	02/25/2016
440-10-60-16	Amended	Accounting Standards Update No. 2014-09	05/28/2014
440-10-60-19	Superseded	Accounting Standards Update No. 2014-09	05/28/2014
440-10-60-20	Superseded	Accounting Standards Update No. 2014-09	05/28/2014

440-10-05 - Overview and Background

General Note: The Overview and Background Section provides overview and background material for the guidance contained in the Subtopic. It does not provide the historical background or due process. It may contain

certain material that users generally consider useful to understand the typical situations addressed by the standards. The Section does not summarize the accounting and reporting requirements.

General

440-10-05-1 The Commitments Topic establishes standards of financial accounting and reporting for certain commitments. This Topic contains only the Overall Subtopic. The guidance in this Subtopic is presented in the following two Subsections:

- a. General
- b. Unconditional Purchase Obligations.

440-10-05-2 The General Subsections provide guidance for unused letters of credit; preferred stock dividends in arrears; commitments such as those for plant acquisition; and obligations to reduce debts, maintain working capital, or restrict dividends.

440-10-05-3 This Topic provides general guidance for commitments, while other Topics include guidance for commitments that relate specifically to those Topics. In addition, commitments that are unique to a particular industry are discussed in the Topic for that industry, generally under the Commitments Subtopic.

Unconditional Purchase Obligations

440-10-05-4 The Unconditional Purchase Obligations Subsections provide guidance for unconditional purchase obligations, including take-or-pay and throughput contracts.

440-10-15 - Scope and Scope Exceptions

General Note: The Scope and Scope Exceptions Section outlines the items (for example, the entities, transactions, instruments, or events) to which the guidance in the Subtopic does or does not apply. In some cases, the Section may contain definitional or other text to frame the scope.

General Note for Financial Instruments: Some of the items subject to the guidance in this Subtopic are financial instruments. For guidance on matters related broadly to all financial instruments, (including the fair value option, accounting for registration payment arrangements, and broad financial instrument disclosure requirements), see Topic [825](#). See Section [825-10-15](#) for guidance on the scope of the Financial Instruments Topic.

General

Overall Guidance

440-10-15-1 The General Subsection of the Scope Section of the Overall Subtopic establishes the pervasive scope for the Commitments Topic, with specific exceptions noted in the other Subsections of this Section.

Entities

440-10-15-2 The guidance in the Commitments Topic applies to all entities.

Unconditional Purchase Obligations

Overall Guidance

440-10-15-3 The Unconditional Purchase Obligations Subsections apply to all entities and all unconditional purchase obligations.

Transactions

440-10-15-4 The guidance in the Unconditional Purchase Obligations Subsections does not apply to either of the following:

- a. Product financing arrangements, that are within the scope of Section [470-40-15](#). See

paragraph [470-40-05-5](#) for a discussion of the distinction between a product financing arrangement and an unconditional purchase obligation.

- b. Repurchase agreements that are within the scope of Topic [606](#), specifically in paragraphs [606-10-55-66 through 55-78](#).

440-10-20 - Glossary

General Note: The Master Glossary contains all terms identified as glossary terms throughout the Codification. Clicking on any term in the Master Glossary will display where the term is used. The Master Glossary may contain identical terms with different definitions, some of which may not be appropriate for a particular Subtopic. For any particular Subtopic, users should only use the glossary terms included in the particular Subtopic Glossary Section (Section 20).

Contract

An agreement between two or more parties that creates enforceable rights and obligations.

Lease

A contract, or part of a contract, that conveys the right to control the use of identified property, plant, or equipment (an identified asset) for a period of time in exchange for consideration.

Lease Payments

See paragraph [842-10-30-5](#) for what constitutes lease payments from the perspective of a lessor.

Lessee

An entity that enters into a contract to obtain the right to use an underlying asset for a period of time in exchange for consideration.

Lessor

An entity that enters into a underlying asset for a period of time in exchange for consideration.

Purchaser's Incremental Borrowing Rate

The rate that, at the inception of an unconditional purchase obligation, the purchaser would have incurred to borrow over a similar term the funds necessary to discharge the obligation.

Take-or-Pay Contract

An agreement between a purchaser and a seller that provides for the purchaser to pay specified amounts periodically in return for products or services. The purchaser must make specified minimum payments even if it does not take delivery of the contracted products or services.

Throughput Contract

An agreement between a shipper (processor) and the owner of a transportation facility (such as an oil or natural gas pipeline or a ship) or a manufacturing facility that provides for the shipper (processor) to pay specified amounts periodically in return for the transportation (processing) of a product. The shipper (processor) is obligated to provide specified minimum quantities to be transported (processed) in each period and is required to make cash payments even if it does not provide the contracted quantities.

Unconditional Purchase Obligation

An obligation to transfer funds in the future for fixed or minimum amounts or quantities of goods or services at fixed or minimum prices (for example, as in take-or-pay contracts or throughput contracts).

Underlying Asset

An asset that is the subject of a lease for which a right to use that asset has been conveyed to a lessee.

The underlying asset could be a physically distinct portion of a single asset.

440-10-25 - Recognition

General Note: The Recognition Section provides guidance on the required criteria, timing, and location (within the financial statements) for recording a particular item in the financial statements. Disclosure is not recognition.

General Note for Fair Value Option: Some of the items subject to the guidance in this Subtopic may qualify for application of the Fair Value Option Subsections of Subtopic [825-10](#). Those Subsections (see paragraph [825-10-05-5](#)) address circumstances in which entities may choose, at specified election dates, to measure eligible items at fair value (the fair value option). See Section [825-10-15](#) for guidance on the scope of the Fair Value Option Subsections of the Financial Instruments Topic.

Unconditional Purchase Obligations

- 440-10-25-1 Depending on its terms, an unconditional purchase obligation can be subject to the guidance in Topic [842](#), to the guidance in Topic [815](#), or to neither.
- 440-10-25-2 The guidance in Section [842-10-15](#) shall be applied first to determine whether an unconditional purchase obligation is within the scope of Topic [842](#).
- 440-10-25-3 The guidance in Section [815-10-15](#) and paragraph [815-10-55-60](#) shall be applied to determine whether any portion of the arrangement that is not a lease is subject to Topic [815](#), and the guidance in Section [815-15-15](#) shall be applied to determine whether any lease portion of the arrangement contains an embedded derivative that is subject to the guidance in Subtopic [815-15](#).
- 440-10-25-4 Pursuant to paragraphs [330-10-35-17 through 35-18](#), accrued net losses on firm purchase commitments for goods for inventory shall be recognized in the accounts.

440-10-50 - Disclosure

General Note: The Disclosure Section provides guidance regarding the disclosure in the notes to financial statements. In some cases, disclosure may relate to disclosure on the face of the financial statements.

General

- 440-10-50-1 Notwithstanding more explicit disclosures required elsewhere in this Codification, all of the following situations shall be disclosed in financial statements:
- Unused letters of credit
 - Leases (see Section [842-20-50](#))
 - Assets pledged as security for loans
 - Pension plans (see Section [715-20-50](#))
 - The existence of cumulative preferred stock dividends in arrears
 - Commitments, including:
 - A commitment for plant acquisition
 - An obligation to reduce debts
 - An obligation to maintain working capital
 - An obligation to restrict dividends.



Transition Date: P June 30, 2027; N June 30, 2027 - **Transition Guidance :** [105-10-65-7](#)

Notwithstanding more explicit disclosures required elsewhere in this Codification, all of the following situations shall be disclosed in financial statements:

- a. Unused letters of credit
- b. Leases (see Section [842-20-50](#))
- c. Assets mortgaged, pledged, or otherwise subject to lien; the approximate amounts of those assets; and the related obligations collateralized
- d. Pension plans (see Section [715-20-50](#))
- e. The existence of cumulative preferred stock dividends in arrears
- f. Commitments, including:
 1. A commitment for plant acquisition
 2. An obligation to reduce debts
 3. An obligation to maintain working capital
 4. An obligation to restrict dividends.

Unconditional Purchase Obligations

440-10-50-2 An unconditional purchase obligation that has all of the following characteristics shall be disclosed in accordance with paragraph [440-10-50-4](#) (if not recorded on the purchaser's balance sheet) or in accordance with paragraph [440-10-50-6](#) (if recorded on the purchaser's balance sheet):

- a. It is noncancelable, or cancelable only in any of the following circumstances:
 1. Upon the occurrence of some remote contingency
 2. With the permission of the other party
 3. If a replacement agreement is signed between the same parties
 4. Upon payment of a penalty in an amount such that continuation of the agreement appears reasonably assured.
- b. It was negotiated as part of arranging financing for the facilities that will provide the contracted goods or services or for costs related to those goods or services (for example, carrying costs for contracted goods). A purchaser is not required to investigate whether a supplier used an unconditional purchase obligation to help secure financing, if the purchaser would otherwise be unaware of that fact.
- c. It has a remaining term in excess of one year

440-10-50-3 Future lease payments under leases that meet the conditions in paragraph [440-10-50-2](#) need not be disclosed in accordance with paragraph [440-10-50-4](#) or paragraph [440-10-50-6](#) if those future lease payments are disclosed in accordance with Section [842-20-50](#).

Unrecognized Commitments

440-10-50-4 A purchaser shall disclose unconditional purchase obligations that meet the criteria of

paragraph [440-10-50-2](#) and that have not been recognized on its balance sheet. Disclosures of similar or related unconditional purchase obligations may be combined. The disclosures shall include all of the following:

- a. The nature and term of the obligation(s)
- b. The amount of the fixed and determinable portion of the obligation(s) as of the date of the latest balance sheet presented, in the aggregate and, if determinable, for each of the five succeeding fiscal years
- c. The nature of any variable components of the obligation(s)
- d. The amounts purchased under the obligation(s) (for example, the take-or-pay or throughput contract) for each period for which an income statement is presented.

The preceding disclosures may be omitted only if the aggregate commitment for all such obligations not disclosed is immaterial.

440-10-50-5 Disclosure of the amount of imputed interest necessary to reduce the unconditional purchase obligation(s) to present value is encouraged but not required. The discount rate shall be the effective initial interest rate of the borrowings that financed the facility (or facilities) that will provide the contracted goods or services, if known by the purchaser. If not, the discount rate shall be the purchaser's incremental borrowing rate at the date the obligation is entered into.

Recognized Commitments

440-10-50-6 A purchaser shall disclose for each of the five years following the date of the latest balance sheet presented the aggregate amount of payments for unconditional purchase obligations that meet the criteria of paragraph [440-10-50-2](#) and that have been recognized on the purchaser's balance sheet.

440-10-50-7 Paragraph [815-10-50-6](#) explains that, if an unconditional purchase obligation is subject to the requirements of both this Subtopic and Subtopic [815-10](#), the entity shall comply with the disclosure requirements of each Subtopic including paragraph [440-10-50-4](#).

440-10-55 - Implementation Guidance and Illustrations

General Note: The Implementation Guidance and Illustrations Section contains implementation guidance and illustrations that are an integral part of the Subtopic. The implementation guidance and illustrations do not address all possible variations. Users must consider carefully the actual facts and circumstances in relation to the requirements of the Subtopic.

Unconditional Purchase Obligations

Illustrations

440-10-55-1 This Section, which is an integral part of the requirements of this Subtopic, provides general guidance to be used in the disclosure of unconditional purchase obligations.

Example 1: Throughput Agreement with Advance Payments for Future Throughput

440-10-55-2 This Example illustrates the guidance in paragraphs [440-10-50-4](#) through [50-5](#).

440-10-55-3 Entity A has entered into a throughput contract with a manufacturing plant providing that Entity A will submit specified quantities of a chemical (representing a portion of plant capacity) for processing through the plant each period while the debt used to finance the plant remains outstanding. Entity A's processing charges are intended to be sufficient to cover a proportional share of fixed and variable operating expenses and debt service of the plant. If, however, the processing charges do not cover such operating expenses and debt service, Entity A must advance additional funds to cover a specified percentage of operating expenses and debt service. Such additional funds are considered advance payments for future throughput.

440-10-55-4 Entity A's unconditional obligation to pay a specified percentage of the plant's fixed operating expenses and debt service is fixed and determinable, while the amount of variable operating expenses that Entity A is obligated to pay will vary depending on plant operations and economic conditions.

440-10-55-5 Entity A's disclosure might be as follows.

To secure access to facilities to process chemical X, the entity has signed a processing agreement with a chemical supplier allowing the entity to submit 100,000 tons for processing annually for 20 years. Under the terms of the agreement, the entity may be required to advance funds against future processing charges if the chemical supplier is unable to meet its financial obligations. The aggregate amount of required payments at December 31, 19X1, is as follows (in thousands).

19X2	\$ 10,000
19X3	10,000
19X4	9,000
19X5	8,000
19X6	8,000
Later years	<u>100,000</u>
Total	145,000
Less: Amount representing interest	<u>(45,000)</u>
Total at present value	<u>\$100,000</u>

In addition, the entity is required to pay a proportional share of the variable operating expenses of the plant. The entity's total processing charges under the agreement in each of the past 3 years have been \$12 million.

440-10-60 - Relationships

General Note: The Relationships Section contains links to guidance that may be helpful to, but not required by, a user of the Subtopic. This Section may not be all-inclusive. The relationship items are organized according to the Topic structure in the Codification.

General

Receivables

440-10-60-1 For fees received for a commitment to originate or purchase a loan or group of loans, see Subtopic [310-20](#).

Inventory

440-10-60-2 For guidance on accrual of net losses on firm purchase commitments for goods for inventory, see paragraph [330-10-35-17](#).

Asset Retirement and Environmental Obligations

440-10-60-3 For postremediation monitoring commitments, see Subtopic [410-30](#).

440-10-60-4 [Paragraph superseded by Accounting Standards Update No. 2018-07](#).

440-10-60-5 [Paragraph superseded by Accounting Standards Update No. 2014-09](#).

Compensation-Retirement Benefits

440-10-60-6 For commitments related to pension plans, see Topic [715](#).

Other Expenses

440-10-60-7 For commitments to contribute, see Subtopic [720-25](#).

Research and Development

- 440-10-60-8 For royalty arrangements, purchase provisions, license agreements, and commitments to provide additional funding and other commitments under research and development arrangements, see Subtopic [730-20](#).

Derivatives and Hedging

- 440-10-60-9 For designating a derivative instrument as a hedge of the exposure to changes in the fair value of an unrecognized firm commitment, see Subtopic [815-25](#).
- 440-10-60-10 For loan commitments that relate to the origination of mortgage loans that will be held for sale, see paragraph [815-10-15-71](#).

Foreign Currency Matters

- 440-10-60-11 For foreign currency commitments, see paragraph [830-20-35-3](#).

Leases

- 440-10-60-12 For commitments under leases, see Topic [842](#)
- 440-10-60-13 For nuclear fuel leases structured as take-or-pay contracts, see paragraph [842-10-55-1](#).

Transfers and Servicing

- 440-10-60-14 For assets pledged as collateral for secured borrowings, see Subtopic [860-30](#).

Financial Services-Mortgage Banking

- 440-10-60-15 For fair value of committed and uncommitted mortgage loans and mortgage-backed securities, see Section [948-310-35](#).
- 440-10-60-16 For recognition of loan and commitment fees, see paragraph [948-310-35-7](#).
- 440-10-60-17 For commitment fees relating to loans held for sale (residential or commercial loan commitment fees), see paragraph [948-720-25-1](#).

Health Care Entities

- 440-10-60-18 For prepaid health care services contracts, see paragraph [954-450-25-4](#).
- 440-10-60-19 [Paragraph superseded by Accounting Standards Update No. 2014-09](#).
- 440-10-60-20 [Paragraph superseded by Accounting Standards Update No. 2014-09](#).