420 - Exit or Disposal Cost Obligations

420-10 - Overall

420-10-00 - 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

420-10-00-**1** The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Acquirer	Amended	Accounting Standards Update No. 2025-03	05/12/2025
Acquisition by a Not-for-Profit Entity	Added	Accounting Standards Update No. 2010-07	01/28/2010
Business	Amended	Accounting Standards Update No. 2017-01	01/05/2017
Cease-Use Date	Amended	Maintenance Update 2020-18	11/25/2020
Contract	Added	Accounting Standards Update No. 2016-02	02/25/2016
Lease	Added	Accounting Standards Update No. 2016-02	02/25/2016
Variable Interest Entity	Superseded	Accounting Standards Update No. 2025-03	05/12/2025
420-10-05-2	Amended	Accounting Standards Update No. 2016-02	02/25/2016
420-10-15-3	Amended	Maintenance Update 2021-09	08/20/2021
420-10-15-3	Amended	Accounting Standards Update No. 2016-02	02/25/2016
420-10-15-3	Amended	Accounting Standards Update No. 2010-07	01/28/2010
420-10-25-2	Amended	Accounting Standards Update No. 2024-02	03/29/2024
420-10-25-11	Amended	Accounting Standards Update No. 2016-02	02/25/2016
420-10-25-13	Amended	Maintenance Update 2018-12	09/10/2018
420-10-30-8	Superseded	Accounting Standards Update No. 2016-02	02/25/2016
420-10-30-9	Amended	Maintenance Update 2018-12	09/10/2018
420-10-45-3	Amended	Accounting Standards Update No. 2015-01	01/09/2015
420-10-50-1	Amended	Accounting Standards Update No. 2024-03	11/04/2024
420-10-55-11 through 55-15	Superseded	Accounting Standards Update No. 2016-02	02/25/2016

420-10-05 - 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

420-10-05-**1** The Exit or Disposal Cost Obligations Topic addresses financial accounting and reporting for costs associated with exit or disposal activities. An exit activity includes but is not limited to a restructuring.

420-10-05-**2** Those costs include, but are not limited to, the following:

a. Involuntary employee termination benefits pursuant to a one-time benefit arrangement that, in substance, is not an ongoing benefit arrangement or an individual deferred compensation contract

b. Costs to terminate a contract that is not a lease

c. Other associated costs, including costs to consolidate or close facilities and relocate employees.

420-10-05-**3** This Topic addresses when to recognize a liability for a cost associated with an exit or disposal activity. An entity's commitment to an exit or disposal plan, by itself, does not create a present obligation to others that meets the definition of a liability.

420-10-05-**4** Certain postemployment benefit costs that may be associated with exit or disposal activities are covered by other Topics. The accounting for employee termination benefits will differ depending on whether the benefits are provided under a one-time benefit arrangement covered by this Topic or an ongoing benefit arrangement referred to in the following list. As indicated in paragraph 420-10-15-6, this Topic does not change the accounting for termination benefits covered by the following Topics and Subtopics:

a. Postemployment benefits provided through a pension or postretirement benefit plan (Subtopics 715-30 and 715-60 specify the accounting for those costs.)

b. Other nonretirement postemployment benefits covered by Topic 712

c. Special or contractual termination benefits covered by paragraphs 715-30-25-10 and 715-60-25-4 through 25-6

d. Individual deferred compensation arrangements that are addressed by paragraph 710-10-15-4(c)

e. Stock compensation plans addressed by Topic 718.

420-10-**10 - Objectives**

General Note: The Objectives Section provides the high-level objectives that the Subtopic is intended to accomplish or attain. The Section does not summarize or discuss the main principles of accounting and reporting requirements.

General

420-10-10-**1** The objective of the Exit or Disposal Cost Obligations Topic is to improve financial reporting by requiring that a liability for a cost associated with an exit or disposal activity be recognized and measured initially at fair value only when the liability is incurred.

420-10-**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

420-10-15-**1** The Scope Section of the Overall Subtopic establishes the pervasive scope for the Exit or Disposal Cost Obligations Topic.

Entities

420-10-15-**2** The guidance in the Exit or Disposal Cost Obligations Topic applies to all entities.

Transactions

420-10-15-**3** The guidance in the Exit or Disposal Cost Obligations Topic applies to the following transactions and activities:

a. Termination benefits provided to current employees that are involuntarily terminated under the terms of a benefit arrangement that, in substance, is not an ongoing benefit arrangement or an individual deferred compensation contract (referred to as one-time employee termination benefits)

b. Costs to terminate a contract that is not a lease (see paragraphs 420-10-25-11 through 25-13 for further description of contract termination costs and paragraph 842-20-40-1 for terminations of a lease)

c. Costs to consolidate facilities or relocate employees

d. Costs associated with a disposal activity covered by Subtopic 205-20

e. Costs associated with an exit activity, including exit activities associated with an entity newly acquired in a business combination or an acquisition by a not-for-profit entity.

420-10-15-**4** An exit activity includes but is not limited to a restructuring, such as the sale or termination of a line of business, the closure of business activities in a particular location, the relocation of business activities from one location to another, changes in management structure, and a fundamental reorganization that affects the nature and focus of operations.

420-10-15-**5** The guidance in this Topic does not apply to the following transactions and activities:

a. Costs associated with the retirement of a long-lived asset covered by Subtopic 410-20.

b. Impairment of an unrecognized asset while it is being used.

Other Considerations

420-10-15-**6** Certain postemployment benefits are covered by other Topics or Subtopics. This Topic does not change the accounting for termination benefits, including one-time termination benefits granted in the form of an enhancement to an ongoing benefit arrangement, covered by the following:

a. Subtopic 715-30

b. Subtopic 715-60

c. Topic 712, which includes guidance on accounting for special or contractual termination benefits, payable before retirement and not payable from a pension or other postretirement plan, as indicated in paragraph 712-10-15-3

d. Topic 710, which includes guidance on accounting for individual deferred compensation arrangements

e. Topic 718, which addresses stock compensation plans.

420-10-15-**7** See paragraph 420-10-55-1 and Example 5 (paragraph 420-10-55-16) for guidance on determining whether an exit plan is a one-time termination benefit arrangement or an enhancement to an ongoing benefit arrangement as used in the preceding paragraph.

420-10-15-**8** If a plan of termination that meets the criteria in paragraph 420-10-25-4 includes both involuntary termination benefits and voluntary termination benefits, then this Topic will apply to the involuntary termination benefits and paragraphs 712-10-25-1 through 25-3 will apply to the incremental voluntary termination benefits (the excess of the voluntary termination benefit amount over the involuntary termination benefit amount).

420-10-**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).

Acquiree

The business or businesses that the acquirer obtains control of in a business combination. This term also includes a nonprofit activity or business that a not-for-profit acquirer obtains control of in an acquisition by a not-for-profit entity.

Acquirer

The entity that obtains control of the acquiree. However, in a business combination in which a variable interest entity (VIE) is acquired, the primary beneficiary of that entity always is the acquirer.

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Transition Date: P December 16, 2026; N December 16, 2026 **- Transition Guidance :** 805-10-65-5

The entity that obtains control of the acquiree. See paragraphs 805-10-25-4 through 25-5 for guidance on determining the acquirer.

Acquisition by a Not-for-Profit Entity

A transaction or other event in which a not-for-profit acquirer obtains control of one or more nonprofit activities or businesses and initially recognizes their assets and liabilities in the acquirer's financial statements. When applicable guidance in Topic 805 is applied by a not-for-profit entity, the term business combination has the same meaning as this term has for a for-profit entity. Likewise, a reference to business combinations in guidance that links to Topic 805 has the same meaning as a reference to acquisitions by not-for-profit entities.

Business

Paragraphs 805-10-55-3A through 55-6 and 805-10-55-8 through 55-9 define what is considered a business.

Business Combination

A transaction or other event in which an acquirer obtains control of one or more businesses. Transactions sometimes referred to as true mergers or mergers of equals also are business combinations. See also Acquisition by a Not-for-Profit Entity.

Cease-Use Date

The date the entity ceases using the right conveyed by the contract, for example, to receive future goods or services.

Communication Date

The date the plan of termination for one-time employee termination benefits meets all of the criteria in paragraph 420-10-25-4 and has been communicated to employees.

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.

Legal Entity

Any legal structure used to conduct activities or to hold assets. Some examples of such structures are corporations, partnerships, limited liability companies, grantor trusts, and other trusts.

Legal Notification Period

The notification period that an entity is required to provide to employees in advance of a specified termination event as a result of an existing law, statute, or contract.

Not-for-Profit Entity

An entity that possesses the following characteristics, in varying degrees, that distinguish it from a business entity:

a. Contributions of significant amounts of resources from resource providers who do not expect commensurate or proportionate pecuniary return

b. Operating purposes other than to provide goods or services at a profit

c. Absence of ownership interests like those of business entities.

Entities that clearly fall outside this definition include the following:

a. All investor-owned entities

b. Entities that provide dividends, lower costs, or other economic benefits directly and proportionately to their owners, members, or participants, such as mutual insurance entities, credit unions, farm and rural electric cooperatives, and employee benefit plans.

One-Time Employee Termination Benefits

Benefits provided to current employees that are involuntarily terminated under the terms of a one-time benefit arrangement.

Restructuring

A program that is planned and controlled by management, and materially changes either the scope of a business undertaken by an entity, or the manner in which that business is conducted, as defined by the International Accounting Standard No. 37 in 2002.

Variable Interest Entity

A legal entity subject to consolidation according to the provisions of the Variable Interest Entities

Subsections of Subtopic 810-10.

420-10-**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.

General

Determining When to Recognize a Liability

420-10-25-**1** A liability for a cost associated with an exit or disposal activity shall be recognized in the period in which the liability is incurred, except as indicated in paragraphs 420-10-25-6 and 420-10-25-9 (for a liability for one-time employee termination benefits that is incurred over time). In the unusual circumstance in which fair value cannot be reasonably estimated, the liability shall be recognized initially in the period in which fair value can be reasonably estimated (see paragraphs 420-10-30-1 through 30-3 for fair value measurement guidance).

420-10-25-**2** A liability for a cost associated with an exit or disposal activity is incurred when the definition of a liability included in FASB Concepts Statement No. 6, Elements of Financial Statements, is met. Only present obligations to others are liabilities under the definition. An obligation becomes a present obligation when a transaction or event occurs that leaves an entity little or no discretion to avoid the future transfer or use of assets to settle the liability. An exit or disposal plan, by itself, does not create a present obligation to others for costs expected to be incurred under the plan; thus, an entity's commitment to an exit or disposal plan, by itself, is not the requisite past transaction or event for recognition of a liability.

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Transition Date: P December 16, 2024; N December 16, 2025 **- Transition Guidance :** 105-10-65-9

A liability for a cost associated with an exit or disposal activity is incurred when a transaction or event occurs that creates a present obligation of an entity to transfer an economic benefit. An exit or disposal plan, by itself, does not create a present obligation to others for costs expected to be incurred under the plan; thus, an entity's commitment to an exit or disposal plan, by itself, is not the requisite past transaction or event for recognition of a liability.

420-10-25-**3** This Subtopic requires that future operating losses expected to be incurred in connection with an exit or disposal activity be recognized in the period(s) in which they are incurred. Because future operating losses are the summation of individual items of revenue and expense that result from changes in assets and liabilities, those expected losses, in and of themselves, do not meet the definition of a liability.

One-Time Employee Termination Benefits

420-10-25-**4** An arrangement for one-time employee termination benefits exists at the date the plan of termination meets all of the following criteria and has been communicated to employees (referred to as the communication date):

a. Management, having the authority to approve the action, commits to a plan of termination.

b. The plan identifies the number of employees to be terminated, their job classifications or functions and their locations, and the expected completion date.

c. The plan establishes the terms of the benefit arrangement, including the benefits that employees will receive upon termination (including but not limited to cash payments), in sufficient detail to enable employees to determine the type and amount of benefits they will receive if they are involuntarily terminated.

d. Actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

420-10-25-**5** An entity's communication of a promise to provide one-time employee termination benefits is a promise that creates an obligation at the communication date to provide the termination benefits if employees are terminated.

420-10-25-**6** The timing of recognition for one-time employee termination benefits depends on whether employees are required to render service until they are terminated in order to receive the termination benefits and, if so, whether employees will be retained to render service beyond a minimum retention period.

420-10-25-**7** The minimum retention period shall not exceed the legal notification period, or in the absence of a legal notification requirement, 60 days. For example, in the United States, the Worker Adjustment and Retraining Notification Act, as of 2002 required entities with 100 or more employees to notify employees 60 days in advance of covered plant closings and mass layoffs, unless otherwise specified. Collective bargaining or other labor contracts may require different notification periods.

420-10-25-**8** If employees are not required to render service until they are terminated in order to receive the termination benefits (that is, if employees are entitled to receive the termination benefits regardless of when they leave) or if employees will not be retained to render service beyond the minimum retention period, a liability for the termination benefits shall be recognized at the communication date. For an illustration of this situation, see Example 1 (paragraph 420-10-55-2).

420-10-25-**9** As indicated in paragraph 420-10-30-6, if employees are required to render service until they are terminated in order to receive the termination benefits and will be retained to render service beyond the minimum retention period, a liability for the termination benefits shall be measured initially at the communication date based on the fair value of the liability as of the termination date, and shall be recognized ratably over the future service period. For an illustration of this situation, see Example 2 (paragraph 420-10-55-4).

420-10-25-**10** If a plan of termination that meets the criteria in paragraph 420-10-25-4 includes both involuntary termination benefits and termination benefits offered for a short period of time in exchange for employees' voluntary termination of service, a liability for the involuntary termination benefits shall be recognized in accordance with this Subtopic. A liability for the incremental voluntary termination benefits (the excess of the voluntary termination benefit amount over the involuntary termination benefit amount) shall be recognized in accordance with paragraphs 712-10-25-1 through 25-3. For an illustration of this situation, see Example 3 (paragraph 420-10-55-9).

Contract Termination Costs

420-10-25-**11** For purposes of this Subtopic, costs to terminate a contract (excluding leases within the scope of Topic 842) are either of the following:

a. Costs to terminate the contract before the end of its term

b. Costs that will continue to be incurred under the contract for its remaining term without economic benefit to the entity.

420-10-25-**12** A liability for costs to terminate a contract before the end of its term shall be recognized when the entity terminates the contract in accordance with the contract terms (for example, when the entity gives written notice to the counterparty within the notification period specified by the contract or has otherwise negotiated a termination with the counterparty).

420-10-25-**13** A liability for costs that will continue to be incurred under a contract for its remaining term without economic benefit to the entity shall be recognized at the cease-use date.

Other Associated Costs

420-10-25-**14** Other costs associated with an exit or disposal activity include, but are not limited to, costs to consolidate or close facilities and relocate employees.

420-10-25-**15** The liability shall not be recognized before it is incurred, even if the costs are incremental to other operating costs and will be incurred as a direct result of a plan. A liability for other costs associated with an exit or disposal activity shall be recognized in the period in which the liability is incurred (generally, when goods or services associated with the activity are received).

420-10-**30 - Initial Measurement**

> **General Note:** The Initial Measurement Section provides guidance on the criteria and amounts used to measure a particular item at the date of initial recognition.

General

Fair Value

420-10-30-**1** A liability for a cost associated with an exit or disposal activity shall be measured initially at its fair value in the period in which the liability is incurred, except as indicated in paragraphs 420-10-30-4 and 420-10-30-6 (for a liability for one-time termination benefits that is incurred over time).

420-10-30-**2** Quoted market prices are the best representation of fair value. However, for many of the liabilities covered by this Subtopic, quoted market prices will not be available. Consequently, in those circumstances, fair value will be estimated using some other valuation technique. A present value technique is often the best available valuation technique with which to estimate the fair value of a liability for a cost associated with an exit or disposal activity. For a liability that has uncertainties both in timing and amount, an expected present value technique generally will be the appropriate technique.

420-10-30-**3** In some situations, a fair value measurement for a liability associated with an exit or disposal activity obtained using a valuation technique other than a present value technique may not be materially different from a fair value measurement obtained using a present value technique. In those situations, this Subtopic does not preclude the use of estimates and computational shortcuts that are consistent with a fair value measurement objective.

One-Time Employee Termination Benefits

420-10-30-**4** The timing of measurement of a liability for one-time employee termination benefits depends on whether employees are required to render service until they are terminated in order to receive the termination benefits and, if so, whether employees will be retained to render service beyond a minimum retention period.

420-10-30-**5** If employees are not required to render service until they are terminated in order to receive the termination benefits (that is, if employees are entitled to receive the termination benefits regardless of when they leave) or if employees will not be retained to render service beyond the minimum retention period, a liability for the termination benefits shall be measured at its fair value at the communication date. Example 1 (paragraph 420-10-55-2) illustrates the application of this paragraph.

420-10-30-**6** If employees are required to render service until they are terminated in order to receive the termination benefits and will be retained to render service beyond the minimum retention period, a liability for the termination benefits shall be measured initially at the communication date based on the fair value of the liability as of the termination date. For an illustration of this situation, see Example 2 (paragraph 420-10-55-4).

Contract Termination Costs

420-10-30-**7** A liability for costs to terminate a contract before the end of its term shall be measured at its fair value when the entity terminates the contract in accordance with the contract terms (for example, when the entity gives written notice to the counterparty within the notification period specified by the contract or has otherwise negotiated a termination with the counterparty).

420-10-30-**8** Paragraph superseded by Accounting Standards Update No. 2016-02

420-10-30-**9** A liability for costs that will continue to be incurred under a contract for its remaining term without economic benefit to the entity shall be measured at its fair value at the cease-use date.

Other Associated Costs

420-10-30-**10** A liability for other costs associated with an exit or disposal activity shall be measured at its fair value in the period in which the liability is incurred (generally, when goods or services associated with the activity are received).

420-10-**35 - Subsequent Measurement**

> **General Note:** The Subsequent Measurement Section provides guidance on an entity's subsequent measurement and subsequent recognition of an item. Situations that may result in subsequent changes to carrying amount include impairment, credit losses, fair value adjustments, depreciation and amortization, and so forth.

General

Changes in Estimates

420-10-35-**1** In periods subsequent to initial measurement, changes to the liability, including a change resulting from a revision to either the timing or the amount of estimated cash flows over the future service period, shall be measured using the credit-adjusted risk-free rate that was used to measure the liability initially.

420-10-35-**2** The cumulative effect of a change resulting from a revision to either the timing or the amount of estimated cash flows shall be recognized as an adjustment to the liability in the period of the change.

420-10-35-**3** If a plan of termination changes and employees that were expected to be terminated within the minimum retention period are retained to render service beyond that period, a liability previously recognized at the communication date shall be adjusted to the amount that would have been recognized if the provisions of paragraph 420-10-25-9 had been applied in all periods subsequent to the communication date.

420-10-35-**4** Changes due to the passage of time shall be recognized as an increase in the carrying amount of the liability and as an expense (for example, accretion expense). Accretion expense shall not be considered interest cost for purposes of applying Subtopic 835-20.

420-10-**40 - Derecognition**

> **General Note:** The Derecognition Section provides guidance on determining whether and when an entity should remove an item from the financial statements. For example, the entity would derecognize an asset because it no longer has rights to the asset or it would derecognize a liability because it no longer has any obligation.

General

Reversal of Liability

420-10-40-**1** If an event or circumstance occurs that discharges or removes an entity's responsibility to settle a liability for a cost associated with an exit or disposal activity recognized in a prior period, the liability shall be reversed. The related costs shall be reversed through the same line item(s) in the income statement (statement of activities) used when those costs were recognized initially.

420-10-**45 - Other Presentation Matters**

> **General Note:** The Other Presentation Matters Section provides guidance on other presentation matters not addressed in the Recognition, Initial Measurement, Subsequent Measurement, and Derecognition Sections. Other presentation matters may include items such as current or long-term balance sheet classification, cash flow presentation, earnings per share matters, and so forth. The FASB Codification also contains Presentation Topics, which provide guidance for general presentation and display items. See those Topics for general guidance.

General

Changes in Estimates

420-10-45-**1** The cumulative effect of a change resulting from a revision to either the timing or the amount of estimated cash flows shall be reported in the same line item(s) in the income statement (statement of activities) used when the related costs were recognized initially in the period of change.

Exit or Disposal Activity Involving a Discontinued Operation

420-10-45-**2** Costs associated with an exit or disposal activity involving a discontinued operation shall be included within the results of discontinued operations in accordance with Section 205-20-45.

Income from Continuing Operations

420-10-45-**3** Costs associated with an exit or disposal activity that does not involve a discontinued operation shall be included in income from continuing operations before income taxes in the income statement of a business entity and in income from continuing operations in the statement of activities of a not-for-profit entity (NFP). Separate presentation of exit and disposal costs in the income statement is not prohibited. If a subtotal such as income from operations is presented, it shall include the amounts of those costs.

420-10-45-**4** Paragraph not used.

420-10-45-**5** Accretion expense shall not be considered interest cost for purposes of classification in the income statement (statement of activities).

420-10-45-**6** See paragraph 420-10-40-1 for the income statement presentation when the liability is reversed.

420-10-**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

420-10-50-**1** All of the following information shall be disclosed in notes to financial statements that include the period in which an exit or disposal activity is initiated and any subsequent period until the activity is completed:

a. A description of the exit or disposal activity, including the facts and circumstances leading to the expected activity and the expected completion date

b. For each major type of cost associated with the activity (for example, one-time employee termination benefits, contract termination costs, and other associated costs), both of the following shall be disclosed:

    1. The total amount expected to be incurred in connection with the activity, the amount incurred in the period, and the cumulative amount incurred to date

2. A reconciliation of the beginning and ending liability balances showing separately the changes during the period attributable to costs incurred and charged to expense, costs paid or otherwise settled, and any adjustments to the liability with an explanation of the reason(s) why.

c. The line item(s) in the income statement or the statement of activities in which the costs in (b) are aggregated

d. For each reportable segment, as defined in Subtopic 280-10, the total amount of costs expected to be incurred in connection with the activity, the amount incurred in the period, and the cumulative amount incurred to date, net of any adjustments to the liability with an explanation of the reason(s) why

e. If a liability for a cost associated with the activity is not recognized because fair value cannot be reasonably estimated, that fact and the reasons why.

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Transition Date: P December 16, 2026; N December 16, 2026 **- Transition Guidance :** 220-40-65-1

All of the following information shall be disclosed in notes to financial statements that include the period in which an exit or disposal activity is initiated and any subsequent period until the activity is completed:

a. A description of the exit or disposal activity, including the facts and circumstances leading to the expected activity and the expected completion date

b. For each major type of cost associated with the activity (for example, one-time employee termination benefits, contract termination costs, and other associated costs), both of the following shall be disclosed:

   1. The total amount expected to be incurred in connection with the activity, the amount incurred in the period, and the cumulative amount incurred to date

   2. A reconciliation of the beginning and ending liability balances showing separately the changes during the period attributable to costs incurred and charged to expense, costs paid or otherwise settled, and any adjustments to the liability with an explanation of the reason(s) why.

c. The line item(s) in the income statement or the statement of activities in which the costs in (b) are aggregated

d. For each reportable segment, as defined in Subtopic 280-10, the total amount of costs expected to be incurred in connection with the activity, the amount incurred in the period, and the cumulative amount incurred to date, net of any adjustments to the liability with an explanation of the reason(s) why

e. If a liability for a cost associated with the activity is not recognized because fair value cannot be reasonably estimated, that fact and the reasons why.

See paragraphs 220-40-50-21 through 50-25 for additional disclosure requirements.

420-10-**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.

General

Implementation Guidance

Determining Whether a One-Time Termination Benefit Is, in Substance, an Enhancement to an Ongoing Benefit Arrangement

420-10-55-**1** Additional termination benefits may be included within the scope of this Subtopic as follows.In order to be considered an enhancement to an ongoing benefit arrangement and, therefore, subject to the provisions of the Topics referred to in paragraphs 420-10-05-4 and 420-10-15-6, the additional termination benefits must represent a revision to the ongoing arrangement that is not limited to a specified termination event or a specified future period. Absent evidence to the contrary, an ongoing benefit arrangement is presumed to exist if an entity has a past practice of providing similar termination benefits. Otherwise, the additional termination benefits should be considered one-time employee termination benefits and accounted for under the provisions of this Topic. See Example 5 (paragraph 420-10-55-16) for an illustration of such a determination.

Illustrations

Example 1: One-Time Employee Termination Benefits-No Future Service Required

420-10-55-**2** This Example assumes that an entity has a one-time benefit arrangement established by a plan of termination that meets the criteria in paragraph 420-10-25-4 and has been communicated to employees.

420-10-55-**3** An entity plans to cease operations in a particular location and determines that it no longer needs the 100 employees that currently work in that location. The entity notifies the employees that they will be terminated in 90 days. Each employee will receive as a termination benefit a cash payment of $6,000, which will be paid at the date an employee ceases rendering service during the 90-day period. In accordance with paragraph 420-10-25-8, a liability would be recognized at the communication date and, in accordance with paragraph 420-10-30-5, measured at its fair value. In this case, because of the short discount period, $600,000 may not be materially different from the fair value of the liability at the communication date.

Example 2: One-Time Employee Termination Benefits-Stay Bonus-Future Service Required

420-10-55-**4** This Example assumes that an entity has a one-time benefit arrangement established by a plan of termination that meets the criteria in paragraph 420-10-25-4 and has been communicated to employees.

420-10-55-**5** An entity plans to shut down a manufacturing facility in 16 months and, at that time, terminate all of the remaining employees at the facility. To induce employees to stay until the facility is shut down, the entity establishes a one-time stay bonus arrangement. Each employee that stays and renders service for the full 16-month period will receive as a termination benefit a cash payment of $10,000, which will be paid 6 months after the termination date. An employee that leaves voluntarily before the facility is shut down will not be entitled to receive any portion of the termination benefit. In accordance with paragraph 420-10-25-9, a liability for the termination benefits would be measured initially at the communication date and, in accordance with paragraph 420-10-30-6, based on the fair value of the liability as of the termination date and recognized ratably over the future service period. The fair value of the liability as of the termination date would be adjusted cumulatively for changes resulting from revisions to estimated cash flows over the future service period, measured using the credit-adjusted risk-free rate that was used to measure the liability initially (as illustrated in this Example).

420-10-55-**6** The fair value of the liability as of the termination date is $962,240, estimated at the communication date using an expected present value technique. The expected cash flows of $1 million (to be paid 6 months after the termination date), which consider the likelihood that some employees will leave voluntarily before the facility is shut down, are discounted for 6 months at the credit-adjusted risk-free rate of 8 percent. In this case, a risk premium is not considered in the present value measurement. Because the amounts of the cash flows will be fixed and certain as of the termination date, marketplace participants would not demand a risk premium.

420-10-55-**7** Therefore, a liability of $60,140 would be recognized in each month during the future service period (16 months).

420-10-55-**8** After eight months, more employees than originally estimated leave voluntarily. The entity adjusts the fair value of the liability as of the termination date to $769,792 to reflect the revised expected cash flows of $800,000 (to be paid 6 months after the termination date), discounted for 6 months at the credit-adjusted risk-free rate that was used to measure the liability initially (8 percent). Based on that revised estimate, a liability (expense) of $48,112 would have been recognized in each month during the future service period. Thus, the liability recognized to date of $481,120 ($60,140 × 8) would be reduced to $384,896 ($48,112 × 8) to reflect the cumulative effect of that change (of $96,224). A liability of $48,112 would be recognized in each month during the remaining future service period (8 months). Accretion expense would be recognized after the termination date in accordance with the guidance beginning in paragraph 420-10-35-1 and in paragraph 420-10-45-5.

Example 3: One-Time Employee Termination Benefits-Voluntary and Involuntary Benefits Offered

420-10-55-**9** This Example assumes that an entity has a one-time benefit arrangement established by a plan of termination that meets the criteria of paragraph 420-10-25-4 and has been communicated to employees.

420-10-55-**10** An entity initiates changes to streamline operations in a particular location and determines that, as a result, it no longer needs 100 of the employees that currently work in that location. The plan of termination provides for both voluntary and involuntary termination benefits (in the form of cash payments). Specifically, the entity offers each employee (up to 100 employees) that voluntarily terminates within 30 days a voluntary termination benefit of $10,000 to be paid at the separation date. Each employee that is involuntarily terminated thereafter (to reach the target of 100) will receive an involuntary termination benefit of $6,000 to be paid at the termination date. The entity expects all 100 employees to leave (voluntarily or involuntarily) within the minimum retention period. In accordance with paragraphs 420-10-25-6 through 25-8, a liability for the involuntary termination benefit (of $6,000 per employee) would be recognized at the communication date and, in accordance with paragraphs 420-10-30-4 through 30-6, measured at its fair value. In this case, because of the short discount period, $600,000 may not be materially different from the fair value of the liability at the communication date. As noted in paragraph 420-10-25-10, a liability for the incremental voluntary termination benefit (of $4,000 per employee) would be recognized in accordance with paragraph 712-10-25-1 through 25-3 (that is, when employees accept the offer).

420-10-55-**11** Paragraph superseded by Accounting Standards Update No. 2016-02.

420-10-55-**12** Paragraph superseded by Accounting Standards Update No. 2016-02.

420-10-55-**13** Paragraph superseded by Accounting Standards Update No. 2016-02.

420-10-55-**14** Paragraph superseded by Accounting Standards Update No. 2016-02.

420-10-55-**15** Paragraph superseded by Accounting Standards Update No. 2016-02.

Example 5: Determining Whether a One-Time Employee Termination Benefit Is, in Substance, an Enhancement to an Ongoing Benefit Arrangement

420-10-55-**16** This Example is in the context of a typical involuntary termination benefit plan subject to the provisions of Topic 712.

420-10-55-**17** An entity has a written involuntary termination benefit plan that is distributed to all of its employees at date of hire. The plan provides that upon an involuntary termination of employment for other than cause, each terminated employee will receive one week of severance pay for every year of service. In the current year, the entity initiates a reduction in force. In connection with that reduction in force, management decides to amend the ongoing benefit arrangement to provide an additional two weeks of severance pay for every year of service. That additional benefit applies to all employees affected by this reduction in force and all future involuntary terminations.

420-10-55-**18** Based on an evaluation of the circumstances, the additional termination benefit is considered an enhancement to the ongoing termination benefit plan because it represents a revision to the ongoing plan that applies to all future involuntary terminations. That is, the amendment to the ongoing benefit arrangement is not limited to a specified termination event or specified future period. Therefore, the additional termination benefit should be accounted for in accordance with Topic 712, which requires that a liability for certain termination benefits provided under an ongoing benefit arrangement be recognized when the likelihood of future settlement is probable, as that term is used in Topic 450. Thus, termination benefits that, based on the benefit formula, are attributable to past service may be recognized initially at a plan date if at that date it becomes probable that employees will be terminated and receive termination benefits under the benefit arrangement (the benefit arrangement having been communicated to employees previously, for example, at the date of hire).

420-10-55-**19** If this Example were changed to indicate that the additional termination benefits only applied to the employees affected by that reduction in force and similar benefits had not been provided for a past reduction in force, those additional benefits would not be considered an enhancement to the ongoing termination benefit plan and would, therefore, be accounted for under the guidance in this Subtopic. See paragraph 420-10-55-1 for additional information regarding making this determination.

420-10-**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

Compensation-Retirement Benefits

420-10-60-**1** For guidance related to settlement of all or a part of an employer's accumulated postretirement benefit obligation or curtailment of a postretirement benefit plan and to an employer that provides postretirement benefits as part of a special termination benefits offer, see Topic 715.

420-10-60-**2** For guidance when voluntary or involuntary severance of employment arrangements offered outside the United States are in substance a pension plan (for example, if the benefits are paid for virtually all terminations), see paragraph 715-30-25-10 and Topic 715, respectively.

Business Combinations

420-10-60-**3** For guidance when termination benefits are triggered by the consummation of a business combination, see paragraphs 805-20-55-50 through 55-51.

420-10-**S00 - 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

420-10-S00-**1** The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards	Date

		Update	
420-10-S99-1	Amended	Accounting Standards Update No. 2012-03	08/27/2012
420-10-S99-2	Amended	Accounting Standards Update No. 2012-03	08/27/2012

420-10-**S45 - Other Presentation Matters**

> **General Note:** The Other Presentation Matters Section provides guidance on other presentation matters not addressed in the Recognition, Initial Measurement, Subsequent Measurement, and Derecognition Sections. Other presentation matters may include items such as current or long-term balance sheet classification, cash flow presentation, earnings per share matters, and so forth. The FASB Codification also contains Presentation Topics, which provide guidance for general presentation and display items. See those Topics for general guidance.

General

Income Statement Presentation of Restructuring Charges

420-10-S45-**1** See paragraph 420-10-S99-1, SAB Topic 5.P.3, for SEC Staff views on income statement presentation of restructuring charges.

Inventory Markdowns Associated with a Restructuring

420-10-S45-**2** See paragraph 420-10-S99-3, SEC Observer Comment: Classification of Inventory Markdowns and Other Costs Associated with Restructuring, for SEC Staff views on the classification of inventory markdowns associated with restructuring activities.

420-10-**S50 - 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

Disclosures Related to Restructuring Charges

420-10-S50-**1** See paragraph 420-10-S99-2, SAB Topic 5.P.4, for SEC Staff views on disclosures pertaining to restructuring charges.

420-10-**S99 - SEC Materials**

> **General Note:** As more fully described in About the Codification, the Codification includes selected SEC and SEC Staff content for reference by public companies. The Codification does not replace or affect how the SEC or SEC Staff issues or updates SEC content. SEC Staff content does not constitute Commission-approved rules or interpretations of the SEC.

General

SEC Staff Guidance

Staff Accounting Bulletins

SAB Topic 5.P, Restructuring Charges

SAB Topic 5.P.3, Income Statement Presentation of Restructuring Charges

420-10-S99-**1** The following is the text of SAB Topic 5.P.3, Income Statement Presentation of Restructuring Charges.

Facts: Restructuring charges often do not relate to a separate component of the entity, and, as such, they would not qualify for presentation as losses on the disposal of a discontinued operation. Additionally, since the charges are not both unusual and infrequent FN15 they are not presented in the income statement as extraordinary items.

FN15 See FASB ASC paragraph 225-20-45-2.

Question 1: May such restructuring charges be presented in the income statement as a separate caption after income from continuing operations before income taxes (i. e., preceding income taxes and/or discontinued operations)?

Interpretive Response: No. FASB ASC paragraph 220-20-45-1 (Income Statement-Reporting Comprehensive Income Topic) states that items that do not meet the criteria for classification as an extraordinary item should be reported as a component of income from continuing operations. FN16 Neither FASB ASC Subtopic 225-20, Income Statement-Extraordinary and Unusual Items, nor Rule 5-03 of Regulation S-X contemplate a category in between continuing and discontinued operations. Accordingly, the staff believes that restructuring charges should be presented as a component of income from continuing operations, separately disclosed if material. Furthermore, the staff believes that a separately presented restructuring charge should not be preceded by a sub-total representing "income from continuing operations before restructuring charge" (whether or not it is so captioned). Such a presentation would be inconsistent with the intent of FASB ASC Subtopic 225-20.

FN16 FASB ASC paragraph 220-20-45-1 further provides that such items should not be reported on the income statement net of income taxes or in any manner that implies that they are similar to extraordinary items.

Question 2: Some registrants utilize a classified or "two-step" income statement format (i. e., one which presents operating revenues, expenses and income followed by other income and expense items). May a charge which relates to assets or activities for which the associated revenues and expenses have historically been included in operating income be presented as an item of "other expense" in such an income statement?

Interpretive Response: No. The staff believes that the proper classification of a restructuring charge depends on the nature of the charge and the assets and operations to which it relates. Therefore, charges which relate to activities for which the revenues and expenses have historically been included in operating income should generally be classified as an operating expense, separately disclosed if material. Furthermore, when a restructuring charge is classified as an operating expense, the staff believes that it is generally inappropriate to present a preceding subtotal captioned or representing operating income before restructuring charges. Such an amount does not represent a measurement of operating results under GAAP.

Conversely, charges relating to activities previously included under "other income and expenses" should be similarly classified, also separately disclosed if material.

SAB Topic 5.P.4, Disclosures

420-10-S99-**2** The following is the text of SAB Topic 5.P.4, Disclosures.

Beginning with the period in which the exit plan is initiated, FASB ASC Topic 420, Exit or Disposal Cost Obligations, requires disclosure, in all periods, including interim periods, until the exit plan is completed, of the following:

a. A description of the exit or disposal activity, including the facts and circumstances leading to the expected activity and the expected completion date.

b. For each major type of cost associated with the activity (for example, one-time termination benefits, contract termination costs, and other associated costs):

(1) The total amount expected to be incurred in connection with the activity, the amount incurred in the period, and the cumulative amount incurred to date.

(2) A reconciliation of the beginning and ending liability balances showing separately the changes during the period attributable to costs incurred and charged to expense, costs paid or otherwise settled, and any adjustments to the liability with an explanation of the reason(s) therefor.

c. The line item(s) in the income statement or the statement of activities in which the costs in (b) above are aggregated.

d. For each reportable segment, the total amount of costs expected to be incurred in connection with the activity, the amount incurred in the period, and the cumulative amount incurred to date, net of any adjustments to the liability with an explanation of the reason(s) therefor.

e. If a liability for a cost associated with the activity is not recognized because fair value cannot be reasonably estimated, that fact and the reasons therefor.

Question: What specific disclosures about restructuring charges has the staff requested to fulfill the disclosure requirements of FASB ASC Topic 420 and MD&A?

Interpretive Response: The staff often has requested greater disaggregation and more precise labeling when exit and involuntary termination costs are grouped in a note or income statement line item with items unrelated to the exit plan. For the reader's understanding, the staff has requested that discretionary, or decision-dependent, costs of a period, such as exit costs, be disclosed and explained in MD&A separately. Also to improve transparency, the staff has requested disclosure of the nature and amounts of additional types of exit costs and other types of restructuring charges FN17 that appear quantitatively or qualitatively material, and requested that losses relating to asset impairments be identified separately from charges based on estimates of future cash expenditures.

FN17 Examples of common components of exit costs and other types of restructuring charges which should be considered for separate disclosure include, but are not limited to, involuntary employee terminations and related costs, changes in valuation of current assets such as inventory writedowns, long term asset disposals, adjustments for warranties and product returns, leasehold termination payments, and other facility exit costs, among others.

The staff frequently reminds registrants that in periods subsequent to the initiation date that material changes and activity in the liability balances of each significant type of exit cost and involuntary employee termination benefits FN18 (either as a result of expenditures or changes in/reversals of estimates or the fair value of the liability) should be disclosed in the footnotes to the interim and annual financial statements and discussed in MD&A. In the event a company recognized liabilities for exit costs and involuntary employee termination benefits relating to multiple exit plans, the staff believes presentation of separate information for each individual exit plan that has a material effect on the balance sheet, results of operations or cash flows generally is appropriate.

FN18 The staff would expect similar disclosures for employee termination benefits whether those costs have been recognized pursuant to FASB ASC Topic 420, FASB ASC Topic 712, Compensation-Nonretirement Postemployment Benefits, or FASB ASC Topic 715, Compensation-Retirement Benefits.

For material exit or involuntary employee termination costs related to an acquired business, the staff has requested disclosure in either MD&A or the financial statements of:

1. When the registrant began formulating exit plans for which accrual may be necessary,

2. The types and amounts of liabilities recognized for exit costs and involuntary employee termination benefits and included in the acquisition cost allocation, and.

3. Any unresolved contingencies or purchase price allocation issues and the types of additional liabilities that may result in an adjustment of the acquisition cost allocation.

The staff has noted that the economic or other events that cause a registrant to consider and/or adopt an exit plan or that impair the carrying amount of assets, generally occur over time. Accordingly, the staff believes that as those events and the resulting trends and uncertainties evolve, they often will meet the requirement for disclosure pursuant to the Commission's MD&A rules prior to the period in which the exit costs and liabilities are recorded pursuant to GAAP. Whether or not currently recognizable in the financial statements, material exit or involuntary termination costs that affect a known trend, demand, commitment, event, or uncertainty to management, should be disclosed in MD&A. The staff believes that MD&A should include discussion of the events and decisions which gave rise to the exit costs and exit plan, and the likely effects of management's plans on financial position, future operating results and liquidity unless it is determined that a material effect is not reasonably likely to occur. Registrants should identify the periods in which material cash outlays are anticipated and the expected source of their funding. Registrants should also discuss material revisions to exit plans, exit costs, or the timing of the plan's execution, including the nature and reasons for the revisions.

The staff believes that the expected effects on future earnings and cash flows resulting from the exit plan (for example, reduced depreciation, reduced employee expense, etc.) should be quantified and disclosed, along with the initial period in which those effects are expected to be realized. This includes whether the cost savings are expected to be offset by anticipated increases in other expenses or reduced revenues. This discussion should clearly identify the income statement line items to be impacted (for example, cost of sales; marketing; selling, general and administrative expenses; etc.). In later periods if actual savings anticipated by the exit plan are not achieved as expected or are achieved in periods other than as expected, MD&A should discuss that outcome, its reasons, and its likely effects on future operating results and liquidity.

The staff often finds that, because of the discretionary nature of exit plans and the components thereof, presenting and analyzing material exit and involuntary termination charges in tabular form, with the related liability balances and activity (e. g., beginning balance, new charges, cash payments, other adjustments with explanations, and ending balances) from balance sheet date to balance sheet date, is necessary to explain fully the components and effects of significant restructuring charges. The staff believes that such a tabular analysis aids a financial statement user's ability to disaggregate the restructuring charge by income statement line item in which the costs would have otherwise been recognized, absent the restructuring plan, (for example, cost of sales; selling, general, and administrative; etc.).

Comments Made by SEC Observer at Emerging Issues Task Force (EITF) Meetings

SEC Observer Comment: Classification of Inventory Markdowns and Other Costs Associated with Restructuring

420-10-S99-**3** The following is the text of SEC Observer Comment: Classification of Inventory Markdowns and Other Costs Associated with Restructuring.

Subtopic 420-10 states that costs associated with exit or disposal activities that do not involve a discontinued operation should be included in income from continuing operations before taxes. If a subtotal such as "income from operations" is presented, that Subtopic indicates that subtotal should include the amounts of exit or disposal costs. However, the guidance does not address where within income from continuing operations or income from operations inventory markdowns associated with an exit or restructuring activity. The SEC staff recognizes that there may be circumstances in which it can be asserted that inventory markdowns are costs directly attributable to a decision to exit or restructure an activity. However, the staff believes that it is difficult to distinguish inventory markdowns attributable to a decision to exit or restructure an activity from inventory markdowns attributable to external market factors that are independent of a decision to exit or restructure an activity. Further, the staff believes that decisions about the timing, method, and pricing of dispositions of inventory generally are considered to be normal, recurring activities integral to the management of the ongoing business. Accordingly, the SEC staff believes that inventory markdowns should be classified in the income statement as a component of cost of goods sold.