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Industrial Products — Accounting and reporting insights

A quarterly summary for the industrial products sector

October 2026



Table of contents

Introduction 03

01 Strategy for business 04

Seize the industrial megadeal moment

Mental health and the future of the engineering and construction workforce

Disaggregated Expense Disclosure Requirements – The Clock is Ticking. Is your company ready?

Board oversight of AI transformation

02 Accounting and financial reporting hot topics 06

Closing statements: Insights for controllers at quarter end

AI costs: capitalize or expense?

Tariff accounting in motion

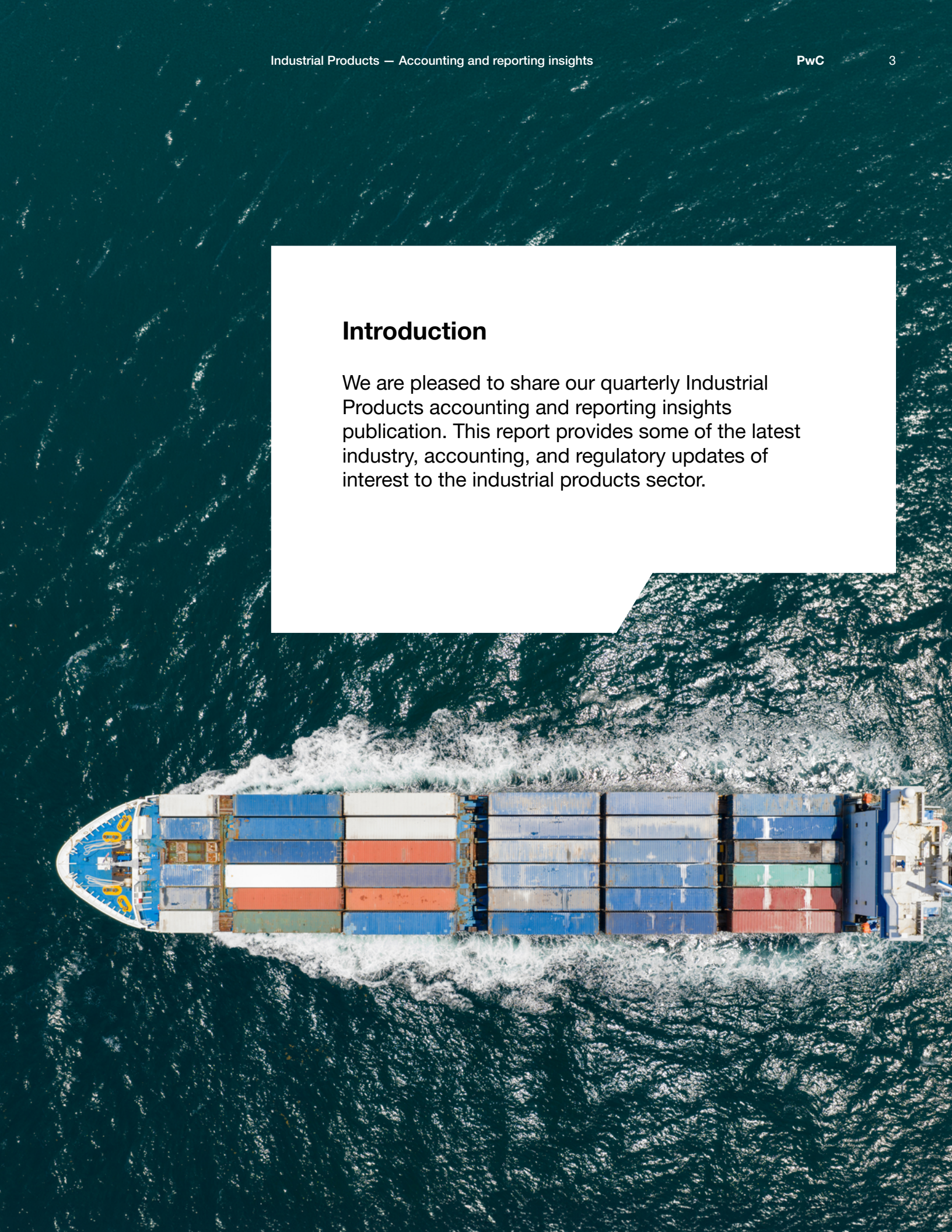
Product financing arrangements

03 Regulatory update 09

SEC Rulemaking Proposals: What commenters said

SEC comment letter trends

04 PwC contacts 11



Introduction

We are pleased to share our quarterly Industrial Products accounting and reporting insights publication. This report provides some of the latest industry, accounting, and regulatory updates of interest to the industrial products sector.

01

Strategy for business

Seize the industrial megadeal moment

PwC sees a new industrial megadeal cycle emerging as investment in AI infrastructure, electrification and grid modernization, and defense and resilience converges around the same constrained supply base. In 2025, the number of industrial products transactions valued above $5 billion increased 69% from the prior year, while their total deal value rose 93%. Deals exceeding $1 billion and connected to these convergence themes grew at a 20.5% compound annual rate from 2021 through 2025 and generally commanded premiums of 15% to 30% above sector medians. This concentration is intensifying competition for scaled platforms, engineering talent, production capacity, and acquisition of capital—particularly in power infrastructure, automation and controls, advanced components, and thermal management. PwC's analysis suggests that markets are increasingly rewarding portfolio coherence over complexity: companies that can clearly explain why their businesses belong together, maintain the financial flexibility to act, and use divestitures to fund higher-priority acquisitions may be better positioned to secure scarce assets and investor support. However, access to attractive targets alone will not create value. Successful acquirers will also need the operating readiness to integrate technology, align go-to-market models, expand capacity responsibly, and maintain accountability for delivering the deal thesis. We see disciplined portfolio strategy and execution—not simply balance sheet scale—as the factors likely to distinguish the winners in this cycle. Explore PwC's full perspective in **Seize the industrial megadeal moment.**

Mental health and the future of the engineering and construction workforce

PwC sees mental health as a growing business and workforce risk for engineering and construction companies, with direct implications for safety, productivity, and retention. A 2025 survey of more than 1,000 US construction workers found that 64% experienced anxiety or depression during the prior year, up from 54% in 2024. Elevated suicide and overdose rates across the industry further underscore the need for leaders to address employee well-being with the same rigor applied to other enterprise risks.

Employee Assistance Programs alone may not be sufficient, particularly when workers face stigma, confidentiality concerns or difficulty accessing relevant care. PwC recommends combining accessible resources with trained supervisors, peer support, regular check-ins, and recovery-friendly policies. Companies that embed mental health into governance, safety and workforce strategy may be better positioned to reduce risk and build a more resilient workforce.
Learn more **here.**

Disaggregated Expense Disclosure Requirements – The Clock is Ticking. Is Your Company Ready?

New disaggregated expense disclosure requirements under ASU 2024-03 are quickly becoming a transaction-readiness priority, not just a technical accounting exercise. For calendar-year public business entities, the standard is effective for annual reporting in 2027 and interim reporting in 2028. Its reach can also extend to private companies preparing for an IPO and acquisition targets whose financial statements must be filed under Regulation S-X Rule 3-05. In mergers and acquisitions, divestitures and spin-offs, companies may face added complexity when targets or carve-out entities lack sufficiently detailed expense data—or when materiality thresholds, allocations, and policies used at the parent level do not translate to stand-alone financial statements.

PwC recommends beginning with a cross-functional readiness assessment spanning finance, accounting, operations and information technology. Companies should identify data gaps, establish consistent policies for items such as inventory purchases and selling expenses, evaluate whether enterprise resource planning and reporting systems can support the required level of detail, and build repeatable controls for both annual and interim reporting. Addressing these requirements early may help reduce diligence and integration risk, strengthen the credibility of financial information provided to investors and acquirers, and create greater visibility into underlying cost structures. PwC's full analysis of **DISE readiness for M&A, IPOs and divestitures** outlines the practical steps companies can take ahead of adoption.

Board oversight of AI transformation

As AI moves from experimentation to enterprise-wide transformation, PwC sees board oversight expanding well beyond technology and cybersecurity to include strategy, capital allocation, operating models, talent, culture, and long-term value creation. The analysis notes that 71% of directors identify AI as the board capability most in need of strengthening, while only 18% rate the information they receive linking AI outcomes, risks, and business performance as good or excellent. PwC outlines six actions for more effective oversight:

- govern AI as a business transformation;
- determine where the company should lead, lag, or exit;
- build the talent and culture needed for adoption;
- redesign work around people and AI agents;
- embed risk-based controls; and
- monitor both business outcomes and emerging risks.

Boards should challenge management to move beyond scattered pilots, focus investments on high-value use cases tied to business strategy, redesign workflows rather than simply automate existing complexity, and preserve human judgment and accountability as AI agents take on more work. Ultimately, stronger governance should not slow innovation—it can help companies scale AI with greater discipline, trust, and confidence while demonstrating measurable value through revenue growth, cost savings, quality, efficiency, and customer outcomes. Read the full article **here.**

02

Accounting and financial reporting hot topics

Closing statements: Insights for controllers at quarter end

Closing statements is our quarterly publication that shares quarter-specific insights, trends, analysis, and observations. This edition highlights timely financial reporting reminders for controllers, tax leaders, and finance teams, including an update on tariffs, accounting for AI costs, product financing arrangements, and an overview of feedback on recent SEC rulemaking proposals.

AI costs: capitalize or expense?

As companies invest heavily in AI, accounting leaders are asking a practical question: Can some of those costs be capitalized? The answer, like a lot of things in accounting, is: it depends. If AI costs are being spent to develop software, they may be capitalizable.

AI may be changing the way software is developed, but it doesn't create a new accounting model. We still start with the existing software cost guidance and determine whether the software is for internal use or if it will be sold, leased, or marketed. We'll focus on internal-use software:

- **What costs can be capitalized and when:** First, the project has to reach the point when capitalization can begin. From there, it really comes down to how the AI is being used, when the costs are incurred, and whether those costs can be tied directly to the qualifying software being developed.

- **What will likely be expensed:** Broad, enterprise-wide AI subscriptions used across general business functions should typically be expensed as incurred.

- **What may qualify for capitalization:** Incremental costs for AI coding agents, API usage, tokens, or dedicated AI development services may be capitalized if they are project-specific, measurable, and incurred after the capitalization threshold is met.

While AI may be doing more every day, it doesn't rewrite the accounting rules, but it does raise the bar on documentation. You should document if and why AI costs qualify for capitalization. Strong contracts, invoices, usage logs, project codes, and engineering records will be key support.

Tariff accounting in motion

As tariffs continue to be the administration's favorite tool for managing US trade relations, the tariff landscape continues to evolve. Here's the latest:

- **What is going on with the IEEPA refund process:** The refund program for the IEEPA tariffs continues to progress, with over $100 billion in refunds paid or in queue for payment through August. Phase 2 opened on June 29, for tariff entries with additional complexities. Phase 3, for older entries that have been finally liquidated, has not yet been launched. And those older entries are also subject to the government's pending appeal. Each company should continue to apply its chosen accounting policy for recognition of tariff refunds in relation to the available evidence for each category of tariff.

- **And in other tariff news:** The temporary Section 122 surcharge expired on July 24, but on the same day new Section 301 duties related to forced-labor import prohibitions took effect. Other country- and product-specific tariffs are also in play—and the ongoing Section 301 investigation into excess industrial capacity continues. With so many tariff balls in the air, it reinforces the importance of evaluating and tracking each tariff program separately. At the same time, recent White House and DOJ actions signal increased customs enforcement is coming. Companies should maintain robust documentation and controls over entry-level data as well as cross-functional coordination across customs, legal, tax, treasury, supply chain, finance, and accounting.

Product financing arrangements

Demand for critical AI hardware, including processor chips and other semiconductors, networking equipment, other electronic components, and long-lead imported goods remains high and has contributed to supply constraints. To help secure access to this inventory while managing working capital, some companies are turning to third parties to purchase and hold the inventory until it is needed.

That can be an effective way to secure supply, but it also raises an important accounting question: Is this really just a normal purchase commitment with a third-party supplier, or is the third party effectively financing the purchase? These arrangements also run in the other direction — a company sells inventory to a third party and later repurchases it, sometimes while facilitating the sale to the end customer.

The accounting depends on the substance of the arrangement, not just who holds legal title to the inventory. The key is understanding whether the third party is truly acting as an independent owner that controls the inventory and bears meaningful market risk or is effectively acting as a financing intermediary.

A few questions can help frame the analysis:

- **Control:** Can the third party realistically sell the inventory elsewhere? Who makes the key decisions on sourcing, storage, and logistics?

- **Economics:** Who bears the risk of price changes, markdowns, shrink, loss, or obsolescence? Are there repurchase commitments, debt guarantees, or residual value guarantees that protect the third party from those risks?

The bottom line: If a company effectively controls the inventory and retains the risks and rewards of ownership, the arrangement may be a product financing arrangement rather than an ordinary purchase commitment. In that case, ASC 470-40 requires the company to recognize the inventory and a corresponding financing obligation when the third party purchases the inventory on its behalf, even if the third party holds legal title — including inventory held in the company's own distribution centers or at a location it directs.



03 Regulatory update

SEC Rulemaking Proposals: What commenters said

As discussed in our Closing Statements, the comment periods for the SEC's proposed rules on semiannual reporting and filer status modernization ended in July 2026. Here's an overview of the feedback:

- **Semiannual reporting:** Response volume on semiannual reporting is likely record breaking with more than 200,000 responses received, driven principally by the investor community and often consisting of only brief remarks. Although the proposed rule would not require a change to semiannual reporting, many investor groups, academics, and individual investors commented on the value of standardized quarterly information and argued that giving a public company the option to reduce reporting frequency could reduce transparency and comparability. Issuers and preparers largely support the SEC's goal of providing greater reporting flexibility and reducing the burden on issuers, but they recommend targeted changes, coordination with the FASB/PCAOB, and continued attention to disclosure quality.

- **Filer status modernization:** Comment letter volume was much lower here, with less than 200 responses. Feedback generally supports simplifying the filer status framework, though views are notably mixed on other aspects of the proposal. The main debate centers on finding the right balance: industry commenters generally support expanded accommodations, while audit, investor, and governance groups question whether the proposal goes too far—particularly by significantly expanding exemptions from SOX 404(b) auditor attestation and scaled disclosure requirements. Overall, respondents support the SEC's modernization efforts while recommending the agency strive to balance increasing accommodations for issuers and maintaining beneficial investor protections.

SEC comment letter trends

The filing review process performed by the Division of Corporation Finance is a key function utilized by the SEC to monitor critical accounting and disclosure decisions applied by registrants. Our analysis of SEC comment letters identifies the frequency of topical areas addressed by the SEC staff and how focus areas change over time. The top five areas of focus in comment letters in the Industrial Products sector are as follows:

- **Non-GAAP measures:** Compliance with Item 10(e) of Regulation S-K and the related compliance and disclosure interpretations.

- **Segment reporting:** Identification of operating segments and aggregation into reportable segments as well as emphasis on the disclosure requirements of ASC 280.

- **MD&A:** Requirements in Item 303 of Regulation S-K and the related disclosure objectives.

- **Revenue:** ASC 606 requirements including disaggregated revenue, performance obligations, transaction price, variable consideration, recognizing revenue, and gross versus net presentation.

- **Debt, quasi-debt, warrants, and equity:** Transparency and quality of the disclosures around the respective significant judgments and critical accounting estimates.

See the **list** of comment letter trends specific to the industrial products sector for the 12 months ended June 30, 2026. Additionally, read a brief summary of the key areas and some example comments via the following Viewpoint pages:

Non-GAAP measures: SEC staff comments

Segment reporting: SEC staff comments

Management's Discussion and Analysis: SEC staff comments

Revenue: SEC staff comments

Debt, quasi-debt, warrants and equity: SEC staff comments

Additionally, hear PwC's accounting podcast episodes on the following common topical areas in SEC comment letters.

SEC now: Recent developments shaping today's landscape

SEC now: Today's landscape and recent developments

SEC now: Non-GAAP 2025 comment letter trends

SEC now: 2025 comment letter trends on transactions

SEC now: Segments 2025 comment letter trends

SEC now: MD&A 2025 comment letter trends

SEC now: Revenue 2025 comment letter trends

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