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FASB Votes to Issue Exposure Draft on Enhancing the Disaggregation of Expenses in the Footnotes to Public Business Entities' Income Statements

Overview

On March 29, 2023, the FASB met to continue discussions on its Disaggregation — Income Statement Expenses (DISE) [project](#). The Board reconfirmed its previous tentative decisions, with certain refinements, and directed its staff to draft a proposed Accounting Standards Update (ASU) for a vote by written ballot.

Background

There is currently limited guidance in ASC 205¹ and ASC 225 on the presentation of expenses in the income statement. In September 2017, the FASB added a project to its technical agenda that focused on the disaggregation of performance information. On the basis of outreach to preparers and other feedback, the staff identified challenges related to the project, and the Board decided to pause it in December 2019. However, the project was resumed in [February 2022](#) with a revised objective “to improve the decision usefulness of [public] business entities’ [PBEs] income statements through the disaggregation of certain expense captions.” The Board’s tentative approach would expand the existing provisions of ASC 205 and ASC 225 by requiring PBEs to further disaggregate expenses as discussed below.

¹ For titles of FASB Accounting Standards Codification (ASC) references, see Deloitte’s “[Titles of Topics and Subtopics in the FASB Accounting Standards Codification](#).”



Connecting the Dots

The FASB's project on income statement disaggregation is a direct response to the continued push from investors to obtain more information about an entity's financial performance, particularly the expenses an entity incurs in a given period. The project has garnered increased attention recently, as evidenced by SEC Chief Accountant Paul Munter's speech at the 2022 AICPA & CIMA Conference on Current SEC and PCAOB Developments in which he discussed how standards can be improved to meet investors' needs. He specifically emphasized the need for greater disaggregation of financial information related to the income statement.

Although the extent of the proposed disaggregation is not yet clear, an entity may need to update or modify its existing financial reporting systems to comply with the enhanced requirements if and when they become effective. Given the potential need for system changes and the likely increased scrutiny on an entity's expenses, financial statement preparers may be inclined to provide feedback on the expected proposed ASU that details the level of effort that may be needed to implement the proposed requirements. At the 2022 AICPA & CIMA Conference on Current SEC and PCAOB Developments, FASB Chairman Richard Jones encouraged such feedback and stressed that it is important for the FASB to receive broad and balanced feedback (e.g., from preparers and practitioners) on proposed changes to its accounting standards. However, Chairman Jones noted that investors "just weren't seeing the level of detail they needed to really understand" the operations of an entity and cautioned constituents to "think about [the project] in that lens: if [they] were trying to understand one of these companies, is the information that's on the face of the income statement sufficient, or would [they] look at additional detail to understand the change from period to period?"

Overview of Tentative Approach

The FASB's tentative approach to enhancing disaggregation requirements would amend the presentation of certain expenses in the financial statement footnotes by requiring a PBE to separate the presentation of specific functional costs that are expensed as incurred from the presentation of those that are capitalized as inventory. Specifically, under the tentative approach:

- PBEs would have to quantitatively disaggregate the following expenses in a tabular-format footnote disclosure:
 - *Costs expensed as incurred* — These include employee compensation; depreciation of property, plant, and equipment; amortization of intangible assets; and inventory expense and other manufacturing expenses included in each relevant expense line item on the income statement (e.g., cost of goods sold and selling, general, and administrative expenses).
 - *Costs capitalized to inventory and other manufacturing expenses* — These include purchases of inventory; employee compensation; depreciation of property, plant, and equipment; and intangible asset amortization.
 - *Existing disclosures for natural expenses* — These include any "natural expenses" (e.g., impairments of fixed assets and amortization of film costs) for which an entity must already disclose the amount and caption in the income statement in which the expense is recorded.
- PBEs would have to qualitatively describe the expenses remaining after any required quantitative disaggregation is complete for each relevant expense caption (e.g., "other cost of goods sold" or "other selling, general, and administrative expenses").

- PBEs would have to disclose selling expenses and provide the accounting policy disclosure in ASC 235-10-50-1 to describe how the entity has determined what expenses are classified as selling expenses.
- All disclosures would be required for interim reporting periods.

See the [appendix](#) for an illustrative example of this proposal.

Effective Date and Transition

The Board will determine the effective date of the guidance after it considers feedback on the proposed ASU. The proposal would require PBEs to adopt the new guidance prospectively while also providing an optional retrospective application.

Next Steps

The proposed ASU is expected to be released late in the second quarter of 2023 or early in the third quarter of 2023. The comment period is expected to be 90 days.

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Appendix — Illustrative Example

The FASB included the example² reproduced below in the [minutes](#) of its January 11, 2023, Board meeting.

| Entity XYZ | | |
|---|-------------------|------------------|
| Consolidated Statement of Operations | | |
| For the years ended December 31, 20X2 and 20X1 | | |
| | 20X2 | 20X1 |
| Revenues: | | |
| Products | \$ 79,137 | \$ 75,180 |
| Services | <u>23,146</u> | <u>21,989</u> |
| Total Revenues | \$ 102,283 | \$ 97,169 |
| Operating Expenses: | | |
| Cost of Products Sold | 60,898 | 57,244 |
| Cost of Services | 9,568 | 8,898 |
| Selling, General, and Administrative | 18,871 | 18,116 |
| Interest | <u>4,213</u> | <u>4,297</u> |
| Total Operating Expenses | \$ 93,550 | \$ 88,555 |
| Income before income taxes | 8,733 | 8,614 |
| Income Tax Expense | <u>1,834</u> | <u>1,809</u> |
| Net Income | \$ 6,899 | \$ 6,805 |

² Note that this example was provided before the Board's March 29, 2023, meeting and therefore may not reflect the refinements made at that meeting or the examples that may be provided in the forthcoming proposed ASU.

Example Footnote Disclosure (1): Disaggregation of Relevant Expense Captions

[Note: This example does not reflect tentative Board decisions on incorporating other existing disclosure requirements in this table.]

| | 20X2 | 20X1 |
|--|----------------|----------------|
| Cost of Products Sold | | |
| <i>Cost of Products Sold</i> | | |
| Inventory Expense | \$ 52,935 | \$ 49,680 |
| Employee Compensation | 1,827 | 1,279 |
| Depreciation | 1,311 | 1,232 |
| Amortization | — | — |
| Other Cost of Products Sold | <u>4,825</u> | <u>5,053</u> |
| Total Cost of Products Sold | 60,898 | 57,244 |
| <i>Other Cost of Products Sold</i> consists primarily of amounts paid to carriers for freight services related to contract fulfillment for the years ended December 31, 20X2 and 20X1. | | |
| <i>Cost of Products Sold: Inventory Expense</i> | | |
| Beginning Inventory | 2,942 | 3,785 |
| Purchases of Inventories | 19,199 | 16,319 |
| Employee Compensation | 14,712 | 12,799 |
| Depreciation | 8,678 | 8,418 |
| Amortization | 4,050 | 3,929 |
| Other Inventory Costs | 7,157 | 7,372 |
| Ending Inventory | <u>(3,803)</u> | <u>(2,942)</u> |
| Total Inventory Expense | 52,935 | 49,680 |
| <i>Other Inventory Costs</i> consists primarily of power, fuel, and other utilities costs for the years ended December 31, 20X2 and 20X1. | | |
| Cost of Services | | |
| <i>Cost of Services</i> | | |
| Employee Compensation | 5,654 | 4,354 |
| Depreciation | 765 | 742 |
| Amortization | 670 | 650 |
| Other Cost of Services | <u>2,479</u> | <u>3,152</u> |
| Total Cost of Services | 9,568 | 8,898 |
| <i>Other Cost of Services</i> consists primarily of rent expense and travel costs for the years ended December 31, 20X2 and 20X1. | | |
| Selling, General, and Administrative | | |
| <i>Selling, General, and Administrative</i> | | |
| Employee Compensation | 15,379 | 14,764 |
| Depreciation | 1,755 | 1,737 |
| Asset Amortization | 596 | — |
| Other SG&A | <u>1,141</u> | <u>1,615</u> |
| Total Selling, General, and Administrative | 18,871 | 18,116 |
| <i>Other SG&A</i> consists primarily of professional services fees, rent expense, and the costs paid to third parties for printing, publications, and advertising. | | |

Example Footnote Disclosure (2): Selling Expenses

During the years ended December 31, 20X2 and 20X1, selling expenses were \$12,123 and \$11,585. The company uses an internal definition of selling expenses which includes those expenses relating to our marketing and promotional activities and client relationship management.

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