



Disaggregation—Income Statement Expenses

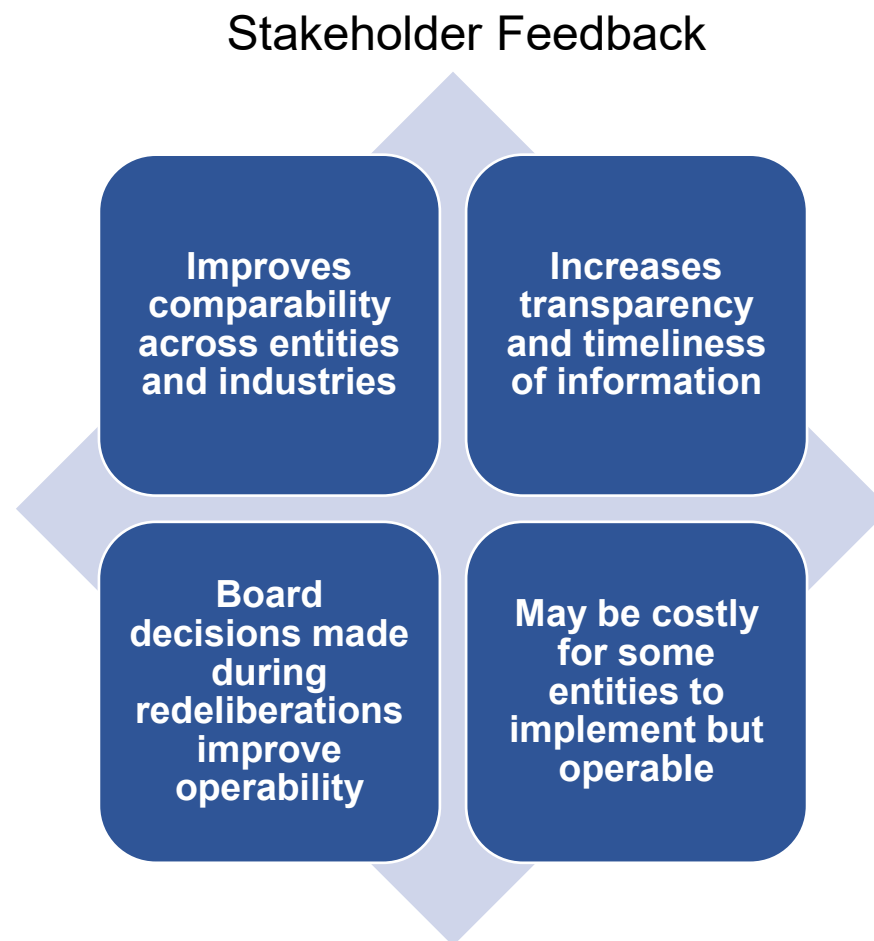
FASB | IASB Education Meeting

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Background

- An [Exposure Draft](#) was issued in July 2023 for public comment and redeliberations began in January 2024 - the Board gave the staff permission to draft a final Update in June 2024.
- **Objective** - To provide disaggregated information about a public business entity's expenses to help investors:
 - Better understand the entity's performance
 - Better assess the entity's prospects for future cash flows
 - Compare an entity's performance over time and with that of other entities.
- **Scope** - Public business entities only.



Identifying Relevant Expense Captions

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

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

- A relevant expense caption is any expense line item presented on the face of the income statement within continuing operations that contains any of the following **required expense categories**:
 - Purchases of Inventory
 - Employee Compensation
 - Depreciation
 - Intangible Asset Amortization
 - Depletion

- A relevant expense caption that contains expense amounts related to inventory within the scope of Topic 330, Inventory, may be disclosed on **either** cost-incurred or expense-incurred basis.

Tabular Disclosure Requirements

- Break out “relevant expense lines” into a tabular disclosure, disclosing the following:
 - a. Required expense categories: (i) purchases of inventory, (ii) employee compensation, (iii) depreciation, (iv) intangible asset amortization, and (v) depletion
 - b. Include certain existing disclosures requirements
 - c. Describe the composition of “other” expenses
 - d. Disclose the aggregate amount of reimbursements paid or received as a separate line item or disclose the expense categories that are net of the allocated reimbursement
- Excluded from the tabular disclosure:
 - a. An entity is not required to further disaggregate costs capitalized as an asset, even if the costs capitalized include required expense categories
 - i. However, when an expense amount relates to the derecognition of an asset, other than inventory, an entity should apply the disaggregation disclosure requirements
 - b. An entity is not required to further disaggregate an expense amount that is based on an obligation that is an estimate of an uncertain amount that will be settled in the future

Purchases of inventory only includes amounts within the scope of Topic 330

Disclosure Illustration – Cost of Products Sold

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Disaggregation of Relevant Expense Captions

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

(a) Other cost of products sold consisted primarily of amounts paid to carriers for outbound freight services related to contract fulfillment and amounts related to the measurement of a liability for an environmental obligation for the years ended December 31, 20X4, 20X3, and 20X2. Year ended December 31, 20X4, also included inventory amounts recognized as part of a business combination.

(b) Other adjustments and reconciling items consisted of reconciling adjustments attributable to differences in the foreign exchange rates used to translate beginning inventory, ending inventory, and costs incurred from various functional currencies into the reporting currency for the years ended December 31, 20X4, 20X3, and 20X2.

Green boxes are required expense categories.

Red boxes are other existing disclosures required to be included in the tabular format.

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

Selling Expenses Disclosure Requirements

- Disclose **total** amount of selling expenses.
- Disclose an entity's **definition** of selling expenses.

- Illustrative Example

Selling Expenses

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

Reporting Requirements

Interim Reporting

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

Transition

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

Effective Date

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

Final Update expected to be issued by the end of 2024

Comparison to IFRS 18, *Presentation and Disclosure in Financial Statements*

	DISE	IFRS 18*
Focus	Disclosure only	Includes additional income statement presentation and disclosure requirements beyond the scope of the DISE project
Relevant Expense Categories	(a) Purchases of inventory, (b) employee compensation, (c) depreciation, (d) intangible asset amortization, and (e) depletion	(a) Depreciation, (b) amortization, (c) employee benefits, (d) impairment losses and reversals of impairment losses, and (e) write-downs and reversals of write-downs of inventory
Location of Information in Financial Statements	Notes to financial statements	Presented in the income statement or notes to financial statements
Disaggregation of Relevant Expense Categories	Should include only expenses recognized in continuing operations on the income statement, unless an entity elects to disaggregate a relevant expense caption that contains expense amounts related to inventory within the scope of Topic 330 on a cost-incurred basis	May include amounts that were expensed during the period in the operating category on the income statement or amounts capitalized during the period
Selling Expense Disclosures	Disclose total amount and definition	No specific selling requirement, however, a qualitative description of the nature of expenses included in a functional line items is required, which may include selling
Frequency of Disclosure Requirements	Interim and annual reporting periods, except the definition of selling expense	Annual reporting periods
Retrospective Application	Optional	Required
Effective Date	December 31, 2027 annual reporting period for calendar year-end reporting entities. Early adoption permitted	January 1, 2027, with early adoption permitted