



FASB | IASB Education Meeting

September 29, 2023

Disaggregation—Income Statement Expenses

This paper has been prepared for discussion at a public education meeting of the US Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB). It is not intended to represent the views of the boards or any individual member of either board or the staff. Comments on the application of IFRS[®] Accounting Standards or US GAAP do not purport to set out acceptable or unacceptable application of IFRS Accounting Standards or US GAAP. Tentative technical decisions are made in public and reported in FASB Action Alert or in IASB Update. Official positions of the FASB or the IASB are determined after extensive due process and deliberations.

Background

- Project objective and scope
 - Improve the disclosures about a **public business entity's** expenses by providing more detailed information about certain types of expenses (such as employee compensation) that are included in expense captions commonly presented on the income statement (such as cost of sales)
- The Board issued a proposed Accounting Standards Update on July 31, 2023
 - 90-day comment period ends on October 30, 2023
 - Public roundtable will be held on December 13, 2023

Investor Requests for Expense Disaggregation

- Investors noted that often:
 - There are too few expense lines presented on the face of the income statement
 - Different types of natural expenses are not presented or disclosed separately
- Investors have observed that more detailed information about expenses is critically important in:
 - Understanding an entity's performance
 - Assessing an entity's prospects for future cash flows
 - Comparing an entity's performance both over time and with that of other entities

GAAP and SEC Requirements

- GAAP requirements:
 - Topic 220, Income Statement–Reporting Comprehensive Income, does not have a general requirement for minimum lines on the face of the income statement
 - No overall requirement for disaggregation of functional or natural amounts
 - Some line items are only triggered when certain events occur (e.g., goodwill impairment)
- SEC requirements:
 - Provide a considerable amount of presentation guidance
 - Regulation S-X requires commercial and industrial entities to present cost of goods sold; cost of services; selling, general, and administrative (SG&A); and certain other captions
- Disclosure of certain other expenses (e.g., R&D) are required in the notes

Key Disclosure Proposals

- Proposed general requirements:
 - Disaggregate “relevant expense captions” into required expense categories
 - Describe the composition of “other” expenses
 - Define and disclose selling expenses

- Proposed other requirements:
 - Entities that have inventory:
 - Further disaggregate “inventory and manufacturing expense”
 - Define other manufacturing expenses
 - Banks:
 - “Employee compensation” practical expedient

Required Expense Categories and “Other” Expenses

Feedback: Expenses are generally aggregated into few expense captions on the income statement

Proposed Disclosures:

- Disaggregate **relevant expense captions** presented on the income statement that contain **at least one** of the **required expense categories**
- Describe the composition of **“other” expenses**

Entity XYZ
Consolidated Statement of Operations
For the Years ended December 31, 20X3, 20X2, and 20X1

	<u>20X3</u>	<u>20X2</u>	<u>20X1</u>
Revenues:			
Products	\$ 82,144	\$ 79,137	\$ 75,180
Services	26,132	23,146	21,989
Total revenues	108,276	102,283	97,169
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	94,801	89,337	84,258
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	\$ 6,718	\$ 6,899	\$ 6,805



	<u>Cost of products Sold</u>	<u>Cost of services</u>	<u>SG&A</u>
Inventory and manufacturing expense	\$53,688	-	-
Employee compensation	2,046	6,598	13,242
Depreciation	1,395	763	1,454
Intangible asset amortization	-	642	523
Other (subject to qualitative disclosure)*	6,327	2,493	5,630
Total	\$63,456	\$10,496	\$20,849

*Example Description: Other cost of products sold consisted primarily of amounts paid to carriers for freight services related to contract fulfillment for the year ended December 31, 20X3.

Inventory and Manufacturing Expense

Proposed Disclosures:

- Disaggregate **inventory and manufacturing expense** into the **required cost categories** based on **costs incurred** during the period
- Because **costs incurred may not equal amounts recognized as expense**, provide the following captions to reconcile costs incurred to **inventory and manufacturing expense**:
 - Other adjustments and reconciling items
 - Changes in inventories
- Describe the composition of **“other” inventory and manufacturing costs** and **other adjustments and reconciling items**

Cost of products sold

<i>Cost of products sold</i>	20X3	20X2	20X1
Inventory and manufacturing expense ^(a)	\$ 53,688	\$ 51,935	\$ 48,680

(a) The company defines manufacturing expenses (other than inventory expense) as those that are incurred for the purpose of producing units of inventory, but are not capitalizable. Other manufacturing expenses include costs incurred related to idled manufacturing plants.

Cost of products sold: inventory and manufacturing expense

Purchases of inventory	\$ 20,213	\$ 19,199	\$ 16,319
Employee compensation	15,532	14,712	12,799
Depreciation	8,795	8,678	8,418
Intangible asset amortization	3,914	4,050	3,929
Other inventory and manufacturing costs (directly expensed or capitalized to inventory) ^(a)	5,619	5,733	5,834
Total inventory and manufacturing costs (directly expensed or capitalized to inventory)	54,073	52,372	47,299
Other adjustments and reconciling items ^(b)	(542)	424	538
Changes in inventories	157	(861)	843
Total inventory and manufacturing expense	\$ 53,688	\$ 51,935	\$ 48,680

(a) Other inventory and manufacturing costs consisted primarily of power, fuel, and other utilities costs for the years ended December 31, 20X3, 20X2, and 20X1.

(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, 20X3, 20X2, and 20X1. For the year ended December 31, 20X3, other adjustments and reconciling items also included the carrying amount of inventory sold to noncustomers in connection with a disposal transaction.

Selling Expenses

■ Background:

- Investors have asked for separate disclosure of selling expenses
- Board considered splitting selling from general and administrative
- There is diversity in the naming and composition of SG&A-type lines on the income statement

■ Proposed requirements:

- Disclose **total*** selling expenses
- Disclose how selling expenses are **defined**

Selling expense is further disaggregated into **required expense categories only if it (a) is a separate caption presented on the income statement and (b) contains at least one required expense category*

Other Proposed General Requirements

Entity XYZ
Consolidated Statement of Operations
For the Years ended December 31, 20X3, 20X2, and 20X1

	<u>20X3</u>	<u>20X2</u>	<u>20X1</u>
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	<u>8,504</u>	<u>8,733</u>	<u>8,614</u>
Income tax expense	1,786	1,834	1,809
Net income	<u>\$ 6,718</u>	<u>\$ 6,899</u>	<u>\$ 6,805</u>

Proposed Disclosures:

- Include existing disclosures of specific expenses, gains, and losses:
 - Corresponding income statement caption(s) is **disclosed**
 - Corresponding income statement caption is **not disclosed**

	<u>Cost of products Sold</u>	<u>Cost of services</u>	<u>SG&A</u>
Inventory and manufacturing expense	\$53,688	-	-
Employee compensation	2,046	6,598	13,242
Depreciation	1,395	763	1,454
Intangible asset amortization	-	642	523
Warranty expense	3,816	-	-
PP&E impairment	578	-	412
Other (subject to qualitative disclosure)	1,933	2,493	5,218
Total	<u>\$63,456</u>	<u>\$10,496</u>	<u>\$20,849</u>

Other Proposed General Requirements (continued)

- Reporting frequency:
 - All disclosures are required for **interim reporting periods**
- Transition:
 - **Prospective application** is required because it may allow for a shorter period of time before being applied
 - Retrospective application is optional

Application for Banks

Company XYZ
Consolidated Income Statement
For the Years ended December 31, 20X3, 20X2, and 20X1

	20X3	20X2	20X1
Interest income			
Loans	\$ 2,795,052	\$ 2,142,873	\$ 2,072,997
Investment securities	628,887	442,550	465,842
Other	209,629	116,461	79,193
Total interest income	3,633,568	2,701,884	2,618,032
Interest expense			
Deposits	302,797	30,280	151,399
Borrowed funds	279,505	83,852	167,703
Total interest expense	582,302	114,132	319,102
Net interest income	3,051,266	2,587,752	2,298,930
Noninterest income			
Service charges on deposit accounts	201,702	171,062	151,969
Other service charges and fees	282,383	239,487	212,757
Total noninterest income	484,085	410,549	364,726
Total revenue	3,535,351	2,998,301	2,663,656
Provision for (recapture of) credit losses	116,461	(186,337)	372,674
Noninterest expense			
Salaries and employee benefits	1,464,608	1,176,183	1,365,443
Occupancy and depreciation	376,587	279,875	349,679
Data processing	166,111	146,308	161,046
Advertising and marketing	56,876	30,555	28,192
Professional fees	73,230	61,459	74,473
Other	30,513	21,399	24,804
Total noninterest expense	2,167,925	1,715,779	2,003,637
Income before income taxes	1,250,965	1,468,859	287,345
Income tax expense	262,703	308,460	60,342
Net income	\$ 988,262	\$ 1,160,399	\$ 227,003

- **Proposed definition:** “Employee compensation” includes cash and stock compensation, medical care benefits, pension benefits, and other specific benefits.
- **Alternative:** Today, banks are generally required to disclose “salaries and employee benefits” under existing SEC rules.

	Occupancy and depreciation	Other
Depreciation	164,232	-
Operating lease expense	152,445	-
Other occupancy expenses (subject to qualitative disclosure)	59,910 ^(a)	-
Intangible asset amortization	-	13,139
Other (subject to qualitative disclosure)	-	17,374 ^(b)
Total	\$376,587	\$30,513

(a) Other occupancy expenses consisted primarily of repair and maintenance expense for the years ended December 31, 20X3.
(b) Other consisted primarily of regulatory licensing fees and charitable contributions for the years ended December 31, 20X3.

Colored boxes highlight the following:

- Relevant expense captions
- Required expense categories
- Describe the composition of “other”
- Include existing disclosures of expenses, gains, and losses