



Financial Performance Reporting- Disaggregation

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Previous Performance Reporting Projects

FASB (1979)

- Reporting Earnings Task Force – Discussion Memorandum
- Analysis of Issues Related to Reporting Earnings

FASB (1981)

- Conceptual Framework – Exposure Draft
- Reporting Income, Cash Flows and Financial Position

AICPA (1994)

- Jenkins' Committee Report
- Special Committee on Financial Reporting

FASB and G4+1 (1998)

- G4+1 – Special Report
- Reporting Financial Performance

UK ASB (2000)

- Exposure Draft
- Reporting Financial Performance

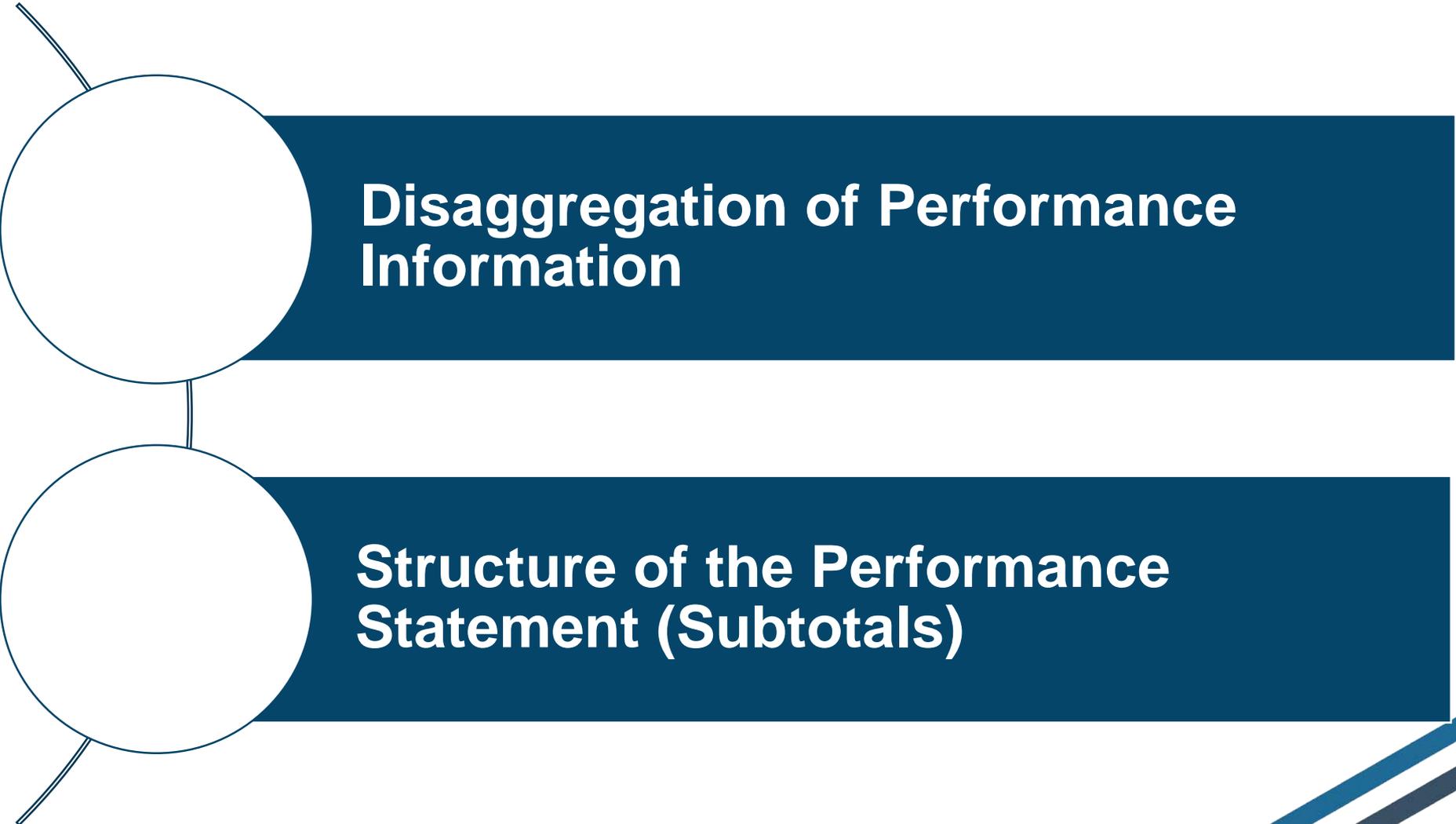
FASB and IASB (2008)

- Joint Project – Discussion Paper
- Preliminary Views on Financial Statement Presentation

FASB and IASB (2010)

- Joint Project – Staff Draft of an Exposure Draft
- Financial Statement Presentation

Two Types of Improvements



Disaggregation of Performance Information

Structure of the Performance Statement (Subtotals)

August 2016 ITC Feedback

Disaggregation of Performance Information

- ⑩ Stakeholders who support this focus:
 - Need for more granularity
 - Display either on the face or the notes
 - One or more disaggregation alternatives would be an improvement
 - Focus on targeted improvements
- ⑩ Stakeholders who do not support this focus:
 - Users already have sufficient information
 - Concerns about cost and complexity

Structure of the Performance Statement

- ⑩ Stakeholders who support structure:
 - Would improve understandability across statements
 - Harmonize the income statement structure with the cash flow statement
 - Would lessen the need to resort to non-GAAP measures
- ⑩ Stakeholders who do not support structure:
 - Entities voluntarily categorize the income statement, a requirement is unnecessary
 - A single model for categorization will add significant complexity
 - Previous attempts to categorize the statement have not been successful

How to Disaggregate Performance Information

- The staff researched a number of alternatives:
 - Redefine infrequency of occurrence in Subtopic 225-20 and disaggregate infrequent items
 - Define and separate remeasurements
 - Disaggregate functional lines, such as COGS and SG&A, into natural components
 - Require reporting of certain minimum lines and performance information
 - Develop guidance on the aggregation process and the characteristics to consider when aggregating into lines

Interpreting the Feedback

The Board reasoned that disaggregation of COGS and SG&A lines may be the most viable of all alternative and could be prioritized on its future agenda

Structural changes to the income statement are important, although defining subtotals has been very difficult in previous efforts

The Board decided to add a project on the disaggregation of performance information to the technical agenda and retain the issue of structuring the income statement as a separate project on the research agenda

Question—Background and Scope

Do IASB members have questions on the background and scope of the project?

Lines to Be Disaggregated

The Board directed the staff to start with the Securities and Exchange Commission's (SEC) literature for commercial entities that requires presentation of COGS and SG&A as a way to identify the lines that are to be the focus of the disaggregation.

The staff developed descriptions using Regulation S-X and shared those ideas with our project resource group (PRG), which was assembled to assist us in providing feedback on this project.

Working Descriptions

- **Cost of Sales Line(s):** *Caption(s) and amount(s) that represent the cost of revenue. Such lines and similar terms would include (a) cost of tangible goods sold, (b) operating expenses of utility companies, (c) expenses applicable to rental income, (d) cost of services, and (e) expenses applicable to other revenues. For public entities, it is the line or lines that are presented in compliance with Rule 5-03(b)2 of Regulation S-X. An entity determines the composition of its cost of sales line(s).*
- **Selling, General, and Administrative Line(s):** *Caption(s) and amount(s) that represent selling, general, and administrative expenses. Such lines include (a) selling expenses, such as sales and marketing expense, (b) general and administrative expenses, or (c) similar terminology. For public entities, it is the line or lines that are presented in compliance with Rule 5-03(b)4 of Regulation S-X. An entity determines the composition of its selling, general, and administrative line(s).*

Board Member Feedback

Tying the descriptions to the SEC's specific literature can cause some challenges about the suitability of that literature to new types of businesses.

The Board directed the staff to develop a principles-based approach to describing the lines, for example, describing COGS and SG&A as lines that represent the following:

- Activities associated with the cost of revenue or fulfillment of performance obligations
- Activities associated with marketing, selling, and general and administrative expenses.

Question—Lines to Be disaggregated

Do IASB members have questions on how the staff is attempting to describe what are COGS and SG&A lines?

Describing Natural Components

The Board directed the staff to look to the NFP definition of *natural expense classification* in the Master Glossary as a means to describe natural components.

The staff developed a working description and shared the ideas with the PRG.

Working Description

- **Natural Component:** *A grouping of expenses, gains, losses, or income according to the kinds of goods or services received by the entity, such as employee benefits, or according to a similar source or event that results in the item's recognition, such as depreciation and impairment loss. Examples of natural components that could be within a cost of revenue line include the cost of products sold, inventory losses, salaries, wages and employee benefits, occupancy, insurance, utilities, shipping and handling, depreciation and amortization, and certain foreign exchange losses.*

Challenges with Disaggregating into Natural Components

- Allocations
 - Capitalized Costs
 - Departmental Allocations
 - Product and Service Cost Allocations
 - Legal Subsidiary Allocations
- Level of natural information disaggregated

Board Member Feedback

Some Board members questioned whether a description of natural component was needed.

Some Board members suggested basing the disaggregation on the way an entity internally reviews the components.

A cost effective approach could be to consider existing systems and processes that preparers already have in place that roll up and map consolidated information.

Disaggregation—Next steps

- Perform outreach with public business entities to learn the following:
 - How entities review the components of their cost of revenue and SG&A lines
 - On what level their accounting information systems track the components
 - How the components are rolled up into consolidated lines.



Question—Describing Natural Components

Do IASB members have questions on natural components, allocations, and departmental expenses?