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FASB proposal

Disaggregation of income statement expenses (DISE)

August 1, 2023

Public business entities would disclose specific natural expense categories in certain income statement captions.

Source and applicability

- Proposed ASU, Disaggregation of Income Statement Expenses.
- Annual and interim financial statements of public business entities (PBEs).

Fast facts, impacts, actions

The proposed ASU would introduce Subtopic 220-40 (expense disaggregation disclosures), which would require PBEs to disaggregate in the notes to the financial statements certain income statement captions – e.g. cost of sales, research and development and selling, general and administrative (SG&A) expenses. Comments are due on the proposed ASU by October 30, 2023. The main proposals are as follows.

Proposed quantitative disclosures	Proposed qualitative disclosures
Disaggregate every relevant expense caption into: • employee compensation • depreciation • intangible asset amortization • depreciation, depletion and amortization (DD&A) • inventory and manufacturing expense	**Describe the nature of amounts not separately disaggregated in:** • each relevant expense caption
Further disaggregate inventory and manufacturing expense, if applicable, into: • purchases of inventory • employee compensation • depreciation • intangible asset amortization • DD&A	**Describe the nature of amounts not separately disaggregated in:** • inventory and manufacturing expense **Provide the entity's definition of (annual only):** • other manufacturing expenses
State the total amount of selling expenses	**Provide the entity's definition of (annual only):** • selling expenses

The new quantitative disclosures would be provided in a one-stop-shop table, together with certain other expense disclosures already required by US GAAP.

Background

Financial statement users have observed that disaggregated information about expenses is critically important to understand the performance of an entity, assess its prospect for future cash flows, and compare its performance both over time and to other entities. The proposed ASU is in response to this feedback and complements the FASB's proposals to disaggregate significant segment expenses.

The proposed ASU would not change the presentation or structure of the income statement (i.e. would not add new subtotals or categories). Additionally, it would not change or remove existing disclosure requirements.

Proposed disclosures

The proposed ASU would add Subtopic 220-40 to require disclosures about specific natural expenses within relevant expense captions in continuing operations. The new disclosure would be provided in a tabular presentation in the notes.

Relevant expense captions

A relevant expense caption is defined as a caption presented on the face of the income statement that includes one or more of the following natural expense categories:

- inventory and manufacturing expense
- employee compensation
- depreciation
- intangible asset amortization
- DD&A.

Every relevant expense caption would be subject to disaggregation into the above natural expense categories.

Relevant expense captions may vary by industry and by entity. However, they are likely to include common functional expense lines such as cost of sales, research and development, SG&A, noninterest expense captions (for banks), and underwriting, acquisition and insurance expense (for insurance companies).

Composition of natural expense categories

Depreciation and amortization expenses would encompass, respectively, depreciation amounts for long-lived assets in the scope of Topic 360 and amortization of intangible assets in the scope of Topic 350. Amortization of finance lease right-of-use assets and leasehold improvements arising from Topic 842 would be included as either depreciation or amortization. Amortization of other capitalized assets (e.g. customer contract acquisition costs) would be excluded.

Employee compensation would be generally consistent with compensation costs resulting from Topics 710, 712, 715 and 718 (e.g. wages, bonuses, social security contributions, benefits and stock compensation). However, banks that already present a caption for salaries and employee benefits under SEC Regulation S-X Rule 9-04, would be permitted to retain their current definition.

Entities that already disclose amounts for certain natural expenses (e.g. in accordance with industry practice) may need to revise their presentation and disclosure to adapt to the new definitions.

Inventory and manufacturing expense

Inventory and manufacturing expense would be a natural expense category that, unlike the other natural expense categories, would have to be further disaggregated. The proposed ASU would define inventory expense as an expense resulting from the derecognition of inventory due to sale to customers, consumption in the production of goods or services for such sale, or remeasurement (e.g. impairment). Manufacturing expenses generally would include expenses incurred in the manufacturing process but not capitalized to inventory (e.g. unallocated manufacturing overhead due to abnormally low production).

Inventory and manufacturing expense would be further disaggregated into the following costs incurred:

- purchases of inventory
- employee compensation
- depreciation
- intangible asset amortization
- DD&A.

The sum of these costs incurred would likely not equal the amount of inventory and manufacturing expense recognized in the period (e.g. due to the use of standard costing or inventory impairment). Therefore, an entity would also include changes in inventories and other reconciling items to reconcile back to the total inventory and manufacturing expense. The FASB believes that the use of costs incurred would be more practicable and cost effective than other methods it considered.

The FASB observed that to apply existing inventory accounting requirements, manufacturing entities should already have systems and processes in place that track costs in the production process. However, changes may be needed to disaggregate costs incurred that are either capitalized to inventory or expensed in the current period.

A one-stop-shop tabular disclosure

The proposed disclosures would be presented in a table together with specific expenses, gains and losses that are already disclosed under existing US GAAP. For example, assuming cost of goods sold is a relevant expense caption for an entity, if warranty expense is recorded entirely as part of cost of goods sold, the entity would include an additional line item for warranty expense in its tabular disaggregation of cost of goods sold.

Description of other items remaining in each relevant caption

The tabular disclosure for each relevant expense caption would have to reconcile to the amount on the face of the income statement. To do so, an entity likely would need to include a line item for other items that are not required to be disaggregated. An entity would be required to qualitatively describe the composition of these other items.

Selling expenses

An entity would be required to disclose the total amount of selling expenses recognized in continuing operations and explain their composition. However, the proposed ASU would not define 'selling expenses', to allow each entity to make its own determination of what constitutes a selling expense.

Illustrations

Entity A is a manufacturer and therefore cost of products sold is a relevant expense caption. The following disclosures are an illustrative example of the disaggregated disclosure for cost of products sold and inventory and manufacturing expense. Note if Entity A has other relevant expense captions, it would also need to disaggregate those captions.

Cost of products sold	20X3	20X2	20X1
Inventory and manufacturing expense[1]	54	52	49
Employee compensation	2	2	1
Depreciation	1	1	1
Warranty expense	4	4	4
Other cost of products sold[2]	2	2	2
Total cost of products sold	**63**	**61**	**57**

[1] 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.

[2] Other cost of products sold consists primarily of amounts paid to carriers for freight services related to contract fulfillment for the years ended December 31, 20X3, 20X2 and 20X1.

Cost of products sold – inventory and manufacturing expense	20X3	20X2	20X1
Purchases of inventories	20	19	16
Employee compensation	16	15	13
Depreciation	9	9	8
Intangible asset amortization	4	4	4
Other inventory and manufacturing costs (directly expensed or capitalized to inventory)[1]	6	6	6
Total inventory and manufacturing costs (directly expensed or capitalized to inventory)	**55**	**53**	**47**
Other adjustments and reconciling items[2]	(1)	0	1
Changes in inventories	0	(1)	1
Total inventory and manufacturing expense	**54**	**52**	**49**

[1] Other inventory and manufacturing costs consist primarily of power, fuel and other utilities costs for the years ended December 31, 20X3, 20X2 and 20X1.

[2] Other adjustments and reconciling items consist 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 include the carrying amount of inventory sold to noncustomers in connection with a disposal transaction.

In addition to the tabular disclosures illustrated above, Entity A also would disclose the amount of selling expenses and its definition.

Selling expenses

During the years ended December 31, 20X3, 20X2 and 20X1, selling expenses were $13, $12 and $12, respectively. The company uses an internal definition of selling expenses that includes those expenses relating to our marketing and promotional activities and client relationship management.

Effective date and transition

The proposed amendments would be applied prospectively without the requirement to present comparative information. The expectation is that this would be less costly for entities to implement and allow for an earlier effective date. The FASB will determine the effective date and whether to allow early adoption after considering stakeholder feedback.

The proposed amendments will only become US GAAP if and when the FASB issues a final ASU.

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