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FASB Directs Staff to Draft Final Standard on Disaggregation of Income Statement Expenses (DISE)

Overview

At its June 26, 2024, [meeting](#), the FASB concluded redeliberations on its July 31, 2023, [proposed ASU](#)¹ (hereafter also referred to as the “exposure draft”), which would enhance disclosures related to DISE for public business entities (PBEs) to further disaggregate expenses in the footnotes to their financial statements.

Background

There is currently limited guidance in ASC 220-10² on the presentation of expenses in the income statement. The objective of the proposed ASU is to “address requests from investors for more detailed information about the types of expenses (including employee compensation, depreciation, and amortization) in commonly presented expense captions (such as cost of sales, SG&A [selling, general, and administrative expenses], and research and development).” The additional disclosure requirements would enable investors to better understand the entity’s performance, evaluate the entity’s prospects related to future cash flows, and “[c]ompare an entity’s performance over time.” Under the proposed ASU, the existing provisions of ASC 205-10 and ASC 225-10 would be expanded to require PBEs to further disaggregate expenses, as discussed below.

¹ FASB Proposed Accounting Standards Update (ASU), *Income Statement — Reporting Comprehensive Income — Expense Disaggregation Disclosures (Subtopic 220-40): Disaggregation of Income Statement Expenses*.

² For titles of FASB Accounting Standards Codification (ASC) references, see Deloitte’s [“Titles of Topics and Subtopics in the FASB Accounting Standards Codification.”](#)

Main Provisions of the Proposed ASU and Key Tentative Board Decisions

Scope

The Board reaffirmed that the amendments in the proposed ASU would apply to all PBEs, including entities that file financial statements with the SEC (e.g., brokers and dealers in securities, voluntary filers).

However, the guidance in the proposed ASU would not apply to private companies, not-for-profit entities, and employee benefit plans. The Board decided to refer its decision to exclude private companies from the scope of the guidance to the Private Company Council for future consideration.

Disclosures

The proposed ASU would require PBEs to disclose, for both annual and interim periods in a tabular format in the footnotes to the financial statements, disaggregated information about specific categories underlying certain income statement expense line items that are considered “relevant.” These categories, as reaffirmed or replaced by the Board in its redeliberations on the proposed ASU, are further discussed below.

Required Expense Categories

In its redeliberations, the Board tentatively decided to require disaggregation of any relevant expense caption presented on the face of the income statement that contains any of the following expense categories:

- Purchases of inventory.³
- Employee compensation.⁴
- Depreciation.⁵
- Intangible asset amortization.⁶
- Depletion.⁷

No further disaggregation would be required for any of the expense categories above.

The proposal indicates that a relevant expense caption would be an expense line item included on the face of the income statement that contains any of the expense categories in the bulleted list above. The application of this guidance may vary from industry to industry; not all income statement line items are expected to be identified as a relevant expense caption.



Connecting the Dots

Although the proposed guidance is industry-agnostic, the Board did provide specific examples of DISE by an entity with manufacturing and service operations, by an entity with service operations, and by a bank, respectively, to illustrate how the expected disclosures may vary depending on the nature of an entity's operations.

In this context, the Board decided to provide clarification for identifying relevant expense captions as follows:

- A relevant expense caption may include an expense caption that is presented as a natural expense classification on the face of the income statement.

³ This required category replaces the category “[i]nventory and manufacturing expense” in the proposed ASU.

⁴ This required category, which was included in the proposed ASU, has been reaffirmed by the Board.

⁵ See footnote 4.

⁶ See footnote 4.

⁷ This required category replaces the category “[d]epreciation, depletion, and amortization of capitalized acquisition, exploration, and development costs recognized as part of oil- and gas-producing activities” in the proposed ASU.

- An expense caption that consists entirely of one of the required expense categories would not be subject to the proposed amendments.

Purchases of Inventory

Regarding the new defined category “purchases of inventory,” the Board concluded that a single-level disaggregation approach would be sufficient to meet the goal of the standard and tentatively decided to (1) remove “inventory and manufacturing expense” as a required expense category and (2) add “purchases of inventory” as a required expense category.

The Board clarified that the expenditures disclosed in this category would be (1) within the scope of ASC 330 and, as applicable, ASC subtopics that provide industry-specific guidance on inventory (e.g., ASC 908-330) and (2) presented on either a costs-incurred or an expenses-incurred basis. If an entity decides to change the basis of presentation for purchases of inventory from a costs-incurred basis to an expenses-incurred basis, or vice versa, it would be required to recast the prior periods unless doing so would be impracticable.

In addition, the Board tentatively decided to provide a practical expedient that would allow an entity that presents an expense caption in its income statement for which substantially all of the expense is related to amounts recognized in accordance with ASC 330 to qualitatively describe the composition of that expense caption instead of disclosing disaggregated amounts for that expense caption.

Further, the Board tentatively decided not to require an entity to supplement the disaggregation of relevant expense captions that contain amounts recognized in accordance with ASC 330 with accounting policy disclosures.

The example below, which is reproduced from a [handout](#) prepared for the Board’s May 8, 2024, meeting, illustrates an income statement and an accompanying footnote disclosure that represent one potential format for complying with the Board’s tentative decisions, particularly those related to the purchase of inventory.

| Entity XYZ | | | |
|--|-----------------|---|-------------------------|
| Consolidated Statement of Operations For the Year Ended December 31, 20X3 | | Notes to the Financial Statements | |
| Revenues: | | <i>Cost of products sold</i> | |
| Products | \$ 82,144 | Purchases of inventory | \$ 20,213 |
| Services | <u>26,132</u> | Employee compensation | 17,578 |
| Total revenues | 108,276 | Depreciation | 10,190 |
| Operating expenses: | | Intangible asset amortization | 3,914 |
| Cost of products sold | 63,456 | Warranty expense | 4,394 |
| Cost of services | 10,496 | Other cost of products sold | 7,552 |
| Selling, general, and administrative | <u>20,849</u> | Changes in inventories | 157 |
| Total operating expenses | <u>94,801</u> | Other adjustments and reconciling items | <u>(542)</u> |
| Operating income | 13,475 | Total cost of products sold | <u>\$ 63,456</u> |
| Interest expense | <u>4,971</u> | | |
| Income before income taxes | 8,504 | | |
| Income tax expense | <u>1,786</u> | | |
| Net income | <u>\$ 6,718</u> | | |

Disclosure of Other Items

PBEs would be required to disclose the amount, and a qualitative description of the composition, of other items remaining in relevant expense captions that are not separately disaggregated. The proposed ASU states, in part, that the detail of the qualitative disclosures “shall be commensurate with the significance of the amounts being described.”

Other items (which may include expenses, gains, or losses) that may require disclosure under existing U.S. GAAP, and that are recorded in a relevant expense caption, would need to be presented in the same tabular disclosure on an annual and, when applicable, interim basis. These items are:

- Specified expenses, gains, and losses that should be presented under existing U.S. GAAP for each relevant expense category (e.g., impairment of long-lived assets).
- Specified expenses, gains, and losses for each relevant expense category, but only if those amounts are included entirely in one expense caption and not over multiple expense categories. For example, if cost of sales was a relevant expense caption, and if warranty expense was recognized entirely in cost of sales rather than in multiple expense captions presented on the face of the income statement, warranty expense would need to be included as a separate category. However, in that same example, if the warranty expense was disaggregated across multiple expense captions (e.g., also included in SG&A), separate disaggregation would not be required.
- A separate total of an entity's selling expenses, which should be presented in a manner similar to the presentation of research and development and advertising expenses. As part of the Board's redeliberations based on comments received on the exposure draft, the Board tentatively decided to require an entity to recast its disclosure of prior-period total selling expenses in the period in which it changes its definition of selling expenses unless it is impracticable to do so.⁸



Connecting the Dots

Although the FASB did not define selling expenses in the exposure draft, the Board subsequently clarified that such expenses should include only items that are presented as expenses in the income statement. Disclosure of the entity's definition of selling expenses would be required, but only annually.

The Board tentatively decided to clarify whether certain liability-related expenses are excluded from the disaggregation requirements. The proposed guidance would provide a principles-based framework to assess when certain liability-related expenses could be excluded from the disaggregation requirements, rather than providing a discrete list of such items.


Using Estimates and Other Methods

The Board tentatively decided to clarify that an entity may use accounting estimates or other methods of approximation to determine the amounts for disclosure. In addition, the Board tentatively decided to expand the disclosure objective to (1) emphasize the use of estimates and other methods of approximation and (2) enhance the auditability of the amounts in the disclosures.

⁸ A change in the definition of selling expenses would not constitute an accounting change under ASC 250 requiring establishing preferability. Rather, it would constitute a change in presentation.

Diving Into the Required Expense Categories

The table below elaborates on the required expense categories proposed by the Board in the exposure draft or during redeliberations.

| | |
|-------------------------------------|---|
| Purchases of inventory ⁹ | Purchases of inventory would (1) consist of the amounts associated with acquiring raw materials and other externally purchased inputs and (2) be recognized in accordance with ASC 330 on either a costs-incurred or an expenses-incurred basis in the current reporting period. These amounts would be capitalized to inventory or expensed in manufacturing activities. |
| Employee compensation | <p>The definition of an employee is aligned with that in ASC 718, and it refers to full-time, part-time, temporary, or seasonal employees.</p> <p>Employee compensation is intended to broadly capture the major types of consideration granted or issued to employees in exchange for services, including Social Security contributions. Disclosures about employee compensation should include separate presentation of one-time employee termination benefits, when applicable, within the tabular disclosure.</p> <p>The Board reaffirmed that, as stated in the exposure draft, an entity would be permitted, as an election, to include in employee compensation “amounts attributable to other transactions entered into for the benefit of employees (for example, the provision of subsidized goods or services).” An entity that makes this election would be required to (1) apply it consistently and (2) “disclose both that those transactions have been included and a description of those transactions.”</p> |
| | <div>  <p>Connecting the Dots</p> <p>The new guidance would include a practical expedient for entities that present an expense caption for salaries and employee benefits on the face of the income statement in compliance with SEC Regulation S-X, Rule 9-04(3).¹⁰ This expedient, if elected, would allow entities to continue using a classification that meets that requirement instead of disaggregating employee compensation in accordance with the proposed ASU.</p> </div> |
| Depreciation | Depreciation would be consistent with the amounts recorded in accordance with ASC 360-10. |
| Intangible asset amortization | <p>Intangible asset amortization would be consistent with the amounts recorded in accordance with ASC 350-30.</p> <p>Amortization of a finance lease right-of-use asset and amortization of leasehold improvements that are recorded under ASC 842-20 would be included in either the depreciation category or the intangible asset amortization expense category.</p> |
| Depletion | Although the Board acknowledged that the depreciation, depletion, and amortization (DD&A) expense category in the exposure draft is industry-specific, paragraph BC44 of the proposed ASU explains that “DD&A was included as a separate required category because it represents a potentially significant noncash expense that is recognized systematically, like depreciation and intangible asset amortization.” During redeliberations, the Board tentatively decided to replace the DD&A expense category recognized as part of oil- and gas-producing activities with depletion to expand the scope of that category beyond oil and gas entities. |

⁹ See footnote 3.

¹⁰ SEC Regulation S-X, Rule 9-04(3), “Statements of Comprehensive Income; Trading Account Interest.”



Connecting the Dots

During redeliberations, the Board tentatively decided to require an entity to provide the disclosure under ASC 205-10-50-1 related to changes in the basis of presentation that affect comparability if the entity changes the presentation of an item listed in proposed ASC 220-40-50-13 in such a way that the item is presented in one relevant expense caption in the current reporting period and in multiple relevant expense captions in a comparative reporting period. This situation would arise when an entity makes reclassifications within the expense categories disclosed in prior periods; such reclassifications would be subject to the requirements in ASC 205-10-50-1, as would other changes affecting comparability.

Effective Dates and Transition

Effective Dates

The Board tentatively decided that the new guidance would be effective for all PBEs for fiscal years beginning after December 15, 2026, and interim periods within fiscal years beginning after December 15, 2027. Early adoption would be permitted.

Transition

At its June 26, 2024, meeting, the FASB reaffirmed its decision that PBEs would be required to adopt the new guidance prospectively. However, PBEs would be permitted to apply the amendments in the proposed ASU retrospectively.

Thinking Ahead

As stated in paragraph BC121(f) of the proposed ASU, and subsequently reaffirmed, the Board chose not to provide prescriptive guidance on how an entity classifies certain expenses. As a result, entities may present certain expense amounts differently and there may be a lack of comparability among entities, even those in similar industries. In this context, we believe that an entity may need to modify its existing financial reporting systems, processes, and internal controls to compile and present the information that would be required under the proposed amendments.

Next Steps

The Board directed the staff to move forward with drafting a final ASU for approval by ballot. Issuance of a final ASU is expected later in 2024.

Contacts



Kristin Bauer
Audit & Assurance
Partner
Deloitte & Touche LLP
+1 312 486 3877
kbauer@deloitte.com



Tony Goncalves
Audit & Assurance
Managing Director
Deloitte & Touche LLP
+1 202 879 4910
axgoncalves@deloitte.com



Kathleen Malone
Audit & Assurance
Managing Director
Deloitte & Touche LLP
+1 203 761 3770
kamalone@deloitte.com



Ignacio Perez
Audit & Assurance
Managing Director
Deloitte & Touche LLP
+1 203 761 3379
igperez@deloitte.com



Noemi Coronado
Audit & Assurance
Senior Manager
Deloitte & Touche LLP
+1 212 436 7438
nocoronado@deloitte.com

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