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# FASB Proposes Enhancements to Disclosures Related to Disaggregation of Income Statement Expenses (DISE)

## Overview

On July 31, 2023, the FASB issued a [proposed ASU](#)<sup>1</sup> that would enhance disclosures related to DISE for public business entities (PBEs) to further disaggregate expenses in the footnotes to their financial statements. However, the face of the income statement would not be expected to change.

We encourage preparers and practitioners to comment on the proposed ASU; comments are due by October 30, 2023. In addition, the FASB will host a public roundtable on December 13, 2023, to discuss the proposal, including the effective date, which the proposal does not provide. In addition, the FASB [notes](#) on its Web site that “[t]hose interested in participating in the roundtable should submit a comment letter and register for consideration.”

## Background

There is currently limited guidance in ASC 220-10<sup>2</sup> 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

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

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

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.

## Main Provisions of the Proposed ASU

The proposed ASU would require PBEs to disclose, 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." Unless the proposal states otherwise, the disclosures would be required in both annual and interim financial statements. Specifically, PBEs would have to disclose:

- A disaggregation of any relevant expense caption presented on the face of the income statement that contains any of the following expense categories:
  - **Inventory and manufacturing expense.**
  - **Employee compensation.**
  - **Depreciation.**
  - **Intangible asset amortization.**
  - **Depreciation, depletion, and amortization (DD&A)** that are recognized as part of oil- and gas-producing activities.

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 listed in the five sub-bullets 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.

For an illustration of the proposal's disclosure requirements for entities with service operations, see [Example 2](#) in Appendix A.

- A further disaggregation of inventory and manufacturing expenses (disclosed in accordance with the first sub-bullet above) into the following categories:
  - Purchases of inventory.
  - Employee compensation.
  - Depreciation.
  - Intangible asset amortization.
  - DD&A.
  - Changes in inventories.
  - Other costs capitalized to inventory and manufacturing expenses that are not included in the categories listed in the previous six sub-bullets.
  - Other adjustments and reconciling items.

This further disaggregation is expected to reconcile (1) costs capitalized to inventory during the period and (2) inventory and manufacturing expenses recognized during the period. The purpose is to explain the change in inventory, as presented in the balance sheet, in comparison to the costs recognized during the period. An entity would be required to provide a qualitative explanation for costs included in "other adjustments and reconciling items" as well as for "other costs capitalized to inventory and [other] manufacturing expenses" not included in the above categories.

- A qualitative description of the amounts remaining in each relevant expense caption that are not separately disaggregated. The detail of the “qualitative disclosures shall be commensurate with the significance of the amounts being described.”
- Other expenses, gains, or losses that must be disclosed under existing GAAP, and that are recorded in a relevant expense caption, must be presented in the same tabular disclosure on an annual and, when applicable, interim basis. These amounts are:
  - Specified expenses, gains, and losses that should be presented under existing GAAP for each relevant expense category (e.g., impairment of long-lived assets).
  - Specified expenses, gains, and losses for each relevant expense category, 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 amortization of costs to fulfill a contract with a customer was recognized entirely in cost of sales and not in multiple expense captions presented on the face of the income statement, then amortization of costs to fulfill a contract with a customer would be required to be included as a separate category.” However, in that same example, if the costs of fulfilling a contract were disaggregated across multiple expense captions, separate disaggregation would not be required.
- A separate total of an entity’s selling expenses, which should be presented in a manner similar to research and development and advertising expenses.
- The entity’s definitions of other manufacturing expenses and selling expenses. Although the FASB did not define selling expenses, such expenses should include only items that are presented as expenses in the income statement. This disclosure would only be required annually.

## Considerations Related to DISE

### Inventory and Manufacturing Expense

Inventory expense would include all inventory expenses “resulting from the derecognition of inventory due to sale to customers, consumption in the production of goods or services for such sale, or remeasurement (for example, an impairment)” in accordance with ASC 330 or other industry-specific guidance. Other manufacturing expenses “generally include, but are not limited to, certain costs incurred as part of an entity’s manufacturing activities that are not capitalizable (for example, unallocated manufacturing overhead related to abnormally low production).”

### *Purchases of Inventory*

Purchases of inventory would include the amount of costs incurred in the current reporting period to acquire raw materials and other externally purchased inputs. These amounts can be capitalized to inventory or expensed in manufacturing activities.

### *Changes in Inventories*

A change in inventories would be calculated as the difference “between the amount of inventory included on the balance sheet presented at the end of the prior period and the amount of inventory included on the balance sheet presented at the end of the current period.”



### Connecting the Dots

Paragraph BC49 of the proposed ASU's Background Information and Basis for Conclusions states that "changes in inventories . . . could include an adjustment to inventories resulting from an impairment charge related to inventories capitalized in a prior period." Because the change in inventory presented on the balance sheet year over year incorporates this adjustment, this specific cost category reflects changes to the balance sheet that would not otherwise be included in the expense categories listed in the proposed ASU.

### ***Other Adjustments and Reconciling Items and Other Costs Capitalized to Inventory and Other Manufacturing Expenses***

Other adjustments and reconciling items would include, if not disclosed separately, "other amounts that are necessary to reconcile costs incurred to expenses recognized." As noted in the proposed ASU, these other adjustments would include, if applicable:

- "The amount of inventory derecognized during the period that does not meet the definition of inventory expense (for example, inventory derecognized as part of derecognition transactions within the scope of Subtopic 810-10 on consolidation)."
- "The amount attributable to differences in the foreign currency exchange rates used to translate costs incurred, the beginning balance of inventory, and the ending balance of inventory in accordance with Subtopic 830-30 on foreign currency matters."

For an illustration of the proposal's disclosure requirements for entities that have inventory and manufacturing expenses, see [Example 1](#) in Appendix A.

### **Employee Compensation**

The definition of an employee in the proposed ASU is aligned with that in ASC 718. Employee compensation is intended to broadly capture the major types of consideration granted or issued to employees in exchange for services. Disclosures about employee compensation should include separate presentation of one-time employee termination benefits, when applicable, within the tabular disclosure.

An entity can elect 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)." Such an election would be applied consistently, and an entity should "disclose both that those transactions have been included and a description of those transactions."



### Connecting the Dots

The proposed ASU includes 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.<sup>3</sup> This expedient, if elected, allows entities to continue using a classification meeting that requirement, as opposed to disaggregating employee compensation in accordance with the proposed ASU.

For an illustration of the proposal's disclosure requirements for banks and bank holding entities, see [Example 3](#) in Appendix A.

### **Depreciation**

Depreciation would be consistent with the amounts recorded in accordance with ASC 360-10.

<sup>3</sup> SEC Regulation S-X, Rule 9-04, *Statements of Comprehensive Income*.

## **Intangible Asset Amortization**

Intangible asset amortization would be consistent with the amounts recorded in accordance with ASC 350-30.

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 depreciation or intangible asset amortization expense categories.

## **Depreciation, Depletion, and Amortization**

Although the Board acknowledges that DD&A is an industry-specific expense, 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.”

## **Thinking Ahead**

The FASB is releasing the proposed ASU in response to the continuing push from investors to obtain more information about an entity's financial performance, particularly the expenses an entity incurs in a given period (e.g., to better understand an entity's performance, assess an entity's future cash flows, and evaluate an entity's performance over time and compare it with that of other entities). We believe that an entity may need to modify its existing financial reporting systems to compile and present the information required under the proposed amendments.

As stated in paragraph BC121(f) of the proposed ASU, 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.

Given the potential need to modify existing financial reporting systems and the possibility of creating classification diversity given the lack of prescriptive guidance on this topic, we encourage preparers and practitioners to provide the FASB with feedback on the proposed amendments. See [Appendix B](#) for a list of the proposed ASU's specific questions for respondents.

## **Proposed Effective Date and Transition**

### **Effective Date**

The Board will determine the effective date of the guidance, and whether to permit early adoption, after considering feedback on the proposed amendments.

### **Transition**

PBEs would be required to adopt the new guidance prospectively; however, an optional retrospective application would also be provided.

## Contacts



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## Appendix A — Illustrative Examples

The examples below have been reproduced from the proposed ASU.

### ASC 220-40

#### **Example 1: Disaggregation of Income Statement Expenses by an Entity With Manufacturing and Service Operations**

**55-4** This Example illustrates one type of tabular format disclosure that an entity could use to disclose disaggregated expense amounts in accordance with paragraphs 220-40-50-1 through 50-21. This Example also illustrates the disclosure of selling expenses in accordance with paragraphs 220-40-50-22 through 50-23.

**55-5** For the year ended December 31, 20X3, Entity XYZ, which is a manufacturer with significant service operations, presents the following comparative statement of operations.

<b>Entity XYZ</b>			
<b>Consolidated Statement of Operations</b>			
<b>For the Years Ended December 31, 20X3, 20X2, and 20X1</b>			
	<b>20X3</b>	<b>20X2</b>	<b>20X1</b>
Revenues:			
Products	\$ 82,144	\$ 79,137	\$ 75,180
Services	<u>26,132</u>	<u>23,146</u>	<u>21,989</u>
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	<u>20,849</u>	<u>18,871</u>	<u>18,116</u>
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	<u>4,971</u>	<u>4,213</u>	<u>4,297</u>
Income before income taxes	8,504	8,733	8,614
Income tax expense	<u>1,786</u>	<u>1,834</u>	<u>1,809</u>
Net income	\$ <u><u>6,718</u></u>	\$ <u><u>6,899</u></u>	\$ <u><u>6,805</u></u>

**55-6** Entity XYZ provides a disclosure that disaggregates the cost of products sold, cost of services, and selling, general, and administrative expense captions into the categories listed in paragraph 220-40-50-4. Those expense captions were identified as relevant expense captions because those captions contain one or more of the expense categories listed in paragraph 220-40-50-4. Even though Entity XYZ presents other expense captions on the face of its consolidated statement of operations, such as interest expense and income tax expense, those expense captions do not contain any of the expense categories listed in paragraph 220-40-50-4 (including those described in paragraph 220-40-50-9), so those expense captions do not need to be disaggregated.

**55-7** In addition to the categories listed in paragraph 220-40-50-4, Entity XYZ further disaggregates inventory and manufacturing expense in accordance with the requirements in paragraphs 220-40-50-17 through 50-21. In accordance with paragraph 220-40-50-21, Entity XYZ qualitatively describes the nature of amounts included in other costs capitalized to inventory and other manufacturing expenses and other adjustments and reconciling items.

**55-8** Entity XYZ also recognizes impairment of property, plant, and equipment classified as held and used in selling, general, and administrative expenses and, therefore, includes this impairment as a separate category in the tabular format disclosure in accordance with paragraph 220-40-50-12.

**ASC 220-40 (continued)**

**55-9** Entity XYZ recognizes expenses associated with warranty accruals entirely within cost of products sold and, therefore, includes warranty expense as a separate category in accordance with paragraph 220-40-50-13.

**55-10** Entity XYZ recognizes operating lease cost in both cost of services and selling, general, and administrative expenses. Therefore, in accordance with paragraph 220-40-50-13, Entity XYZ is not required to separately disclose the amounts of cost of services and selling, general, and administrative expenses that are attributable to operating lease cost. Instead, those expenses are included in the amount for other items for each relevant expense caption in accordance with paragraph 220-40-50-16.

**55-11** Entity XYZ provides the following disclosure.

Disaggregation of Relevant Expense Captions			
	20X3	20X2	20X1
<b>Cost of products sold</b>			
<i>Cost of products sold</i>			
Inventory and manufacturing expense <sup>(a)</sup>	\$ 53,688	\$ 51,935	\$ 48,680
Employee compensation	2,046	1,827	1,279
Depreciation	1,395	1,311	1,232
Warranty expense	4,394	3,952	3,894
Other cost of products sold <sup>(b)</sup>	<u>1,933</u>	<u>1,873</u>	<u>2,159</u>
Total cost of products sold	<u>\$ 63,456</u>	<u>\$ 60,898</u>	<u>\$ 57,244</u>
 <sup>(a)</sup> 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.			
<sup>(b)</sup> Other cost of products sold consisted primarily of amounts paid to carriers for freight services related to contract fulfillment for the years ended December 31, 20X3, 20X2, and 20X1.			
<i>Cost of products sold: inventory and manufacturing expense</i>			
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) <sup>(c)</sup>	<u>5,619</u>	<u>5,733</u>	<u>5,834</u>
Total inventory and manufacturing costs (directly expensed or capitalized to inventory)	<u>54,073</u>	<u>52,372</u>	<u>47,299</u>
Other adjustments and reconciling items <sup>(d)</sup>	(542)	424	538
Changes in inventories	<u>157</u>	<u>(861)</u>	<u>843</u>
Total inventory and manufacturing expense	<u>\$ 53,688</u>	<u>\$ 51,935</u>	<u>\$ 48,680</u>
 <sup>(c)</sup> Other inventory and manufacturing costs consisted primarily of power, fuel, and other utilities costs for the years ended December 31, 20X3, 20X2, and 20X1.			
<sup>(d)</sup> 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.			



**ASC 220-40 (continued)**

(Table continued)

**Disaggregation of Relevant Expense Captions**

	20X3	20X2	20X1
<b>Cost of services</b>			
<i>Cost of services</i>			
Employee compensation	\$ 6,598	\$ 5,654	\$ 4,354
Depreciation	763	765	742
Intangible asset amortization	642	670	650
Other cost of services <sup>(e)</sup>	<u>2,493</u>	<u>2,479</u>	<u>3,152</u>
Total cost of services	<u>\$ 10,496</u>	<u>\$ 9,568</u>	<u>\$ 8,898</u>

<sup>(e)</sup> Other cost of services consisted primarily of operating lease and travel costs for the years ended December 31, 20X3, 20X2, and 20X1.

**Selling, general, and administrative***Selling, general, and administrative*

Employee compensation	\$ 13,242	\$ 11,379	\$ 10,764
Depreciation	1,454	1,755	1,737
PP&E impairment	412	—	—
Intangible asset amortization	523	596	—
Other SG&A <sup>(f)</sup>	<u>5,218</u>	<u>5,141</u>	<u>5,615</u>
Total selling, general, and administrative	<u>\$ 20,849</u>	<u>\$ 18,871</u>	<u>\$ 18,116</u>

<sup>(f)</sup> Other SG&A consisted primarily of professional services fees, operating lease expense, and the costs paid to third parties for printing, publications, and advertising for the years ended December 31, 20X3, 20X2, and 20X1.

**55-12** In addition to the tabular format disclosure illustrated in paragraph 220-40-55-11, Entity XYZ also must disclose its selling expenses and how it defines selling expenses in accordance with paragraphs 220-40-50-22 through 50-23.

*Selling Expenses*

During the years ended December 31, 20X3, 20X2, and 20X1, 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.

**Example 2: Disaggregation of Income Statement Expenses by an Entity With Service Operations**

**55-13** This Example illustrates one type of tabular format disclosure that an entity could use to disclose disaggregated expense amounts in accordance with paragraphs 220-40-50-1 through 50-16. This Example also illustrates the disclosure of selling expenses in accordance with paragraphs 220-40-50-22 through 50-23.

**ASC 220-40 (continued)**

**55-14** For the year ended December 31, 20X3, Entity XYZ, which is a services provider, presents the following comparative statement of operations.

Entity XYZ				
Consolidated Statement of Operations				
For the Years Ended December 31, 20X3, 20X2, and 20X1				
	20X3	20X2	20X1	
Revenues	\$ 737,132	\$ 710,146	\$ 694,180	
Cost of sales (exclusive of depreciation and amortization shown separately below)	140,055	170,435	145,778	
Selling, general, and administrative expenses (exclusive of depreciation and amortization shown separately below)	497,962	458,215	471,626	
Research and development expenses (exclusive of depreciation and amortization shown separately below)	57,235	52,174	48,898	
Depreciation and amortization	<u>31,578</u>	<u>26,178</u>	<u>23,628</u>	
Operating income	10,302	3,144	4,250	
Interest expense	<u>3,145</u>	<u>2,665</u>	<u>2,297</u>	
Income before income taxes	7,157	479	1,953	
Income tax expense	<u>1,503</u>	<u>101</u>	<u>410</u>	
Net income	<u>\$ 5,654</u>	<u>\$ 378</u>	<u>\$ 1,543</u>	

**55-15** Entity XYZ provides a disclosure that disaggregates the cost of sales; selling, general, and administrative expenses; research and development expenses; and depreciation and amortization captions into the categories listed in paragraph 220-40-50-4. Those expense captions were identified as relevant expense captions because those captions contain one or more of the expense categories listed in paragraph 220-40-50-4. Even though Entity XYZ presents other expense captions on the face of its consolidated statement of operations, such as interest expense and income tax expense, those expense captions do not contain any of the expense categories listed in paragraph 220-40-50-4 (including those described in paragraph 220-40-50-9), so those expense captions do not need to be disaggregated.

**55-16** Entity XYZ also recognizes one-time employee termination benefits in cost of sales; selling, general, and administrative expenses; and research and development expenses and, therefore, includes this amount as a separate category in the tabular format disclosure in accordance with paragraph 220-40-50-12. Paragraph 220-40-50-12(e) requires that an entity disclose the amount of each major type of cost associated with an exit or disposal activity (for example, one-time employee termination benefits) that is recognized in each relevant expense caption in the same tabular format in which the disclosures required by paragraph 220-40-50-4 are provided. Because one-time employee termination benefits are a form of employee compensation, Entity XYZ discloses that its employee compensation category excludes one-time employee termination benefits because one-time employee termination benefits are disclosed as a separate category.

**55-17** Entity XYZ recognizes operating lease cost in both cost of sales and selling, general, and administrative expenses. Therefore, in accordance with paragraph 220-40-50-13, Entity XYZ is not required to separately disclose the amounts of cost of sales and selling, general, and administrative expenses that are attributable to operating lease cost. Instead, those expenses are included in the amount for other items for each relevant expense caption in accordance with paragraph 220-40-50-16.

**ASC 220-40 (continued)**

**55-18** Entity XYZ provides the following disclosure.

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**Disaggregation of Relevant Expense Captions**


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	20X3	20X2	20X1
<b>Cost of sales</b>			
<i>Cost of sales</i>			
Employee compensation (exclusive of one-time employee termination benefits)	\$ 86,336	\$ 83,903	\$ 100,009
One-time employee termination benefits	7,434	39,298	—
Other cost of sales <sup>(a)</sup>	<u>46,285</u>	<u>47,234</u>	<u>45,769</u>
Total cost of sales	<u>\$ 140,055</u>	<u>\$ 170,435</u>	<u>\$ 145,778</u>
<sup>(a)</sup> Other cost of sales consisted primarily of operating lease and travel expenses for the years ended December 31, 20X3, 20X2, and 20X1.			
<b>Selling, general, and administrative</b>			
<i>Selling, general, and administrative</i>			
Employee compensation (exclusive of one-time employee termination benefits)	\$ 278,859	\$ 238,272	\$ 301,841
One-time employee termination benefits	19,243	60,635	—
Other SG&A <sup>(b)</sup>	<u>199,860</u>	<u>159,308</u>	<u>169,785</u>
Total selling, general, and administrative	<u>\$ 497,962</u>	<u>\$ 458,215</u>	<u>\$ 471,626</u>
<sup>(b)</sup> Other SG&A consisted primarily of professional services fees, operating lease expense, and the costs paid to third parties for printing, publications, and advertising for the years ended December 31, 20X3, 20X2, and 20X1.			
<b>Research and development</b>			
<i>Research and development</i>			
Employee compensation (exclusive of one-time employee termination benefits)	\$ 46,242	\$ 41,379	\$ 40,764
One-time employee termination benefits	1,454	1,855	—
Other R&D <sup>(c)</sup>	<u>9,539</u>	<u>8,940</u>	<u>8,134</u>
Total research and development	<u>\$ 57,235</u>	<u>\$ 52,174</u>	<u>\$ 48,898</u>
<sup>(c)</sup> Other R&D consisted primarily of operating lease expense and payments to third parties for professional services and licenses of intellectual property for the years ended December 31, 20X3, 20X2, and 20X1.			
<b>Depreciation and amortization</b>			
<i>Depreciation and amortization</i>			
Depreciation	\$ 19,126	\$ 17,984	\$ 17,893
Intangible asset amortization	<u>12,452</u>	<u>8,194</u>	<u>5,735</u>
Total depreciation and amortization	<u>\$ 31,578</u>	<u>\$ 26,178</u>	<u>\$ 23,628</u>

**55-19** In addition to the tabular format disclosure illustrated in paragraph 220-40-55-18, Entity XYZ also must disclose its selling expenses and how it defines selling expenses in accordance with paragraphs 220-40-50-22 through 50-23.

*Selling Expenses*

During the years ended December 31, 20X3, 20X2, and 20X1, selling expenses were \$224,536, \$223,493, and \$231,892, respectively. The entity's selling expenses include those expenses related to advertising and certain customer acquisition-related costs.

**Example 3: Disaggregation of Income Statement Expenses by a Bank**

**55-20** This Example illustrates one type of tabular format disclosure that an entity could use to disclose disaggregated expense amounts in accordance with paragraphs 220-40-50-1 through 50-16. This Example also illustrates the disclosure of selling expenses in accordance with paragraphs 220-40-50-22 through 50-23.

**55-21** For the year ended December 31, 20X3, Entity XYZ, which is a bank, presents the following comparative income statement.

<b>Entity XYZ</b>			
<b>Consolidated Income Statement</b>			
<b>For the Years Ended December 31, 20X3, 20X2, and 20X1</b>			
	<b>20X3</b>	<b>20X2</b>	<b>20X1</b>
Interest income			
Loans	\$ 2,795,052	\$ 2,142,873	\$ 2,072,997
Investment securities	628,887	442,550	465,842
Other	<u>209,629</u>	<u>116,461</u>	<u>79,193</u>
Total interest income	3,633,568	2,701,884	2,618,032
Interest expense			
Deposits	302,797	30,280	151,399
Borrowed funds	<u>279,505</u>	<u>83,852</u>	<u>167,703</u>
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	<u>282,383</u>	<u>239,487</u>	<u>212,757</u>
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	<u>30,513</u>	<u>21,399</u>	<u>24,804</u>
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	<u>262,703</u>	<u>308,460</u>	<u>60,342</u>
Net income	<u>\$ 988,262</u>	<u>\$ 1,160,399</u>	<u>\$ 227,003</u>

**ASC 220-40 (continued)**

**55-22** Entity XYZ provides a disclosure that disaggregates the occupancy and depreciation expense and other expense captions into the categories listed in paragraph 220-40-50-4. Those expense captions were identified as relevant expense captions because those captions contain one or more of the expense categories listed in paragraph 220-40-50-4. In this Example, even though Entity XYZ also presents separate expense captions on the face of its consolidated income statement for interest expense, provision for credit losses, data processing, advertising and marketing, professional fees, and income tax expense, those expense captions do not contain any of the expense categories listed in paragraph 220-40-50-4 (including those described in paragraph 220-40-50-9); therefore, those expense captions do not need to be further disaggregated. Entity XYZ applies the practical expedient for employee compensation described in paragraph 220-40-50-11 and elects to not repeat the amount presented on the face of the income statement in the notes to financial statements.

**55-23** Entity XYZ recognizes operating lease cost entirely within occupancy and depreciation expense and, therefore, includes operating lease cost as a separate category in accordance with paragraph 220-40-50-13.

**55-24** Entity XYZ provides the following disclosure.

<b>Disaggregation of Relevant Expense Captions</b>			
	<b>20X3</b>	<b>20X2</b>	<b>20X1</b>
<b>Occupancy and depreciation expense</b>			
<i>Occupancy and depreciation expense</i>			
Depreciation	\$ 164,232	\$ 146,403	\$ 145,907
Operating lease expense	152,445	103,239	149,842
Other occupancy expenses <sup>(a)</sup>	<u>59,910</u>	<u>30,233</u>	<u>53,930</u>
Total occupancy and depreciation expense	<u>\$ 376,587</u>	<u>\$ 279,875</u>	<u>\$ 349,679</u>
<sup>(a)</sup> Other occupancy expenses consisted primarily of repair and maintenance expense for the years ended December 31, 20X3, 20X2, and 20X1.			
<b>Other</b>			
<i>Other</i>			
Intangible asset amortization	\$ 13,139	\$ 10,980	\$ 10,068
Other <sup>(b)</sup>	<u>17,374</u>	<u>10,419</u>	<u>14,736</u>
Total other	<u>\$ 30,513</u>	<u>\$ 21,399</u>	<u>\$ 24,804</u>
<sup>(b)</sup> Other consisted primarily of regulatory licensing fees and charitable contributions for the years ended December 31, 20X3, 20X2, and 20X1.			

**55-25** In addition to the tabular format disclosure illustrated in paragraph 220-40-55-24, Entity XYZ also must disclose its selling expenses and how it defines selling expenses in accordance with paragraphs 220-40-50-22 through 50-23.

*Selling Expenses*

During the years ended December 31, 20X3, 20X2, and 20X1, the company defined selling expenses to be the same as its advertising and marketing expenses, which are presented on the face of its consolidated income statement. The entity's advertising and marketing expenses include costs incurred for advertising, market research, and business development.

## Appendix B — Questions for Respondents

The proposed ASU includes the following questions (reproduced from the proposal) for respondents to consider:

### Expense Captions Subject to Disaggregation Requirements

**Question 1:** The amendments in this proposed Update would require that a public business entity disclose disaggregated *relevant expense captions* in the notes to financial statements. For preparers and practitioners, are the proposed amendments for identifying relevant expense captions operable? Please explain why or why not. If not, what changes would you make?

### Entities in Scope

**Question 2:** Should the proposed amendments apply to all public business entities? Please explain why or why not.

### Required Expense Categories

**Question 3:** The proposed amendments would require that an entity disclose the amounts of (a) inventory and manufacturing expense, (b) employee compensation, (c) depreciation, (d) intangible asset amortization, and (e) DD&A that are included in each relevant expense caption. For investors, would this proposed disclosure provide decision-useful information? If so, how would that information be used? If not, what changes would you make? Would any of the proposed categories not provide decision-useful information? For example, are there categories that would be more decision useful than the ones being proposed?

**Question 4:** For preparers, how does requiring disclosure of certain categories of expenses included in relevant expense captions compare with the operability and cost of requiring full disaggregation of income statement expenses into natural categories (including the disclosure of additional categories that would not be required by the proposed amendments)? Are there other broadly applicable expense categories or disaggregation approaches that would provide investors with more decision-useful information, be less costly to provide, or both? Please explain why or why not.

**Question 5:** For preparers and practitioners, is the proposed definition of *inventory expense* operable? Please explain why or why not. If not, what changes would you make?

**Question 6:** The proposed amendments would leverage the existing definition of *employee* in Topic 718, Compensation — Stock Compensation, and would add a definition of *employee compensation*. For preparers and practitioners, are the proposed definitions of *employee* and *employee compensation* operable, including for entities with international operations, and would the proposed amendments affect entities' current application of the definition of *employee* in Topic 718? Please explain. What changes, if any, would you make? For preparers, would the proposed practical expedient that would allow certain entities to disclose salaries and benefits in accordance with SEC Regulation S-X Rule 9-04 be less costly to apply than applying the proposed definition of *employee compensation*? For investors, would permitting the application of that proposed practical expedient affect the decision usefulness of the proposed disclosures? For all stakeholders, should the definition of *employee compensation* include additional costs or exclude any of the costs proposed? Please explain why or why not.

**Question 7:** For preparers and practitioners, would linking depreciation and intangible asset amortization to existing disclosure requirements in Subtopic 360-10, Property, Plant, and Equipment — Overall, and Subtopic 350-30, Intangibles — Goodwill and Other — General Intangibles Other Than Goodwill, be operable? Please explain why or why not.

### Further Disaggregation of Inventory and Manufacturing Expense

**Question 8:** The proposed amendments would require further disaggregation of inventory and manufacturing expense into the following categories of costs incurred: (a) purchases of inventory, (b) employee compensation, (c) depreciation, (d) intangible asset amortization, and (e) DD&A. Those costs incurred categories would include costs that flow into the balance sheet as inventory and also would include manufacturing costs that are expensed directly. The costs incurred categories would not represent costs flowing from inventory on the balance sheet to the income statement when that inventory is sold or impaired. Residual costs incurred would be included in an "other" category. For investors, would this proposed disclosure provide decision-useful information? If so, how would that information be used? If not, what changes would you make? Would any of the proposed costs incurred categories not provide decision-useful



information? For example, are there categories that would be more decision useful than the ones being proposed? Should the proposed requirement to further disaggregate costs incurred that flow into the balance sheet as inventory be expanded to include assets other than inventory? If so, which assets?

**Question 9:** The proposed amendments would require (a) that the costs incurred that were capitalized to inventory during the current period be combined with other manufacturing expenses and (b) that this total of manufacturing-related expenses be disaggregated and disclosed separately from nonmanufacturing expenses. For preparers, would this proposed requirement be more or less costly to implement than if all such costs (manufacturing and nonmanufacturing) were permitted to be combined? For preparers and practitioners, is this proposed requirement operable? Please explain why or why not.

**Question 10:** For preparers and practitioners, is the proposed requirement to classify certain expenses as part of manufacturing activities and disclose how an entity defines other manufacturing expenses (other manufacturing expenses together with inventory expense constitute inventory and manufacturing expenses) operable? Please explain why or why not. If not, what changes would you make?

**Question 11:** For preparers and practitioners, are there any potential practical expedients that would simplify or reduce the costs associated with disaggregating inventory and manufacturing expense but would not significantly diminish the decision usefulness of the information provided to investors? For any potential practical expedients suggested, please explain your reasoning.

## Integration of Existing Disclosure Requirements

**Question 12:** The proposed amendments would require that an entity include certain existing disclosures of expenses in the same tabular format disclosure as the disclosures that would be required by the proposed amendments. For investors, would including those expenses in the same tabular format disclosure provide decision-useful information? Would this improve your ability to locate relevant expense information in the notes to financial statements? Please explain why or why not. For preparers and practitioners, is this proposed requirement operable? Please explain why or why not. For all stakeholders, are there other existing disclosures that are not reflected in the proposed amendments and should be included in the lists in paragraph 220-40-50-12, paragraph 220-40-50-13, or both? Please explain why or why not.

**Question 13:** In addition to the disclosure requirements being proposed, should other expenses that are currently disclosed in the financial statements also be required to be integrated into the tabular format disclosures (for example, other expenses that an entity voluntarily discloses in total in the notes to financial statements)? Please explain why or why not.

## Qualitative Description of Other Items

**Question 14:** The proposed amendments would require that an entity provide a qualitative description of any other items remaining in relevant expense captions and any costs remaining in inventory and manufacturing expense after the specific disaggregation requirements are applied. For investors, would this proposed requirement provide decision-useful information? If so, how would that information be used? If not, what changes would you make? For preparers and practitioners, is this proposed requirement operable? Please explain why or why not.

## Selling Expenses

**Question 15:** The proposed amendments would require that an entity disclose selling expenses and how it defines selling expenses. Should a definition of *selling expenses* be developed, or should an entity be required to determine what constitutes a selling expense? For investors, would the proposed requirement provide decision-useful information? If so, how would that information be used? If not, what changes would you make? For preparers and practitioners, is the proposed requirement operable? Please explain why or why not.

## Interim Reporting

**Question 16:** The proposed amendments would require the disclosures on both an annual basis and an interim basis. Do you agree with those proposed amendments? Please explain why or why not.

## Transition and Effective Date

**Question 17:** The proposed amendments would be applied on a prospective basis with an option for an entity to apply the guidance retrospectively. Is that proposed transition method operable? If not, why not and what transition method would be more appropriate and why? Would the information disclosed under the proposed transition method be decision useful? Please explain why or why not.

**Question 18:** For preparers, would you expect to apply the proposed amendments retrospectively, even if not required, to assist investors in comparing performance to previous periods? Please explain why or why not.

**Question 19:** Regarding the effective date, how much time would be needed to implement the proposed amendments? Should early adoption be permitted? Please explain why or why not.

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