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FASB issues ASU

Disaggregation of income statement expenses—DISE

November 5, 2024

ASU 2024-03 requires disaggregating income statement captions containing prescribed expense categories.

Source and applicability

- ASU 2024-03, Disaggregation of Income Statement Expenses
- Annual and interim financial statements of public business entities (PBEs)

Fast facts and impacts

The ASU requires new financial statement disclosures in tabular format, disaggregating information about prescribed categories underlying any relevant income statement expense caption.

Main provisions	Highlights
Relevant expense captions identified for disaggregation	A functional or natural expense line item on the face of the income statement within continuing operations containing any prescribed natural expense category (see below).
Prescribed natural expense categories presented separately for each identified relevant expense caption	• Purchases of inventory • Employee compensation • Depreciation • Intangible asset amortization • Depreciation, depletion and amortization (DD&A) for oil-and-gas producing activities • Depletion
Additional categories presented separately for each identified relevant expense caption	• Certain expense reimbursements • Specific expenses, gains and losses required to be disclosed by other US GAAP • Other items (residual amount and composition) • Changes in inventories, ***if applicable*** • Other adjustments and reconciling items (amount and composition), ***if applicable***
Selling expenses (narrative disclosure)	• Total amount of selling expenses • Description of the composition of this 'management' defined measure (annual only)

Background

By creating Subtopic 220-40, the ASU responds to investor requests for more granular information about an entity's expenses, which allows them to better understand performance, prospects for future cash flows and comparability over time.

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

Key provisions unpacked

Relevant expense captions identified for disaggregation

A relevant expense caption is defined as a caption presented on the face of the income statement within continuing operations that contains any of the prescribed expense categories. It may include captions that represent functional (e.g. costs of sales) or natural (e.g. depreciation and amortization) expense classifications. Every relevant expense caption is subject to disaggregation into the prescribed expense categories in a tabular format.

The FASB determined that if a relevant expense caption consists *entirely* of a single prescribed expense category (e.g. depreciation), there is no requirement to further disaggregate it.

Relevant expense captions may vary by industry and by entity. However, they are likely to include common functional expenses such as cost of sales, research and development, selling, general and administrative expenses (SG&A), noninterest expenses (for banks), and underwriting, acquisition and insurance expense (for insurance companies). Not every income statement line item is expected to be identified as a relevant expense caption.

Acceptable basis to disaggregate relevant expense captions that include purchases of inventory

For relevant expense captions that include amounts in the scope of Topic 330 (inventory) or related Subtopics that provide industry-specific guidance, entities may choose to disaggregate the captions on either a cost-incurred or expense-incurred basis.

- **Costs incurred** include costs capitalized to inventory and amounts directly expensed to the income statement during the period.
- **Expenses incurred** include expenses recognized upon the derecognition of inventory and amounts that are directly expensed to the income statement during the period.

For example, assume an entity with no inventory purchased $100 of goods in Year 1 but only sold $80, meaning it has an inventory balance of $20 at the end of Year 1. In addition, assume the entity had no inventory amounts directly expensed to the income statement during Year 1. In its Year 1 disaggregation of costs of goods sold, the entity would disclose the following amounts for purchases of inventory: $100 under the cost-incurred approach and $80 under the expense-incurred approach (i.e. the change in inventory of $20 would be presented as a reconciling item).

If an entity changes the basis of presentation from cost-incurred to expense-incurred, or vice versa, it must recast prior periods unless doing so is impracticable.

A relevant expense caption, such as cost of goods sold, may encompass amounts capitalized to inventory (e.g. inventory purchases, employee compensation and depreciation). Once an entity selects the presentation basis for disaggregation of that expense caption, it must apply that basis consistently across all related expense categories in the scope of Topic 330.

Prescribed natural expense categories presented separately for each relevant expense caption

The FASB selected these required expense categories by considering the importance of natural expense types, opting for a finite number of categories instead of full disaggregation by nature, and incorporating investor feedback on high priority categories.

Required expense categories	Key requirements and definitions
Purchases of inventory	Includes the costs of acquiring raw materials and other externally purchased inputs that are in the scope of Topic 330, or relevant Subtopics that provide industry-specific guidance such as Subtopic 932-330 (oil and gas), on either a cost-incurred or expense-incurred basis in the current period.
Employee compensation	New Master Glossary definitions: • **Employee**: Defined to align with Topic 718, specifying that an employee can be, but is not limited to, full-time, part-time, temporary or seasonal. • **Employee compensation**: Consistent with compensation costs outlined in Topics 710, 712, 715 and 718 (e.g. wages, bonuses, social security contributions, benefits and stock compensation). One-time employee termination benefits provided to employees who are involuntarily terminated are presented as a separate line item from regular employee compensation.
Depreciation	Consistent with amounts recorded for long-lived assets under Topic 360.
Intangible asset amortization	• Consistent with amounts recorded under Topic 350. • Amortization of finance lease right-of-use assets and leasehold improvements arising from Topic 842 are presented under the depreciation or amortization category. • Amortization of other capitalized assets (e.g. customer contract acquisition costs) are excluded.
DD&A for oil-and-gas producing activities	DD&A is included as a separate line item because it represents a potentially significant noncash expense that is recognized systematically, like depreciation and amortization.
Depletion	Depletion expense recognized by industries other than the oil-and-gas industry is separately disclosed.

In addition to the key requirements outlined above, the ASU provides additional detail about specific items within the required expense categories.

- **Purchases of inventory:** This expense category includes inventory amounts purchased through asset acquisitions. However, it does not include inventory amounts recognized from transactions related to (1) business combinations, (2) joint venture formations, and (3) initial consolidation of a variable interest entity that is not a business. Instead, those amounts are classified under the 'other items' category or disclosed separately.

The FASB determined that these excluded transactions differ economically from routine inventory purchases, and that including them could distort forward looking information and trends for investors by mixing nonrecurring items with recurring ones. However, entities are not prohibited from separately identifying these transactions in tabular format.

- **Certain liability-related expenses:** The ASU offers a principles-based framework for determining when certain liability-related expenses may be excluded from disaggregation requirements, instead of specifying a detailed list of such items. This framework could apply to items such as accrued losses on contracts and certain expense accruals like insurance claims.
- **Equity-method investments:** Entities are not required to disaggregate their share of profit or loss in equity method investees or summarize information of results of operations for these investees.

The ASU also provides two practical expedients that:

- permit entities that present an expense caption for salaries and benefits in the income statement in compliance with S-X Rule 9-04 (e.g. banks) to use these amounts instead of presenting employee compensation as defined under the ASU;
- permit entities to provide a qualitative description of the composition of an income statement expense caption, instead of disclosing disaggregated amounts, when substantially all of the expense caption relates to purchases of inventory in the scope of Topic 330.

Additional categories presented separately for each identified relevant expense caption

Once the prescribed expense categories have been identified for each relevant expense caption, the ASU requires additional categories to be presented separately for each identified relevant expense caption. These categories include the following.

- **Expense reimbursements related to cost-sharing and cost-reimbursement arrangements**
  - **Amounts received**: disclosed separately in the table with a qualitative description of which natural expense categories are reimbursed or netted with the reimbursed expenses.
  - **Amounts paid**: disclosed separately in the table with a qualitative description of which natural expense categories are reimbursed.

The FASB decided not to allow the offsetting of reimbursement amounts within the 'other items' category in cases where an entity pays or receives a reimbursement to or from a counterparty that sends or receives an invoice showing only the total reimbursement amount and the entity lacks detailed information about each natural expense category.

- **Specified expenses, gains and losses required to be disclosed by other US GAAP**
  - Certain specified items (e.g. impairment of intangible assets or long-lived assets, gains and losses on derivative instruments, bargain purchase gains, etc.) for each relevant caption that may include them.
  - Certain specified items (e.g. warranty expense, loss contingencies, amortization of costs to obtain a contract with a customer, etc.) if entirely recorded within one relevant expense caption. For instance, if loss contingencies are recorded entirely in SG&A, the entity would include an additional line item for loss contingencies in its tabular disaggregation of SG&A. However, if loss contingencies span multiple relevant expense captions, the entity may opt to disclose its amounts as required under Topic 450 in another part of the financial statements, such as in the contingencies note.

To minimize the 'other items' category, the FASB decided that specific expenses, gains and losses required to be disclosed by other US GAAP should be included as separate line items in the tabular format. This 'one-stop shop' approach aims to make income statement information more accessible for users of the financial statements.

- **Other items**
  - The tabular disclosure for each relevant expense caption should reconcile to the corresponding amount on the face of the income statement. To achieve this, an entity will likely need to include a line item for other items that are not required to be disaggregated.
  - A qualitative description of the composition of these other items is required, which should be commensurate with the significance of the amounts being described.
- **Reconciling items that are applicable only when a cost-incurred basis is used to disaggregate a relevant expense caption that includes amounts in the scope of Topic 330**
  - **Changes in inventories:** Represents the difference between prior year and current year inventory balances, which may include adjustments for impairments related to inventories capitalized in the prior period.
  - **Other adjustments and reconciling items:** Represents amounts needed to reconcile costs incurred to expenses recognized (e.g. foreign currency translation adjustments and derecognized inventory that does not meet the definition of inventory expense). Similar to 'other items', this category also requires a qualitative description to be provided.

Selling expenses

In addition to the tabular format disclosure, the ASU mandates a narrative disclosure of the total selling expenses recognized in continuing operations. Selling expenses is a management-defined category, with a description required annually. Although management-defined, it should include only items that are presented as expenses in the income statement.

If an entity changes its definition of selling expenses, it will have to recast prior period comparative information in the period of the change unless it is impracticable to do so. However, a preferability assessment is not required under Topic 250.

The FASB chose not to specify whether advertising expenses accounted for under Subtopic 720-35 should be included in the amounts disclosed for total selling expenses. While it is expected that advertising costs often will be part of selling expenses, each entity will determine and establish its own policy for defining selling expenses.

Other clarifications

- **Use of estimates and other methods:** An entity may use accounting estimates or other approximation methods to determine the amounts to disclose.
- **Voluntary disclosure of additional expense information:** An entity is not precluded from disclosing additional expense information that it deems relevant to its financial statement users. This voluntary disclosure may be presented inside or outside the tabular disclosure as long as it is not combined with the required expense amounts.

Illustrative example

Entity A is a manufacturer and therefore cost of products sold is a relevant expense caption. Cost of products sold includes amounts recognized under Topic 330, and Entity A chooses to disclose the disaggregation of cost of products sold on a cost-incurred basis. The following disclosures are an illustrative example of the disaggregated disclosure for cost of products sold. If Entity A has other relevant expense captions, it would also need to disaggregate those captions.

Cost of products sold	Year 3	Year 2	Year 1
Purchases of inventory	20	19	16
Employee compensation	18	17	14
Depreciation	10	10	9
Intangible asset amortization	3	3	3
Warranty expense	4	4	4
Other cost of products sold[1]	8	8	8
Changes in inventories	1	(1)	2
Other adjustments and reconciling items[2]	(1)	1	1
Total cost of products sold	**63**	**61**	**57**

Notes:

[1] Other cost of products sold consists primarily of amounts paid to carriers for outbound freight services related to contract fulfillment and amounts related to the measurement of a liability for an environmental obligation for the years ended December 31, Year 3, Year 2 and Year 1. Year 3 also includes inventory amounts recognized as part of a business combination.

[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, Year 3, Year 2 and Year 1.

In addition to the tabular disclosures illustrated above, Entity A also discloses the amount of selling expense and its definition.

Selling expenses
During the years ended December 31, Year 3, Year 2 and Year 1, 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 dates and transition

All PBEs are required to adopt the ASU prospectively for annual periods beginning after December 15, 2026, and interim periods within fiscal years beginning after December 15, 2027. Early adoption and retrospective application are permitted.

For further information

If you would like to dive deeper into implementation challenges and preparation steps, click here to listen to our short, easy-to-follow companion podcast!

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