



ACCOUNTING STANDARDS UPDATE

No. 2024-03
November 2024

Income Statement—Reporting Comprehensive Income—Expense Disaggregation Disclosures (Subtopic 220-40)

Disaggregation of Income Statement Expenses

An Amendment of the *FASB Accounting Standards Codification*®

Financial Accounting Standards Board

The *FASB Accounting Standards Codification*[®] is the source of authoritative generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. An Accounting Standards Update is not authoritative; rather, it is a document that communicates how the Accounting Standards Codification is being amended. It also provides other information to help a user of GAAP understand how and why GAAP is changing and when the changes will be effective.

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Financial Accounting Standards Board
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Summary

Why Is the FASB Issuing This Accounting Standards Update (Update)?

Feedback from investors, lenders, creditors, and other allocators of capital (collectively, “investors”) on the 2021 FASB Invitation to Comment, *Agenda Consultation*, indicated that disclosure of disaggregated financial reporting information (in the income statement, the statement of cash flows, or the notes to financial statements) should be a top priority for the Board. The Board received similar feedback as part of the 2016 FASB Invitation to Comment, *Agenda Consultation*. Investors observed that more detailed information about expenses is critically important in understanding an entity’s performance, assessing an entity’s prospects for future cash flows, and comparing an entity’s performance over time and with that of other entities. Investors specifically indicated that more granular information about cost of sales and selling, general, and administrative expenses (SG&A) would assist them in better understanding an entity’s cost structure and forecasting future cash flows. Some investors also noted the need for greater disclosure of employee compensation costs.

The Board is issuing this Update to improve the disclosures about a public business entity’s expenses and address requests from investors for more detailed information about the types of expenses (including purchases of inventory, employee compensation, depreciation, amortization, and depletion) in commonly presented expense captions (such as cost of sales, SG&A, and research and development).

The Board expects that nearly all public business entities will disclose more information under the amendments in this Update about the components of those expense captions than is disclosed in financial statements today. That incremental information will allow investors to better understand the components of an entity’s expenses, make their own judgments about the entity’s performance, and more accurately forecast expenses, which in turn should enable investors to better assess an entity’s prospects for future cash flows. It also will provide contextual information for an entity’s preparation and an investor’s consideration of management’s discussion and analysis of

financial position and results of operations (MD&A). Coupled with recent standards that enhanced the disaggregation of revenue and income tax information, the disaggregated expense information required by the amendments in this Update will enable investors to better understand the major components of an entity's income statement because an investor will be able to reference specific disclosures in the notes to financial statements about revenue, expenses, and income taxes.

Who Is Affected by the Amendments in This Update?

The amendments in this Update apply to all public business entities.

What Are the Main Provisions?

The amendments in this Update require disclosure, in the notes to financial statements, of specified information about certain costs and expenses. The amendments require that at each interim and annual reporting period an entity:

1. Disclose the amounts of (a) purchases of inventory, (b) employee compensation, (c) depreciation, (d) intangible asset amortization, and (e) depreciation, depletion, and amortization recognized as part of oil- and gas-producing activities (DD&A) (or other amounts of depletion expense) included in each relevant expense caption. A relevant expense caption is an expense caption presented on the face of the income statement within continuing operations that contains any of the expense categories listed in (a)–(e).
2. Include certain amounts that are already required to be disclosed under current generally accepted accounting principles (GAAP) in the same disclosure as the other disaggregation requirements.
3. Disclose a qualitative description of the amounts remaining in relevant expense captions that are not separately disaggregated quantitatively.
4. Disclose the total amount of selling expenses and, in annual reporting periods, an entity's definition of selling expenses.

An entity is not precluded from providing additional voluntary disclosures that may provide investors with additional decision-useful information.

How Do the Main Provisions Differ from Current Generally Accepted Accounting Principles (GAAP) and Why Are They an Improvement?

The amendments in this Update improve financial reporting by requiring that public business entities disclose additional information about specific expense categories in the notes to financial statements at interim and annual reporting periods. This information is generally not presented in the financial statements today.

Currently, Topic 220, Income Statement—Reporting Comprehensive Income, does not require the presentation of specific expense captions on the face of the income statement (excluding the U.S. Securities and Exchange Commission [SEC] Sections). That Topic also does not currently require any disaggregation of expense captions. Certain income statement expense captions are required by industry-specific guidance or are triggered when a specific event occurs (for example, goodwill impairment). Other types of expenses, even when not required to be presented separately on the face of the income statement, are required to be disclosed separately in the notes to financial statements. For public business entities subject to the SEC's presentation requirements, certain articles of SEC Regulation S-X Rule 210, Form and Content of and Requirements for Financial Statements, apply to entities in different industries. The amendments in this Update do not change or remove those presentation requirements or any other current presentation requirements.

The amendments in this Update do not change or remove current expense disclosure requirements. However, the amendments affect where this information appears in the notes to financial statements because entities are required to include certain current disclosures in the same tabular format disclosure as the other disaggregation requirements in the amendments.

When Will the Amendments Be Effective and What Are the Transition Requirements?

The amendments in this Update are effective for annual reporting periods beginning after December 15, 2026, and interim reporting periods beginning after December 15, 2027. Early adoption is permitted.

The amendments in this Update should be applied either (1) prospectively to financial statements issued for reporting periods after the effective date of this Update or (2) retrospectively to any or all prior periods presented in the financial statements.

Amendments to the *FASB Accounting Standards Codification*[®]

Introduction

1. The Accounting Standards Codification is amended as described in paragraphs 2–42. In some cases, to put the change in context, not only are the amended paragraphs shown but also the preceding and following paragraphs. Terms from the Master Glossary are in **bold** type. Added text is underlined, and deleted text is ~~struck out~~.

Amendments to Master Glossary

2. Amend the following Master Glossary terms, with a link to transition paragraph 220-40-65-1, as follows:

Employee (second definition)

An individual over whom a reporting entity ~~the grantor of a share-based compensation award~~ exercises or has the right to exercise sufficient control to establish an employer-employee relationship based on common law as illustrated in case law and currently under U.S. Internal Revenue Service (IRS) Revenue Ruling 87-41. A reporting entity based in a foreign jurisdiction would determine whether an employee-employer relationship exists based on the pertinent laws of that jurisdiction. Accordingly, an individual ~~a grantee~~ meets the definition of an employee if the reporting entity ~~grantor~~ consistently represents that individual to be an employee under common law. The definition of an employee for payroll tax purposes under the U.S. Internal Revenue Code includes common law employees. Accordingly, a reporting entity ~~grantor~~ that classifies an individual ~~a grantee~~ potentially subject to U.S. payroll taxes as an employee also must represent that individual as an employee for payroll tax purposes (unless the individual ~~grantee~~ is a leased employee as described below). An individual that meets the definition of an employee includes, but is not limited to, a full-time, part-time, temporary, or seasonal employee. An individual ~~A grantee~~ does not meet the definition of an employee solely because the reporting entity ~~grantor~~ represents that individual as an employee for some, but not all, purposes. For example, a requirement or decision to classify an individual ~~a grantee~~ as an employee for U.S. payroll tax purposes

does not, by itself, indicate that the individual grantee is an employee because the individual grantee also must be an employee of the reporting entity grantor under common law.

A leased individual is deemed to be an employee of the lessee if all of the following requirements are met:

- a. The leased individual qualifies as a common law employee of the lessee, and the lessor is contractually required to remit payroll taxes on the compensation paid to the leased individual for the services provided to the lessee.
- b. The lessor and lessee agree in writing to all of the following conditions related to the leased individual:
 1. The lessee has the exclusive right to grant ~~stock~~ compensation to the individual for the employee service to the lessee.
 2. The lessee has a right to hire, fire, and control the activities of the individual. (The lessor also may have that right.)
 3. The lessee has the exclusive right to determine the economic value of the services performed by the individual (including wages and the number of units and value of stock compensation granted).
 4. The individual has the ability to participate in the lessee's employee benefit plans, if any, on the same basis as other comparable employees of the lessee.
 5. The lessee agrees to and remits to the lessor funds sufficient to cover the complete compensation, including all payroll taxes, of the individual on or before a contractually agreed upon date or dates.

A nonemployee director does not satisfy this definition of employee. Nevertheless, nonemployee directors acting in their role as members of a board of directors are treated as employees if those directors were elected by the employer's shareholders or appointed to a board position that will be filled by shareholder election when the existing term expires. However, that requirement applies only to awards and other compensation granted to nonemployee directors for their services as directors. Awards granted and compensation paid to those individuals for other services shall be accounted for as awards and compensation to nonemployees.

Natural Expense Classification

A method of grouping expenses according to the types ~~kinds~~ of economic benefits received in incurring those expenses. Examples of natural expense classifications include salaries and wages, employee benefits, nonemployee professional services, supplies, interest expense, rent, utilities, and depreciation.

3. Add the following new Master Glossary term *Employee Compensation*, with a link to transition paragraph 220-40-65-1, as follows:

Employee Compensation

All forms of cash consideration (including deferred cash compensation), **share-based payment arrangements**, medical care benefits, **pension benefits**, **postretirement benefits**, and **nonretirement postemployment benefits** (including special or contractual **termination benefits**) given by an entity in exchange for service rendered by {add link to 2nd definition}employees{add link to 2nd definition} or for the termination of employment. This includes compensation cost arising from wages, salaries, profit-sharing, bonuses, **one-time employee termination benefits**, **other postemployment benefits**, **employee stock ownership plans**, employee share purchase plans, **defined contribution plans**, **multiemployer plans**, and any other compensation cost recognized in accordance with the guidance in Topic 710 on compensation, Topic 712 on nonretirement postemployment benefits, Topic 715 on retirement benefits, and Topic 718 on stock compensation. This also includes compulsory payments paid to the general government that confer entitlement to receive a (contingent) future social benefit, such as unemployment insurance benefits and supplements; accident, injury, and sickness benefits; old-age, disability, and survivors' pensions; and family allowances, reimbursements for medical and hospital expenses, or provision of hospital or medical services. For **defined benefit plans** within the scope of Topic 715, employee compensation includes only the **service cost component of net periodic pension cost** and the **service cost component of net periodic postretirement benefit cost**.

Addition of Subtopic 220-40

4. Add Subtopic 220-40, with a link to transition paragraph 220-40-65-1, as follows:

[For ease of readability, the new Subtopic is not underlined.]

Income Statement—Reporting Comprehensive Income— Expense Disaggregation Disclosures

Overview and Background

General

220-40-05-1 This Subtopic provides guidance on the disaggregation disclosure requirements for certain expense captions presented on the face of an entity's income statement. This Subtopic also provides guidance on the disclosure of selling expenses.

Scope and Scope Exceptions

General

> Overall Guidance

220-40-15-1 This Subtopic has its own discrete scope, which is separate and distinct from the pervasive scope for this Topic as outlined in Section 220-10-15.

> Entities

220-40-15-2 The guidance in this Subtopic applies to all **public business entities**.

220-40-15-3 The guidance in this Subtopic does not apply to the following entities:

- a. **Private companies**
- b. **Not-for-profit entities**
- c. Employee benefit plans within the scope of any of the following Topics:
 1. Plan Accounting—Defined Benefit Pension Plans (Topic 960)

2. Plan Accounting—Defined Contribution Pension Plans (Topic 962)
3. Plan Accounting—Health and Welfare Benefit Plans (Topic 965).

Glossary

Accretion Expense

An amount recognized as an expense classified as an operating item in the statement of income resulting from the increase in the carrying amount of the liability associated with the asset retirement obligation.

Acquiree

The **business** or **businesses** that the **acquirer** obtains control of in a **business combination**. This term also includes a nonprofit activity or business that a not-for-profit acquirer obtains control of in an **acquisition by a not-for-profit entity**.

Acquirer

The entity that obtains control of the **acquiree**. However, in a **business combination** in which a **variable interest entity** (VIE) is acquired, the primary beneficiary of that entity always is the acquirer.

Acquisition by a Not-for-Profit Entity

A transaction or other event in which a not-for-profit acquirer obtains control of one or more nonprofit activities or businesses and initially recognizes their assets and liabilities in the acquirer's financial statements. When applicable guidance in Topic 805 is applied by a **not-for-profit entity**, the term **business combination** has the same meaning as this term has for a for-profit entity. Likewise, a reference to business combinations in guidance that links to Topic 805 has the same meaning as a reference to acquisitions by not-for-profit entities.

Acquisition Costs

Costs that are related directly to the successful acquisition of new or renewal insurance contracts.

Asset Retirement Obligation

An obligation associated with the retirement of a tangible long-lived asset.

Business

Paragraphs 805-10-55-3A through 55-6 and 805-10-55-8 through 55-9 define what is considered a business.

Business Combination

A transaction or other event in which an **acquirer** obtains control of one or more **businesses**. Transactions sometimes referred to as true mergers or mergers of equals also are business combinations. See also **Acquisition by a Not-for-Profit Entity**.

Commencement Date of the Lease (Commencement Date)

The date on which a **lessor** makes an **underlying asset** available for use by a **lessee**. See paragraphs 842-10-55-19 through 55-21 for implementation guidance on the commencement date.

Contract

An agreement between two or more parties that creates enforceable rights and obligations.

Corporate Joint Venture

A corporation owned and operated by a small group of entities (the joint venturers) as a separate and specific business or project for the mutual benefit of the members of the group. A government may also be a member of the group. The purpose of a corporate joint venture frequently is to share risks and rewards in developing a new market, product or technology; to combine complementary technological knowledge; or to pool resources in developing production or other facilities. A corporate joint venture also usually provides an arrangement under which each joint venturer may participate, directly or indirectly, in the overall management of the joint venture. Joint venturers thus have an interest or relationship other than as passive investors. An entity that is a subsidiary of one of the joint venturers is not a corporate joint venture. The ownership of a corporate joint venture seldom changes, and its stock is usually

not traded publicly. A noncontrolling interest held by public ownership, however, does not preclude a corporation from being a corporate joint venture.

Customer

A party that has contracted with an entity to obtain goods or services that are an output of the entity's ordinary activities in exchange for consideration.

Defined Benefit Plan

A defined benefit plan provides participants with a determinable benefit based on a formula provided for in the plan.

- a. Defined benefit health and welfare plans—Defined benefit health and welfare plans specify a determinable benefit, which may be in the form of a reimbursement to the covered plan participant or a direct payment to providers or third-party insurers for the cost of specified services. Such plans may also include benefits that are payable as a lump sum, such as death benefits. The level of benefits may be defined or limited based on factors such as age, years of service, and salary. Contributions may be determined by the plan's actuary or be based on premiums, actual claims paid, hours worked, or other factors determined by the plan sponsor. Even when a plan is funded pursuant to agreements that specify a fixed rate of employer contributions (for example, a collectively bargained multiemployer plan), such a plan may nevertheless be a defined benefit health and welfare plan if its substance is to provide a defined benefit.
- b. Defined benefit pension plan—A pension plan that defines an amount of pension benefit to be provided, usually as a function of one or more factors such as age, years of service, or compensation. Any pension plan that is not a **defined contribution** pension plan is, for purposes of Subtopic 715-30, a defined benefit pension plan.
- c. Defined benefit postretirement plan—A plan that defines postretirement benefits in terms of monetary amounts (for example, \$100,000 of life insurance) or benefit coverage to be provided (for example, up to \$200 per day for hospitalization, or 80 percent of the cost of specified surgical procedures). Any postretirement benefit plan that is not a defined contribution postretirement plan is, for purposes of Subtopic 715-60, a defined benefit postretirement plan. (Specified monetary amounts and benefit coverage are collectively referred to as benefits.)

Defined Contribution Plan

A plan that provides an individual account for each participant and provides benefits that are based on all of the following: amounts contributed to the participant's account by the employer or employee; investment experience; and any forfeitures allocated to the account, less any administrative expenses charged to the plan.

- a. Defined contribution health and welfare plans—Defined contribution health and welfare plans maintain an individual account for each plan participant. They have terms that specify the means of determining the contributions to participants' accounts, rather than the amount of benefits the participants are to receive. The benefits a plan participant will receive are limited to the amount contributed to the participant's account, investment experience, expenses, and any forfeitures allocated to the participant's account. These plans also include flexible spending arrangements.
- b. Defined contribution postretirement plan—A plan that provides postretirement benefits in return for services rendered, provides an individual account for each plan participant, and specifies how contributions to the individual's account are to be determined rather than specifies the amount of benefits the individual is to receive. Under a defined contribution postretirement plan, the benefits a plan participant will receive depend solely on the amount contributed to the plan participant's account, the returns earned on investments of those contributions, and the forfeitures of other plan participants' benefits that may be allocated to that plan participant's account.

Derivative Instrument

Paragraphs 815-10-15-83 through 15-139 define the term *derivative instrument*.

Direct Financing Lease

From the perspective of a **lessor**, a **lease** that meets none of the criteria in paragraph 842-10-25-2 but meets the criteria in paragraph 842-10-25-3(b) and is not an operating lease in accordance with paragraph 842-10-25-3A.

Employee (second definition)

An individual over whom a reporting entity exercises or has the right to exercise sufficient control to establish an employer-employee relationship based on common law as illustrated in case law and currently under U.S. Internal Revenue Service (IRS) Revenue Ruling 87-41. A reporting entity based in a foreign jurisdiction would determine whether an employee-employer relationship exists based on the pertinent laws of that jurisdiction. Accordingly, an individual meets the definition of an employee if the reporting entity consistently represents that individual to be an employee under common law. The definition of an employee for payroll tax purposes under the U.S. Internal Revenue Code includes common law employees. Accordingly, a reporting entity that classifies an individual potentially subject to U.S. payroll taxes as an employee also must represent that individual as an employee for payroll tax purposes (unless the individual is a leased employee as described below). An individual that meets the definition of an employee includes, but is not limited to, a full-time, part-time, temporary, or seasonal employee. An individual does not meet the definition of an employee solely because the reporting entity represents that individual as an employee for some, but not all, purposes. For example, a requirement or decision to classify an individual as an employee for U.S. payroll tax purposes does not, by itself, indicate that the individual is an employee because the individual also must be an employee of the reporting entity under common law.

A leased individual is deemed to be an employee of the lessee if all of the following requirements are met:

- a. The leased individual qualifies as a common law employee of the lessee, and the lessor is contractually required to remit payroll taxes on the compensation paid to the leased individual for the services provided to the lessee.
- b. The lessor and lessee agree in writing to all of the following conditions related to the leased individual:
 1. The lessee has the exclusive right to grant compensation to the individual for the employee service to the lessee.
 2. The lessee has a right to hire, fire, and control the activities of the individual. (The lessor also may have that right.)
 3. The lessee has the exclusive right to determine the economic value of the services performed by the individual (including wages and the number of units and value of stock compensation granted).

4. The individual has the ability to participate in the lessee's employee benefit plans, if any, on the same basis as other comparable employees of the lessee.
5. The lessee agrees to and remits to the lessor funds sufficient to cover the complete compensation, including all payroll taxes, of the individual on or before a contractually agreed upon date or dates.

A nonemployee director does not satisfy this definition of employee. Nevertheless, nonemployee directors acting in their role as members of a board of directors are treated as employees if those directors were elected by the employer's shareholders or appointed to a board position that will be filled by shareholder election when the existing term expires. However, that requirement applies only to awards and other compensation granted to nonemployee directors for their services as directors. Awards granted and compensation paid to those individuals for other services shall be accounted for as awards and compensation to nonemployees.

Employee Compensation

All forms of cash consideration (including deferred cash compensation), **share-based payment arrangements**, medical care benefits, **pension benefits**, **postretirement benefits**, and **nonretirement postemployment benefits** (including special or contractual **termination benefits**) given by an entity in exchange for service rendered by {add link to 2nd definition}employees{add link to 2nd definition} or for the termination of employment. This includes compensation cost arising from wages, salaries, profit-sharing, bonuses, **one-time employee termination benefits**, **other postemployment benefits**, **employee stock ownership plans**, employee share purchase plans, **defined contribution plans**, **multiemployer plans**, and any other compensation cost recognized in accordance with the guidance in Topic 710 on compensation, Topic 712 on nonretirement postemployment benefits, Topic 715 on retirement benefits, and Topic 718 on stock compensation. This also includes compulsory payments paid to the general government that confer entitlement to receive a (contingent) future social benefit, such as unemployment insurance benefits and supplements; accident, injury, and sickness benefits; old-age, disability, and survivors' pensions; and family allowances, reimbursements for medical and hospital expenses, or provision of hospital or medical services. For **defined benefit plans** within the scope of Topic 715, employee compensation includes only the **service cost component of net periodic pension cost** and the **service cost component of net periodic postretirement benefit cost**.

Employee Stock Ownership Plan

An employee stock ownership plan is an employee benefit plan that is described by the Employee Retirement Income Security Act of 1974 and the Internal Revenue Code of 1986 as a stock bonus plan, or combination stock bonus and money purchase pension plan, designed to invest primarily in employer stock. Also called an employee share ownership plan.

Film Costs

Film costs include all direct negative costs incurred in the physical production of a film, as well as allocations of production overhead and capitalized interest in accordance with Topic 835. Examples of direct negative costs include costs of story and scenario; compensation of cast, directors, producers, extras, and miscellaneous staff; costs of set construction and operations, wardrobe, and accessories; costs of sound synchronization; rental facilities on location; and postproduction costs such as music, special effects, and editing.

Finance Lease

From the perspective of a **lessee**, a **lease** that meets one or more of the criteria in paragraph 842-10-25-2.

Hosting Arrangement

In connection with accessing and using software products, an arrangement in which the customer of the software does not currently have possession of the software; rather, the customer accesses and uses the software on an as-needed basis.

Impairment

Impairment is the condition that exists when the carrying amount of a long-lived asset (asset group) exceeds its fair value.

Inactive Employees

Employees who are not currently rendering service to the employer and who have not been terminated. They include those who have been laid off and those on disability leave, regardless of whether they are expected to return to active status.

Intangible Assets

Assets (not including financial assets) that lack physical substance. (The term intangible assets is used to refer to intangible assets other than goodwill.)

Inventory

The aggregate of those items of tangible personal property that have any of the following characteristics:

- a. Held for sale in the ordinary course of business
- b. In process of production for such sale
- c. To be currently consumed in the production of goods or services to be available for sale.

The term inventory embraces goods awaiting sale (the merchandise of a trading concern and the finished goods of a manufacturer), goods in the course of production (work in process), and goods to be consumed directly or indirectly in production (raw materials and supplies). This definition of inventories excludes long-term assets subject to depreciation accounting, or goods which, when put into use, will be so classified. The fact that a depreciable asset is retired from regular use and held for sale does not indicate that the item should be classified as part of the inventory. Raw materials and supplies purchased for production may be used or consumed for the construction of long-term assets or other purposes not related to production, but the fact that inventory items representing a small portion of the total may not be absorbed ultimately in the production process does not require separate classification. By trade practice, operating materials and supplies of certain types of entities such as oil producers are usually treated as inventory.

Joint Venture

An entity owned and operated by a small group of businesses (the joint venturers) as a separate and specific business or project for the mutual benefit of the members of the group. A government may also be a member of the group. The purpose of a joint venture frequently is to share risks and rewards in developing a new market, product, or technology; to combine complementary technological knowledge; or to pool resources in developing production or other facilities. A joint venture also usually provides an arrangement under which each joint venturer may participate, directly or indirectly, in the overall management of the joint venture. Joint venturers thus

have an interest or relationship other than as passive investors. An entity that is a subsidiary of one of the joint venturers is not a joint venture. The ownership of a joint venture seldom changes, and its equity interests usually are not traded publicly. A minority public ownership, however, does not preclude an entity from being a joint venture. As distinguished from a **corporate joint venture**, a joint venture is not limited to corporate entities.

Lease

A **contract**, or part of a contract, that conveys the right to control the use of identified property, plant, or equipment (an identified asset) for a period of time in exchange for consideration.

Lease Term

The noncancellable period for which a **lessee** has the right to use an **underlying asset**, together with all of the following:

- a. Periods covered by an option to extend the **lease** if the lessee is reasonably certain to exercise that option
- b. Periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option
- c. Periods covered by an option to extend (or not to terminate) the lease in which exercise of the option is controlled by the **lessor**.

Legal Entity

Any legal structure used to conduct activities or to hold assets. Some examples of such structures are corporations, partnerships, limited liability companies, grantor trusts, and other trusts.

Lessee

An entity that enters into a **contract** to obtain the right to use an **underlying asset** for a period of time in exchange for consideration.

Lessor

An entity that enters into a **contract** to provide the right to use an **underlying asset** for a period of time in exchange for consideration.

License Agreement

A typical license agreement for program material (for example, features, specials, series, or cartoons) covers several programs (a package) and grants a television station, group of stations, network, pay television, or cable television system (licensee) the right to broadcast either a specified number or an unlimited number of showings over a maximum period of time (license period) for a specified fee.

Loss Contingency

An existing condition, situation, or set of circumstances involving uncertainty as to possible loss to an entity that will ultimately be resolved when one or more future events occur or fail to occur. The term loss is used for convenience to include many charges against income that are commonly referred to as expenses and others that are commonly referred to as losses.

Multiemployer Plan

A pension or postretirement benefit plan to which two or more unrelated employers contribute, usually pursuant to one or more collective-bargaining agreements. A characteristic of multiemployer plans is that assets contributed by one participating employer may be used to provide benefits to employees of other participating employers since assets contributed by an employer are not segregated in a separate account or restricted to provide benefits only to employees of that employer. A multiemployer plan is usually administered by a board of trustees composed of management and labor representatives and may also be referred to as a joint trust or union plan. Generally, many employers participate in a multiemployer plan, and an employer may participate in more than one plan. The employers participating in multiemployer plans usually have a common industry bond, but for some plans the employers are in different industries and the labor union may be their only common bond. Some multiemployer plans do not involve a union. For example, local chapters of a not-for-profit entity (NFP) may participate in a plan established by the related national organization.

Natural Expense Classification

A method of grouping expenses according to the types of economic benefits received in incurring those expenses. Examples of natural expense classifications include salaries and wages, employee benefits, nonemployee

professional services, supplies, interest expense, rent, utilities, and depreciation.

Nonretirement Postemployment Benefits

All types of benefits, other than those provided through a pension or other postretirement plan (see Subtopics 715-30 and 715-60), provided to former or inactive employees, their beneficiaries, and covered dependents.

Not-for-Profit Entity

An entity that possesses the following characteristics, in varying degrees, that distinguish it from a business entity:

- a. Contributions of significant amounts of resources from resource providers who do not expect commensurate or proportionate pecuniary return
- b. Operating purposes other than to provide goods or services at a profit
- c. Absence of ownership interests like those of business entities.

Entities that clearly fall outside this definition include the following:

- a. All investor-owned entities
- b. Entities that provide dividends, lower costs, or other economic benefits directly and proportionately to their owners, members, or participants, such as mutual insurance entities, credit unions, farm and rural electric cooperatives, and employee benefit plans.

Oil- and Gas-Producing Activities

Paragraph 932-10-15-2A defines the term *oil- and gas-producing activities*.

One-Time Employee Termination Benefits

Benefits provided to current employees that are involuntarily terminated under the terms of a one-time benefit arrangement.

Operating Lease

From the perspective of a **lessee**, any **lease** other than a **finance lease**.

From the perspective of a **lessor**, any lease other than a **sales-type lease** or a **direct financing lease**.

Other Postemployment Benefits

Benefits, other than special or contractual termination benefits, that are provided by an employer to former or **inactive employees** after employment but before retirement including benefits provided to beneficiaries and covered dependents.

Pension Benefits

Periodic (usually monthly) payments made pursuant to the terms of the pension plan to a person who has retired from employment or to that person's beneficiary.

Postretirement Benefits

All forms of benefits, other than retirement income, provided by an employer to retirees. Those benefits may be defined in terms of specified benefits, such as health care, tuition assistance, or legal services, that are provided to retirees as the need for those benefits arises, such as certain health care benefits, or they may be defined in terms of monetary amounts that become payable on the occurrence of a specified event, such as life insurance benefits.

Private Company

An entity other than a **public business entity**, a **not-for-profit entity**, or an employee benefit plan within the scope of Topics 960 through 965 on plan accounting.

Public Business Entity

A public business entity is a business entity meeting any one of the criteria below. Neither a **not-for-profit entity** nor an employee benefit plan is a business entity.

- a. It is required by the U.S. Securities and Exchange Commission (SEC) to file or furnish financial statements, or does file or furnish financial statements (including voluntary filers), with the SEC (including other entities whose financial statements or financial information are required to be or are included in a filing).
- b. It is required by the Securities Exchange Act of 1934 (the Act), as amended, or rules or regulations promulgated under the Act, to file or furnish financial statements with a regulatory agency other than the SEC.
- c. It is required to file or furnish financial statements with a foreign or domestic regulatory agency in preparation for the sale of or for purposes of issuing securities that are not subject to contractual restrictions on transfer.
- d. It has issued, or is a conduit bond obligor for, **securities** that are traded, listed, or quoted on an exchange or an over-the-counter market.
- e. It has one or more securities that are not subject to contractual restrictions on transfer, and it is required by law, contract, or regulation to prepare U.S. GAAP financial statements (including notes) and make them publicly available on a periodic basis (for example, interim or annual periods). An entity must meet both of these conditions to meet this criterion.

An entity may meet the definition of a public business entity solely because its financial statements or financial information is included in another entity's filing with the SEC. In that case, the entity is only a public business entity for purposes of financial statements that are filed or furnished with the SEC.

Reinsurance

A transaction in which a reinsurer (assuming entity), for a consideration (premium), assumes all or part of a risk undertaken originally by another insurer (ceding entity). For indemnity reinsurance, the legal rights of the insured are not affected by the reinsurance transaction and the insurance entity issuing the insurance contract remains liable to the insured for payment of policy benefits. Assumption or novation reinsurance contracts that are legal replacements of one insurer by another extinguish the ceding entity's liability to the policyholder.

Right-of-Use Asset

An asset that represents a **lessee's** right to use an **underlying asset** for the **lease term**.

Sales-Type Lease

From the perspective of a **lessor**, a **lease** that meets one or more of the criteria in paragraph 842-10-25-2 and is not an operating lease in accordance with paragraph 842-10-25-3A.

Security (second definition)

A share, participation, or other interest in property or in an entity of the issuer or an obligation of the issuer that has all of the following characteristics:

- a. It is either represented by an instrument issued in bearer or registered form or, if not represented by an instrument, is registered in books maintained to record transfers by or on behalf of the issuer.
- b. It is of a type commonly dealt in on securities exchanges or markets or, when represented by an instrument, is commonly recognized in any area in which it is issued or dealt in as a medium for investment.
- c. It either is one of a class or series or by its terms is divisible into a class or series of shares, participations, interests, or obligations.

Service Cost (Component of Net Periodic Pension Cost)

A component of net periodic pension cost recognized in a period determined as the actuarial present value of benefits attributed by the pension benefit formula to services rendered by employees during that period.

The service cost component is a portion of the projected benefit obligation and is unaffected by the funded status of the plan.

Service Cost (Component of Net Periodic Postretirement Benefit Cost)

The actuarial present value of benefits attributed to services rendered by employees during the period (the portion of the expected postretirement benefit obligation attributed to service in the period). The service cost component is the same for an unfunded plan, a plan with minimal funding, and a well-funded plan.

Share-Based Payment Arrangements

An arrangement under which either of the following conditions is met:

- a. One or more suppliers of goods or services (including employees) receive awards of equity shares, equity share options, or other equity instruments.
- b. The entity incurs liabilities to suppliers that meet either of the following conditions:
 - 1. The amounts are based, at least in part, on the price of the entity's shares or other equity instruments. (The phrase at least in part is used because an award may be indexed to both the price of the entity's shares and something other than either the price of the entity's shares or a market, performance, or service condition.)
 - 2. The awards require or may require settlement by issuance of the entity's shares.

The term shares includes various forms of ownership interest that may not take the legal form of securities (for example, partnership interests), as well as other interests, including those that are liabilities in substance but not in form. Equity shares refers only to shares that are accounted for as equity.

Also called share-based compensation arrangements.

Short-Term Lease

A **lease** that, at the **commencement date**, has a **lease term** of 12 months or less and does not include an option to purchase the **underlying asset** that the **lessee** is reasonably certain to exercise.

Subsidiary

An entity, including an unincorporated entity such as a partnership or trust, in which another entity, known as its parent, holds a controlling financial interest. (Also, a variable interest entity that is consolidated by a primary beneficiary.)

Termination Benefits

Benefits provided by an employer to employees in connection with their termination of employment. They may be either special termination benefits offered only for a short period of time or contractual benefits required by the terms of a plan only if a specified event, such as a plant closing, occurs.

Transaction Gain or Loss

Transaction gains or losses result from a change in exchange rates between the functional currency and the currency in which a foreign currency transaction is denominated. They represent an increase or decrease in both of the following:

- a. The actual functional currency cash flows realized upon settlement of foreign currency transactions
- b. The expected functional currency cash flows on unsettled foreign currency transactions.

Troubled Debt Restructuring

A restructuring of a debt constitutes a troubled debt restructuring if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider.

Underlying Asset

An asset that is the subject of a **lease** for which a right to use that asset has been conveyed to a **lessee**. The underlying asset could be a physically distinct portion of a single asset.

Underwriting Risk

The risk arising from uncertainties about the ultimate amount of net cash flows from premiums, commissions, claims, and claim settlement expenses paid under a contract.

Variable Interest Entity

A **legal entity** subject to consolidation according to the provisions of the Variable Interest Entities Subsections of Subtopic 810-10.

Warranty

A guarantee for which the underlying is related to the performance (regarding function, not price) of nonfinancial assets that are owned by the guaranteed party. The obligation may be incurred in connection with the sale of goods or services; if so, it may require further performance by the seller after the sale has taken place.

Disclosure

General

> Overall Guidance

220-40-50-1 The objective of the disclosure requirements in this Section is to provide disaggregated information about a **public business entity's** expenses to help investors:

- a. Better understand the entity's performance
- b. Better assess the entity's prospects for future cash flows
- c. Compare an entity's performance over time and with that of other entities.

In addition, the disclosure requirements are intended to provide information about the relative proportion and trends of each category of expense identified in paragraph 220-40-50-6 in relation to the corresponding income statement expense caption amount in order to meet the overall objective described above. An entity shall consider the level of detail necessary to satisfy the disclosure objective and specific requirements of this Subtopic. An entity may use estimates or other methods that produce a reasonable approximation of the amounts required to be disclosed by this Subtopic.

220-40-50-2 This Section includes the following (all of which apply only to expenses in continuing operations):

- a. Required expense categories to be disclosed, identification of relevant expense captions, and practical expedients (see paragraphs 220-40-50-6 through 50-20)
- b. Tabular integration of other disclosure requirements (see paragraphs 220-40-50-21 through 50-25)
- c. Disclosure of expense reimbursements included in a relevant expense caption (see paragraphs 220-40-50-26 through 50-29)
- d. An amount and qualitative description of the composition of other items remaining in relevant expense captions (see paragraph 220-40-50-30)
- e. Disclosure of the disaggregation of relevant expense captions that contain amounts within the scope of Topic 330 on inventory (see paragraphs 220-40-50-31 through 50-34)
- f. Requirements related to selling expenses (see paragraphs 220-40-50-35 through 50-36).

220-40-50-3 The requirements in this Section apply to interim and annual reporting periods, except for the requirement to disclose how an entity defines selling expenses (see paragraph 220-40-50-36), which only applies to annual reporting periods (or interim reporting periods if the definition is changed). An entity is required to include the disclosures listed in paragraphs 220-40-50-21 through 50-22 in a tabular format disclosure for interim reporting purposes only if the disclosure requirements referenced in those paragraphs are required in interim reporting periods by the guidance in other Topics.

220-40-50-4 The disclosure requirements in this Section shall be applied consistently for all periods presented. If an entity changes its display of the disclosure requirements in the current reporting period as a result of a change in the election of an alternative or a change in a definition of a disclosure in this Section, the entity shall:

- a. Disclose the reason for the change in the period of the change (in the interim and annual reporting periods affected by the change)
- b. Recast the prior periods presented for comparative purposes, except for the requirements in paragraphs 220-40-50-22 through 50-23, unless it is impracticable to do so. If it is impracticable to do so, the entity shall disclose that fact and explain why it is impracticable to recast prior periods.

Changes described in this paragraph do not represent a change in accounting principle in accordance with Topic 250 on accounting changes and error corrections.

220-40-50-5 Some entities provide condensed statements for interim reporting periods and, therefore, present different expense captions on their income statements at annual and interim reporting periods. For an entity that provides condensed statements for interim reporting periods, the guidance in paragraph 220-40-50-4 is applicable in instances in which an entity changes its display of the disclosure requirements for the current interim reporting period compared with the prior interim reporting period or in instances in which the entity changes its display of the disclosure requirements for the current annual reporting period compared with the prior annual reporting period.

• > **Expense Disaggregation Disclosures**

220-40-50-6 For interim and annual reporting periods, an entity shall disaggregate, in a tabular format disclosure in the notes to financial statements, all relevant expense captions (see paragraphs 220-40-50-12 through 50-13 for guidance on identifying relevant expense captions) presented on the face of the income statement in continuing operations into the following expense categories:

- a. Purchases of **inventory** (see paragraph 220-40-50-7)
- b. **Employee compensation** (disclosing separately any **one-time employee termination benefits**, if applicable, see paragraph 220-40-50-21(e))
- c. Depreciation (for separate requirement to disclose depreciation expense for the period in total, see paragraph 360-10-50-1(a))
- d. **Intangible asset** amortization (for separate requirement to disclose intangible asset amortization expense for the period in total, see paragraph 350-30-50-2(a)(2))
- e. Depreciation, depletion, and amortization of capitalized acquisition, exploration, and development costs recognized as part of **oil- and gas-producing activities** (see Subtopic 932-360 on extractive activities—oil and gas—property, plant, and equipment) or other amounts of depletion expense (see paragraph 220-40-50-11).

220-40-50-7 Purchases of inventory shall include only amounts within the scope of Topic 330 or within the scope of an Industry Subtopic in Topic 330 (collectively, Topic 330) but shall not include (regardless of the basis selected in paragraph 220-40-50-31) the amounts recognized from any of the following:

- a. A **business combination** within the scope of Subtopic 805-10 on business combinations
- b. A **joint venture** formation within the scope of Subtopic 805-60 on joint venture formations
- c. The initial consolidation of a **variable interest entity** that is not a business combination within the scope of Subtopic 810-10 on consolidation.

Amounts excluded by this paragraph shall be included in the other items category, unless separately disclosed voluntarily (see paragraph 220-40-50-30). See paragraphs 220-40-50-31 through 50-34 for additional requirements

for the disaggregation of relevant expense captions that contain amounts within the scope of Topic 330.

220-40-50-8 When applying the guidance in paragraph 220-40-50-6(b), an entity may elect, but is not required, to include amounts attributable to other transactions entered into for the benefit of employees (for example, the provision of subsidized goods or services) in employee compensation. For interim and annual reporting periods, an entity that includes other transactions entered into for the benefit of employees as part of employee compensation shall disclose both that those transactions have been included and a description of those transactions.

220-40-50-9 The amounts provided for depreciation in accordance with paragraph 220-40-50-6(c) and intangible asset amortization in accordance with paragraph 220-40-50-6(d) shall be consistent with the classification of amounts used to satisfy the disclosure requirements for the total depreciation expense and total intangible asset amortization expense disclosures in paragraphs 360-10-50-1(a) and 350-30-50-2(a)(2), respectively, and with the classification of amounts described in paragraph 220-40-50-10.

220-40-50-10 Amortization of a **right-of-use asset** for a **finance lease** recognized in accordance with paragraphs 842-20-35-7 through 35-8 and amortization of leasehold improvements recognized in accordance with paragraphs 842-20-35-12 through 35-13 shall be disclosed in a manner consistent with how an entity presents depreciation or amortization of similar assets (see paragraph 842-20-45-4(a)). That is, amounts shall be included as part of either depreciation in paragraph 220-40-50-6(c) or intangible asset amortization in paragraph 220-40-50-6(d).

220-40-50-11 In determining the amounts to be disclosed in paragraph 220-40-50-6(e), an entity also shall include amounts for depletion expense that are not recognized as part of oil- and gas-producing activities in accordance with Subtopic 932-360 (such as depletion expense recognized by entities within the scope of Topic 930 on mining).

• • > Identification of Relevant Expense Captions

220-40-50-12 For the purposes of applying the guidance in this Subtopic, a relevant expense caption is an expense caption presented on the face of the income statement in continuing operations that contains any of the expenses

listed in paragraph 220-40-50-6 (including those described in paragraphs 220-40-50-10 through 50-11). A relevant expense caption that consists entirely of one expense category listed in paragraph 220-40-50-6 is not subject to the requirements of this Subtopic. For example, if depreciation is a relevant expense caption on the income statement and the caption consists entirely of depreciation in accordance with paragraph 220-40-50-6(c), no additional disclosure is required because the information in the income statement satisfies the disclosure requirements in this Subtopic. In contrast, if the relevant expense caption comprises depreciation and intangible asset amortization, an entity would be required to separately disclose depreciation and intangible asset amortization in accordance with paragraph 220-40-50-6(c) through (d), respectively. Furthermore, in accordance with paragraph 220-40-50-31, when a relevant expense caption contains amounts within the scope of Topic 330, an entity shall apply its chosen basis for disaggregating amounts within the scope of Topic 330 to the expense categories listed in paragraph 220-40-50-6.

220-40-50-13 An entity's share of earnings or losses from investments accounted for under the equity method in accordance with paragraph 323-10-45-1 is not a relevant expense caption for purposes of applying the guidance in this Subtopic. Additionally, an entity is not required to further disaggregate its disclosure of summarized information of results of operations of investments accounted for under the equity method in accordance with paragraph 323-10-50-3(c).

• • • > **Certain Asset-Related Expenses**

220-40-50-14 With the exception of inventory disclosed under the cost-incurred basis described in paragraph 220-40-50-31(a), an entity is not required to further disaggregate costs capitalized as an asset, even if the costs capitalized include the categories listed in paragraph 220-40-50-6. In addition, when an expense amount relates to the derecognition of an asset other than inventory, an entity shall apply the guidance in paragraph 220-40-50-6 based on the nature of the expense at the time that it is recognized in the income statement.

220-40-50-15 To illustrate the application of the requirements in paragraph 220-40-50-14, an entity is not required to further disaggregate amortization of costs to fulfill a **contract** with a **customer** into the categories required by paragraph 220-40-50-6 (for example, employee compensation). As another example, an entity that capitalizes employee compensation when self-constructing new property, plant, and equipment for internal use is not required

to further disaggregate the resulting depreciation into the categories listed in paragraph 220-40-50-6.

• • • > Certain Liability-Related Expenses

220-40-50-16 An entity is not required to disaggregate an expense amount into the required expense categories as part of the disclosures required by paragraph 220-40-50-6 if all of the following criteria are met:

- a. The expense relates to an obligation that will be settled in the future and there is uncertainty about the timing of settlement.
- b. The expense relates to an obligation that is based on an estimate of a future expenditure.
- c. The expense is not entirely made up of one required expense category (for example, employee compensation).

An expense that meets the above criteria may be required to be disclosed in the same tabular format if it is listed in paragraphs 220-40-50-21 through 50-22.

220-40-50-17 Examples of expenses that meet the criteria in paragraph 220-40-50-16 include provision for losses on contracts (see Subtopic 605-35 on revenue recognition—construction-type and production-type contracts), claims and claims adjustment expenses, and asset retirement obligations, among others.

220-40-50-18 Examples of expenses that do not meet the criteria in paragraph 220-40-50-16 include expense amounts related to accruals for liabilities to pay for goods or services that have been received or supplied but have not been paid or invoiced, including amounts due to employees (for example, amounts relating to accrued bonuses, vacation pay, or pension obligations).

• • > Practical Expedient for Purchases of Inventory

220-40-50-19 As a practical expedient, when substantially all of an entity's income statement expense caption comprises purchases of inventory as described in paragraph 220-40-50-7, the entity is not required to apply the guidance in paragraph 220-40-50-6 to that caption. An entity that applies this practical expedient shall disclose a qualitative description of the composition of the expense caption in interim and annual reporting periods.

• • > **Practical Expedient for Employee Compensation**

220-40-50-20 As a practical expedient for determining what amounts are classified as employee compensation in paragraph 220-40-50-6(b), an entity that presents an expense caption for salaries and employee benefits (or a similarly named caption) on the face of its income statement to comply with the requirements in SEC Regulation S-X Rule 210.9-04, Statements of Comprehensive Income (see paragraph 942-220-S99-1), may use the amounts classified as salaries and employee benefits in accordance with SEC Regulation S-X Rule 210.9-04 rather than in accordance with the definition of employee compensation included in this Subtopic.

• > **Tabular Integration of Other Disclosure Requirements**

220-40-50-21 An entity shall disclose, in the same tabular format disclosure in which the disclosures required by paragraph 220-40-50-6 are provided, each of the following expenses, gains, and losses and the amount recognized in each relevant expense caption (see paragraphs 220-40-50-12 through 50-13 for guidance on identifying relevant expense captions):

- a. The amount of research and development assets acquired in a transaction other than a business combination and written off (see paragraph 350-30-50-1(c))
- b. Impairment loss recognized related to an intangible asset (see paragraph 350-30-50-3)
- c. **Impairment** loss of long-lived assets classified as held and used (see paragraph 360-10-50-2)
- d. Gain or loss recognized in accordance with paragraphs 360-10-35-37 through 35-45 and 360-10-40-5 for long-lived assets classified as held for sale or disposed of (see paragraph 360-10-50-3)
- e. Each major type of cost associated with an exit or disposal activity (for example, one-time employee termination benefits, contract termination costs, and other associated costs) (see paragraph 420-10-50-1)
- f. Components of net benefit cost recognized (other than service cost amounts included within employee compensation) (see paragraph 715-20-50-1(h))
- g. Bargain purchase gain recognized in a business combination (see paragraph 805-30-50-1(f))
- h. Any gain or loss recognized upon the deconsolidation of a **subsidiary** or the derecognition of a group of assets in accordance with paragraph 810-10-40-3A (see paragraph 810-10-50-1B)

- i. Gains and losses on **derivative instruments** (and nonderivative instruments that are designated and qualify as hedging instruments in accordance with paragraphs 815-20-25-58 and 815-20-25-66) and related hedged items (see paragraph 815-10-50-4A)
- j. Amortization of **license agreements** for program material (see paragraph 920-350-50-2)
- k. Impairment of license agreements for program material (see paragraph 920-350-50-4)
- l. Amortization of **film costs** (see paragraph 926-20-50-4A)
- m. Impairment of film costs (see paragraph 926-20-50-4C).

These disclosures shall be included in the tabular format disclosure required by paragraph 220-40-50-6 using the same frequency (that is, whether the disclosure is required at interim and annual reporting periods or only annual reporting periods) as required by the corresponding Topic.

220-40-50-22 An entity shall disclose, in the same tabular format disclosure in which the disclosures required by paragraph 220-40-50-6 are provided, each of the following amounts if those amounts are included entirely in one expense caption that also is a relevant expense caption (see paragraphs 220-40-50-12 through 50-13 for guidance on identifying relevant expense captions):

- a. Provision for expected credit losses (see paragraphs 326-20-50-13 and 326-30-50-9)
- b. Losses on firm purchase commitments (see paragraph 330-10-50-5)
- c. Amortization expense attributable to the expiration of an insurance or **reinsurance** coverage provided under a contract that transfers only significant **underwriting risk** (see paragraph 340-30-50-2)
- d. Amortization of costs to fulfill a contract with a customer (see paragraph 340-40-50-3)
- e. Impairment of costs to fulfill a contract with a customer (see paragraph 340-40-50-3)
- f. Amortization of costs to obtain a contract with a customer (see paragraph 340-40-50-3)
- g. Impairment of costs to obtain a contract with a customer (see paragraph 340-40-50-3)
- h. Amortization of capitalized implementation costs of **hosting arrangements** that are service contracts (see paragraph 350-40-50-3)
- i. **Asset retirement obligation accretion expense** (see paragraph 410-20-50-1)
- j. **Loss contingencies** recognized (see paragraph 450-20-50-1)

- k. **Warranty** expense (the total of expenses recognized related to aggregate changes in the liability for accruals related to product warranties issued during the reporting period and the aggregate changes in the liability for accruals related to preexisting warranties, including adjustments related to changes in estimates) (see paragraph 460-10-50-8)
- l. Expense related to counterparty default in own-share lending arrangements issued in contemplation of convertible debt issuance (see paragraph 470-20-50-2C)
- m. Aggregate gain on restructuring of payables by a debtor with a **troubled debt restructuring** (see paragraph 470-60-50-1)
- n. Gains and losses upon consolidation of a variable interest entity that is not a business (see paragraph 810-10-50-3)
- o. Foreign currency **transaction gains or losses** (see paragraph 830-20-50-1)
- p. **Operating lease** cost (see paragraph 842-20-50-4)
- q. **Short-term lease** cost (see paragraph 842-20-50-4)
- r. Variable lease cost (see paragraph 842-20-50-4)
- s. Net gain or loss recognized from sale and leaseback transactions (see paragraph 842-20-50-4)
- t. Gains and losses from nonmonetary transactions (see paragraph 845-10-50-1)
- u. Amortization of capitalized **acquisition costs** (see paragraph 944-30-50-1(c)).

These disclosures shall be included in the tabular format disclosure required by paragraph 220-40-50-6 using the same frequency (that is, whether the disclosure is required at interim and annual reporting periods or only annual reporting periods) as required by the corresponding Topic.

220-40-50-23 If there is a change in facts and circumstances that results in an item listed in paragraph 220-40-50-22 changing from being included in one relevant expense caption in the current reporting period and multiple relevant expense captions in a comparative period, or vice versa, an entity shall provide the disclosure required by paragraph 205-10-50-1.

220-40-50-24 The presence of the expenses, gains, and losses listed in paragraphs 220-40-50-21 through 50-22 would not cause an expense caption to be a relevant expense caption. An entity only shall include the applicable expenses listed in paragraphs 220-40-50-21 through 50-22 in the tabular

format disclosures if an expense caption is a relevant expense caption in accordance with paragraphs 220-40-50-12 through 50-13.

220-40-50-25 To illustrate the application of the requirements in paragraph 220-40-50-22, if cost of sales was a relevant expense caption (because cost of sales includes purchases of inventory described in paragraph 220-40-50-6(a)) 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 in the tabular format disclosure in addition to the categories required by paragraph 220-40-50-6.

• **> Expense Reimbursements Included in a Relevant Expense Caption**

220-40-50-26 For interim and annual reporting periods, an entity that presents a relevant expense caption that includes amounts that are recorded net of an expense reimbursement related to a cost-sharing or cost-reimbursement arrangement from another entity, in the same tabular format disclosure in which the disclosures required by paragraph 220-40-50-6 are provided, shall either:

- a. Separately disclose the amount of the expense reimbursement
- b. Disclose the amounts of the expense categories required by paragraphs 220-40-50-6 and 220-40-50-21 through 50-22 that are included in the relevant expense caption net of any reimbursement effects.

220-40-50-27 For interim and annual reporting periods, an entity shall disclose how expense reimbursements related to a cost-sharing or cost-reimbursement arrangement are included in the tabular format disclosure, as described in paragraph 220-40-50-26.

220-40-50-28 For interim and annual reporting periods, an entity that includes an expense reimbursement related to a cost-sharing or cost-reimbursement arrangement to another entity in a relevant expense caption shall separately disclose the amount of that expense reimbursement in the same tabular format disclosure in which the disclosures required by paragraph 220-40-50-6 are provided.

220-40-50-29 For interim and annual reporting periods, when applying the guidance in paragraph 220-40-50-26(a) or 220-40-50-28, an entity shall

disclose qualitative descriptions of the expense categories (based on their **natural expense classification**) to which an expense reimbursement relates.

• **> Other Items Remaining in Relevant Expense Captions**

220-40-50-30 For interim and annual reporting periods, an entity, in the same tabular format disclosure in which the disclosures required by paragraph 220-40-50-6 are provided, shall disclose for each relevant expense caption an amount for other items. The amount for other items is the difference between the following:

- a. The amount of the relevant expense caption presented on the face of the income statement
- b. The aggregate amount of expense categories separately disclosed in accordance with paragraphs 220-40-50-6, 220-40-50-21 through 50-22, 220-40-50-26(a), and 220-40-50-28 that are included in the relevant expense caption.

For interim and annual reporting periods, an entity also shall disclose qualitative descriptions of the composition (based on their natural expense classification) of other items. The detail provided in those qualitative disclosures shall be commensurate with the significance of the amounts being described. Notwithstanding that requirement, an entity is not precluded from further disaggregating relevant expense captions before applying the guidance in this paragraph to the remaining other items. Additional voluntary disclosures may be provided inside or outside the tabular disclosure if those disclosures are not combined with the disaggregated expense amounts required by paragraphs 220-40-50-6, 220-40-50-21 through 50-22, 220-40-50-26(a), and 220-40-50-28.

• **> Disclosure of the Disaggregation of Relevant Expense Captions That Contain Amounts within the Scope of Topic 330**

220-40-50-31 The following are two acceptable bases for disclosing the disaggregation of a relevant expense caption that contains expense amounts related to inventory within the scope of Topic 330:

- a. Cost-incurred basis. The amounts disclosed for the disaggregation of a relevant expense caption comprise costs incurred that were capitalized to inventory in accordance with Topic 330 during the current reporting

period and any costs incurred that were directly expensed during the current reporting period (including costs that are capitalizable in accordance with Topic 330 but were directly expensed to the income statement). Under this basis, in interim and annual reporting periods, an entity shall disclose an amount for changes in inventories and an amount for other adjustments and reconciling items to reconcile the costs incurred to the total relevant expense caption (see paragraphs 220-40-50-32 through 50-34).

- b. Expense-incurred basis. The amounts disclosed for the disaggregation of a relevant expense caption comprise expense amounts related to the derecognition of inventory that was previously capitalized in accordance with Topic 330 and any costs incurred that were directly expensed during the current reporting period (including costs that are capitalizable in accordance with Topic 330 but were directly expensed to the income statement). Under this basis, an entity shall disclose the expense amounts related to the derecognition of inventory based on the natural expense category of the costs when they were initially incurred (for example, the expense from the derecognition of inventory may relate to purchases of inventory and employee compensation incurred in prior periods).

In many cases, an entity's chosen basis will result in disclosed amounts that are different than if the entity had chosen the alternative basis. An entity's chosen basis should be applied consistently to all expense categories listed in paragraph 220-40-50-6.

• • > **Changes in Inventories When the Cost-Incurred Basis Is Applied**

220-40-50-32 When the amounts disclosed in accordance with paragraph 220-40-50-6 include costs incurred that were capitalized to inventory in accordance with Topic 330 during the reporting period (because an entity has applied the cost-incurred basis in paragraph 220-40-50-31(a)), those amounts often will not equal the amounts expensed as incurred during the reporting period. If the amount of expense recognized and the amount of costs incurred in the current reporting period are not equal, then an entity shall disclose in interim and annual reporting periods a category for the changes in inventories balances to reconcile the costs incurred (which shall include costs capitalized to inventory and costs expensed during the reporting period) to expenses recognized. The amount disclosed for changes in inventories in the current reporting period shall equal the difference between the amount of inventory included on the balance

sheet at the end of the prior reporting period and the amount of inventory included on the balance sheet at the end of the current reporting period. As described in paragraph 220-40-50-33, a separate category that comprises any other adjustments and reconciling items shall be provided to reconcile costs incurred to expenses recognized during the reporting period.

• • > Other Adjustments and Reconciling Items When the Cost-Incurred Basis Is Applied

220-40-50-33 In addition to the changes in inventories category described in paragraph 220-40-50-32, for interim and annual reporting periods, under the cost-incurred basis (see paragraph 220-40-50-31(a)), an entity shall disclose the amount of other adjustments and reconciling items that include (to the extent not disclosed in a separate caption) other amounts that are necessary to reconcile costs incurred to expenses recognized. For example, those items would include, if applicable:

- a. The amount of inventory derecognized during the period that is not recognized as an expense (for example, inventory derecognized as part of derecognition transactions within the scope of Subtopic 810-10 on consolidation)
- b. 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—translation of financial statements.

220-40-50-34 Consistent with the requirements in paragraph 220-40-50-30, for interim and annual reporting periods, an entity shall qualitatively describe the nature of amounts (based on their natural expense classification when applicable) included in other adjustments and reconciling items in accordance with paragraph 220-40-50-33.

- **> Selling Expenses**

220-40-50-35 For interim and annual reporting periods, an entity shall disclose, in the notes to financial statements, the total selling expenses recognized in continuing operations.

220-40-50-36 An entity shall make its own determination of what constitutes a selling expense. An entity's definition of selling expenses shall include only items that are presented as expenses in the income statement. An entity shall disclose how it defines the term selling expenses in annual reporting periods (or in interim reporting periods if the definition is changed).

Implementation Guidance and Illustrations

General

220-40-55-1 This Section is an integral part of the requirements of this Subtopic. This Section provides additional guidance and illustrations of the disaggregation of income statement expenses and other disclosures required by paragraphs 220-40-50-1 through 50-36. The illustrations are intended as examples only and do not represent a required format for the disclosures. Furthermore, there may be incremental disclosure guidance otherwise applicable to an item or amount under other generally accepted accounting principles, which has not been illustrated in this Section. Paragraphs 220-40-50-6, 220-40-50-21 through 50-22, 220-40-50-26, 220-40-50-28, and 220-40-50-30 through 50-33 require that an entity provide certain disclosures in a tabular format disclosure.

> Implementation Guidance

- **> Disaggregation of Expenses**

220-40-55-2 Application of the guidance in this Subtopic might cause an entity to pursue a degree of detail in recordkeeping and computations that could be burdensome as well as unnecessary to produce a reasonable approximation of the results. Accordingly, an entity may use estimates or other methods that produce a reasonable approximation of the amounts required to be disclosed by this Subtopic.

> Illustrations

• > Example 1: Disaggregation of Income Statement Expenses by an Entity with Manufacturing and Service Operations

220-40-55-3 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 50-34. This Example also illustrates the disclosure of selling expenses in accordance with paragraphs 220-40-50-35 through 50-36.

220-40-55-4 For the year ended December 31, 20X4, Entity X, which is a manufacturer with significant service operations, presents the following comparative income statement.

Entity X Consolidated Income Statement For the Years Ended December 31, 20X4, 20X3, and 20X2			
	20X4	20X3	20X2
Revenues:			
Products	\$ 82,144	\$ 79,137	\$ 75,180
Services	26,132	23,146	21,989
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	20,849	18,871	18,116
Total operating expenses	94,801	89,337	84,258
Operating income	13,475	12,946	12,911
Interest expense	4,971	4,213	4,297
Income before income taxes	8,504	8,733	8,614
Income tax expense	1,786	1,834	1,809
Net income	\$ 6,718	\$ 6,899	\$ 6,805

220-40-55-5 Entity X 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 220-40-50-6. Those expense captions were identified as relevant expense captions because those

captions contain one or more of the expense categories listed in paragraph 220-40-50-6. Even though Entity X presents other expense captions on the face of its consolidated income statement, such as interest expense and income tax expense, those expense captions do not contain any of the expense categories listed in paragraph 220-40-50-6 (including those described in paragraphs 220-40-50-10 through 50-11); therefore, those expense captions do not need to be disaggregated.

220-40-55-6 Because cost of products sold contains amounts related to inventory within the scope of Topic 330, Entity X may elect to disclose the amounts under a cost-incurred basis or expense-incurred basis. In this Example, Entity X chooses to disclose the disaggregation of cost of products sold on a cost-incurred basis (that is, the amounts disclosed include costs incurred that were capitalized to inventory during the current reporting period and costs incurred that were directly expensed during the current reporting period) in accordance with paragraph 220-40-50-31(a). Because Entity X discloses the required expense categories using a cost-incurred basis, the entity discloses the changes in inventories caption and the other adjustments and reconciling items caption in accordance with paragraphs 220-40-50-32 through 50-33. In accordance with paragraph 220-40-50-34, Entity X qualitatively describes the nature of amounts included in other adjustments and reconciling items. If Entity X had instead disclosed the required expense categories on an expense-incurred basis (that is, the amounts disclosed comprise expense amounts related to the derecognition of inventory that was previously capitalized in accordance with Topic 330 and any costs incurred that were directly expensed during the current reporting period) in accordance with paragraph 220-40-50-31(b), then the changes in inventories caption and the other adjustments and reconciling items caption would not be necessary in the disaggregation disclosure.

220-40-55-7 Entity X also recognizes **impairment** of property, plant, and equipment classified as held and used in selling, general, and administrative expenses and, therefore, includes that impairment as a separate category in the tabular format disclosure in accordance with paragraph 220-40-50-21(c).

220-40-55-8 Entity X 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 220-40-50-22(k).

220-40-55-9 Entity X recognizes **operating lease** costs in both cost of services and selling, general, and administrative expenses. Therefore, in accordance with paragraph 220-40-50-22, Entity X 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 220-40-50-30.

220-40-55-10 Entity X recognizes amounts related to the initial recognition and subsequent measurement of a liability for an environmental obligation in cost of products sold (see Subtopic 410-30 on asset retirement and environmental obligations). In accordance with paragraph 220-40-50-16, Entity X is not required to disaggregate that amount into the expense categories listed in paragraph 220-40-50-6. Instead, that expense is included in the amount for other items in accordance with paragraph 220-40-50-30.

220-40-55-11 Entity X provides the following disclosure.

Disaggregation of Relevant Expense Captions

	20X4	20X3	20X2
Cost of products sold			
<i>Cost of products sold</i>			
Purchases of inventory	\$ 20,213	\$ 19,199	\$ 16,319
Employee compensation	17,578	16,539	14,078
Depreciation	10,190	9,989	9,650
Intangible asset amortization	3,914	4,050	3,929
Warranty expense	4,394	3,952	3,894
Other cost of products sold ^(a)	7,552	7,606	7,993
Changes in inventories	157	(861)	843
Other adjustments and reconciling items ^(b)	(542)	424	538
Total cost of products sold	<u>\$ 63,456</u>	<u>\$ 60,898</u>	<u>\$ 57,244</u>

- (a) 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, 20X4, 20X3, and 20X2. Year ended December 31, 20X4, also includes inventory amounts recognized as part of a business combination.
- (b) 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, 20X4, 20X3, and 20X2.

Cost of services

Cost of services

Employee compensation	\$ 6,598	\$ 5,654	\$ 4,354
Depreciation	763	765	742
Intangible asset amortization	642	670	650
Other cost of services ^(c)	2,493	2,479	3,152
Total cost of services	<u>\$ 10,496</u>	<u>\$ 9,568</u>	<u>\$ 8,898</u>

- (c) Other cost of services consists primarily of operating lease and travel expenses for the years ended December 31, 20X4, 20X3, and 20X2.

Selling, general, and administrative

Selling, general, and administrative (SG&A)

Employee compensation	\$ 13,242	\$ 11,379	\$ 10,764
Depreciation	1,454	1,755	1,737
Property, plant, and equipment impairment	412	-	-
Intangible asset amortization	523	596	-
Other SG&A ^(d)	5,218	5,141	5,615
Total SG&A	<u>\$ 20,849</u>	<u>\$ 18,871</u>	<u>\$ 18,116</u>

- (d) Other SG&A consists primarily of professional services fees and operating lease expense for the years ended December 31, 20X4, 20X3, and 20X2.

220-40-55-12 In addition to the tabular format disclosure illustrated in paragraph 220-40-55-11, Entity X also must disclose its selling expenses and how it defines selling expenses in accordance with paragraphs 220-40-50-35 through 50-36.

Selling Expenses

During the years ended December 31, 20X4, 20X3, and 20X2, 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**

220-40-55-13 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 50-34. This Example also illustrates the disclosure of selling expenses in accordance with paragraphs 220-40-50-35 through 50-36.

220-40-55-14 For the year ended December 31, 20X4, Entity X, which is a services provider, presents the following comparative income statement.

Entity X Consolidated Income Statement For the Years Ended December 31, 20X4, 20X3, and 20X2			
	20X4	20X3	20X2
Revenues	\$ 737,132	\$ 710,146	\$ 694,180
Cost of sales (exclusive of depreciation and amortization shown separately below)	140,055	170,435	145,778
Depreciation and amortization related to cost of sales	31,578	26,178	23,628
Selling, general, and administrative expenses	497,962	458,215	471,626
Research and development expenses	57,235	52,174	48,898
Operating income	10,302	3,144	4,250
Interest expense	3,145	2,665	2,297
Income before income taxes	7,157	479	1,953
Income tax expense	1,503	101	410
Net income	\$ 5,654	\$ 378	\$ 1,543

220-40-55-15 Entity X provides a disclosure that disaggregates the cost of sales; depreciation and amortization; selling, general, and administrative expenses; and research and development expenses captions into the categories listed in paragraph 220-40-50-6. Those expense captions were identified as relevant expense captions because those captions contain one or more of the expense categories listed in paragraph 220-40-50-6. Even though Entity X presents other expense captions on the face of its consolidated income statement, such as interest expense and income tax expense, those expense captions do not contain any of the expense categories listed in paragraph 220-40-50-6 (including those described in paragraphs 220-40-50-10 through 50-11); therefore, those expense captions do not need to be disaggregated.

220-40-55-16 Entity X 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 220-40-50-21. Paragraph 220-40-50-21(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 220-40-50-6 are provided. Because one-time employee termination benefits are a form of employee compensation, Entity X discloses that its employee compensation category excludes one-time employee termination benefits because one-time employee termination benefits are disclosed as a separate category.

220-40-55-17 Entity X has a funded research and development cost-sharing arrangement with a strategic partner. Entity X recognizes an expense reimbursement from the strategic partner in research and development expenses and, in accordance with paragraph 220-40-50-26(a), elects to separately disclose the amount of that expense reimbursement. If Entity X had elected to present a relevant expense caption net of an expense reimbursement from another entity, it would have been required to disclose the amount of the expense categories that are included in each relevant expense caption. Additionally, in accordance with paragraph 220-40-50-29, Entity X qualitatively describes the expense categories to which the reimbursement relates.

220-40-55-18 Entity X provides the following disclosure.

Disaggregation of Relevant Expense Captions

	20X4	20X3	20X2
Cost of sales			
<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 ^(a)	46,285	47,234	45,769
Total cost of sales	\$ 140,055	\$ 170,435	\$ 145,778

(a) Other cost of sales consist primarily of subcontractor costs and travel expenses for the years ended December 31, 20X4, 20X3, and 20X2.

Depreciation and amortization related to cost of sales

Depreciation and amortization related to cost of sales

Depreciation	\$ 19,126	\$ 17,984	\$ 17,893
Intangible asset amortization	12,452	8,194	5,735
Total depreciation and amortization related to cost of sales	\$ 31,578	\$ 26,178	\$ 23,628

Selling, general, and administrative expenses

Selling, general, and administrative expenses (SG&A)

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 ^(b)	199,860	159,308	169,785
Total SG&A	\$ 497,962	\$ 458,215	\$ 471,626

(b) Other SG&A consists primarily of professional services fees and the costs paid to third parties for printing, publications, and advertising for the years ended December 31, 20X4, 20X3, and 20X2.

Research and development expenses

Research and development expenses (R&D)

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 ^(c)	17,836	16,845	15,890
Cost reimbursements ^(d)	(8,297)	(7,905)	(7,756)
Total R&D	\$ 57,235	\$ 52,174	\$ 48,898

(c) Other R&D consists primarily of payments to third parties for professional services and licenses of intellectual property for the years ended December 31, 20X4, 20X3, and 20X2.

(d) Cost reimbursements consist of payments from a strategic partner for employee compensation and materials costs related to R&D incurred as part of a funded research and development arrangement for the years ended December 31, 20X4, 20X3, and 20X2.

220-40-55-19 In addition to the tabular format disclosure illustrated in paragraph 220-40-55-18, Entity X also must disclose its selling expenses and how it defines selling expenses in accordance with paragraphs 220-40-50-35 through 50-36.

Selling Expenses

During the years ended December 31, 20X4, 20X3, and 20X2, 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**

220-40-55-20 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 50-34. This Example also illustrates the disclosure of selling expenses in accordance with paragraphs 220-40-50-35 through 50-36.

220-40-55-21 For the year ended December 31, 20X4, Entity X, which is a bank, presents the following comparative income statement.

Entity X
Consolidated Income Statement
For the Years Ended December 31, 20X4, 20X3, and 20X2

	<u>20X4</u>	<u>20X3</u>	<u>20X2</u>
Interest income			
Loans	\$ 2,795,052	\$ 2,142,873	\$ 2,072,997
Investment securities	628,887	442,550	465,842
Other	209,629	116,461	79,193
Total interest income	<u>3,633,568</u>	<u>2,701,884</u>	<u>2,618,032</u>
Interest expense			
Deposits	302,797	30,280	151,399
Borrowed funds	279,505	83,852	167,703
Total interest expense	<u>582,302</u>	<u>114,132</u>	<u>319,102</u>
Net interest income	3,051,266	2,587,752	2,298,930
Provision for (recapture of) credit losses	116,461	(186,337)	372,674
Net interest income after provision for (recapture of) credit losses	2,934,805	2,774,089	1,926,256
Noninterest income			
Service charges on deposit accounts	201,702	171,062	151,969
Other service charges and fees	282,383	239,487	212,757
Total noninterest income	<u>484,085</u>	<u>410,549</u>	<u>364,726</u>
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	30,513	21,399	24,804
Total noninterest expense	<u>2,167,925</u>	<u>1,715,779</u>	<u>2,003,637</u>
Income before income taxes	1,250,965	1,468,859	287,345
Income tax expense	262,703	308,460	60,342
Net income	<u>\$ 988,262</u>	<u>\$ 1,160,399</u>	<u>\$ 227,003</u>

220-40-55-22 Entity X provides a disclosure that disaggregates the occupancy and depreciation expense and other expense captions into the categories listed in paragraph 220-40-50-6. Those expense captions were identified as relevant expense captions because those captions contain one or more of the expense categories listed in paragraph 220-40-50-6. In this Example, even though Entity X also presents separate expense captions on the face of its consolidated income statement for interest expense, provision for (recapture of) 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 220-40-50-6 (including those described in

paragraphs 220-40-50-10 through 50-11); therefore, those expense captions do not need to be further disaggregated. Entity X applies the practical expedient for employee compensation described in paragraph 220-40-50-20 and elects to not repeat the amount presented on the face of the income statement in the notes to financial statements.

220-40-55-23 Entity X recognizes operating lease cost entirely within occupancy and depreciation expense and, therefore, includes operating lease cost as a separate category in accordance with paragraph 220-40-50-22(p).

220-40-55-24 Entity X provides the following disclosure.

Disaggregation of Relevant Expense Captions

	<u>20X4</u>	<u>20X3</u>	<u>20X2</u>
Occupancy and depreciation expense			
<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 ^(a)	59,910	30,233	53,930
Total occupancy and depreciation expense	<u>\$ 376,587</u>	<u>\$ 279,875</u>	<u>\$ 349,679</u>

(a) Other occupancy expenses consist primarily of repair and maintenance expense for the years ended December 31, 20X4, 20X3, and 20X2.

Other

<i>Other</i>			
Intangible asset amortization	\$ 13,139	\$ 10,980	\$ 10,068
Other ^(b)	17,374	10,419	14,736
Total other	<u>\$ 30,513</u>	<u>\$ 21,399</u>	<u>\$ 24,804</u>

(b) Other consists primarily of regulatory licensing fees and charitable contributions for the years ended December 31, 20X4, 20X3, and 20X2.

220-40-55-25 In addition to the tabular format disclosure illustrated in paragraph 220-40-55-24, Entity X also must disclose its selling expenses and

how it defines selling expenses in accordance with paragraphs 220-40-50-35 through 50-36.

Selling Expenses

During the years ended December 31, 20X4, 20X3, and 20X2, the entity 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.

Transition and Open Effective Date Information

General

> Transition Related to Accounting Standards Update No. 2024-03, *Income Statement—Reporting Comprehensive Income—Expense Disaggregation Disclosures (Subtopic 220-40): Disaggregation of Income Statement Expenses*

220-40-65-1 The following represents the transition and effective date information related to Accounting Standards Update No. 2024-03, *Income Statement—Reporting Comprehensive Income—Expense Disaggregation Disclosures (Subtopic 220-40): Disaggregation of Income Statement Expenses*:

Effective date and early adoption

- a. The pending content that links to this paragraph shall be effective for **public business entities** for annual reporting periods beginning after December 15, 2026, and interim reporting periods beginning after December 15, 2027. Early adoption is permitted.

Transition method

- b. A public business entity shall apply the pending content that links to this paragraph prospectively to financial statements issued for reporting periods beginning after the effective date of the pending content that links to this paragraph. The disclosures required by the pending content that links to this paragraph do not need to be included in financial

statements for reporting periods beginning before the effective date that are being presented for comparative purposes with financial statements issued for periods after the effective date.

- c. A public business entity may elect to apply the pending content that links to this paragraph retrospectively to any or all prior periods presented in the financial statements. If applied to financial statements for periods beginning before the effective date, those disclosures shall be prepared and presented in accordance with this Subtopic.

Amendments to Subtopic 220-10

- 5. Add paragraph 220-10-05-6, with a link to transition paragraph 220-40-65-1, as follows:

Income Statement—Reporting Comprehensive Income—Overall

Overview and Background

220-10-05-6 Subtopic 220-40 provides guidance on expense disaggregation disclosures and selling expenses disclosures.

Amendments to Subtopic 270-10

- 6. Amend paragraph 270-10-50-7 by adding item q, with a link to transition paragraph 220-40-65-1, as follows:

Interim Reporting—Overall

Disclosure

> Guidance Related to Disclosure of Other Topics at Interim Dates

270-10-50-7 The following may not represent all references to interim disclosure:

- q. For income statement expense disaggregation, see Subtopic 220-40.

Disclosure Requirements for Expenses with Current Mapping Requirements

7. Amend each of the paragraphs listed below (and related pending content) to add the following additional sentence, with a link to transition paragraph 220-40-65-1: “See paragraphs 220-40-50-21 through 50-25 for additional disclosure requirements.”

Subtopic	Paragraphs Amended
326-20, Financial Instruments—Credit Losses—Measured at Amortized Cost	326-20-50-13
326-30, Financial Instruments—Credit Losses—Available-for-Sale Debt Securities	326-30-50-9
330-10, Inventory—Overall	330-10-50-5
340-30, Other Assets and Deferred Costs—Insurance Contracts That Do Not Transfer Insurance Risk	340-30-50-2
340-40, Other Assets and Deferred Costs—Contracts with Customers	340-40-50-3
350-30, Intangibles—Goodwill and Other—General Intangibles Other Than Goodwill	350-30-50-1(c) 350-30-50-3
350-40, Intangibles—Goodwill and Other—Internal-Use Software	350-40-50-3
360-10, Property, Plant, and Equipment—Overall	360-10-50-2 360-10-50-3
410-20, Asset Retirement and Environmental Obligations—Asset Retirement Obligations	410-20-50-1

Subtopic	Paragraphs Amended
420-10, Exit or Disposal Cost Obligations—Overall	420-10-50-1
450-20, Contingencies—Loss Contingencies	450-20-50-1
460-10, Guarantees—Overall	460-10-50-8
470-20, Debt—Debt with Conversion and Other Options	470-20-50-2C
470-60, Debt—Troubled Debt Restructurings by Debtors	470-60-50-1
715-20, Compensation—Retirement Benefits—Defined Benefit Plans—General	715-20-50-1(h)
805-30, Business Combinations—Goodwill or Gain from Bargain Purchase, Including Consideration Transferred	805-30-50-1(f)
810-10, Consolidation—Overall	810-10-50-1B 810-10-50-3
815-10, Derivatives and Hedging—Overall	815-10-50-4A
830-20, Foreign Currency Matters—Foreign Currency Transactions	830-20-50-1
842-20, Leases—Lessee	842-20-50-4
845-10, Nonmonetary Transactions—Overall	845-10-50-1
920-350, Entertainment—Broadcasters—Intangibles—Goodwill and Other	920-350-50-2 920-350-50-4
926-20, Entertainment—Films—Other Assets—Film Costs	926-20-50-4A

Subtopic	Paragraphs Amended
	926-20-50-4C
944-30, Financial Services—Insurance—Acquisition Costs	944-30-50-1(c)

Amendments to Status Sections

8. Amend paragraph 220-10-00-1, by adding the following item to the table, as follows:

Paragraph	Action	Accounting Standards Update	Date
220-10-05-6	Added	2024-03	11/04/2024

9. Add paragraph 220-40-00-1 as follows:

220-40-00-1 The following table identifies the changes made to this Subtopic:

Paragraph	Action	Accounting Standards Update	Date
Accretion Expense	Added	2024-03	11/04/2024
Acquiree	Added	2024-03	11/04/2024
Acquirer	Added	2024-03	11/04/2024
Acquisition by a Not-for-Profit Entity	Added	2024-03	11/04/2024
Acquisition Costs	Added	2024-03	11/04/2024
Asset Retirement Obligation	Added	2024-03	11/04/2024
Business	Added	2024-03	11/04/2024
Business Combination	Added	2024-03	11/04/2024

Paragraph	Action	Accounting Standards Update	Date
Commencement Date of the Lease (Commencement Date)	Added	2024-03	11/04/2024
Contract	Added	2024-03	11/04/2024
Corporate Joint Venture	Added	2024-03	11/04/2024
Customer	Added	2024-03	11/04/2024
Defined Benefit Plan	Added	2024-03	11/04/2024
Defined Contribution Plan	Added	2024-03	11/04/2024
Derivative Instrument	Added	2024-03	11/04/2024
Direct Financing Lease	Added	2024-03	11/04/2024
Employee (2nd def.)	Added	2024-03	11/04/2024
Employee Compensation	Added	2024-03	11/04/2024
Employee Stock Ownership Plan	Added	2024-03	11/04/2024
Film Costs	Added	2024-03	11/04/2024
Finance Lease	Added	2024-03	11/04/2024
Hosting Arrangement	Added	2024-03	11/04/2024
Impairment	Added	2024-03	11/04/2024
Inactive Employees	Added	2024-03	11/04/2024
Intangible Assets	Added	2024-03	11/04/2024
Inventory	Added	2024-03	11/04/2024

Paragraph	Action	Accounting Standards Update	Date
Joint Venture	Added	2024-03	11/04/2024
Lease	Added	2024-03	11/04/2024
Lease Term	Added	2024-03	11/04/2024
Legal Entity	Added	2024-03	11/04/2024
Lessee	Added	2024-03	11/04/2024
Lessor	Added	2024-03	11/04/2024
License Agreement	Added	2024-03	11/04/2024
Loss Contingency	Added	2024-03	11/04/2024
Multiemployer Plan	Added	2024-03	11/04/2024
Natural Expense Classification	Added	2024-03	11/04/2024
Nonretirement Postemployment Benefits	Added	2024-03	11/04/2024
Not-for-Profit Entity	Added	2024-03	11/04/2024
Oil- and Gas-Producing Activities	Added	2024-03	11/04/2024
One-Time Employee Termination Benefits	Added	2024-03	11/04/2024
Operating Lease	Added	2024-03	11/04/2024
Other Postemployment Benefits	Added	2024-03	11/04/2024
Pension Benefits	Added	2024-03	11/04/2024
Postretirement Benefits	Added	2024-03	11/04/2024
Private Company	Added	2024-03	11/04/2024

Paragraph	Action	Accounting Standards Update	Date
Public Business Entity	Added	2024-03	11/04/2024
Reinsurance	Added	2024-03	11/04/2024
Right-of-Use Asset	Added	2024-03	11/04/2024
Sales-Type Lease	Added	2024-03	11/04/2024
Security (2nd def.)	Added	2024-03	11/04/2024
Service Cost (Component of Net Periodic Pension Cost)	Added	2024-03	11/04/2024
Service Cost (Component of Net Periodic Postretirement Benefit Cost)	Added	2024-03	11/04/2024
Share-Based Payment Arrangements	Added	2024-03	11/04/2024
Short-Term Lease	Added	2024-03	11/04/2024
Subsidiary	Added	2024-03	11/04/2024
Termination Benefits	Added	2024-03	11/04/2024
Transaction Gain or Loss	Added	2024-03	11/04/2024
Troubled Debt Restructuring	Added	2024-03	11/04/2024
Underlying Asset	Added	2024-03	11/04/2024
Underwriting Risk	Added	2024-03	11/04/2024
Variable Interest Entity	Added	2024-03	11/04/2024

Paragraph	Action	Accounting Standards Update	Date
Warranty	Added	2024-03	11/04/2024
220-40-05-1	Added	2024-03	11/04/2024
220-40-15-1 through 15-3	Added	2024-03	11/04/2024
220-40-50-1 through 50-36	Added	2024-03	11/04/2024
220-40-55-1 through 55-25	Added	2024-03	11/04/2024
220-40-65-1	Added	2024-03	11/04/2024

10. Amend paragraph 270-10-00-1, by adding the following item to the table, as follows:

Paragraph	Action	Accounting Standards Update	Date
270-10-50-7	Amended	2024-03	11/04/2024

11. Amend paragraph 326-20-00-1, by adding the following item to the table, as follows:

Paragraph	Action	Accounting Standards Update	Date
326-20-50-13	Amended	2024-03	11/04/2024

12. Amend paragraph 326-30-00-1, by adding the following item to the table, as follows:

Paragraph	Action	Accounting Standards Update	Date
326-30-50-9	Amended	2024-03	11/04/2024

13. Amend paragraph 330-10-00-1, by adding the following item to the table, as follows:

Paragraph	Action	Accounting Standards Update	Date
330-10-50-5	Amended	2024-03	11/04/2024

14. Amend paragraph 340-30-00-1, by adding the following item to the table, as follows:

Paragraph	Action	Accounting Standards Update	Date
340-30-50-2	Amended	2024-03	11/04/2024

15. Amend paragraph 340-40-00-1, by adding the following item to the table, as follows:

Paragraph	Action	Accounting Standards Update	Date
340-40-50-3	Amended	2024-03	11/04/2024

16. Amend paragraph 350-30-00-1, by adding the following items to the table, as follows:

Paragraph	Action	Accounting Standards Update	Date
350-30-50-1	Amended	2024-03	11/04/2024
350-30-50-3	Amended	2024-03	11/04/2024

17. Amend paragraph 350-40-00-1, by adding the following item to the table, as follows:

Paragraph	Action	Accounting Standards Update	Date
350-40-50-3	Amended	2024-03	11/04/2024

18. Amend paragraph 360-10-00-1, by adding the following items to the table, as follows:

Paragraph	Action	Accounting Standards Update	Date
360-10-50-2	Amended	2024-03	11/04/2024
360-10-50-3	Amended	2024-03	11/04/2024

19. Amend paragraph 410-20-00-1, by adding the following item to the table, as follows:

Paragraph	Action	Accounting Standards Update	Date
410-20-50-1	Amended	2024-03	11/04/2024

20. Amend paragraph 420-10-00-1, by adding the following item to the table, as follows:

Paragraph	Action	Accounting Standards Update	Date
420-10-50-1	Amended	2024-03	11/04/2024

21. Amend paragraph 450-20-00-1, by adding the following item to the table, as follows:

Paragraph	Action	Accounting Standards Update	Date
450-20-50-1	Amended	2024-03	11/04/2024

22. Amend paragraph 460-10-00-1, by adding the following item to the table, as follows:

Paragraph	Action	Accounting Standards Update	Date
460-10-50-8	Amended	2024-03	11/04/2024

23. Amend paragraph 470-20-00-1, by adding the following item to the table, as follows:

Paragraph	Action	Accounting Standards Update	Date
470-20-50-2C	Amended	2024-03	11/04/2024

24. Amend paragraph 470-60-00-1, by adding the following item to the table, as follows:

Paragraph	Action	Accounting Standards Update	Date
470-60-50-1	Amended	2024-03	11/04/2024

25. Amend paragraph 715-20-00-1, by adding the following item to the table, as follows:

Paragraph	Action	Accounting Standards Update	Date
715-20-50-1	Amended	2024-03	11/04/2024

26. Amend paragraph 718-10-00-1, by adding the following item to the table, as follows:

Paragraph	Action	Accounting Standards Update	Date
Employee (2nd def.)	Amended	2024-03	11/04/2024

27. Amend paragraph 718-20-00-1, by adding the following item to the table, as follows:

Paragraph	Action	Accounting Standards Update	Date
Employee (2nd def.)	Amended	2024-03	11/04/2024

28. Amend paragraph 718-30-00-1, by adding the following item to the table, as follows:

Paragraph	Action	Accounting Standards Update	Date
Employee (2nd def.)	Amended	2024-03	11/04/2024

29. Amend paragraph 718-40-00-1, by adding the following item to the table, as follows:

Paragraph	Action	Accounting Standards Update	Date
Employee (2nd def.)	Amended	2024-03	11/04/2024

30. Amend paragraph 718-50-00-1, by adding the following item to the table, as follows:

Paragraph	Action	Accounting Standards Update	Date
Employee (2nd def.)	Amended	2024-03	11/04/2024

31. Amend paragraph 805-30-00-1, by adding the following item to the table, as follows:

Paragraph	Action	Accounting Standards Update	Date
805-30-50-1	Amended	2024-03	11/04/2024

32. Amend paragraph 810-10-00-1, by adding the following items to the table, as follows:

Paragraph	Action	Accounting Standards Update	Date
810-10-50-1B	Amended	2024-03	11/04/2024
810-10-50-3	Amended	2024-03	11/04/2024

33. Amend paragraph 815-10-00-1, by adding the following item to the table, as follows:

Paragraph	Action	Accounting Standards Update	Date
815-10-50-4A	Amended	2024-03	11/04/2024

34. Amend paragraph 830-20-00-1, by adding the following item to the table, as follows:

Paragraph	Action	Accounting Standards Update	Date
830-20-50-1	Amended	2024-03	11/04/2024

35. Amend paragraph 842-20-00-1, by adding the following item to the table, as follows:

Paragraph	Action	Accounting Standards Update	Date
842-20-50-4	Amended	2024-03	11/04/2024

36. Amend paragraph 845-10-00-1, by adding the following item to the table, as follows:

Paragraph	Action	Accounting Standards Update	Date
845-10-50-1	Amended	2024-03	11/04/2024

37. Amend paragraph 920-350-00-1, by adding the following items to the table, as follows:

Paragraph	Action	Accounting Standards Update	Date
920-350-50-2	Amended	2024-03	11/04/2024
920-350-50-4	Amended	2024-03	11/04/2024

38. Amend paragraph 926-20-00-1, by adding the following items to the table, as follows:

Paragraph	Action	Accounting Standards Update	Date
926-20-50-4A	Amended	2024-03	11/04/2024
926-20-50-4C	Amended	2024-03	11/04/2024

39. Amend paragraph 944-30-00-1, by adding the following item to the table, as follows:

Paragraph	Action	Accounting Standards Update	Date
944-30-50-1	Amended	2024-03	11/04/2024

40. Amend paragraph 958-205-00-1, by adding the following item to the table, as follows:

Paragraph	Action	Accounting Standards Update	Date
Natural Expense Classification	Amended	2024-03	11/04/2024

41. Amend paragraph 958-220-00-1 by adding the following item to the table, as follows:

Paragraph	Action	Accounting Standards Update	Date
Natural Expense Classification	Amended	2024-03	11/04/2024

42. Amend paragraph 958-720-00-1, by adding the following item to the table, as follows:

Paragraph	Action	Accounting Standards Update	Date
Natural Expense Classification	Amended	2024-03	11/04/2024

The amendments in this Update were adopted by the unanimous vote of the seven members of the Financial Accounting Standards Board:

Richard R. Jones, *Chair*
 Hillary H. Salo, *Vice Chair*
 Christine A. Botosan
 Frederick L. Cannon
 Susan M. Cospers
 Marsha L. Hunt
 Dr. Joyce T. Joseph

Background Information and Basis for Conclusions

Introduction

BC1. The following summarizes the Board's considerations in reaching the conclusions in this Update. It includes reasons for accepting certain approaches and rejecting others. Individual Board members gave greater weight to some factors than to others.

BC2. Investors, lenders, creditors, and other allocators of capital (collectively, "investors") observed that disclosure of disaggregated information about expenses is critically important in understanding an entity's performance, assessing an entity's prospects for future cash flows, and comparing an entity's performance over time and with that of other entities. Investors asked for disclosure of the amounts of employee compensation, depreciation, and amortization included in commonly presented expense captions such as cost of sales (including cost of goods sold and cost of services) and selling, general, and administrative expenses (SG&A). Investors also requested disclosure of inventory purchases to better understand an entity's materials costs and how changes in those costs may affect an entity's gross margin. Investors noted that often few expense lines are presented on the face of the income statement and that expense items providing differentiated information about an entity's prospects for future cash flows are not presented or disclosed separately. Investors assert that this practice limits their ability to predict an entity's future performance and cash flows.

BC3. Currently, there are no broad requirements in GAAP to disaggregate expenses presented on the face of the income statement. Investors noted that, as a result, there is diversity in the extent to which entities provide disaggregated expense information. Furthermore, the naming and classification conventions for expense captions vary by industry and entity. Therefore, investors frequently requested that the Board require information about what is included in cost of sales and SG&A to assist them in understanding an entity's cost structure. Investors also asked for selling expenses to be provided separately from general and administrative expenses.

BC4. The amendments in this Update require disaggregation of certain expense captions into specified categories in disclosures within the notes to financial statements. This is expected to significantly enhance the transparency of an entity's operations and cost structure and is designed to improve comparability because the specified categories are more clearly defined than the expense captions presented by many business entities today.

BC5. The amendments in this Update also require that the amount of selling expenses be disclosed in the notes to financial statements. Investors indicated that having information about selling expenses separate from other expenses enhances their ability to predict an entity's future performance by providing insights into costs that are more likely to vary based on changes in revenues. When coupled with the other disaggregation requirements, it also will provide better contextual information for an entity's preparation and an investor's consideration of management's discussion and analysis (MD&A). The disaggregated expense information required in this Update, coupled with recent standards that enhanced the disaggregation of revenue and income tax information in recently issued guidance, will enable investors to better understand the major components of an entity's income statement because an investor will be able to reference specific disclosures in the notes to financial statements about revenue, expenses, and income taxes.

BC6. On July 31, 2023, the Board issued the proposed Accounting Standards Update, *Income Statement—Reporting Comprehensive Income—Expense Disaggregation Disclosures (Subtopic 220-40): Disaggregation of Income Statement Expenses*, for public comment with the comment period ending on October 30, 2023. The Board received 80 comment letters in response to the proposed Update and conducted additional outreach with investors that use the financial statements and footnotes when making capital allocation decisions. Investors strongly supported the amendments in the proposed Update, noting that the additional expense information would allow them to better understand the factors driving expense trends, assess profitability and future cash flows, and improve their forecasting and trend analyses. Additionally, some investors commented that the proposed amendments would improve consistency and comparability across entities.

BC7. While many comment letter respondents and other stakeholders supported the Board's efforts to improve disclosures about a public business entity's expenses, preparers and other respondents generally expressed concerns about operability challenges and costs to implement the amendments, or certain aspects of the amendments, in the proposed Update. Some of those respondents questioned whether the expected benefits of the information resulting from the proposed amendments would justify the expected costs.

BC8. On December 13, 2023, the Board hosted a public roundtable discussion with 25 external participants (including investors, preparers representing various industries, practitioners, and other stakeholders) to discuss the feedback received on the amendments in the proposed Update. The feedback at the roundtable discussion was generally consistent with the feedback received from comment letter respondents and from additional outreach with investors.

BC9. The overwhelming support from investors for the benefits articulated in the proposed Update led the Board to proceed with finalizing the amendments in this Update. The Board also considered other stakeholders' feedback on how to improve the operability of the guidance, as discussed below.

Background Information

Current Requirements

BC10. For business entities, Topic 220, Income Statement—Reporting Comprehensive Income, does not contain requirements for the presentation of specific expense captions on the face of the income statement (excluding any SEC Sections). That Topic also does not require any disaggregation of expense captions.

BC11. Presentation of certain income statement expense captions is required by industry-specific guidance or is triggered when a specific event occurs (for example, goodwill impairment for public business entities). Other types of expenses, even when not required to be presented separately on the face of the income statement, are required to be disclosed separately in the notes to financial statements. For certain expenses, GAAP requires that an entity

disclose the income statement caption in which the amounts recognized are aggregated, such as for impairment losses on intangible assets within the scope of Subtopic 350-30, Intangibles—Goodwill and Other—General Intangibles Other Than Goodwill. In other instances, there is no requirement to disclose the income statement caption in which an expense is aggregated (such as for advertising expenses within the scope of Subtopic 720-35, Other Expenses—Advertising Costs), even though the expense amount may be required to be disclosed in total.

BC12. For public business entities that file or furnish financial statements with or to the SEC (including voluntary filers), general income statement presentation requirements are currently established in SEC Regulation S-X Rule 210, Form and Content of and Requirements for Financial Statements. Different articles of SEC Regulation S-X apply to entities in different industries. For example, SEC Regulation S-X Rule 210.5-03, Statements of Comprehensive Income, lists the various expense captions that a commercial and industrial company should present on the face of the statements of comprehensive income, except as otherwise permitted by the Commission, including “costs and expenses applicable to sales and revenues” and “selling, general and administrative expenses.” Entities in other industries, such as banks and bank holding companies, may be required to present different expense captions in accordance with SEC Regulation S-X Rule 210.9-04, Statements of Comprehensive Income, such as “salaries and employee benefits.”

BC13. Currently, entities that present expense captions such as *cost of sales* or *SG&A* are not required to disaggregate those expense captions into components such as purchases of inventory, employee compensation, depreciation, intangible asset amortization, and depletion.

Project History

BC14. In 2004, the Board and the International Accounting Standards Board (IASB) decided to work jointly on a project on financial statement presentation with the goal of establishing converged guidance.

BC15. In 2008, the Boards issued a Discussion Paper, *Preliminary Views on Financial Statement Presentation*. That Discussion Paper explained that users of financial statements had told the Boards that although disaggregation into

functions (such as cost of sales and general and administrative expenses) assists in the analysis of overall business trends (such as in gross margins and operating margins), it aggregates items with different economic drivers (for example, labor and raw materials) and, therefore, reduces the predictive value of the expense information. By contrast, disaggregating expenses by nature would separate expenses that have different economic characteristics. Therefore, the Boards proposed further disaggregating the functional captions by their nature. In comment letters and subsequent outreach, respondents noted that greater disaggregation of expense items would provide decision-useful information. However, some respondents expressed concern that the expected costs of presenting disaggregated expense items by nature and function would outweigh the expected benefits.

BC16. A draft for public comment, *Staff Draft of an Exposure Draft on Financial Statement Presentation*, was issued in 2010 jointly by the FASB staff and the IASB staff to serve as the basis for further outreach on the project. The Staff Draft had a broad scope and proposed changes to the requirements for presentation on the income statement, balance sheet, and statement of cash flows. Relevant to the amendments in this Update, the Staff Draft proposed a requirement that an entity disaggregate its expenses by function and then further disaggregate those functional amounts by nature to the extent that the information would be useful in assessing the amount, timing, and uncertainty of future cash flows. Users supported increased disaggregation, while preparers expressed several concerns about the proposal, including the costs associated with generating the information. Upon considering the feedback received, the Board removed the project on financial statement presentation from its technical agenda but continued researching related issues.

BC17. In 2014, the Board added a research project focused on ways in which financial statement presentation could be improved by leveraging certain aspects of its previous project on financial statement presentation. That research project ultimately focused on financial performance reporting and considered potential improvements through disaggregation and changing the structure of the income statement.

BC18. In 2016, the Board requested feedback through the issuance of the Invitation to Comment, *Agenda Consultation*. That document solicited feedback about the major areas of financial reporting that stakeholders noted should be improved. The 2016 Invitation to Comment specifically highlighted

four topical areas for stakeholders' consideration, the financial reporting issues related to each topical area, and some of the possible approaches that the Board could consider in addressing the identified issues. Those topics were identified based on the results of a 2015 Financial Accounting Standards Advisory Council survey that was conducted about the Board's agenda priorities, as well as feedback received from the Board's other advisory groups and other stakeholders. One of the topical areas focused on the reporting of an entity's performance, including the presentation and display of revenues, expenses, gains, and losses reported in the income statement, statement of other comprehensive income, segment disclosures required under Topic 280, Segment Reporting, or in other notes to financial statements.

BC19. Many respondents to the 2016 Invitation to Comment stated that performance reporting was a priority area and supported efforts to provide greater granularity of performance information to show the different sources and characteristics of earnings through either presentation or disclosure in the notes to financial statements. Specifically, they stated that disaggregating performance information should be a priority for the Board's future agenda because it would increase the utility of the income statement in terms of predicting future earnings and cash flows.

BC20. In September 2017, the Board decided to add to its technical agenda a project on the disaggregation of performance information. The Board decided to focus the project on disaggregating certain expenses presented by function into natural components. In 2019, active research on the project was paused to monitor the progress of the Board's project on segment reporting and the IASB's project on primary financial statements.

BC21. In 2021, the Board issued an Invitation to Comment, *Agenda Consultation*. In response, investors and other financial statement users stated that greater disaggregation of financial reporting information—in the income statement, in the statement of cash flows, or in the notes to financial statements—should be a top priority for the Board to help them better perform their analyses. Investors specifically requested more granular information about cost of sales and SG&A because greater granularity and detail of those expense captions would assist investors in understanding an entity's cost structure. Some investors also noted that employee compensation costs should be disclosed, ideally with details by line item.

BC22. In response to the 2021 Invitation to Comment, some preparers indicated that they receive minimal questions on the disaggregation of financial reporting information and cash flows and, therefore, asserted that their investors already receive sufficient information.

BC23. In February 2022, the Board revised the scope and objective of the project in response to the feedback received on the 2021 Invitation to Comment. At that time, the objective was revised to focus on improving the decision usefulness of business entities' income statements.

Benefits and Costs

BC24. The objective of financial reporting is to provide information that is useful to present and potential investors, creditors, donors, and other capital market participants in making rational investment, credit, and similar resource allocation decisions. However, the benefits of providing information for that purpose should justify the related costs. Present and potential investors, creditors, donors, and other users of financial information benefit from improvements in financial reporting, while the costs to implement new guidance are borne primarily by present investors. The Board's assessment of the costs and benefits of issuing new guidance is unavoidably more qualitative than quantitative because there is no method to objectively measure the costs to implement new guidance or to quantify the value of improved information in financial statements.

BC25. For the amendments in this Update, the Board determined that the main benefits are as follows:

- a. Required expense categories. Disclosing the purchases of inventory; employee compensation; depreciation; intangible asset amortization; and depreciation, depletion, and amortization recognized as part of oil- and gas-producing activities (DD&A) (or other amounts of depletion expense) expense categories provides transparency about the components of expense captions and enhances an investor's ability to forecast future performance because those expense categories are expected to respond differently to changes in economic conditions. Investors also will have more comparable information between entities because the composition of expenses included in the categories is more consistent than that of expense captions such as cost of sales or SG&A.

- b. Disaggregation of existing disclosure requirements in a single disclosure note. Including certain expenses required to be disclosed under current GAAP in the same tabular format disclosure that includes the expense amounts listed in paragraph BC25(a) improves the transparency of the components of income statement expense captions by reducing the cost and effort required of investors to identify and locate the related information.
- c. Qualitative disclosures about residual amounts. Disclosing qualitative information about amounts that have not been disaggregated and remain in relevant expense captions after disclosing the expense amounts listed in paragraph BC25(a) and (b) provides incremental information about the composition of those expense captions beyond what is currently provided.
- d. Selling expenses disclosure. Disclosing selling expenses and how they are determined is expected to enhance an investor's understanding of what management determines to be selling expenses as well as providing insights into costs that are more likely to vary based on changes in revenue. Investors communicated that they would prefer to forecast selling expenses separately from general and administrative expenses.
- e. Interim and annual reporting requirements. Requiring the disclosures for interim and annual reporting periods provides investors with more timely and useful information. The Board also expects that requiring interim disclosures will allow investors to update their expectations for an entity's major individual expense captions throughout the year, rather than only when annual financial statements are issued. While the Board acknowledges that some entities present condensed statements in interim reporting periods (which could affect the disaggregated expense disclosures), it determined that there are significant benefits for investors by requiring the disclosures in interim reporting periods.

BC26. The extent of incremental information reported under the amendments in this Update may vary across entities. The Board, however, determined that nearly all entities will disclose significantly more information about the natural components of those expense captions following the implementation of these amendments. As a result, this incremental information will allow investors to better understand the components of an entity's expenses, make their own judgments about the entity's performance, and more accurately forecast

expenses, which in turn should allow investors to better assess an entity's prospects for future cash flows.

BC27. On the basis of feedback received in outreach with preparers, the Board understands that many entities may incur meaningful costs to implement the amendments in this Update. Preparers indicated that it may be costly to provide the disclosures because they do not currently track the information required by the amendments for consolidated GAAP reporting purposes. The feedback also indicated that the disclosures could result in both one-time costs to design and implement reporting systems (including systems of internal controls) and ongoing costs to comply with the disaggregation requirements, particularly if manual processes are used to reduce the initial implementation costs. The one-time costs and the ongoing costs will vary depending on several factors, including the size and complexity of an entity, the extent to which the entity capitalizes costs to an asset such as inventory, the degree to which the entity allocates natural expenses across different functions presented in its current income statement, the extent to which the entity transacts in foreign currencies, and the extent to which management already collects or uses any of the required information.

BC28. In finalizing the amendments in this Update, the Board made several decisions to mitigate implementation costs as follows:

- a. Specific expenses. The Board decided to limit the disclosures to specific expenses and costs that will be most useful for investors. Feedback from preparers indicated that relative to an approach that would require the full disaggregation of functional expenses by nature, the approach pursued by the Board will be less costly because fewer types of natural expenses are required to be disclosed by function.
- b. Disclosure of amounts capitalized to inventory or expense amounts derecognized from inventory. During the staff's initial outreach with stakeholders, many preparers indicated that a requirement to disaggregate inventory amounts into the required expense categories would be impracticable because entities would be unable to track the nature of costs capitalized to inventory through the production process. Therefore, the Board decided to allow the amounts disclosed for each expense category to include costs incurred that were capitalized to inventory during the period. The Board concluded that this cost-incurred approach would be less costly because an entity would not be required to determine the nature of costs capitalized in previous periods.

However, some entities indicated that they have reporting systems in place that allow them to track natural expense information through the inventory production process; therefore, the Board decided that entities should be allowed to disaggregate the required categories on an expense-incurred basis.

- c. Disclosure and further disaggregation of inventory and manufacturing expense. The amendments in the proposed Update would have required the disclosure and further disaggregation of *inventory and manufacturing expense*, which was a defined term within the proposed amendments. During the comment letter process, many stakeholders, in particular preparers and preparer-focused trade groups, expressed concerns about the operability and costs of disclosing and further disaggregating inventory and manufacturing expense. Specifically, those stakeholders observed that the requirement to further disaggregate inventory and manufacturing expense into certain cost-incurred categories would require that an entity separately identify, track, and disclose manufacturing expenses (including inventory costs) from nonmanufacturing expenses. As a result of that feedback, the Board decided to remove the requirement to disclose and further disaggregate inventory and manufacturing expense and, instead, added the purchases of inventory category as a required disclosure in this final Update. The Board observed that removing the requirement to disclose and further disaggregate inventory and manufacturing expense would reduce the complexity of the disclosures, and thereby reduce the related costs of the requirements, by including manufacturing expenses (including inventory costs) and nonmanufacturing expenses in a single-level disaggregation.
- d. Clarifications on identifying relevant expense captions. For purposes of identifying relevant expense captions, the Board decided to clarify that:
 - 1. An expense caption that consists entirely of one required expense category is not subject to the disaggregation requirements. However, if the relevant expense caption is presented as a natural expense classification on the face of the income statement and includes more than one of the required expense categories, additional disaggregation would be required.
 - 2. An entity's share of profit or loss in an equity method investee and the entity's disclosure of summarized information of results of operations of equity method investees are not subject to the disaggregation requirements.

These clarifications will eliminate diversity in practice and, therefore, simplify the reporting requirements and reduce costs.

- e. Other items remaining. The Board decided to require qualitative disclosure about the nature of expenses remaining in relevant expense captions rather than requiring additional quantitative disaggregation based on a quantitative threshold or principle.
- f. Practical expedients.
 - 1. The Board decided to permit entities (banks and bank holding companies) applying SEC Regulation S-X Rule 210.9-04 that present salaries and employee benefits to continue using a classification that satisfies that requirement rather than requiring that those entities apply the employee compensation definition that is included in Subtopic 220-40.
 - 2. When substantially all of an entity's income statement caption comprises purchases of inventory within the scope of Topic 330 (such as *purchases*, *purchases of materials*, or another similarly named caption), the Board decided that the entity is required to qualitatively describe the composition of that expense caption instead of disclosing disaggregated amounts for that expense caption.
- g. Guidance on the effects of cost-sharing and cost-reimbursement arrangements. The Board decided to allow an entity that includes amounts that are recorded net of an expense reimbursement to either (1) disclose the required expense categories net of reimbursement amounts or (2) disclose the aggregate reimbursement amount as a separate line item. The Board also decided to allow an entity that includes an expense reimbursement to another entity to separately include the amount of that reimbursement in the disclosure. Some stakeholders stated that, in practice, entities that receive reimbursements do not maintain reimbursement information at a sufficiently granular level to disclose the required expense categories net of reimbursement amounts and that entities that pay reimbursements do not receive sufficiently granular reimbursement information to determine the nature of the expenses to which those reimbursements relate. Therefore, this guidance will reduce costs.
- h. Accrued expenses based on the obligation of an estimate of future expenditures to be incurred. Some stakeholders expressed concern about the operability of disaggregating certain liability-related expenses (for example, insurance claims expense and asset retirement

obligations) into required expense categories. The Board decided that not requiring an entity to further disaggregate those liability-related expenses will reduce costs and be more operable.

- i. Discretion for defining the term *selling expenses*. Rather than providing prescriptive guidance, the Board decided to permit an entity to tailor the definition of the term *selling expenses* to its specific facts and circumstances. The Board determined that this will be less costly and more operable than if the Board had established a prescriptive definition to be applied by all entities; instead, entities are permitted to apply reasonable judgment when defining selling expenses. In addition, this approach of not defining *selling expenses* is consistent with the general lack of prescriptive definitions within GAAP for expense line items such as cost of goods sold or SG&A expenses.
- j. Use of estimates or other methods of approximation. The Board decided to clarify that an entity may use estimates or other methods that produce a reasonable approximation of the amounts required to be disclosed, which will alleviate broad concerns about potential reporting system and process limitations in preparing the disclosures and ultimately will reduce costs.
- k. Private companies. The Board decided to exclude private companies from the scope of the amendments.
- l. Transition. The Board understands that much of the information required to prepare the disclosures is not readily available today. Accordingly, the Board determined that it will be less costly to require that the disclosures be applied prospectively rather than retrospectively.

BC29. Overall, the Board concluded that the expected benefits of the amendments in this Update justify the expected costs. The Board's specific considerations about the benefits and costs of these amendments are further discussed in subsequent sections.

Basis for Conclusions

Entities Included within the Scope: Public Business Entities

BC30. The amendments in this Update apply to all public business entities. The amendments do not apply to private companies, not-for-profit entities, and employee benefit plans.

BC31. The Board noted that most of the feedback received about disaggregation on the 2016 and 2021 Invitations to Comment was provided by investors in public business entities. Moreover, most of the feedback received on current presentation and disclosure practices and the costs to implement various potential disaggregation requirements also focused on public business entities.

BC32. The Board decided to include only public business entities within the scope. A few stakeholders asked for an exception to the guidance in the amendments in this Update for certain public business entities, including (a) small reporting companies as defined by the SEC, (b) entities in certain industries, and (c) nonissuers that are required to file or furnish financial statements with or to the SEC (such as broker-dealers). The Board observed that addressing such feedback could result in a reconsideration of the definition of a public business entity, which is beyond the scope of this project. Accordingly, the Board considered that feedback and decided to affirm the proposed scope because, among other reasons, the objective of the amendments in this Update is to provide additional information about all public business entities' expenses rather than to reconsider the definition of a public business entity.

Entities Excluded from the Scope: Private Companies

BC33. The Board decided to exclude private companies from the scope of the amendments in this Update. While most respondents agreed with the Board's decision, a few comment letter respondents disagreed because, among other reasons, some users of private company financial statements indicated that greater expense disaggregation could enhance the decision usefulness of private company income statements. Additionally, some public company preparers noted a preference for including private companies because their competitors are private companies or because excluding private companies could make post-acquisition accounting by public company acquirers more difficult in a situation in which a private company is acquired by a public business entity. However, the *Private Company Decision-Making Framework: A Guide for Evaluating Financial Accounting and Reporting for Private Companies*, states that because many users of private company financial statements do not seek the same level of detailed information as do users of public company financial statements and because of cost considerations, the Board generally should consider not requiring the

disclosure of disaggregated information such as a tabular reconciliation of the beginning and ending balances of balance sheet accounts or quantitative details about the composition of certain income statement or balance sheet line items. For other types of disclosures, the Private Company Decision-Making Framework considers access to management, whether the disclosure can be provided at a reasonable cost, and relevance to the typical financial statement user. Therefore, some Board members expressed that it would be important to better understand whether the ability of private company users, particularly lenders, to access management and request additional information diminishes the need for the disclosures required by the amendments in this Update.

BC34. Considering that public business entity investors and other stakeholders expressed that standard setting in this area is a high priority, the Board concluded that the amendments in this Update should apply only to public business entities. The Board also considered the costs that private company preparers might incur in disclosing disaggregated expense information, noting that most of the research performed on the expected costs of disaggregating expenses was drawn from outreach conducted with public business entity preparers. Some Board members stated that they would be open to revisiting, as part of a separate research effort in the future, whether any of the amendments in this Update should be considered for private companies after conducting additional research focused on private companies and considering the experience of public business entities that implement the finalized amendments. Members of the Private Company Council (PCC), including members with backgrounds as investors, generally supported the Board's interpretation of the Private Company Decision-Making Framework and its decision to exclude private companies from the scope of the amendments. PCC members discussed that they may reconsider a project on disaggregation of expenses in the future after they are able to observe the public company adoption.

Entities Excluded from the Scope: Not-for-Profit Entities

BC35. The Board decided to exclude not-for-profit entities from the scope of the amendments in this Update because not-for-profit entities are subject to different expense disclosure requirements that are more disaggregated than those required for business entities. For example, paragraph 958-720-45-15 requires that not-for-profit entities report information about all expenses in one location on the face of the statement of activities, as a schedule in the notes to

financial statements, or in a separate financial statement. That paragraph also requires that not-for-profit entities disclose the relationship between functional classification and natural classification for all expenses in an analysis that disaggregates functional expense classifications, such as major classes of program services and supporting activities, by their natural expense classifications, such as salaries, rent, electricity, interest expense, supplies, depreciation, awards and grants to others, and nonemployee professional fees. Comment letter respondents supported the Board's decision to exclude not-for-profit entities from the scope of the amendments in this Update.

Entities Excluded from the Scope: Employee Benefit Plans

BC36. The Board decided to exclude employee benefit plans from the scope of the amendments in this Update because the Board concluded that the disclosure requirements are generally not relevant to users of employee benefit plan financial statements. Comment letter respondents supported the Board's decision to exclude employee benefit plans from the scope of the amendments in this Update.

Expense Captions Subject to Disaggregation

BC37. The amendments in this Update require that an entity identify which expense captions presented on the face of the income statement are *relevant expense captions* and then disaggregate the relevant expense captions in a tabular format disclosure in the notes to financial statements.

BC38. For the purposes of the amendments in this Update, an expense caption is relevant if it contains at least one of the following types of expenses: (a) purchases of inventory, (b) employee compensation, (c) depreciation, (d) intangible asset amortization, or (e) DD&A (or other amounts of depletion expense). The amendments also clarify that because amortization of a right-of-use asset for a finance lease and amortization of leasehold improvements are considered a subset of either depreciation or intangible asset amortization, the presence of either expense will cause an expense caption presented on the face of the income statement to be considered a relevant expense caption and, therefore, subject to further disaggregation.

BC39. Many business entities, including public business entities subject to the income statement presentation requirements for commercial and industrial companies currently established by the SEC in Regulation S-X Rule 210.5-03, present cost of sales (for example, cost of goods sold, cost of services, or both) and SG&A on the face of the income statement. Other public business entities are not required to present those captions. Some also choose to present other captions (for example, research and development expenses) containing certain types of expenses, such as employee compensation, that are of interest to investors.

BC40. When determining which expense captions should be subject to the disaggregation requirements, the Board decided to focus on the substance of the expenses that are included in a given expense caption rather than the current presentation guidance that an entity is required to follow or the title of the caption presented. Therefore, the Board established requirements that are flexible and can be applied by public business entities in various industries by requiring that an expense caption is a relevant expense caption if it contains any of the required expense categories. The Board concluded that entities generally will identify cost of sales, SG&A, and research and development expenses (and similarly named expenses) as relevant expense captions when those expense captions are presented on the face of the income statement because of the presence of at least one type of required expense category (such as purchases of inventory, employee compensation, depreciation, intangible asset amortization, or depletion). When presented on the face of an entity's income statement and identified as relevant expense captions, those expense captions are subject to further disaggregation even though the requirements do not identify specific expense captions by name.

BC41. At various stages during the development of this Update, the Board considered establishing a scope to focus on cost of sales (including cost of goods sold and cost of services) and SG&A because investors specifically requested greater insight into the components of those two expense captions.

BC42. The Board acknowledges that an advantage of identifying specific expense captions for further disaggregation is that the requirements would target the expense captions that investors had identified most frequently in their feedback. However, the Board was concerned about its ability to define those captions in a manner that would be operable by entities in different industries. For example, the Board considered that some entities present expense

captions with varying titles that conform with current presentation requirements and industry practice. Therefore, the Board was concerned that entities may struggle to identify which captions or combinations of captions would represent cost of sales or SG&A particularly when the expense captions presented do not have standard titles. Furthermore, an approach that focuses only on disaggregation of specific expense captions would leave open the possibility that certain non-specified captions would contain highly aggregated amounts of applicable expenses. The Board also determined that investors' need for further expense disaggregation was not necessarily limited to cost of sales and SG&A but that it also existed for other expense captions that, when presented, may include expenses like employee compensation (for example, research and development expenses).

BC43. Nearly all investors that provided feedback indicated that requiring that an entity identify relevant expense captions for disaggregation would provide decision-useful information about an entity's expenses. Most stakeholders (including roundtable participants, advisory groups, and comment letter respondents) also agreed that the requirement is clear and operable.

BC44. The Board decided that with the exception of inventory disclosed under the cost-incurred basis described in paragraph 220-40-50-31(a), an entity is not required to further disaggregate costs capitalized as an asset, even if the costs capitalized include required expense categories described in paragraph BC48, such as employee compensation. However, when an expense amount relates to the derecognition of an asset, other than inventory, an entity should apply the disaggregation disclosures requirements based on the nature of the expense at the time that it is recognized in the income statement. For example, if an entity capitalizes employee costs to software (an asset) and in a subsequent reporting period it recognizes an amortization expense, the entity is required to disaggregate the relevant expense caption that contains the amount amortized during the period but does not need to further disaggregate the resulting amortization. Comment letter respondents supported the Board's decision.

BC45. Some comment letter respondents requested that the Board clarify whether certain liability-related expenses that are included in a relevant expense caption should be disaggregated into the required expense categories described in paragraph BC48. Those respondents stated that these types of expenses relate to an obligation that is an estimate of an uncertain future

expenditure and that disaggregating those liability-related expenses would be operationally complex and would not provide investors with decision-useful information. The Board decided that if the expense amount is based on an obligation that is an estimate of an uncertain amount that will be settled in the future, it should be excluded from the disaggregation requirements, even if it is in a relevant expense caption. Examples of expenses that are excluded include, among others, (a) provision for losses on contracts (see Subtopic 605-35, Revenue Recognition—Construction-Type and Production-Type Contracts), (b) claims and claims adjustment expenses (for example, in the insurance industry), and (c) asset retirement obligations. However, an entity should consider whether current disclosure requirements should be incorporated into the tabular format disclosure (see paragraphs BC104 through BC111). The Board acknowledges that estimates are required in financial statements for many of an entity's ongoing and recurring activities. Therefore, the fact that an estimate is involved does not constitute the type of uncertainty contemplated in developing this guidance. For example, expense amounts related to accruals for liabilities to pay for goods or services that have been received or supplied but have not been paid or invoiced, including amounts due to employees (for example, amounts relating to accrued bonuses, vacation pay, or pension obligations) are not intended to be excluded from the disaggregation requirements.

BC46. For the purpose of identifying relevant expense captions, the Board also decided to clarify that:

- a. An expense caption that consists entirely of one required expense category is not subject to the disaggregation requirements. However, if the relevant expense caption is presented as a natural expense classification on the face of the income statement and includes more than one of the required expense categories, additional disaggregation would be required.
- b. An entity's share of profit or loss in an equity method investee (or similar caption on the income statement) and an entity's disclosure of summarized information of results of operations of equity method investees are not subject to the disaggregation requirements.

BC47. Some comment letter respondents and roundtable participants stated that entities in extractive industries other than oil and gas (for example, mining entities within the scope of Topic 930, Extractive Activities—Mining) recognize depletion expense. The Board decided that an entity also should include

amounts for depletion expense that are not recognized as part of oil- and gas-producing activities in accordance with Subtopic 932-360, Extractive Activities—Oil and Gas—Property, Plant, and Equipment, within the required expense category for DD&A.

Required Expense Categories

BC48. The amendments in this Update establish the following required expense categories: (a) purchases of inventory, (b) employee compensation, (c) depreciation, (d) intangible asset amortization, and (e) DD&A (or other amounts of depletion expense). Therefore, an entity is required to disaggregate relevant expense captions into those required expense categories in a tabular format disclosure in the notes to financial statements.

BC49. The Board's decision to require the disaggregation of relevant expense captions into those specific categories was the product of four main considerations: (a) the required categories are types of natural expenses, (b) a finite number of specified categories would be required (as opposed to a requirement to disaggregate expenses fully by nature), (c) the required categories align with investors' feedback about the highest priority natural expenses, and (d) it is similar to the approach taken by the IASB in its project on primary financial statements (see paragraphs BC145 through BC149).

BC50. In comment letter and outreach feedback, investors strongly supported disaggregating relevant expense captions into required expense categories, noting that the requirement would provide relevant, reliable, and comparable information that would allow them to better assess an entity's performance and forecast future cash flows. Other stakeholders questioned whether the expected benefits of the requirement outweigh the expected costs. Many preparers expressed concerns that implementing the disaggregation requirements may be costly because reporting systems may need fundamental changes to retrieve transaction-level data.

BC51. Stakeholders' feedback also indicated different views about the disaggregation approach. Some investors suggested that the Board require that an entity (a) disaggregate functional expense captions fully by nature, (b) disclose the total amount of each required expense category in addition to the disaggregation of required expense categories in relevant expense captions, and (c) disclose additional expense categories, such as utilities, energy, and the effects of foreign currency. Many preparers and some other stakeholders

suggested that the Board require that an entity use an internal view or a principles-based approach to disclose expense information or require that an entity disclose amounts for some or all of the required expense categories only in total.

BC52. Despite differing views on the disaggregation approach, stakeholders generally agreed that the proposed approach achieves a better balance of benefits and costs as compared with the full disaggregation of expenses by nature. Therefore, the Board decided to affirm its decision to require that an entity disaggregate required expense categories in each relevant expense caption.

BC53. Many stakeholders expressed concerns that to comply with the proposed disaggregation requirements, an entity would always be required to utilize transaction level detail to determine the amounts of each required expense category. A requirement to utilize transaction level detail could be burdensome because of intra-entity departmental allocations, costing and absorption approaches, and other bookkeeping practices applied in the preparation of consolidated financial statements. The Board observed that it did not intend for an entity to prepare the disclosure requirements using transaction level details; instead, an entity may take a reasonable approach to prepare the disclosure information in a systematic and rational way. As a result, the Board decided to explicitly state that it is appropriate for an entity to use estimates or other methods that result in a reasonable approximation of amounts when disaggregating required expense categories from the relevant expense captions.

BC54. The Board concluded that the approach to disaggregate specified expense categories, in combination with the clarifications and additional guidance provided during redeliberations, strikes a reasonable balance between meeting investors' needs for more disaggregated expense information and addressing other stakeholders' concerns.

Natural Expenses

BC55. Each required expense category represents what the Board considers to be a natural expense. *Natural expenses*, consistent with their current definition in the Master Glossary, are distinguishable based on the *types of economic benefits* received in incurring those expenses. Purchases of inventory, employee compensation, depreciation, intangible asset

amortization, and DD&A (and other types of depletion expense) each represent expenses for which the economic benefits received by an entity are different. For example, the types of economic benefits received from employees' services are different from the types of benefits received from the use of a building.

BC56. Natural expenses often are contrasted with functional expenses. Functional expenses are distinguishable based on the purpose for which the expenses are incurred. While employee compensation may represent one type of natural expense, employee compensation can be divided between different functions, such as manufacturing and production; the cost of providing services; selling, general, and administrative functions; and research and development activities. For example, employee compensation costs incurred to render services to customers and employee compensation costs incurred to conduct research and development activities are incurred for different purposes and may be classified within different functional expense captions on the income statement (such as cost of sales and research and development).

BC57. Determining the purpose for which a cost was incurred is subjective and can require significant judgment. The Board concluded that an allocation of a natural expense to multiple functional expense captions does not affect its underlying natural categorization. For example, allocating the cost of an employee's salary to both cost of sales and research and development does not change the natural classification of the cost incurred. The natural classification of the cost of an employee's salary would still be employee compensation. However, capitalization of a cost to an asset affects the natural classification of that cost; any expense that is subsequently recognized would have a different natural classification than the cost that was capitalized. An example would be a commission paid to an employee that is capitalized as an incremental cost to obtain a contract with a customer in accordance with Subtopic 340-40, Other Assets and Deferred Costs—Contracts with Customers. The amortization of that cost to obtain a contract with a customer would not retain the original natural classification of that expense as employee compensation (see paragraph 220-40-50-21(f)).

BC58. Investors expressed that accurately forecasting individual expense captions requires that they be relatively homogeneous and that the prevailing practice in many industries of combining costs of dissimilar natures within a single functional caption (such as cost of sales) can make forecasting expense

captions difficult and prone to error. Some investors stated that disaggregating expenses by nature would increase the predictive value of financial statements because they generally would expect expenses within individual natural expense categories to similarly respond to changes in economic conditions. Some investors also expressed that providing expense disclosure categorized by nature could achieve greater comparability between entities than is possible when expenses are categorized by function because determining which costs are included in each function (like cost of sales or administrative costs) may depend on how an entity defines that function. Outreach with preparers indicated that the definitions of internal company functions can differ, even among entities within the same industry.

Specified Required Categories

BC59. The Board considered preparer and investor feedback received as part of its current project and related past projects to identify methods of disaggregation. The following section provides a summary of methods considered, but dismissed, by the Board as well as feedback that informed the Board about how to select the specified required expense categories.

BC60. The Board previously considered requiring that business entities disaggregate certain functional expenses fully by nature, similar to the current requirements for not-for-profit entities. However, business entity preparers (including comment letter respondents who are preparers) repeatedly stated that full disaggregation of functional expenses by nature would be prohibitively costly. Specifically, many preparers explained that their reporting systems are not configured to disaggregate functional expenses by nature and that doing so would require extensive and costly changes to reporting systems, processes, and controls. Furthermore, many preparers noted that providing any disaggregation of functional expenses by nature would be costly because of (a) intra-entity departmental (cost center) allocations, (b) consolidation processes that eliminate intra-entity transactions, (c) acquisitions that require an entity to combine reporting systems that may track expenses differently, (d) the lack of an internal use for expense information disaggregated by nature, and (e) the effect of foreign currency transactions. Additionally, that approach also may require extensive additional guidance on how to classify expenses into natural categories for the purpose of providing the full by-nature disclosure. Preparers' feedback also indicated that the extent of any implementation costs would be influenced by the number of natural expense categories required to

be disclosed. Requiring the disaggregation of fewer natural expense categories, while potentially still costly, will be less costly than requiring the full disaggregation of functions by nature.

BC61. In determining the required natural expense categories, the Board noted that investors may prioritize expense categories differently, while the most requested categories included the costs underlying purchases of inventory (for example, costs of materials), employee compensation, depreciation, and intangible asset amortization. For example, one group of analysts noted that it would like to consider commodities and labor different from depreciation when modeling an entity's expenses in future periods because of differing growth rates. Requiring those categories would isolate two types of noncash expenses (depreciation and intangible asset amortization) that are sometimes significant components of an entity's functional expenses, allowing investors to better understand the extent to which costs are fixed or variable.

BC62. Given the lack of current comprehensive disaggregation requirements, it is often not possible to determine what portion of an entity's current expense captions comprise purchases of inventory or employee compensation. However, the Board determined that those expense categories are likely to be among the most significant expenses for all entities across different industries. That is, the Board chose categories that are expected to be relatively common and significant.

BC63. While the Board acknowledges that DD&A (or other amounts of depletion expense) is an industry-specific expense, 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. The Board also reasoned that establishing DD&A as a required category separate from depreciation and intangible asset amortization clarifies the requirements for entities with extractive or oil- and gas-producing activities, including those for which the amount of DD&A recognized becomes part of the cost of oil and gas produced.

BC64. The Board concluded that the disaggregation of expenses into a predefined and finite number of natural expense categories is a better balance of costs and benefits than the full disaggregation of expenses by nature. That approach also represents more achievable standard setting that can provide investors with tangible benefits on an accelerated timeline when compared with

a more protracted approach. Compared with other disaggregation approaches considered in the past, the Board determined that investors will benefit from enhanced comparability because all public business entities are required to provide consistent expense categories as defined or described in the amendments in this Update. That is, investors will receive information from all public business entities about purchases of inventory, employee compensation, depreciation, intangible asset amortization, and DD&A (and other types of depletion expense), including the expense captions in which those amounts are included, when applicable. Therefore, the Board decided to identify a finite number of specific required natural expense categories. Investors supported this approach and provided feedback that standardizing the required categories would promote comparability.

Disclosure of the Disaggregation of Relevant Expense Captions That Contain Amounts within the Scope of Topic 330

BC65. Relevant expense captions may contain amounts within the scope of Topic 330 (for example, cost of products sold). In those instances, the required expense categories included in an entity's disaggregation disclosure (that is, purchases of inventory, employee compensation, depreciation, intangible asset amortization, and DD&A) will comprise both costs related to inventory and all other expenses included in the relevant expense caption.

BC66. Investors consistently asked for greater visibility into the types of costs included in cost of goods sold and similar expense captions. Often, investors specifically requested information about natural costs such as the cost of labor and materials. Investors also expressed that currently they do not receive sufficient information from entities about the nature of costs in cost of goods sold in the notes to financial statements or in MD&A. For example, investors indicated that entities often provide only qualitative descriptions of how changes in natural costs have affected gross margins during a given period and seldom provide a quantitative disaggregation of cost of goods sold.

BC67. By contrast, preparers stated that the disaggregation of inventory-related cost information into specific natural categories (such as employee compensation, depreciation, and materials) would be costly because it would require the retrospective identification of costs capitalized as part of inventory sold in the current reporting period, which potentially includes costs capitalized

in prior periods. Many preparers explained that identifying the actual costs capitalized to a given unit of inventory that is sold in the current reporting period would not be cost-effective and may not be feasible. Preparers cited the use of standard costs, cost flow assumptions, and the aggregation of various natural costs when computing variances as being among the significant complications to any effort to disaggregate inventory-related cost information further by nature. Additionally, in cases in which the costs of inventory were capitalized many years ago (for example, during a last-in, first-out liquidation), preparers indicated that further disaggregation would be particularly challenging.

BC68. The Board also observed that, to apply current inventory accounting requirements, manufacturing entities need to have reporting systems designed to appropriately track and/or approximate costs incurred in the production process. The Board observed that manufacturing entities that apply International Financial Reporting Standards (IFRS Accounting Standards) and present their expenses using the nature of expense method in accordance with IAS 1, *Presentation of Financial Statements*, sometimes separately provide major natural cost categories that combine expenses and costs capitalized to inventory during the reporting period. The Board acknowledges that those costs often are not disaggregated by function and may also include costs capitalized to assets other than inventory. Also, the Board observed that when entities applying IFRS Accounting Standards present costs such as *employee costs* or *purchases of inventory*, those entities also present a *changes in inventories* caption (or similar caption) to reconcile costs incurred to expenses recognized during the period.

BC69. As a result of stakeholders' feedback, the Board decided that an entity may disclose required expense categories that contain amounts within the scope of Topic 330 on either a cost-incurred basis or an expense-incurred basis. Under a cost-incurred basis, the required expense categories include amounts capitalized to inventory in accordance with Topic 330 and amounts that were directly expensed in the current reporting period (including amounts that were capitalizable to inventory but were directly expensed in the income statement). Alternatively, under an expense-incurred basis, the required expense categories include period expenses that were directly expensed to the income statement and expenses incurred on the derecognition of inventory, which may relate to costs capitalized in prior periods. Under an expense-incurred basis, an entity is required to include the expense amounts related to the derecognition of inventory based on the natural expense category of the

costs when they were initially incurred (for example, a portion of the amount derecognized from inventory may relate to employee compensation and depreciation that was previously capitalized in a prior period). Regardless of the basis selected by an entity, that basis should be applied consistently to all required expense categories that contain amounts within the scope of Topic 330 and disclosed in the entity's disaggregation disclosure. An entity would apply its selected basis to all of the required expense categories that have amounts within the scope of Topic 330. For example, if an entity selects the cost-incurred basis, it would apply that basis to purchases of inventory, employee compensation, intangible asset amortization, and depreciation within the relevant expense caption. Conversely, when a relevant expense caption does not include amounts within the scope of Topic 330, the disaggregation disclosure would not be subject to this alternative. Furthermore, the Board decided that if an entity changes its basis to a cost-incurred or an expense-incurred basis, the entity should recast the disclosure of the expense captions in the prior period presented for comparative purposes to reflect the current-period basis unless it is impracticable to do so. If it is impracticable to do so, the entity should disclose that fact and explain why it is impracticable to recast prior periods. The Board believes that a change to a cost-incurred basis or to an expense-incurred basis does not represent a change in accounting principle in accordance with Topic 250, Accounting Changes and Error Corrections, and, accordingly, provided guidance in paragraph 220-40-50-4 on how to address those changes.

BC70. When the required expense categories contain amounts within the scope of Topic 330 and an entity applies the cost-incurred basis, the Board concluded that the entity must include an accompanying disclosure of captions for (a) *changes in inventories*, which an entity would obtain directly from the balance sheet, and (b) *other adjustments and reconciling items* to reconcile the amount of costs incurred to the amount of expenses recognized. The Board observes that including a *changes in inventories* caption is similar to the approach applied under IFRS Accounting Standards by entities that include capitalized asset amounts in expense categories presented on the statement of profit or loss in accordance with IAS 1.

BC71. Amounts of inventory derecognized during the period that are not recognized as an expense and amounts attributable to differences in foreign currency exchange rates used to translate costs incurred and the beginning and ending balances of inventory are examples of amounts that should be

included in the disclosure of other adjustments and reconciling items. The amendments also require that an entity qualitatively describe the *other adjustments and reconciling items* needed to reconcile costs incurred to expenses recognized for relevant expense captions that contain amounts within the scope of Topic 330.

BC72. The Board decided to allow entities to disclose the required expense categories using either a cost-incurred basis or an expense-incurred basis in response to feedback from preparers, investors, and other stakeholders. The Board concluded that allowing the cost-incurred basis responds to preparers' feedback that indicated that it may be costly and difficult, or potentially impracticable, for many entities to retrospectively identify by required expense category costs capitalized as part of inventory that is sold in the current reporting period. However, the Board also heard feedback that it should not limit the use of an expense-incurred basis because in some instances it may reduce implementation costs for entities that have current system capabilities to disclose the required information under that basis. In addition, investors indicated that obtaining the disaggregated expense information under either a cost-incurred basis or an expense-incurred basis would improve the decision usefulness of expense information included in an entity's financial statements.

BC73. However, for entities applying an inventory costing methodology other than the first-in, first-out method (such as the last-in, first-out method or the average-cost method), the Board observed that applying an expense-incurred approach may be operationally challenging or potentially impracticable. For example, if an entity applies the last-in, first-out costing methodology and a liquidation of a significantly aged layer occurs, then the entity may not have sufficient information (for example, the nature of expense when the cost was initially incurred) to determine the amount to be included in each required expense category.

BC74. Investors generally noted that information disaggregated using either a cost-incurred basis or an expense-incurred basis would be decision useful, particularly compared with what is provided today. The Board acknowledges that in periods in which production and sales levels are significantly different, using a cost-incurred basis may not be as intuitive as in periods in which production and sales levels are more closely aligned. However, the Board determined that disaggregating an expense caption that contains amounts within the scope of Topic 330 on a cost-incurred basis may be the most

practicable and cost-effective approach for most entities and that investors will be able to look to an entity's inventory turnover to better understand trends and periods of volatility.

BC75. Ultimately, the Board concluded that investors will benefit significantly from the improved transparency of inventory cost information, which the Board understands is frequently among the most significant expenses for entities in many industries.

Purchases of Inventory

BC76. The amendments in this Update require the disaggregation of relevant expense captions into certain required expense categories, including purchases of inventory in accordance with Topic 330 (for example, Subtopic 905-330, Agriculture—Inventory). Some costs, such as film costs and costs accumulated for long-term construction contracts, may be colloquially referred to as “inventory” by an entity even though they are not considered inventory under Topic 330. Costs related to assets that are not recognized as inventory under Topic 330 should not be included in the purchases of inventory category.

BC77. During redeliberations the Board concluded that purchases of inventory should exclude amounts recognized in (a) a business combination, (b) a joint venture formation, and (c) an initial consolidation of a variable interest entity that is not a business to distinguish the most common distinct nonrecurring transactions from purchases of inventory in the ordinary course of business. The Board concluded that inventory amounts recognized from those transactions should be disclosed in the “other” category of an entity's disaggregation table, unless separately disclosed voluntarily (see paragraph 220-40-50-30). As noted in paragraph BC115, an entity is not precluded from providing additional voluntary quantitative disclosures. Notwithstanding, the Board decided that inventory amounts that are recognized in asset acquisitions in accordance with Subtopic 805-50, Business Combinations—Related Issues, should be included in the purchases of inventory category so that inventory purchases in the normal course of business are not inadvertently removed.

BC78. The Board decided that the purchases of inventory category is useful for investors that analyze the performance of entities with significant inventory balances. For manufacturing entities, the Board determined that the purchases of inventory category is useful as a standalone category containing the amount of costs incurred or expenses incurred in the current reporting period to acquire

raw materials and other externally purchased inputs because it enables investors to combine the cost or expense amounts disclosed with information from other sources (for example, the prevailing market prices of known key inputs) to assess the effect on an entity's performance. In addition, this disclosure assists investors in understanding the relative cost of purchased inventory (including purchases of materials) to a manufacturing entity. The Board understands that, in some industries, purchases of inventory can constitute most of an entity's inventory cost. Therefore, the Board concluded that the required disclosure of purchases of inventory will help investors understand an entity's relative cost exposures.

BC79. Comment letter feedback indicated that some entities, particularly those in certain industries, include purchases or a similar expense caption on the face of the income statement but that oftentimes the amount presented includes purchases of inventory in accordance with Topic 330 and an insignificant amount of other purchases (for example, purchases of property, plant, and equipment). Those captions are often described as *purchases*, *purchases of materials*, or another similarly named caption. The exception to disaggregating a relevant expense caption in paragraph 220-40-50-12 when the caption consists entirely of one required expense category does not apply when the caption includes purchases of inventory in accordance with Topic 330 and other purchases. Therefore, the Board decided to provide the purchases of inventory practical expedient because it determined that the cost of disaggregating the purchases of inventory in accordance with Topic 330 from other purchases within the caption would outweigh the expected benefit.

BC80. As a practical expedient, when substantially all of an entity's income statement expense caption comprises purchases of inventory in accordance with Topic 330 (for example, *purchases*, *purchases of materials*, or another similarly named caption), the entity is not required to disaggregate that expense caption into required expense categories. Instead, if this practical expedient is elected, the entity is required to disclose a qualitative description of the composition of the expense caption. The Board intends that the term *substantially all* should be applied consistently with how that term is used in other areas of GAAP.

BC81. The Board considered requiring raw materials consumed or purchased as a separate required category (that is, provided separately from purchases of finished goods inventory). Similar categories are sometimes provided by

entities applying IFRS Accounting Standards that present expenses by nature. However, the Board decided that requiring raw materials consumed or purchased as a separate category would be impracticable for many entities for which it is difficult to meaningfully distinguish between raw materials, work-in-process, and finished goods inventories. The Board also noted that the purchase of a product may be a finished good for one operating segment of an entity and a raw material component for another operating segment of the entity. Moreover, some preparers expressed that it would be challenging to provide this category when there are significant intra-entity transactions that are required to be eliminated in consolidation. Therefore, the Board decided to require that an entity provide purchases of inventory, which includes purchases of raw materials.

Considered but Rejected: Inventory and Manufacturing Expense

BC82. The amendments in the proposed Update included inventory and manufacturing expense as a required expense category instead of the purchases of inventory category that is required in this Update. In addition, when a relevant expense caption included amounts for inventory and manufacturing expense, the proposed amendments would have required that an entity further disaggregate inventory and manufacturing expense into certain categories, including the purchases of inventory category.

BC83. The amendments in the proposed Update defined *inventory and manufacturing expense* as an expense that is made up of inventory expense and other manufacturing expenses. *Inventory expense* was defined in the proposed amendments 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 (for example, an impairment) in accordance with Section 330-10-35 or any other Subsequent Measurement Section within an Industry Subtopic in Topic 330 on inventory.” The proposed amendments did not define other manufacturing expenses and would have required disclosure of how an entity defines those expenses in annual reporting periods.

BC84. While the Board acknowledges that the proposed approach would require that inventory and manufacturing expenses be separately disclosed from nonmanufacturing expenses (which is a functional classification), during

initial deliberations it determined that this approach would have reduced implementation challenges for manufacturing entities as compared with the other approaches considered. For example, the Board expected that this approach would be less costly than an approach that would have required that an entity separate costs (such as depreciation or employee compensation) capitalized to inventory from those that are expensed as incurred but relate to the same manufacturing process as the costs that were capitalized to inventory.

BC85. Stakeholders, including comment letter respondents, generally agreed with the importance of providing information about the components of cost of goods sold to investors, but many questioned the requirement to disclose and further disaggregate inventory and manufacturing expense. Many stakeholders, particularly preparers, commented that it may not be feasible to separately isolate inventory and manufacturing expense (for example, included within cost of goods sold) from other required expense categories (also included within the cost of goods sold caption) because their reporting systems are not designed to provide information about natural cost categories when the amounts are incurred. They also raised questions on the definitions of *inventory* and *manufacturing expense* and *inventory expense* such as whether the manufacturing aspect of the required expense category relates only to manufacturing inventory in accordance with Topic 330 or whether it includes other manufacturing activities that may not qualify for inventory accounting.

BC86. Additionally, some stakeholders observed that the proposed requirement to separate nonmanufacturing from manufacturing expenses would not be cost-effective because an entity would be required to perform an analysis to identify and separately classify expense amounts as either manufacturing or nonmanufacturing in nature. Those stakeholders also questioned whether the separation of nonmanufacturing and manufacturing expenses would provide investors with decision-useful information because most manufacturers would not have significant nonmanufacturing costs recognized in cost of goods sold (or a similar expense caption). Furthermore, those stakeholders observed that disparate definitions for other manufacturing expenses could arise, which would reduce the comparability of those expenses across entities. Therefore, some stakeholders suggested that the Board develop an alternative that would create a single-level disaggregation whereby an entity would not be required to separately disclose manufacturing expenses (including inventory costs) from nonmanufacturing expenses.

BC87. The Board engaged with stakeholders to better understand the costs and benefits of disclosing and further disaggregating inventory and manufacturing expense. The Board received detailed feedback on how an entity can provide specific information that is most useful to investors, while enhancing the operability of the disclosure. The Board considered several alternatives to the disclosure and further disaggregation of inventory and manufacturing expense. One alternative considered by the Board would have required the disclosure and further disaggregation of inventory expense. However, the Board determined that this approach would not significantly reduce the operability concerns raised by many stakeholders because it may be difficult to separately track and disclose inventory costs from other manufacturing costs that are incurred in the same production process.

BC88. After considering the feedback received on the proposed requirement to disclose and further disaggregate inventory and manufacturing expense, the Board decided to remove inventory and manufacturing expense as a required expense category and, instead, require disclosure of the purchases of inventory as a required expense category. The Board determined that this change responds to stakeholders' feedback because it creates a more intuitive single-level disaggregation whereby the amount disclosed for each required expense category includes inventory costs, manufacturing expenses, and nonmanufacturing expenses.

Required Category Definitions

BC89. The amendments in this Update establish a new Master Glossary definition of *employee compensation* and amend the Master Glossary definition of *employee*. Purchases of inventory, depreciation, intangible asset amortization, and DD&A are not defined in the Master Glossary and, instead, reference current disclosure requirements or other current areas of guidance.

Employee and Employee Compensation

BC90. The amendments in this Update define the term *employee compensation* based on the current definition of the term *employee* as used in Topic 718, Compensation—Stock Compensation, and use a definition of *compensation* that is intended to broadly capture the major types of consideration granted or issued to employees in exchange for services.

BC91. The Board determined that using the current Master Glossary definition of the term *employee* improves the operability of the amendments in this Update, promotes consistency in application across entities, and avoids creating additional conflicting definitions of the same term within GAAP. The Board noted, however, that the definition of the term *employee* currently in Topic 718 refers specifically to stock compensation rather than employee compensation broadly. Therefore, the Board decided to amend the definition of the term *employee* in Topic 718 to incorporate minor conforming changes that consider forms of compensation other than stock compensation. The Board decided that applying the amended definition of *employee* is no different from applying the current definition of *employee* in the context of stock compensation. The Board concluded that the changes made to the term *employee* do not affect how that term is currently interpreted for the purpose of applying the guidance in Topic 718.

BC92. Stakeholders generally supported using the amended definition of *employee* to enhance the operability and comparability of the amendments in this Update. Some preparers and other stakeholders requested that the Board require or provide an option for an entity to include amounts for nonemployees (for example, contract labor and professional service providers) when disclosing employee compensation to reflect management's view of total workforce compensation. However, investors preferred that an entity be required to disclose nonemployee compensation expense as a separate expense category to avoid diminishing comparability between entities. After considering that feedback, the Board concluded that although additional voluntary disclosures may provide investors with decision-useful information, it would be important for that information to be disclosed separately from the required expense information. Consequently, the Board decided that voluntary disclosures may be provided inside or outside the tabular disclosure if those disclosures are not combined with the required disaggregation amount. The Board also clarified that the term *employee* includes, but is not limited to, a full-time, part-time, temporary, or seasonal employee. The Board also observed that the term *employee* may include inactive employees because of the reference to Topic 712, Compensation—Nonretirement Postemployment Benefits (and linkage to the *inactive employees* Master Glossary term in that Topic), in the definition of the term *employee compensation*.

BC93. The Board also decided that the term *compensation* should be defined to include common significant types of noncash compensation such as share-based payments. The Board determined that it was important to provide a definition so that an entity is not required to make complex determinations about whether typically minor, but common, types of noncash employee benefits (such as subsidized goods and services) represent employee compensation or a different type of natural cost. The Board established the definition of *compensation* as a minimum requirement, which permits but does not require any entity that provides certain types of noncash compensation (such as subsidized goods or services) to classify those amounts as *employee compensation*.

BC94. The Board also determined that investors will benefit if the term *compensation* broadly aligns with the IFRS Accounting Standards' definition of the term *employee benefits* in IAS 19, *Employee Benefits*, which includes all forms of consideration given by an entity in exchange for service rendered by employees or for the termination of employment, including wages, salaries, social security contributions, other short-term employee benefits, postemployment benefits, other long-term employee benefits, and termination benefits.

BC95. Most respondents stated that the definition of *employee compensation* is operable because it includes a specific list of different types of cash and noncash compensation. Notwithstanding that feedback, some stakeholders requested that the Board include additional types of compensation in the definition of *employee compensation*. The Board considered that feedback and decided to enhance only the description of social security contributions because the definition of *employee compensation* is not intended to list all possible types of cash and noncash compensation across all entities.

BC96. The Board decided that because entities complying with SEC Regulation S-X Rule 210.9-04 are generally required to present a caption for salaries and employee benefits, those entities should have a practical expedient for determining what amounts are classified as employee compensation. That is, an entity that presents salaries and employee benefits in accordance with SEC Regulation S-X Rule 210.9-04 need not apply the definition of *employee compensation*. The Board does not expect those entities to disclose substantially different amounts for employee compensation under the definition in the amendments in this Update. Comment letter respondents

supported the Board's decision to provide a practical expedient to entities complying with SEC Regulation S-X Rule 210.9-04.

References to Current Standards for Other Required Categories

BC97. The Board decided to reference current requirements for each of the other required expense categories: purchases of inventory, depreciation, intangible asset amortization, and DD&A. For example, the description of depreciation references the requirement in Subtopic 360-10, Property, Plant, and Equipment—Overall, to disclose “depreciation expense for the period,” and the description of intangible asset amortization references the requirement in Subtopic 350-30 to disclose “the aggregate amortization expense for the period.” In addition, the Board also concluded that entities should include amounts for purchases of inventory within the scope of Topic 330.

BC98. For certain expenses that are described as “amortization” in accordance with current GAAP, the Board concluded that entities are able to determine the appropriate categorization as depreciation, intangible asset amortization, DD&A, or none of those categories without additional guidance. For example, the current guidance is clear that costs of software to be sold, leased, or marketed capitalized in accordance with Subtopic 985-20, Software—Costs of Software to Be Sold, Leased, or Marketed, are subject to the disclosure requirements in Subtopic 350-30 and, therefore, amortization of those capitalized software costs is considered intangible asset amortization for the purposes of applying the amendments in this Update.

BC99. The Board acknowledges that diversity in practice may exist about whether certain items are determined to be depreciation or intangible asset amortization. However, the Board concluded that revising long-standing disclosure requirements for those amounts would have added significantly to the time required to develop guidance in this project, could have disrupted current practice, and would not necessarily have benefitted investors.

BC100. The Board also is aware of diversity in practice about the classification of the amortization of internal-use software within the scope of Subtopic 350-40, Intangibles—Goodwill and Other—Internal-Use Software, the amortization of a lessee's right-of-use asset for a finance lease recognized in accordance with paragraphs 842-20-35-7 through 35-8, and the amortization of leasehold

improvements recognized in accordance with paragraphs 842-20-35-12 through 35-13.

BC101. The Board decided that additional guidance for internal-use software is unnecessary given the references in paragraph 350-40-50-1 to the disclosure requirements for property, plant, and equipment in Subtopic 360-10. The Board expects that entities will conclude that the amortization of internal-use software should be reflected in the disclosures required by the amendments in this Update as either depreciation recognized in accordance with Subtopic 360-10 or intangible asset amortization recognized in accordance with Subtopic 350-30.

BC102. The Board decided that, by contrast, additional specific guidance is necessary for the amortization of a lessee's right-of-use assets for a finance lease recognized in accordance with paragraphs 842-20-35-7 through 35-8 and the amortization of leasehold improvements recognized in accordance with paragraphs 842-20-35-12 through 35-13. While the Board acknowledges that the current guidance in Topic 842, Leases, does not prescribe whether those types of amortization should be included as part of current disclosure requirements for depreciation or intangible asset amortization, the Board decided to explicitly require in the amendments in this Update that those amounts be included in either depreciation or intangible asset amortization. The Board expects that this will not disrupt practice and ensures that entities do not omit amortization of right-of-use assets for finance leases or amortization of leasehold improvements from the disclosures required by the amendments. Depending on the extent to which depreciation or intangible asset amortization is capitalized to assets other than inventory, the Board acknowledges that the total amounts of depreciation and intangible asset amortization disclosed in accordance with paragraph 220-40-50-6 may not be equal to total depreciation and intangible asset amortization disclosed in each respective footnote in accordance with Subtopics 360-10 and 350-30.

BC103. Stakeholders broadly supported linking depreciation, intangible asset amortization, and DD&A to current guidance to enhance the operability of the amendments in this Update and the comparability of disclosures across different entities. A few stakeholders expressed concern that the proposed amendments only addressed depletion expense recognized as part of DD&A; that is, the proposed amendments did not address the recognition of depletion expense by entities in extractive industries other than oil and gas (for example, mining entities within the scope of Topic 930). The Board considered that

feedback and decided to (a) retain the proposed DD&A required expense category and (b) clarify that amounts for depletion expense recognized by entities in industries other than the oil and gas industry also should be separately disclosed in the tabular format disclosure.

Integration of Current Disclosure Requirements

BC104. The amendments in this Update require that an entity incorporate certain current disclosures when disaggregating the relevant expense captions in a tabular format disclosure. Specifically, the amendments require that an entity include certain disclosures for which there is a current requirement to disclose the amount and the caption in the income statement to which the amount is recorded. For example, the guidance in Subtopic 926-20, Entertainment—Films—Other Assets—Film Costs, requires that an entity disclose the amount of amortization of film costs and the caption in the income statement where the amortization is recorded. Therefore, if the amortization of film costs is included in a relevant expense caption, it is required to be incorporated into the tabular format disclosure. The Board selected the current disclosure requirements on the basis of whether the amount disclosed is a type of expense, gain, or loss that is mutually exclusive from the required categories.

BC105. The amendments in this Update also require that an entity incorporate other current disclosures into the tabular format disclosure. Specifically, the tabular format disclosure should include certain amounts that are (a) already required to be disclosed, (b) not subject to a current requirement to disclose the caption(s) in the income statement to which the amount is recorded, and (c) entirely recognized in one expense caption that is also a relevant expense caption determined in accordance with the guidance in paragraphs 220-40-50-12 through 50-13. For example, the amounts of amortization of costs to fulfill a contract with a customer and warranty accruals are required to be disclosed under current GAAP, but there is no requirement to disclose the caption in the income statement to which those expenses are recorded. Therefore, if the amortization of costs to fulfill a contract with a customer and warranty expenses were classified entirely in cost of goods sold, and cost of goods sold was determined to be a relevant expense caption, then an entity is required to include the amortization of costs to fulfill a contract with a customer and warranty expenses in the tabular format disclosure that disaggregates cost of goods sold. The requirement to incorporate other current disclosures into the

tabular format disclosure does not otherwise affect the disclosure requirements in other areas of GAAP.

BC106. The Board acknowledges that current GAAP does not require that an entity disclose the income statement caption in which those expenses are recorded. Therefore, the Board also decided to require that an entity incorporate those expenses in the tabular format disclosure only when those expenses are entirely recognized in one expense caption that also is a relevant expense caption. When making that decision, the Board considered feedback on the cost of quantifying the amounts of expenses included in captions on the income statement when those expenses are allocated to multiple captions.

BC107. When developing the list in paragraph 220-40-50-22, the Board excluded functional expenses (such as research and development expenses) and items that might overlap with the required categories. By contrast, an expense that is accrued when the conditions in paragraph 450-20-25-2 are met (for example, product warranties) does not overlap with the required categories, even if the accrued obligation is expected to be satisfied by incurring costs that are included within the required categories such as employee compensation.

BC108. For each of the requirements, the Board determined that incorporating current disclosure requirements into the tabular format disclosure will assist investors in locating relevant information and is not likely to result in significant incremental costs for preparers. Moreover, the Board expects that incorporating those disclosures will enhance the relevance of the tabular format disclosure by reducing the amounts disclosed for categories that are labeled as “other.”

BC109. Stakeholders commented that integrating current disclosures with income statement mapping requirements in the tabular format disclosure is operable and would provide investors with decision-useful information. Many of those stakeholders indicated that the information necessary to comply with the requirement is readily available and, therefore, the information would not require significant incremental costs to produce.

BC110. Some preparers explained that they do not track where the information for current disclosures without income statement mapping requirements (that is, those listed in paragraph 220-40-50-22) is presented in the income statement. Therefore, those stakeholders expressed concerns about additional

costs to integrate those current disclosure requirements into the tabular format disclosure. They also requested that the Board provide guidance for instances in which an entity changes the presentation of an item listed in paragraph 220-40-50-22 such that the item is included in one relevant expense caption in the current reporting period and multiple relevant expense captions in a comparative reporting period, or vice versa. Other stakeholders, including investors, suggested removing the requirement that certain disclosures be integrated into the tabular format disclosure only when they are included entirely in one relevant expense caption; that is, some stakeholders suggested requiring that those expenses be mapped to income statement captions and disclosed. Additionally, some investors explained that the incremental location information for current disclosures listed in paragraph 220-40-50-22 is helpful in modeling an entity's expenses in future periods.

BC111. After considering that feedback, the Board decided to affirm its decisions that require an entity to integrate current disclosures with and without income statement mapping requirements. Additionally, the Board decided to require that an entity provide the disclosure required by paragraph 205-10-50-1 if there is a change in facts and circumstances that results in an item listed in paragraph 220-40-50-22 changing from being included in one relevant expense caption to being included in multiple relevant expense captions (or vice versa) between reporting periods; the Board decided not to require that an entity recast its prior-period disclosure in the period of the change. The Board concluded that the disclosure will provide sufficient information about a change in the presentation of an item listed in paragraph 220-40-50-22.

Expense Reimbursements Included in Relevant Expense Captions

BC112. Some comment letter respondents requested that the Board clarify how the effects of cost-sharing or cost-reimbursement arrangements should be disclosed when applying the amendments in this Update. Those respondents explained that, in practice, cost-sharing payments and receipts generally are not allocated to natural expenses and, thus, it would not be possible to allocate cost-sharing or cost-reimbursement amounts to each required expense category with precision in many instances. The Board understands that the amounts related to cost-sharing or cost-reimbursement arrangements with consolidated subsidiaries, including those entities consolidated on a pro rata basis, would be eliminated in consolidation, but

cost reimbursements with other entities that are not eliminated in consolidation may pose operability challenges. Therefore, the Board decided to allow an entity that presents an expense reimbursement from another entity in a relevant expense caption to either (a) separately disclose the amount of that reimbursement in the tabular format disclosure or (b) disclose the amounts of the required expense categories net of any reimbursement effects. Additionally, the Board decided to require that an entity that includes an expense reimbursement to another entity in a relevant expense caption separately disclose the amount of that reimbursement in the tabular format disclosure. The Board also decided to require that an entity disclose a qualitative description of the natural expense categories to which the reimbursement relates.

Qualitative Description of Other Items and Costs

BC113. The amendments in this Update require that an entity qualitatively describe the nature of the expenses included in a relevant expense caption that are not required to be quantitatively disaggregated. Investors will benefit from additional qualitative descriptions of any amounts that remain after the quantitative disaggregation requirements are applied to expenses recognized.

BC114. Although investor outreach indicated a preference for quantitative disaggregation, some investors stated that if quantitative disclosure of certain expenses was not required, a qualitative description of the remaining amounts of those expenses will provide additional context, especially if there are significant changes in the nature of costs incurred or expenses recognized. The detail provided in those qualitative disclosures should be commensurate with the significance of the amounts being described.

BC115. The Board considered that most preparers demonstrated in outreach or in current public filings that they are able to describe the nature of their most significant costs, even if they are not readily able to quantify the amount of those costs within each caption presented on the face of the income statement. Nearly all stakeholders commented that disclosing a qualitative description of the remaining items is operable and will provide investors with additional relevant expense information without resulting in significant costs for preparers. Therefore, the Board affirmed the requirement and clarified that an entity is not precluded from providing additional voluntary quantitative disclosures inside or outside the tabular disclosure if those voluntary disclosures are not combined with disaggregated expense amounts required by the amendments in this

Update, except as noted for employee compensation (see paragraph 220-40-50-8). The Board decided that an entity may elect to include amounts attributable to other transactions entered into for the benefit of employees (for example, the provision of subsidized goods or services) in employee compensation. If an entity includes other transactions entered into for the benefit of employees as part of employee compensation, it should disclose that those transactions have been included and a description of those transactions. Additionally, the Board clarified that an entity is not precluded from disclosing subtotals that include relevant expense amounts and additional expense amounts that are voluntarily disclosed (for example, a subtotal for total workforce costs that may include amounts that are separately disclosed for employee compensation and subcontractor costs).

Selling Expenses

BC116. The amendments in this Update require that an entity disclose selling expenses as well as how it defines selling expenses. Unless selling expenses is a relevant expense caption because an entity presents it as a separate caption on the face of the income statement, an entity is not required to further disaggregate the disclosed amount of selling expenses into the required expense categories. Moreover, the Board intends selling expenses to include only items that are presented as *expenses* in the income statement.

BC117. The Board decided to require this disclosure in response to feedback indicating that investors would benefit from separately disclosing selling expenses, which many entities combine in a caption with general and administrative expenses. For example, some investors indicated that they would prefer to forecast selling expenses separately from general and administrative expenses.

BC118. Although the Board considered requiring the disaggregation of SG&A (specifically, the Board considered requiring that an entity separate selling expenses from general and administrative expenses), it noted that there is significant diversity in the presentation practices of public business entities. For example, some entities present multiple expense captions that are components of SG&A on the face of the income statement, while other public business entities do not present SG&A on the face of the income statement. Therefore, the Board decided to require disclosure of selling expenses in a manner that is similar to what is currently required for research and development expenses and advertising expenses. However, because (a) research and development

and advertising expenses are defined in GAAP and (b) the Board chose not to define *selling expenses* in the amendments in this Update, the Board also decided to require an additional qualitative disclosure about an entity's definition of *selling expenses*.

BC119. Because the amendments in this Update do not define the term *selling expenses*, the Board expects that entities will arrive at conclusions about which expenses to classify as part of their selling function that are specific to their facts and circumstances and their own tailored definition of *selling*. The Board observed that some entities already present expense captions on the face of their income statement with titles such as "sales and marketing" or "advertising and marketing" separately from general and administrative expenses even though GAAP does not define *selling expenses* or *general and administrative expenses*. Therefore, the Board expects that entities that do not already present a similar caption will be able to determine which expenses they consider to be selling expenses consistent with the practice of entities that already provide this information voluntarily. The Board also observed that management has broad latitude in defining *selling expenses*, including whether selling expenses include or exclude fulfillment costs, costs associated with physical sales locations, websites, allocation of management expenses, and many other reasonable judgments as made by preparers.

BC120. Some investors suggested that an entity be required to further disaggregate selling expenses into the required expense categories or other additional expense categories, such as advertising expense, regardless of whether selling expenses are presented separately or included in other expense captions on the income statement. The Board observed that further disaggregation of selling expenses is required if the selling expense is a relevant expense caption. However, in other cases, the Board noted that further disaggregation should not be required because the expense category amounts are not mutually exclusive. For example, if an entity discloses total employee compensation included in a relevant expense caption (such as in SG&A) and also is required to disclose employee compensation included in selling expenses, amounts would presumably be duplicated in the two disclosures. Furthermore, requiring that an entity disaggregate other categories, such as advertising, from selling expenses may imply that selling must always include advertising, which is not consistent with selling expenses being defined by the entity. While some stakeholders preferred that the Board prescribe a definition of *selling expenses*, many acknowledged the challenges in developing a

definition that would be applicable to entities in all industries. Consequently, the Board affirmed its decision to require that an entity disclose total selling expenses and how it defines *selling expenses*. Consistent with its decision not to define *selling expenses*, the Board also decided not to (a) specify whether advertising expenses should be included in the amounts disclosed for total selling expenses and (b) provide examples of expenses that might be considered selling expenses.

BC121. The Board also decided to require that an entity recast prior-period selling expenses disclosed in the current-period financial statements in the period that it changes its definition of selling expenses, unless it is impracticable to do so. If it is impracticable to do so, the entity should disclose that fact and explain why it is impracticable to recast prior periods. The Board expects that management generally would update the prior-period disclosure to provide comparative information when it changes its definition of selling expenses because trend information is important to investors. The Board also concluded that (a) the change does not represent a change in accounting principle in accordance with Topic 250 and (b) the amount of selling expenses is not determined by a definition specified in GAAP and may appropriately evolve as more disclosure practices develop or business models change. Consequently, the Board decided that an entity should disclose when a change in the entity's definition of selling expense occurs, which may occur in interim or annual reporting periods.

Materiality Considerations

BC122. A number of stakeholders requested that the Board clarify whether and how to apply the materiality guidance in Topic 105, Generally Accepted Accounting Principles, to the amendments in this Update. The Board observed that the guidance in paragraph 105-10-05-6, which states that "the provisions of the Codification need not be applied to immaterial items," is applicable to the amendments in this Update and to all Codification guidance. Therefore, the amendments on the disaggregation of relevant expense captions into required expense categories and other disclosures do not apply to immaterial items. For example, if an entity has previously concluded that a disclosure in the lists in paragraph 220-40-50-21 or 220-40-50-22 is not required because of the application of the guidance in paragraph 105-10-05-6, the Board does not expect that the amendments in this Update will affect that conclusion.

BC123. The Board considered the feedback but decided not to add a discussion of materiality to the guidance in Subtopic 220-40 because the materiality guidance in paragraph 105-10-05-6 applies to all Topics. The Board was concerned that replicating the materiality guidance in some Topics and not others could lead to unnecessary confusion and potential inconsistency in practice.

Changes in the Display of the Disclosure Requirements

BC124. Stakeholders requested that the Board clarify how various changes in the display of the disclosure requirements, such as those discussed in paragraphs BC69 and BC121, should be addressed. The Board clarified that the disclosure requirements in this Update should be applied consistently. However, if an entity changes its display of the disclosure requirements in the current reporting period as a result of a change in the election of an alternative or a change in a definition, it should disclose the reason for the change and recast prior periods for comparative purposes unless it is impracticable to do so. If it is impracticable to do so, an entity should disclose that fact and explain why it is impracticable to recast prior periods. The Board also concluded that these changes do not represent a change in accounting principle in accordance with Topic 250. In reaching that conclusion, the Board noted that these changes represent a change in the display of a disclosure and are not a presentation, measurement, or recognition change. The Board decided that requiring an entity to disclose that the change has occurred will enhance the decision usefulness of information provided to investors. The Board's decisions discussed in this paragraph should not be applied by analogy to disclosure requirements not related to the amendments in this Update. Furthermore, the decisions described in this paragraph do not relate to how an entity should address an instance when changes in facts and circumstances result in an item listed in paragraph 220-40-50-22 changing from being included in one relevant expense caption in the current reporting period to being included in multiple relevant expense captions in a comparative period, or vice versa (see paragraphs 220-40-50-23 and BC111).

Disclosure Rather Than Presentation Requirements

BC125. The amendments in this Update do not establish any new income statement presentation requirements. All the disaggregation requirements take the form of required disclosures. When considering whether to establish new

presentation requirements, the Board observed that the disaggregation requirements for some entities could result in an overly detailed income statement and would disrupt current presentation practices, some of which are established by the SEC rather than the Board.

Interim Reporting

BC126. The amendments in this Update require that the expense disaggregation disclosures and the quantitative disclosures for selling expenses be provided in interim and annual reporting periods. The Board emphasized the importance of providing investors with timely information about certain expense and cost categories that are required under the amendments. The Board understands that investors monitor most public business entities throughout their respective interim and annual reporting periods and update expectations (including quantitative models) for an entity's major individual expense captions throughout the reporting period, rather than only when annual financial statements are issued. Therefore, rather than requiring the disaggregation disclosures for only annual reporting periods, the Board determined that the benefits provided to investors are greater if the expense disclosures are required for interim and annual reporting periods.

BC127. The Board acknowledged that Concepts Statement No. 8, *Conceptual Framework for Financial Reporting—Chapter 8, Notes to Financial Statements*, states that “interim-period financial statements are essentially an update of the information in the most recent annual statements . . .” (paragraph D73) and “generally are aggregated to a greater degree than a full set of annual financial statements” (paragraph D75). However, the Board noted that investors would prefer receiving disaggregated expense information at interim and annual reporting periods. Moreover, the Board noted that although the amendments in this Update do not establish new income statement presentation requirements, it viewed the disaggregation disclosures as similar to an extension of an entity's income statement presentation. Therefore, the Board decided that a similar degree of detail about expenses should be provided in interim and annual reporting periods.

BC128. The Board also considered challenges unique to providing disaggregated expense information during interim reporting periods. Specifically, Board members noted that current requirements for interim reporting established by the SEC generally provide entities with less time to prepare interim financial statements than is provided for annual financial

statements. The Board also considered the effect on ongoing costs attributable to requiring disaggregated expense information more frequently. While the Board acknowledges that requiring entities to apply the amendments in this Update at interim and annual reporting periods is more costly than requiring that the amendments be applied at annual reporting periods only, it expects that entities will be able to develop reporting systems and processes that reflect the amendments and accommodate the condensed time frame for producing interim financial statements.

BC129. The Board also considered that entities complying with SEC Regulation S-X Rule 210.8-03, Interim Financial Statements, and Rule 210.10-01, Interim Financial Statements, may present a condensed income statement for interim reporting purposes. If an entity provides condensed statements and, therefore, changes the expense captions presented on the face of its income statement, the Board observed that the relevant expense captions could be different at interim and annual reporting periods. Under the amendments in this Update, the relevant expense captions are determined by evaluating the expense captions that are presented on the face of the income statement and whether those expense captions include required expense categories. Therefore, the disaggregation requirements apply to the captions presented in a given reporting period. As specified in paragraph 220-40-50-5, the Board also observed that the requirements in paragraph 220-40-50-4 (also discussed in paragraph BC124) would apply in instances in which an entity changes its display of the disclosure requirements for the current interim reporting period compared with the prior interim reporting period or in instances in which the entity changes its display of the disclosure requirements for the current annual reporting period compared with the prior annual reporting period.

BC130. In comment letters and outreach feedback, investors strongly supported the interim disclosure requirements because of the importance of the disaggregated expense information and the need to have timely disclosures provided regularly. In contrast, other stakeholders, particularly preparers, had mixed views. While some preparers expressed concern about the operability of the disclosure requirements and questioned whether the expected benefits would justify the expected costs of providing the information in interim and annual reporting periods, others stated that an interim reporting requirement would be operable once reporting systems and processes are established for annual reporting.

BC131. The Board considered the feedback and decided to affirm the requirements to disclose disaggregated expense information and the quantitative disclosures for selling expenses in interim and annual reporting periods. The Board concluded that providing timely expense information is useful in assessing an entity's financial performance and disclosing that information in interim reporting periods may not result in a significant amount of incremental costs.

Other Disaggregation Approaches Considered but Dismissed

BC132. Since the project on disaggregation of income statement expenses was added to the Board's technical agenda in 2017, the Board has considered several other disaggregation approaches. Although some comment letter respondents supported other disaggregation approaches discussed in this section, the overall feedback indicated that disaggregation of relevant expense captions into required categories provides investors with the most decision-useful information at a reasonable cost (see paragraphs BC48 through BC54). Therefore, the Board affirmed that disaggregation approach during redeliberations.

Nature and Function

BC133. When the project was originally added to the Board's agenda, the Board considered whether to require disaggregation of functional expense captions, such as cost of sales and SG&A, into their natural components (for example, compensation, utilities, and rent). While feedback from investors indicated that this type of disaggregation would yield decision-useful information, preparers expressed concerns that a requirement to fully disaggregate functional expenses by nature would be very costly and potentially impracticable for cost of goods sold.

Internal View

BC134. In response to preparers' feedback, the Board considered an expense disaggregation approach that would have leveraged how consolidated expenses are viewed internally by management (a concept not dissimilar to the management approach in segment reporting). The internal view approach would have been intended to help investors understand an entity's

performance and assess its prospects for future cash flows using information that is better aligned with management's perspective. To understand the types of information that would have been provided under the internal view approach, the Board conducted outreach with preparers.

BC135. During outreach, the Board observed that the extent of the disaggregated consolidated expense information reviewed by management and the purpose for which it uses that information to make decisions varied significantly between entities. This was evidenced during outreach by some preparers identifying an internal view of disaggregation that did not differ in any meaningful way from the view that is already presented to external users in their financial statements or in MD&A. This was particularly true for the cost of sales caption, which few participants would have disaggregated in any meaningful way on a consolidated basis under their internal views. The Board also observed that although investors generally seek disaggregated expense information to help assess prospects for future cash flows, management may disaggregate consolidated expense information for other purposes.

BC136. Moreover, outreach participants expressed concern that the information provided by management's internal view might not be reconcilable to the consolidated financial statements in a cost-efficient manner because of the use of non-GAAP information and the effect of allocations on income statement expense captions. The Board also was concerned that the internal view approach might not enhance comparability between entities and that changes in the internal view over time might prevent meaningful trend analysis.

BC137. After discussing the feedback on the internal view in a public Board meeting in 2019, the Board decided to pause active research on this project to monitor the progress of its project on segment reporting and the IASB's project on primary financial statements. During the deliberations of this project and the segment reporting project, some stakeholders suggested that the two projects should use the same disaggregation approach. Feedback received on the segment reporting project indicated that stakeholders generally supported the management approach in determining the disclosure of significant segment expenses. However, the Board decided not to pursue the same approach in both projects because of the challenges previously identified with the internal view approach in this project.

Disaggregation Principle

BC138. When the Board restarted research on the project on expense disaggregation in 2022, it initially sought to leverage a disaggregation principle for cost of sales and SG&A that would have been similar to the current disaggregation requirement for revenue from contracts with customers.

BC139. Some preparers provided feedback indicating that they would struggle to apply an expense disaggregation principle that was similar to the revenue disaggregation principle without extensive implementation guidance and examples. Preparers also explained that a principle that was not based on management's view of the business would be challenging to understand given the current requirements for segment reporting disclosures.

BC140. Concurrently, some investors expressed concern that the disaggregated information provided under a principle would not enhance comparability. Some Board members noted that preparers might interpret any disaggregation principle using language similar to the current disaggregation principle in Topic 606, Revenue from Contracts with Customers, to be a de facto requirement to disaggregate cost of sales and SG&A by nature. Other Board members noted that defining expense captions such as cost of sales and SG&A would be challenging and that any resulting definitions would be difficult to apply across different industries. Therefore, those Board members were concerned that it would be unclear which expense captions were subject to any disaggregation requirements. Because of those concerns, the Board decided to develop guidance that more specifically prescribes the information required to be disclosed.

Costs Incurred in Total

BC141. The amendments in this Update require that an entity provide more information than is currently required about costs incurred that are either (a) expensed as incurred or (b) capitalized to inventory. However, some stakeholders and Board members expressed that for certain types of natural costs, such as employee compensation, it would be decision useful to require the disclosure of total costs incurred. For example, some investors in response to the 2021 Invitation to Comment noted the need for greater disclosure of employee compensation costs.

BC142. While some investors specifically asked for employee compensation costs in total, several Board members observed that some of those costs would not necessarily relate to the disaggregation of *expenses*. For example, employee compensation costs that are direct loan origination costs are required to be deferred and recognized as a reduction in the yield of the loan, rather than as an expense. Therefore, those Board members concluded that those amounts did not relate to the objective of expense disaggregation.

BC143. Although costs that are capitalized to inventory are also not expensed when incurred, the Board determined that this type of cost disaggregation was a practicable method for providing investors with additional visibility into the cost of inventory recognized as an expense when sold, consumed, or remeasured. Therefore, the Board viewed this type of cost disclosure as directly relevant to the objective of disaggregating expenses included in cost of goods sold. Similarly, although employee costs capitalized to assets such as software or costs to obtain or fulfill a contract with a customer may eventually be recognized as an expense (through subsequent amortization or impairments), the Board decided that a requirement to disclose the amount of any employee costs capitalized to those other assets was outside the project's current scope.

Additional Quantitative Disaggregation Threshold or Principle

BC144. Some Board members supported an alternative that would have utilized a quantitative threshold to require further disaggregation of other expenses and costs remaining in relevant expense captions after the disaggregation of relevant expense categories (see paragraph 220-40-50-30). Those Board members observed that this approach would have ensured that entities provide a minimum level of disaggregation. However, the Board was concerned about the cost of such a disclosure. Comment letter feedback from some preparers explained that additional quantitative disaggregation of other items would require that entities effectively perform a full disaggregation of relevant expense captions (which the Board considered and dismissed as an alternative) and would be costly. The Board concluded that a qualitative description of the amount remaining in each relevant expense caption in conjunction with the integration of current disclosure requirements into the tabular format disclosure (see paragraphs BC104 through BC111) more effectively balanced benefits and costs.

Comparison with IFRS Accounting Standards

BC145. Currently, IAS 1 requires that an entity classifying expenses by function disclose additional information on the nature of expenses, including depreciation and amortization expense and employee benefits expense. However, IAS 1 does not specifically require that an entity disclose the amounts of those natural expenses that are included in each line on the statement of profit and loss. In April 2024, the IASB issued IFRS 18, *Presentation and Disclosure in Financial Statements*. IFRS 18 replaces IAS 1 and is effective for annual reporting periods beginning on or after January 1, 2027. While the scope of IFRS 18 is broader than the scope of the amendments in this Update, both IFRS Accounting Standards and GAAP require that an entity present or disclose some similar expense categories. IFRS 18 requires that an entity present expenses in the operating category of the statement of profit or loss in a way that provides the most useful structured summary of its expenses to investors. Therefore, an entity may decide to present operating expenses based on their nature, their function, or a mix. When an entity presents one or more expenses based on their function in the operating category of the statement of profit or loss, IFRS 18 requires that an entity disclose in a single note the total amounts of (a) depreciation, (b) amortization, (c) employee benefits, (d) impairment losses and their reversals, and (e) inventory write-downs and their reversals.

BC146. IFRS 18 also clarifies that the amounts classified by nature and presented on the statement of profit or loss or amounts disclosed (as listed in paragraph BC145) are not required to be the amounts recognized as an expense for the period. IFRS 18 requires that an entity that presents natural expenses on the face of the statement of profit or loss that include amounts capitalized to an asset (for example, inventory) present an additional line item on the statement of profit or loss for changes in the carrying amount of that asset. Furthermore, IFRS 18 requires that an entity provide a qualitative explanation if part of the amount that is disclosed has been included in the carrying amount of assets (including identifying the assets in which the amounts are included).

BC147. The amendments in this Update are similar to IFRS 18 in that investors are being provided with information about how certain natural expenses (depreciation, intangible asset amortization, and employee compensation) are allocated to different functional expense captions. However, the manner in

which those specific disclosure amounts are determined in accordance with the amendments is not identical to the manner in which they are determined under IFRS 18. Additionally, the effective date of the amendments in this Update and IFRS 18 align. That is, both standards are required for annual periods beginning in 2027 for calendar year-end entities.

BC148. The amendments in this Update differ from IFRS 18 in some respects. Some notable differences between the disclosure amendments in this Update and IFRS 18 are:

- a. The amendments in this Update require that an entity disclose the amounts for purchases of inventory within the scope of Topic 330, whereas IFRS 18 has no similar requirement.
- b. The amendments in this Update require that an entity disclose total selling expenses and an entity's definition of selling expenses, whereas IFRS 18 requires that an entity consider the level of aggregation for operating expenses. Often, under IFRS 18, selling expenses and administrative expenses will be disaggregated as they are sufficiently dissimilar. Additionally, IFRS 18 requires that an entity disclose a qualitative description of the nature of expenses included in each function line item, which may include selling expense.
- c. The amendments in this Update require the disaggregation of the specified natural expense categories in the notes to financial statements, whereas IFRS 18 requires that similar natural expense categories either be presented on the statement of profit or loss or disclosed in the notes to financial statements.
- d. The amendments in this Update require the disaggregation of the required expense categories for amounts included in relevant expense captions, whereas IFRS 18 requires the disaggregation of the total amounts of similar natural expense categories.
- e. The amendments in this Update require that disaggregation of certain natural expenses be provided in interim reporting periods, whereas IFRS 18 has no similar requirement.
- f. The amendments in this Update do not require disaggregation of impairments of nonfinancial assets or write-downs of inventory unless disclosure of those amounts is required by paragraphs 220-40-50-21 through 50-22, whereas IFRS 18 requires that those amounts be disclosed.

In addition to the disclosure requirements discussed above, IFRS 18 establishes new presentation requirements for financial statements as well as disclosure requirements for management's performance metrics.

BC149. The Board expects that investors will benefit from increased comparability because of the similarities between the amendments in this Update and IFRS 18.

Interaction with Segment Reporting Disclosure Requirements

BC150. The Board acknowledges that both the amendments to Topic 280's segment disclosure requirements in Accounting Standards Update No. 2023-07, *Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures*, and the amendments in this Update require additional expense disclosures. However, the method for determining what expense information must be disclosed under the amendments in the two Updates differs. In addition to the current expense disclosure requirements in Topic 280, the amendments in the Update on segment reporting require disclosure of significant segment expenses that are both regularly provided to the chief operating decision maker and included within each reported measure of segment profit or loss.

BC151. For segment reporting, the method for determining what disaggregated information to report is referred to as the management approach. The management approach is based on the way that management organizes its segments for making operating decisions and assessing performance.

BC152. Comment letter responses from preparers noted that the expense categories in the proposed amendments would likely be different from those presented when applying the guidance for segment reporting because the amendments in this Update do not utilize a management approach for further disaggregation of expenses. Some of those comment letter respondents supported aligning the disaggregation approaches of Topic 280 and the amendments in this Update, noting that doing so would provide decision-useful information and be less costly to apply. The Board acknowledges that the types of expense information provided under Topic 280 could be different from the type of expense information that would be required under the amendments in

this Update. The Board determined that both types of disaggregation, even when different from each other, will be useful for investors. Investors generally agreed with the Board's decision not to utilize a management approach for further disaggregation of expenses.

BC153. The Board also considered whether information that would be disaggregated by these amendments is used internally by management when assessing the potential costs to implement the amendments in this Update. Preparers provided mixed feedback on whether the expense information required by the amendments in this Update is used internally by management. However, the Board also acknowledges that the information used internally by management for making operating decisions and assessing performance might differ from the information used by investors in forecasting future cash flows and making their resource allocation decisions. In addition, the Board considers costs to preparers in relation to the benefits to investors, rather than in isolation.

Transition and Effective Date

BC154. Preparers noted that to comply with a final Update, it would be necessary to (a) implement or redesign reporting systems, (b) implement processes and controls, (c) hire internal and/or external resources, and (d) train staff. Investors emphasized the need for increased transparency into an entity's expenses as soon as practicable. A majority of comment letter respondents highlighted the importance of providing sufficient time to implement the disclosure requirements, which includes many of the activities described above. The Board decided that the amendments in this Update are effective for annual reporting periods beginning after December 15, 2026, and interim reporting periods beginning after December 15, 2027, for all public business entities. In deciding on the effective date, the Board determined that requiring initial adoption in an annual reporting period will provide investors with the most useful information because it represents a full operating cycle and is a baseline from which to compare future interim period information.

BC155. Consistent with feedback from investors and preparers, the Board decided to permit early adoption. Most stakeholders stated that permitting early adoption will provide investors with decision-useful information in a timelier manner and did not raise operability or comparability concerns.

BC156. The Board decided that an entity is required to apply the amendments in this Update prospectively to financial statements issued for reporting periods

after the effective date of this Update. An entity also is permitted to apply the amendments retrospectively. The Board acknowledges that many entities may not have all of the comparative period information necessary to apply the amendments using a retrospective approach that restates all comparative periods. Consequently, the Board determined that requiring retrospective transition could be costly and could necessitate a later effective date than would be feasible if the amendments could be applied prospectively.

BC157. The Board decided that an entity is permitted to provide the disclosures for some but not all comparative period(s) upon adoption when the entity applies the retrospective approach. The Board expects that this will enhance the decision usefulness of information provided to investors upon adoption without imposing significant costs on those entities that may have the information available for some but not all the comparative periods.

Amendments to the GAAP Taxonomy

The amendments to the *FASB Accounting Standards Codification*® in this Accounting Standards Update require improvements to the GAAP Financial Reporting Taxonomy and SEC Reporting Taxonomy (collectively referred to as the “GAAP Taxonomy”). Those improvements, which will be incorporated into the proposed 2025 GAAP Taxonomy, are available through [GAAP Taxonomy Improvements](#) provided at www.fasb.org, and finalized as part of the annual release process.