

FASB Requires New Disclosures to Improve Information about a Public Business Entity's Expenses

On November 4, 2024, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2024-03, *Income Statement—Reporting Comprehensive Income—Expense Disaggregation Disclosures (Subtopic 220-40): Disaggregation of Income Statement Expenses*.

The new disclosures are expected to provide transparency about the components of expenses included in the income statement and enhance an investor's ability to forecast future performance. They are intended to complement existing disaggregated disclosures about revenues, segments, and income taxes to provide investors with a better picture of an entity's financial condition and results of operations.

Highlights

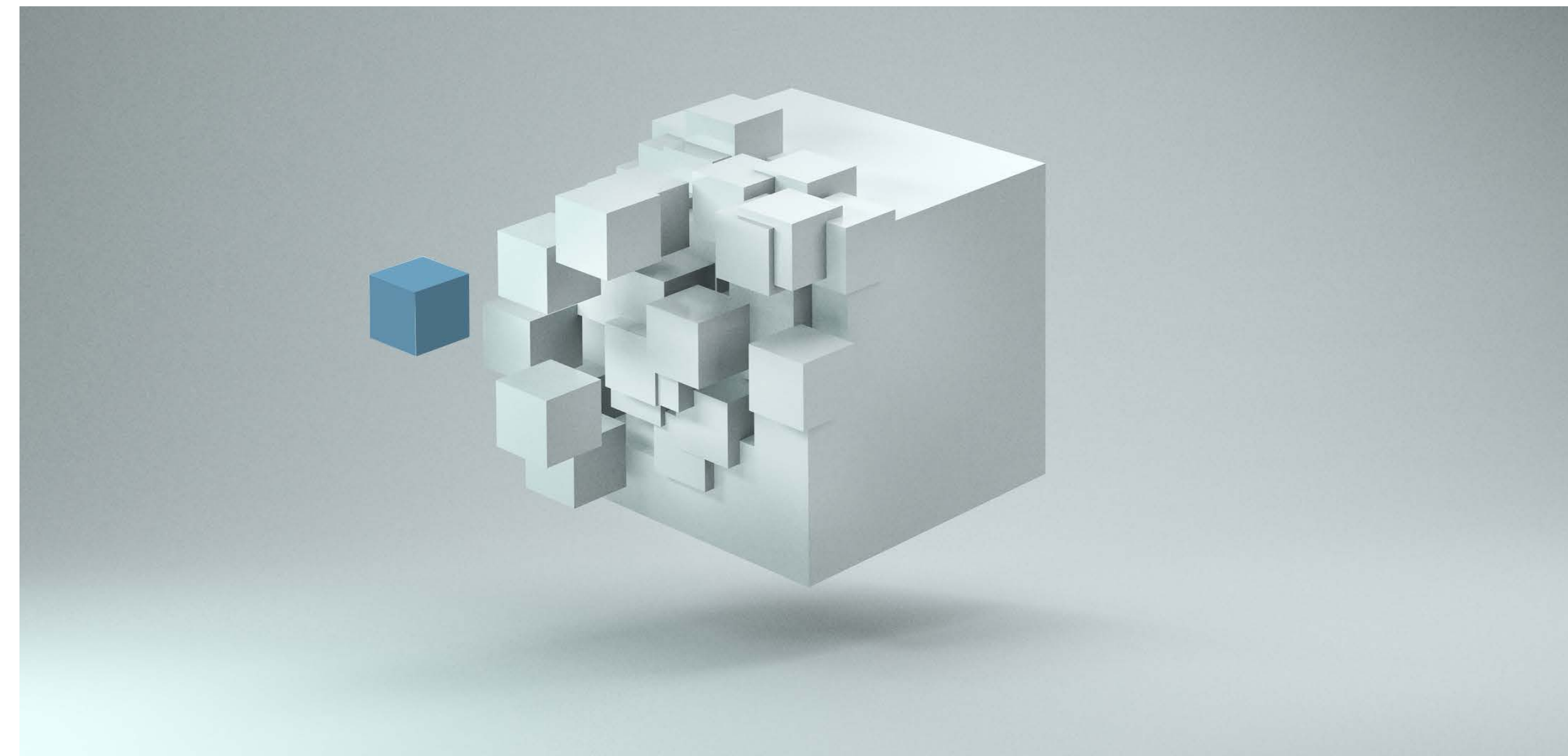
- ▶ New tabular disclosure that centralizes expense information—including the new disclosures and certain existing disclosures
- ▶ Additional qualitative disclosure requirements for certain amounts not required to be quantitatively disclosed
- ▶ New disclosure about selling expenses
- ▶ Disclosure requirements only—no changes required to income statement presentation
- ▶ Prospective application; effective for 2027 annual disclosures and interim disclosures in 2028.

Key Benefits to Investors

Expense categories are expected to respond differently to changes in economic conditions and therefore provide investors with more decision-useful information. Disclosures are required to be provided at interim and annual reporting periods to provide investors with information on a timely basis.

The new disclosures will allow investors to:

- ▶ Better understand the components of an entity's expenses
- ▶ More accurately forecast expenses
- ▶ Better assess an entity's prospects for future cash flows.



Required Expense Categories

Purchases of Inventory

Purchases of inventory include only amounts within the scope of Topic 330, Inventory, or an Industry Subtopic in Topic 330

Employee Compensation

Based on the Topic 718, Compensation—Stock Compensation, definition of employee, employee compensation is intended to broadly capture the major types of consideration provided to employees in exchange for services (e.g., all forms of cash consideration, share-based payment arrangements, postemployment benefits, etc.)

Depreciation

Includes depreciation expense consistent with amounts disclosed in accordance with Topic 360, Property, Plant, and Equipment

Amortization

Includes intangible asset amortization consistent with amounts disclosed in accordance with Subtopic 350-30, General Intangibles—Goodwill and Other—

Depletion, Depreciation, & Amortization

Includes depreciation, depletion, and amortization of capitalized acquisition, exploration, and development costs recognized as part of oil-and-gas-producing activities or other depletion expense

Disclosure Example

This example illustrates how the new tabular disaggregated requirement could look for selling, general, and administrative (SG&A) expenses and the required disclosure of selling expense. Required disclosures for cost of products sold and cost of services are not included in the illustration to the right but are illustrated in the ASU.

Other Resources

The ASU is available at www.fasb.org. Additional information, including a brief video, is available through the [FASB Projects website](#).

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

Requirements

- A** SG&A is identified as a relevant expense caption as it contains the required expense categories, including employee compensation, depreciation, and intangible asset amortization.
- B** The required expense categories are separately displayed in the tabular disclosure.
- C** Property, plant, and equipment impairment is an existing disclosure incorporated into the table.
- D** Other SG&A is needed in order for the tabular disclosure to reconcile in total to the amount on the face of the income statement. Entity X is required to qualitatively describe the composition of what is included within this line.
- E** In addition to the tabular disclosure, Entity X should also disclose the amount of selling expense and how the entity defines it.

Notes to Financial Statements

	20X4	20X3	20X2
Selling, general, and administrative			
<i>Selling, general, and administrative (SG&A)</i>			
Employee compensation	\$ 13,242	\$ 11,379	\$ 10,764
Depreciation	1,454	1,755	1,737
Intangible asset amortization	523	596	-
Property, plant, and equipment impairment	412	-	-
Other SG&A ^(a)	5,218	5,141	5,615
Total SG&A	\$ 20,849	\$ 18,871	\$ 18,116

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

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. **E**