DISAGGREGATED EXPENSE DISCLOSURES – AN OVERVIEW OF ASU 2024-03

December 2024

OVERVIEW

In November 2024, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2024-03, *Income Statement – Reporting Comprehensive Income – Expense Disaggregation Disclosures (Subtopic 220-40): Disaggregation of Income Statement Expenses* (ASU 2024-03 or the ASU). Under ASU 2024-03, public business entities (PBEs) are required to disclose disaggregated information about certain costs and expenses in the notes to their financial statements in both annual and interim filings. The FASB expects that, under the ASU, nearly all PBEs will disclose more information about the components of these costs and expenses than what they currently disclose. The amendments are effective for PBEs for annual reporting periods beginning after December 15, 2026 (or 2027 for PBEs with calendar year-ends), and interim reporting periods beginning after December 15, 2027 (or March 31, 2028, for PBEs with calendar year-ends).

This publication provides an overview of the new disclosure requirements, including illustrative examples from the ASU, and certain considerations to keep in mind for 2024 year-end reporting.

TABLE OF CONTENTS

1. Background

In response to long-standing investor requests for greater disaggregated income statement information, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2024-03 in November 2024.

Under ASU 2024-03, public business entities (PBEs) are required to disclose, in a table format, disaggregated information about certain costs and expenses in the notes to their financial statements in both annual and interim financial statements. Additionally, ASU 2024-03 integrates existing disclosure requirements about certain expenses into the same tabular disclosure of the disaggregated expenses. The ASU also requires qualitative disclosure of amounts that are not quantitatively disclosed in the tabular disclosure, the disclosure of total selling expenses and, in annual reporting, an entity's definition of selling expenses.

The FASB believes that the disclosures required by ASU 2024-03 will provide investors with information on a timely basis, which will allow them to:

- Better understand the components of an entity's expenses
- Better forecast expenses
- Better assess and forecast an entity's prospects for future cash flows
- Better compare the entity's performance over time against other entities

ASU 2024-03 adds Subtopic 220-40, *Expense Disaggregation Disclosures*, to the FASB's Accounting Standards Codification (ASC), but does not change any existing presentation or recognition guidance under the ASC or the United States Securities and Exchange Commission's (SEC) regulations.

ASU 2024-03 is only applicable for PBEs, and its amendments are effective for annual reporting periods beginning after December 15, 2026, and for interim reporting periods within annual reporting periods beginning after December 15, 2027. The requirements can be applied either prospectively or retrospectively.

While ASU 2024-03 is not currently applicable to entities other than PBEs, private companies contemplating an initial public offering (IPO) or other transactions that would change their reporting status to a PBE should familiarize themselves with the disclosure requirements of ASU 2024-03.

Appendix A includes examples from ASU 2024-03 illustrating the requirements.

2. REQUIREMENTS OF ASU 2024-03

2.1 Definition – relevant expense captions

ASU 2024-03 introduces the concept of relevant expense captions. A relevant expense caption is defined in the ASU as "an expense caption presented on the face of the income statement in continuing operations that contains any of the expenses [or expense categories] listed in paragraph 220-40-50-6," which include:

- Purchases of inventory
- Employee compensation
- Depreciation
- Intangible asset amortization

- Depreciation, depletion, and amortization of capitalized acquisition, exploration, and development costs recognized as part of oil-and-gas producing activities (DD&A) (Subtopic 932-360, *Extractive Activities – Oil and Gas - Property, Plant, and Equipment*)

ASC 220-40-50-12 through 50-13 provide guidance on identifying an entity's relevant expense captions. The identification of relevant expense captions is important, as that drives the information to be disclosed in the notes to the financial statements. ASU 2024-03 specifically states, however, that earnings or losses from equity method investments is not a relevant expense caption requiring disaggregation.

2.2 Scope

The amendments in ASU 2024-03 apply only to PBEs. Private companies, not-for-profit entities and employee benefit plans within the scope of Topic 960, *Plan Accounting – Defined Benefit Pension Plans*, Topic 962, *Plan Accounting – Defined Contribution Pension Plans,* or Topic 965, *Plan Accounting – Health and Welfare Benefit Plans,* are outside the scope of the ASU's new disclosure requirements.

> **RSM COMMENTARY:** While ASU 2024-03 is not currently applicable for non-PBEs, paragraph BC34 of ASU 2024-03 states that "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." As a result, further expense disaggregation may become applicable to non-PBEs in the future, and they may want to consider monitoring the adoption of ASU 2024-03.

2.3 Disclosure requirements

Under the ASU, PBEs are required to disclose disaggregated information about relevant expense captions that are presented on their income statement in a table in the notes to their financial statements. For each relevant expense caption, entities are required to disaggregate the expense into the expense categories listed in Section 2.1 (i.e., purchases of inventory, employee compensation, depreciation, intangible asset amortization and DD&A). Expenses within a relevant expense caption that do not meet one of the expense categories are characterized as "other" within the tabular disclosure and are subject to qualitative disclosure.

If the relevant expense caption (or line item) on the income statement is fully comprised of only one of the expense categories listed in Section 2.1, then further disaggregation is not required. For example, if depreciation is a line item on the income statement, and the line item consists entirely of depreciation in accordance with ASC 220-40-50-6(c), no additional disclosure is required in the notes accompanying the financial statements because the information in the income statement meets the disclosure requirements of ASU 2024-03. On the other hand, if the income statement line item consists of both depreciation and intangible asset amortization, an entity would be required to separately disclose depreciation expense and intangible asset amortization in accordance with ASC 220-40-50-6(c) through (d) in the tabular disclosure.

> **RSM COMMENTARY:** When evaluating the extent of disaggregated information to be provided in the disclosures required under ASU 2024-03, entities should consider the guidance in ASC 105-10-05-6, which states that "the provisions of the Codification need not be applied to immaterial items." When assessing the concept of materiality and determining the level of detail to be disclosed in accordance with ASU 2024-03 to keep the overall financial statements from being misstated or misleading, affected entities should focus on the total mix of information from the perspective of a reasonable investor. To be consistent with the concept of materiality, this assessment should be objective and should take into consideration all relevant facts and circumstances, including both quantitative and qualitative factors. The SEC staff has repeatedly commented that a materiality analysis is not a mechanical exercise, nor should it be based solely on a quantitative analysis.

The following sections provide additional information about the expense categories and disclosure requirements of ASU 2024-03.

2.3.1 Purchases of inventory

Only purchases of inventory that fall within the scope of ASC 330, *Inventory*, or an Industry Subtopic of ASC 330 (collectively, ASC 330) are required to be included in the new tabular disclosure. Additionally, inventory purchased or acquired because of a business combination within the scope of ASC 805-10, *Business Combinations – Overall*; the formation of a joint venture within the scope of ASC 805-60, *Business Combinations – Joint Venture Formations*; or the consolidation of a variable interest entity within the scope of ASC 810-10, *Consolidation – Overall*, are excluded from the "purchases of inventory" expense category—they should be included in the "other" expense category within the table, unless separately disclosed voluntarily. However, purchases of inventory related to a transaction accounted for as an asset acquisition under ASC 805-50, *Business Combinations – Related Issues*, would be included in the purchases of inventory disclosure.

Entities have two options for determining the amount of inventory purchases to be included in the disaggregated disclosure: the cost-incurred basis or the expense-incurred basis.

ASC 220-40-50-31 (partial excerpt)

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).

When an entity uses the cost-incurred basis, the "changes in inventories" amount represents 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.

The "other adjustments and reconciling items" amount represents other amounts that are necessary to reconcile inventory costs incurred to expenses recognized. Examples of such items include the amount of inventory derecognized during the period that is not recognized as an expense, such as inventory derecognized as part of a derecognition event within the scope of ASC 810-10 or the effects of differences in foreign currency exchange rates used to translate inventory amounts.

Remaining reconciling items would be included in the "other" expense caption.

RSM COMMENTARY: Given the complexities of disaggregating purchases of inventory on an expense-incurred basis, especially for entities using an inventory cost method other than first-in-first-out, a large majority of entities are expected to disaggregate the relevant financial caption containing inventory purchases on a cost-incurred basis.

As a practical expedient, if the relevant expense caption containing purchases of inventory consists substantially all of purchases of inventory, further disaggregation of that caption is not required. While the ASU does not define "substantially all," in practice, it has generally been interpreted to mean at least 90%.

2.3.2 Employee compensation

Expenses included within a relevant expense caption that meet the definition of employee compensation are required to be disaggregated in the tabular disclosure. ASU 2024-03 defines the term "employee compensation" based on the current definition of an employee used in ASC 718, *Compensation – Stock Compensation*. The definition provides a list of different types of compensation, both cash and noncash, and is intended to broadly capture the major types of compensation provided to employees in exchange for services. One-time employee termination benefits, if applicable, are required to be separately disclosed from other employee compensation expense within the tabular disclosure.

RSM COMMENTARY: If an entity presents on its income statement a caption for salaries and benefits, or a similarly titled caption, to comply with SEC Rule 210.9-04 of Regulation S-X, then the entity can use those amounts to fulfill the requirements of ASU 2024-03, as the amounts are not expected to be materially different from employee compensation as defined in the ASU.

Entities that also report under International Financial Reporting Standards should keep in mind that the term "employee compensation" broadly aligns with the term "employee benefits" in International Accounting Standard (IAS) 19, *Employee Benefits*.

2.3.3 Depreciation

The amounts disclosed in the tabular note for depreciation should be consistent with the classification of amounts used to satisfy the disclosure requirements for the total depreciation expense under ASC 360, *Property, Plant, and Equipment*. If applicable, depreciation would also include the amortization of right-of-use assets and leasehold improvements, if an entity's accounting policy is to include such expenses as depreciation expense, in accordance with ASC 842-20-45-4(a). However, depreciation does not need to be further disaggregated if the asset being depreciated itself contains any of the expense categories. For example, an entity that capitalizes employee salaries and wages when self-constructing new property, plant and equipment for its own use is not required to further disaggregate the resulting depreciation into the categories listed in Section 2.1.

2.3.4 Intangible asset amortization

The amounts disclosed in the tabular note for intangible asset amortization should be consistent with the classification of amounts used to satisfy the disclosure requirements for the total intangible asset amortization expense under ASC 350-30, *General Intangibles – Goodwill and Other*. Intangible asset amortization would also include the amortization expense for right-of-use assets and leasehold improvements if an entity's accounting policy is to include such expenses as amortization expense, in accordance with ASC 842-20-45-4(a). Like depreciation expense, intangible asset amortization does not need to be further disaggregated if the asset being amortized contains any of the expense categories listed in Section 2.1.

2.3.5 DD&A

In addition to including amounts recognized as DD&A under ASC 932-360 related to oil and gas producing activities, the new disclosure would also include amounts recognized as depletion expense by entities in extractive industries other than oil and gas, such as mining entities within the scope of ASC 930, *Extractive Activities - Mining*.

2.3.6 Other

Any expense included within a relevant expense caption presented on the income statement that does not fall within the five categories listed in Section 2.1 is included in the “other” expense category within the tabular disclosure. Although entities are not required to further disaggregate the amounts included in this other expense category, a qualitative description of its components is required to be disclosed on both an interim and annual basis.

2.3.7 Expense reimbursements

Entities may have arrangements or contracts that provide them with reimbursement from another entity of certain incurred expenses, with that reimbursement included in a relevant expense caption (i.e., the expenses incurred by the reporting entity are reported net of the related reimbursement within the relevant line item presented on the income statement). In such a scenario, entities have a choice of how to present that expense reimbursement in their disaggregated disclosures:

- Include the expenses subject to the arrangement gross in the disclosure table and include a separate line item in the table representing the reimbursement amount.
- Disclose the relevant expense categories net of the reimbursement.

An entity should disclose which approach it adopts and apply it consistently. Additionally, qualitative disclosure of the nature of the expenses subject to reimbursement should be included in the entity’s interim and annual reports.

If an entity pays expense reimbursement to other entities, and such payments are included within a relevant expense caption, the entity must separately disclose the amount of that reimbursement in the table. This guidance does not apply to expense reimbursement presented as revenue on the income statement in accordance with ASC 606, *Revenue from Contracts with Customers*.

2.3.8 Certain liability-related expenses

Expenses are not required to be disaggregated into the required expense categories listed in Section 2.1 if all of the conditions from ASC 220-40-50-16 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).

However, an expense that meets the above criteria may need to be disclosed in the tabular note if it meets the requirements for tabular integration of other disclosure requirements discussed in Section 2.3.10. If not required to be separately disclosed, such expenses would be included in the “other” expense category for the relevant expense caption presented in the tabular note accompanying the financial statements. Examples of such expenses include provisions for losses on contracts (e.g., construction-type and production-type contracts under ASC 605-35, *Construction-Type and Production-Type Contracts*), asset retirement obligations and claims adjustments.

2.3.9 Selling expenses

The total amount of an entity's selling expenses is required to be disclosed in both annual and interim financial statements. Also, in annual reports, entities are required to disclose their definition of selling expense, which should be applied consistently.

2.3.10 Integration of current disclosure requirements

Various topics in the ASC currently require disclosure of certain expenses. ASU 2024-03 integrates the existing disclosures required under U.S. GAAP with the ASU's disclosure requirements if the expense is included within a relevant expense caption. The requirements are detailed in ASC 220-40-50-21 through 50-22.

ASC 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.

ASC 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.

2.3.11 Use of estimates

While deliberating the new disclosure requirements, the FASB acknowledged that preparing the disaggregated level of information required by ASU 2024-03 may be difficult for some entities, especially those with complex manufacturing operations. As a result, ASC 220-40-55-2 allows reporting entities to use estimates or other methods that produce a reasonable approximation of the amounts required to be disclosed.

> **RSM COMMENTARY:** Like other estimates used in the financial statements, entities should establish a robust estimation process, subject to effective internal controls and ensure the appropriate data is gathered and assumptions used to support the estimates derived.

2.3.12 Other presentation matters

Entities will need to consistently apply and present the disclosure requirements for all periods presented. If an entity makes any changes to its display of the disclosure requirements, the reason for the change needs to be disclosed in the period of the change (interim or annual, as applicable) and the prior periods presented must be recast. Such changes are not considered to be a change in accounting principle under ASC 250, *Accounting Changes and Error Corrections*.

2.4 Disclosure requirements – interim considerations

For interim reporting, some entities present condensed income statements; as a result, the income statement captions presented can differ between their interim and annual financial statements. In those instances, the resulting disaggregated expense disclosures may differ between interim and annual reporting periods. That is because the disaggregation requirements of ASU 2024-03 apply to the income statement captions presented in the given reporting period, and entities are not required to have the same relevant expense captions between interim and annual reporting periods.

3. Effective date and transition requirements

ASU 2024-03 is effective for annual reporting periods beginning after December 15, 2026, and interim reporting periods within annual reporting periods beginning after December 15, 2027. Early adoption is permitted.

The amendments in ASU 2024-03 should be applied either prospectively to financial statements for reporting periods beginning after the effective date of the ASU or retrospectively to any or all prior periods (annual or interim) presented in the financial statements.

4. 2024 year-end considerations and beyond

While the effective date of ASU 2024-03 may seem far off, there are some things that entities should start to think about now to ensure they are ready to apply the disclosure requirements of the ASU in 2027.

For year-end 2024 reporting, entities will want to determine if they should include Staff Accounting Bulletin (SAB) 74 disclosures in their Form 10-K filing. SAB 74 is codified in SAB Topic 11M, *Disclosure of the Impact That Recently Issued Accounting Standards Will Have On The Financial Statements Of The Registrant When Adopted In A Future Period*. Because ASU 2024-03 will impact only the disclosures accompanying the financial statements, SAB 74 encourages the reporting entity to disclose that a standard has been issued and that its adoption will not have a material impact on the reporting entity's financial position or results of operation.

Additionally, entities will want to begin reviewing their current income statement mapping to determine if system changes are needed to comply with the disaggregated disclosure requirements of ASU 2024-03. The financial reporting team will need to involve the IT department to make the necessary system updates. Sufficient time should be allowed to review and test any system and mapping changes to ensure they are working properly and adhere to the entity's systems controls. Additionally, entities will want to review their current internal controls over financial reporting, as well as disclosure controls and procedures, to determine if changes need to be made for any new or updated processes that are necessary because of the adoption of the ASU.

Entities may also want to start considering how they will define selling expenses and whether any updates or changes should be made to the information included or discussed in press releases or investor presentations.

Finally, if an entity is considering an IPO or other transaction that would change its reporting status to a PBE, the entity will want to consider its approach to adopting ASU 2024-03 if the IPO or transaction timing is near the effective date of ASU 2024-03.

Appendix A: Examples

The following examples are from ASU 2024-03 and will be included in the ASC as paragraphs 220-40-55-3 through 55-25.

Example A-1: Disaggregation of Income Statement Expenses by an Entity with Manufacturing and Service Operations (ASC 220-40-55-3 through 55-12)

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.

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 revenue	108,276	102,283	97,169
Operating expenses:			
Costs 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

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.

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.

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).

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).

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.

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.

Entity X provides the following disclosure.

Disaggregation of Relevant Expense Captions			
	20X4	**20X3**	**20X2**
Cost of products sold			
Cost of products sold			
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

Disaggregation of Relevant Expense Captions			
Changes in inventories	157	(861)	843
Other adjustments and reconciling items[b]	(542)	424	538
Total cost of products sold	$ 63,456	$ 60,898	$ 57,244

(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	$ 10,496	$ 9,568	$ 8,898

(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	$ 20,849	$ 18,871	$ 18,116

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

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 A-2: Disaggregation of Income Statement Expenses by an Entity with Service Operations (ASC 220-40-55-13 through 55-19)

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.

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
Revenue	$ 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

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.

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.

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.

Entity X provides the following disclosure.

Disaggregation of Relevant Expense Captions			
	20X4	20X3	20X2
Cost of sales			
Cost of sales			
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 cost of sales	$ 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.

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 A-3: Disaggregation of Income Statement Expenses by a Bank (ASC 220-40-55-20 through 55-25)

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.

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			
	20X4	**20X3**	**20X2**
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	3,633,568	2,701,884	2,618,032
Interest expense			
Deposits	302,797	30,280	151,399
Borrowed funds	279,505	83,852	167,703
Total interest expense	582,302	114,132	319,102
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	484,085	410,549	364,726
Noninterest expense			

Entity X Consolidated Income Statement For the Years Ended December 31, 20X4, 20X3, and 20X2			
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	2,167,925	1,715,779	2,003,637
Income before income taxes	1,250,965	1,468,859	287,345
Income tax expense	262,703	308,460	60,342
Net income	$ 988,262	$ 1,160,399	$ 227,003

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.

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).

Entity X provides the following disclosure.

Disaggregation of Relevant Expense Captions			
	20X4	20X3	20X2
Occupancy and depreciation expense			
Occupancy and depreciation expense			
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	$ 376,587	$ 279,875	$ 349,679

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

Other			
Other			
Intangible asset amortization	$ 13,139	$ 10,980	$ 10,068
Other[(b)]	17,374	10,419	14,736
Total other	$ 30,513	$ 21,399	$ 24,804

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

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.

RSM