



October 30, 2023

Ms. Hillary Salo
Technical Director
Financial Accounting Standards Board
801 Main Avenue, PO Box 5116
Norwalk, CT 06856-5116

Re: File Reference No. 2023-ED500

Dear Ms. Salo,

This letter is submitted by Financial Executives International's (FEI) Committee on Corporate Reporting (CCR) in response to the Financial Accounting Standards Board's (FASB or Board) Proposed Accounting Standards Update, Income Statement – Reporting Comprehensive Income – Expense Disaggregation Disclosures (Subtopic 220-40): Disaggregation of Income Statement Expenses (Exposure Draft or proposed Update).

FEI is a leading international organization comprised of members who hold positions as Chief Financial Officers, Chief Accounting Officers, Controllers, Treasurers, and Tax Executives at companies in every major industry. CCR is FEI's technical committee of approximately 50 Chief Accounting Officers and Corporate Controllers from Fortune 100 and other large public companies, representing more than \$13 trillion in market capitalization. CCR reviews and responds to pronouncements, proposed rules and regulations, pending legislation, and other documents issued by domestic and international regulators and organizations such as the U.S. SEC, PCAOB, FASB, and IASB.

This letter represents the views of CCR and not necessarily the views of FEI or its members individually.

Executive Summary

We understand the Board's responsiveness to stakeholder requests for enhanced transparency and decision usefulness of income statement expenses and are committed to contributing to this effort. However, we believe some amendments in this proposed Update are inoperable for many preparers without significant, time-intensive, and costly system and process redesign. Specifically, we have identified two groups of CCR companies significantly impacted by the proposed Update, with some companies experiencing the challenges associated with both groups. First, some companies applying cost pooling methodologies lack visibility into the timing when, and line items where, natural expense categories impact the income statement. Secondly, manufacturing entities with material inventory balances find significant challenges in determining the dollar value of amounts purchased during the period that are capitalized into inventory and have significant concern whether solutions implemented to meet the proposed requirements for inventory and manufacturing expense would support a full reconciliation with the total inventory and manufacturing expense during the period.

We propose alternatives with the goal of meeting the project objectives while allowing companies to continue with the consolidated reporting approaches a company's management determines are most appropriate for the business.

Appendix A provides additional considerations and rationale for the key observations and suggested alternatives for the required expense categories and further disaggregation of inventory and manufacturing expenses. Appendix B illustrates our suggested alternatives as applied to each of the three examples provided in the Exposure Draft.

Required Expense Categories

Key Observations:

Most companies can easily identify relevant expense captions that contain the expense categories required by the proposal. However, a number of CCR member companies spanning various industries are not currently capable of determining the amounts for the required expense categories by expense caption due to system and process constraints when a company uses a cost pooling approach. Preparers have designed systems and reporting processes based on the relevant expense captions required by Regulation S-X Article 5 and, thus, may not have mechanisms to track or tag natural expenses to generate reporting by nature and function.¹

Suggested Alternatives:

1. As the cost and complexity to operationalize the proposed disaggregation requirements are derived from providing natural expense categories by each relevant expense caption presented on the face of the income statement, we recommend the Board consider an alternative requiring disclosure of the consolidated or total amounts for the specified categories in each reporting period. Under this approach, the following would be provided on both an annual and interim basis in a new "cost disaggregation" footnote: (a) inventory and manufacturing cost expensed in the current period, (b) employee compensation cost **incurred** in the current period, (c) depreciation **incurred** in the current period, (d) intangible asset amortization **incurred** in the current period, and (e) depreciation, depletion, and amortization **incurred** in the current period as part of oil- and gas-producing activities. We suggest this alternative be further explored in additional outreach with investors, practitioners, and a broader subset of preparers.
2. In addition, we propose the Board consider requiring the total compensation cost incurred to be further disaggregated into the following categories, when material, with cross references to the appropriate footnotes: (1) salaries, wages, and bonuses, (2) share based compensation, (3) pension, (4) post-retirement benefits, (5) severance, and (6) other employee compensation. See the section titled "Further Disaggregation of Inventory and Manufacturing Expense" for suggested alternative requirements for additional disclosure related to the inventory and manufacturing expense amount.

¹ See [SEC 17 CFR 210.05-03](#).

These alternatives are suggested as an acknowledgement that, in lieu of providing natural expense categories by expense caption, additional granularity and detail on the total natural expense amounts may be useful.

3. If the Board continues to seek further disaggregation within the relevant expense captions on the face of the income statement, we strongly suggest the Board consider current ERP capabilities and understand from ERP providers and preparers what further ERP capabilities are needed and the timeline to enable the desired disaggregation of cost of sales reporting, particularly for entities that utilize cost pooling and standard costing in their cost accounting operations.

Further Disaggregation of Inventory and Manufacturing Expense

Key Observations:

We have concerns about the feasibility of the proposed further disaggregation of inventory and manufacturing expenses. Disaggregating such amounts as proposed and reconciling back to the cost of sales or other similar income statement caption is inoperable for most companies with material manufacturing activity and for companies that use cost pooling methodologies. The proposed rollforward of inventory and manufacturing expenses incorporates activity under both an accrual and as-incurred method, and these as-incurred amounts related to inventory and manufacturing expense only are different from the total amounts disclosed as an expense in the footnotes or cash flow statement (e.g., depreciation or amortization expense) which may cause confusion.

Total inventory purchases across many organizations are not readily available in systems and would require an extensive manual reporting aggregation process from a multitude of systems globally. For entities applying standard costing, the total inventory purchases are split at the time of receipt between inventory accounts and separate material variance accounts. We anticipate that disclosure of purchases of inventory at a total entity level would result in many management teams wanting to be prepared with further understanding of the purchases buildup by segment or region to be able to clearly communicate trends and drivers. Such detailed buildup of purchases would be more burdensome to solve for and maintain than the total alone.

Further, the “other adjustments and reconciling items” amount may include items like differences in foreign exchange rates, variances generated and then absorbed by standard costing systems, and more. In some CCR company discussions with auditors, it is unclear whether audit firms will find the use of a “residual” method of calculating “other adjustments and reconciling items” auditable.

Thus, as proposed, CCR companies with manufacturing activity are still uncertain of the process required to further disaggregate inventory and manufacturing expense. Since solutions have not been tested or implemented, there is significant concern whether manual computations would support a full reconciliation of the changes in inventory as proposed.

Suggested Alternatives:

1. For companies with material inventory and manufacturing costs, we recommend the Board explore an alternative to the proposed combination of purchases and period expenses. We believe a more intuitive and potentially more useful disaggregation of the total inventory and manufacturing expense amount could be to disaggregate such total inventory and manufacturing expense into the amount of previously inventoried costs and the amount of costs expensed as incurred, with a qualitative description of the company's policy for capitalizing or absorbing costs to inventory and directly expensing other manufacturing costs. For companies that apply standard costing, the inventoried cost amount could be supplemented by a quantification on a percentage basis of the component makeup of the standard costing on an annual basis, which is typically the frequency a company resets standard costs, and interim disclosure of any material changes or variances noted by management.
2. As previously recommended, if there remains a compelling investor need for natural expense disaggregation of inventory and manufacturing expense beyond the above proposed alternatives, we believe the Board and project team should engage with ERP providers to better understand how to design this capability without sacrificing the current practices designed to deliver functional disaggregation to support management decision making. CCR companies would be willing to prioritize and help coordinate such exploratory sessions to inform the Board's redeliberations.
3. If the Board proceeds with the inventory reconciliation disclosure requirement as part of a final Accounting Standards Update (ASU), we would appreciate the Board clarifying acceptable methods to complete the reconciliation, explicitly acknowledging in the final ASU that the magnitude of the "other adjustments and reconciling items" amount may vary over time, and directly addressing with auditors how they would plan to test the reconciliation methodology. Without these clarifications and confirmations, we expect the cost of implementation would be significant.

Materiality

Key Observations:

While we understand Topic 105, Generally Accepted Accounting Principles, applies to and underpins all disclosure requirements in other Topics, there is less clarity about how to consider materiality in the context of a set of disclosure requirements that are not entirely driven by a single quantifiable data point. For example, in addition to materiality being considered in the determination of relevant expense captions for which disaggregation is required, it also may be appropriate for immaterial amounts of specified categories to be included in "other" within a relevant expense caption and to consider materiality when determining the amount of detail to include in the qualitative disclosures of the "other" portions of a caption. We believe all judgments in application of a final ASU should be subject to materiality decisions.

Suggested Alternative:

1. We suggest the Board clarify the existing statement in the Basis for Conclusions to explicitly note materiality applies to all proposed disaggregation requirements,² which will also be more consistent with the broader statement made in the IASB's 2019 Primary Financial Statements Exposure Draft.³ Currently, the proposed Update explicitly notes exemption for integration of other expense disclosure requirements in the tabular format when immaterial. Unless specifically noted that materiality judgments apply to all disaggregation requirements, we are concerned the disaggregation categories explicitly mentioned in the proposal, including further disaggregation of inventory and manufacturing expense or qualitative discussion of what would otherwise be immaterial items, will develop in practice to be required.

Interim Reporting

We understand the additional value of providing the proposed disclosures on both an annual and interim basis. The underlying system and process enhancements required to provide the new disclosures on an annual basis will also be required to produce the information on an interim basis; thus, it may not be a significant one-time effort to initially implement the enhancements specifically for interim disclosure. While we expect interim trends would be more meaningful, companies will need to build processes and procedures to produce the information on a timely basis to comply with reporting deadlines. As currently drafted, it is unclear whether the solutions and processes necessary to comply with the proposed disclosures can be completed in a timely manner to avoid interim filing delays. This risk should be considered in evaluating the costs associated with the requirements as proposed. Thus, we encourage the Board to consider our proposed alternatives, under which the concerns of timely interim filings may be abated.

Transition and Effective Date

We believe the proposed transition method to apply the amendments on a prospective basis with an option for an entity to apply the guidance retrospectively is operable. While we understand retrospective application would be ideal to allow for comparison of historical performance, many companies do not anticipate applying the proposed amendments retrospectively. Given the uncertainty on how and when the capabilities to capture the required information will be ready, retrospective application may not be possible.

We anticipate our auditors will need significant time and resources to test the design and operation of the new processes, systems, and controls required to comply with the proposed rules. We also believe companies will encounter significant internal and external resource constraints as much of the talent needed to implement the proposal is likely already operating beyond their capacity on existing and upcoming priorities, including

² See [BC77](#) in the Exposure Draft.

³ See [B9](#) in the IASB Exposure Draft: General Presentation and Disclosure.



ESG reporting requirements. Given that compliance with the proposed requirements may be a partially manual process, we are concerned it could delay filings, which may be detrimental to the capital markets.

We would likely need significant implementation time to design the future reporting state, customize reports, update the controls environment, train our teams, and familiarize auditors with the updates. Should the Board adopt the guidance as written, we are uncertain as to how long it may take to implement given some of the proposed disclosures are currently inoperable and not yet solutioned. Because CCR companies are still in a discovery phase to determine how to meet the proposed requirements, some preparers fear that delays in adoption timelines may be necessary, similar to the delays for the Leases standard adoption.

Conclusion

We appreciate this opportunity to provide feedback on the proposed Update related to disaggregation of income statement expenses. We believe the potential alternatives we propose and illustrate in Appendix B will achieve the Board's objective to provide more detailed information about certain types of expenses to address investor requests for critical information in understanding an entity's performance, assessing an entity's prospects for future cash flows, and comparing an entity's performance both over time and with that of others. We also believe the potential alternatives could meet these objectives in a manner that is more operable than the proposed amendments without significantly diminishing the decision-usefulness of information provided.

However, in exploring potential alternatives and workable solutions to meet the objectives of the Exposure Draft, we note that any new requirements will impact companies to significantly different degrees and with vastly different implementation challenges. Further, we acknowledge our proposed alternatives are working drafts that would require additional refinement to ensure the greatest operability and comparability between companies. Therefore, prior to issuing a final ASU, we encourage the Board to engage with a broad array of preparers and industries in their outreach to gain insight into the differing perspectives based upon each company's unique system capabilities and costing approaches. We thank the Board for its consideration of our comments and welcome further discussion with the Board or staff at your convenience.

Sincerely,

Alice L. Jolla

Alice L. Jolla
Chair, Committee on Corporate Reporting
Financial Executives International

Appendix A

Required Expense Categories

Operational Challenges

We believe the requirement to disclose certain categories of expenses included in relevant expense captions is inherently less burdensome than requiring full disaggregation of income statement expenses into natural categories. However, our concerns regarding the operability of the proposed requirements and the potential significant costs of implementing them are not the result of the number of natural expense categories or definitions of those expense categories. Rather, the challenges are primarily the result of many SEC filers not currently having the capability to disaggregate the stated natural expenses by each relevant expense caption presented on the face of the income statement.

With respect to the relevant expense captions other than cost of sales, we expect the operability and cost of implementation to be most burdensome for those companies using an internal transfer and cost recovery model or allocating significant costs to various profit or cost centers. During the transfer or allocation process, costs lose their original classification or nature. These companies will likely need a system redesign to meet the proposed disaggregation requirements. Further, most companies do not currently capture this information for internal reporting nor to manage the business. Therefore, these companies would be incurring costs to generate the information solely for purposes of complying with the new disclosure requirements. Other companies that do not employ such cost transfer or allocation processes may be able to operationalize the categorical disaggregation for all relevant expense captions, except cost of sales, within a more reasonable cost and implementation timeline by simply restructuring charts of accounts to capture and summarize the relevant data.

We respectfully disagree with the Board's fourth "key consideration" in reaching the proposed requirement to disclose specific natural expense categories by relevant expense caption, which alludes to consistency with the IASB's Primary Financial Statements project.⁴ International Accounting Standard 1: Presentation of Financial Statements (IAS 1) currently requires disclosure of natural expenses in total and not by expense caption. Although the IASB has made tentative decisions under its Primary Financial Statements project to amend IAS 1 to require disclosure of amounts of various natural expenses by operating expense caption, we are concerned with the FASB aligning its proposed requirements with the IASB's tentative decisions which were made without consideration for operability of preparers in the United States. The summary of feedback on the IASB's proposal illustrates that none of the six American fieldwork participants have operating expenses presented in a natural expense orientation, whereas many in Europe and Asia already do.⁵ If amendments to IAS 1 are finalized with the IASB's tentative disclosure requirements, preparers in the United States with foreign subsidiaries will face the same disaggregation operability challenges under IAS 1 as articulated herein under the proposed Update. As mentioned above, this is because public companies in the United States filing with

⁴ See [BC34](#) in the Exposure Draft.

⁵ See [Appendix C](#) in the IASB Feedback summary – Disaggregation – analysis of operating expenses.

the SEC are far less likely to have accounting processes and systems structured to isolate natural expenses, particularly across expense captions, as Regulation S-X Article 5 requirements have shaped the reporting capabilities and landscape for entities such as those comprising CCR.

Proposed Alternative #1: Disclosure of Incurred Amounts of Specified Categories in Total

For companies most impacted by the proposed disaggregation requirements, the complexities of implementation are the result of providing natural expense categories by each relevant expense caption. This complexity is significantly reduced by our recommendation to instead require disclosure of the specified natural expense categories in total each reporting period. Although the inventory and manufacturing expense amounts disclosed would be based on income statement expenses during the current period, we propose the amounts for employee compensation, depreciation, intangible amortization, and depreciation, depletion, and amortization for oil- and gas-producing activities would be disclosed on an incurred basis.

The employee compensation total would include amounts incurred during the period and (1) expensed in the current period (paid or accrued) or (2) capitalized to inventory or other asset balances in the current period. Incurred employee compensation information is more readily attainable for preparers as it would be an aggregation of payroll and incentive compensation activity during the period and would not require tracking when amounts capitalized to inventory or other asset balances are impacting the income statement. The incurred employee compensation total also provides more timely trend information, rather than waiting for such amounts to be reflected in the income statement expense lines, which may come at least partially in future periods. Similarly, depreciation and intangible amortization amounts currently disclosed on an annual basis represent, for some companies that capitalize portions of depreciation and amortization to inventory, incurred amounts (i.e., amounts that may be partially expensed and partially capitalized to inventory or other assets); thus, we propose the amounts of depreciation and intangible amortization disclosed on a quarterly basis to represent incurred amounts rather than amounts specifically impacting expense in the current period. For companies that do not capitalize any depreciation or amortization, the incurred amounts would be equivalent to the amount of expense in the period.

Disclosure of the specified natural expense categories in total would provide insight into a company's cost structure; however, the amounts would not be mutually exclusive. Most notably, any employee compensation, depreciation, or intangible amortization amount capitalized to inventory will also be a component of the inventory and manufacturing cost expense in the current or future reporting periods. Quarterly disclosure of the specified natural expense categories in total would provide new information to financial statement users about an entity's cost structure at a reasonable cost to prepare. As required by the proposed Update, the quarterly disclosure would integrate other required expense disclosures into a comprehensive and transparent tabular disclosure.⁶

⁶ See [paragraphs 220-40-50-12 through 50-15](#) in the Exposure Draft.

This approach would also ensure disclosure of a total amount for each natural expense category that could be subject to trend analysis. The proposed disaggregation by caption instead may result in precluding investors from receiving a total of the natural expense each period, or from knowing whether they did receive the total in the tabular components provided, due to a lack of visibility into materiality judgments or due to amounts only being disclosed if entirely included within one expense caption.⁷ The Basis for Conclusions indicates homogeneity is necessary for accurate forecasting of expenses but also that both investors and preparers experience significant variability in the definition of internal company functions.⁸ Therefore, we do not believe the relevant expense caption “starting point” for the proposed disaggregation is sound for comparison, even among entities within the same industry. Instead, providing users of financial statements with a homogeneous view into total amounts of natural expense categories enhances comparability and the ability to model the full impact of a natural expense exposure on an entity’s cost structure.

Proposed Alternative #2: Further Disaggregation of Employee Compensation

We acknowledge that providing the required expense categories in total is not as much disaggregation as a tabular format by each relevant expense caption presented on the face of the income statement. Thus, we suggest incremental disclosure be required to further contextualize the total amounts when appropriate. We understand that in addition to total employee compensation, investors have expressed a desire to obtain greater detail as it allows for them to better understand the executives’ incentives,⁹ how a company invests in its own workforce, and whether any of that investment should be capitalized in the investors’ own financial models.¹⁰ Therefore, in addition to meeting investor desire to receive consolidated employee compensation cost incurred, we have proposed providing specific components that make up the total employee compensation cost: (1) salaries, wages, and bonuses, (2) share based compensation, (3) pension, (4) post-retirement benefits, (5) severance, and (6) other employee compensation.

For total intangible amortization, we understand the Financial Accounting Standards Advisory Council (FASAC) discussed additional disaggregation of amounts resulting from intangible assets acquired versus amortization of other non-acquired intangible assets in the September 21, 2023, meeting. While we are not clear on the usefulness of such information, we anticipate most companies would be able to meet such requirement with a relatively low cost to implement.

While we expect many companies will need to implement system, process, and control changes to provide both the aggregate natural expense information as well as the disaggregated employee cost information recommended above, we anticipate the changes necessary to disclose cost information in this manner would

⁷ See [paragraph 220-40-50-13](#) in the Exposure Draft.

⁸ See [BC37 and BC38](#) in the Exposure Draft.

⁹ See [BC105](#) in the Exposure Draft.

¹⁰ See [page 12](#) of the SEC’s Investor Advisory Committee’s Recommendation regarding Human Capital Management Disclosure.

be significantly less burdensome and less costly than the changes required to comply with the proposed requirements.

Definitions

Inventory Expense and Other Manufacturing Expenses

We find the proposed definition of inventory expense to be operable; however, there are some questions and uncertainties regarding the application when there are valuation adjustments, standard costing true ups and variance deferrals, and other judgments. We also support the Board allowing companies to disclose how an entity defines other manufacturing expenses as each company has a unique process. While the guidance does not specifically indicate what comprises other manufacturing expenses, we appreciate the Board including an example such as unallocated manufacturing overhead related to abnormally low production.¹¹

Employee and Employee Compensation

We appreciate the Board leveraging the existing definition of employee in Topic 718, Compensation – Stock Compensation, and find the proposed definitions of employee and employee compensation to be operable. Additionally, the proposed amendments would not affect entities' current application of the definition of employee in Topic 718 since it does not substantially impact how companies currently apply the guidance.

Depreciation and Intangible Asset Amortization

Companies are currently required to comply with the disclosure requirements in Subtopic 360-10, Property, Plant, and Equipment – Overall, and Subtopic 350-30, Intangibles – Goodwill and Other – General Intangibles Other Than Goodwill. Therefore, we believe linking depreciation and intangible asset amortization to existing disclosure requirements will be operable and helps to promote consistency in U.S. GAAP. However, we are aware of diversity in practice in the classification of certain assets (as intangibles, property, plant, and equipment, etc.), which may lead to a lack of comparability in what comprises the depreciation and intangible amortization amounts.

Selling Expenses

We are supportive of the proposed requirement that an entity disclose selling expenses and how it defines selling expenses. An entity should be allowed to determine what constitutes a selling expense as costs associated with selling can vary substantially across entities, even within the same industry. A general definition could either be interpreted or applied inconsistently by different entities.

¹¹ See [220-40-50-6](#) in the Exposure Draft.

Further Disaggregation of Inventory and Manufacturing Expenses

Operational Challenges

Inventory and manufacturing expenses, if disclosed, would be a combination of the costs released to cost of sales in the current period from capitalized inventory balances and other periodic manufacturing costs expensed as incurred. These two components individually are more easily attainable for many preparers than the proposed disaggregation methodology, which requires capability to disaggregate incurred amounts and expensed amounts by nature and reconcile to an income statement caption.

The challenges of the rollforward are further compounded by disparate inventory purchase data across supply chain systems worldwide and the need to apply foreign exchange accounting for individual line items that are not naturally maintained in a general ledger system and may be denominated in combinations of local or transaction currencies rather than a single reporting currency. Visibility to total inventory purchases is therefore inherently non-cohesive as a single account or account type within most reporting systems. Further, most current systems are not designed to support disaggregated cost of sales reporting and rollforwards that combine incurred amounts and expensed amounts, particularly for entities that apply standard cost. Capturing data in this manner would require significant effort for reconfiguration to tag or unwind absorption policies that capitalize various cost pools into standard cost.

There will be a need to build capability that obtains material movement information from supply chain systems rather than general ledger systems. Many supply chain systems manage inventory movement in quantity rather than in dollars of actual or standard cost, creating complications to transpose such inventory movements and purchases to a single total of incurred inventory purchases. Additionally, a data repository would need to be developed to differentiate between third party purchases of inventory and affiliate purchases of inventory, apply standard cost or possibly actual cost information to these quantities, and mimic foreign exchange transaction and translation accounting for the inventory purchases throughout the period. Even if such information was obtainable in the format requested, we have significant concerns as to whether the manual nature of the process would result in an outcome that materially ties to the income statement caption. As action plans are not yet defined, we are unable to quantify an estimated cost of or provide an estimated timeline for such undertaking at this time.

An additional operational barrier to the Exposure Draft's reconciliation of incurred costs to those that are included in the income statement cost of sales caption is the amount of "other adjustments and reconciling items." Companies would complete the reconciliation by gathering amounts for purchases, depreciation, employee compensation, amortization, and changes in inventory to calculate the difference between these components and the cost of sales total, resulting in treating the "other adjustments and reconciling items" category akin to a residual. While the components of the "other adjustments and reconciling items" category could be evaluated qualitatively, it may not be quantifiable on a detailed enough basis for management to be comfortable disclosing or for audit teams to audit.

Proposed Alternative #1: Further Disaggregation of Inventory and Manufacturing Expense

The amount of previously inventoried costs and amount of costs expensed as incurred are more easily determinable for most companies. A qualitative description of the company's policy for capitalizing or expensing such costs plus disclosure of the component make-up of standard costing provides even greater visibility into these two disclosed amounts. These disclosures would be in addition to the natural cost information proposed in the above alternatives.

If companies provide transparency into how inventory is built based on their absorption policies, as well as visibility into the non-absorbed items that management deems periodic costs, we believe this is significant incremental disclosure on the drivers of gross margin and trends in these drivers when comparing with prior periods. When CCR has connected with investors and users of our financial statements, such investors indicated that having qualitative and quantitative disclosures of inventory related costs including details on standard cost allocations would be useful as they are looking to directionally understand how spend is trending, consistent with the context provided in the Basis for Conclusions.¹²

We understand companies in certain industries and with significant cost pooling may have incremental challenges in tracking and reporting this further disaggregation quantitatively. Therefore, for companies that do not apply standard costing, the disclosed policy for capitalizing and expensing inventory or manufacturing related costs may only include a qualitative description of the nature of costs that are capitalized to inventory and the nature of costs that are expensed as incurred. Additional outreach specifically with companies in industries with significant cost pooling and traceability challenges may be necessary to create different alternatives to those presented herein to bridge the proposal's objectives with operational viability.

¹² See [BC46](#) in the Exposure Draft.

Appendix B

Example 1: Disaggregation of Income Statement Expenses by an Entity with Manufacturing and Service Operations (assumes entity utilizes standard costing)

Natural Cost Categories - Incurred	20X3	20X2	20X1
Employee Compensation Incurred	\$ 37,418	\$ 33,572	\$ 29,196
Salaries, wages, and bonuses	\$ 29,934	\$ 26,858	\$ 23,357
Share based compensation (Note x)	\$ 1,497	\$ 1,343	\$ 1,168
Pension (Note x)	\$ 2,245	\$ 2,014	\$ 1,752
Post-retirement benefit (Note x)	\$ 2,619	\$ 2,350	\$ 2,044
Severance (Note x)	\$ 748	\$ 671	\$ 584
Other employee compensation	\$ 374	\$ 336	\$ 292
Depreciation Incurred (Note x)	\$ 12,407	\$ 12,509	\$ 12,129
Intangible Amortization Incurred (Note x)	\$ 5,079	\$ 5,316	\$ 4,579
Natural Cost Categories - Expensed			
Inventory and Manufacturing Expense (a)	\$ 53,688	\$ 51,935	\$ 48,680
Amount of cost inventoried (b)	\$ 45,635	\$ 44,145	\$ 41,378
Amount of cost expensed as incurred	\$ 8,053	\$ 7,790	\$ 7,302
Warranty Expense	\$ 4,394	\$ 3,952	\$ 3,894
Operating Lease Expense (Note x)	\$ 2,000	\$ 1,900	\$ 2,100
PP&E Impairment	\$ 412	\$ -	\$ -
Selling Expense (c)	\$ 13,425	\$ 12,123	\$ 11,585

- (a) The company capitalizes to inventory all product purchase costs, all labor costs associated with manufacturing product, and all manufacturing overhead including rent, utilities, materials, and depreciation associated with factory assets used to produce product. Management considers costs incurred related to idled manufacturing plants to be other manufacturing costs that are expensed as incurred.
- (b) The company utilizes standard costing for inventory. The component make-up of standard costs for the fiscal year ended December 31, 20X3 was comprised of 65% materials, 20% labor, and 15% overhead.
- (c) 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

Natural Cost Categories - Incurred	20X3	20X2	20X1
Employee Compensation Incurred	\$ 439,568	\$ 465,342	\$442,614
Salaries, wages, and cash bonuses	\$ 263,741	\$ 279,205	\$265,568
Share based compensation (Note x)	\$ 17,583	\$ 18,614	\$ 17,705
Pension (Note x)	\$ 26,374	\$ 27,921	\$ 26,557
Post-retirement benefit (Note x)	\$ 30,770	\$ 32,574	\$ 30,983
Severance (Note x)	\$ 28,131	\$ 101,788	\$ -
Other employee compensation	\$ 72,970	\$ 5,241	\$101,801
Depreciation Incurred (Note x)	\$ 19,126	\$ 17,984	\$ 17,893
Intangible Amortization Incurred (Note x)	\$ 12,452	\$ 8,194	\$ 5,735
Natural Cost Categories - Expensed			
Operating Lease Expense (Note x)	\$ 2,000	\$ 1,900	\$ 2,100
Selling Expense (a)	\$ 224,536	\$ 223,493	\$231,892

(a) 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

Natural Cost Categories - Incurred	20X3	20X2	20X1
Depreciation Incurred (Note x)	\$ 164,232	\$ 146,403	\$ 145,907
Intangible Amortization Incurred (Note x)	\$ 13,139	\$ 10,980	\$ 10,068
Natural Cost Categories - Expensed			
Operating Lease Expense (Note x)	\$ 152,445	\$ 103,239	\$ 149,842

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