



Financial Performance Reporting

PCC Meeting
April 2, 2019

Income Statement: Perceived Issues

Aggregation of earnings into only a few line items

- Entities are only required to present certain lines
- SG&A and COGS comprise lots of dissimilar items

Limited transparency of items that are useful in making future earnings predictions

- Nonrecurring items aren't clearly communicated
- Users rely on Non-GAAP measures to provide greater transparency of performance
- Adjustments and nonrecurring items may not be consistent over time

No requirement to prepare a structured income statement

- Use of Non-GAAP metrics suggests that some performance measures, in addition to net income, are important

Added to Technical Agenda

FASB added an active project on the disaggregation of performance information to its agenda.

- Objective: To improve the decision-usefulness of the income statement through the disaggregation of performance information.
- Focus: Disaggregation first, after which the Board may return to consider the structure of the income statement (which remains on the research agenda).

The Board decided the project should focus on targeting certain lines for disaggregating: cost of goods sold (COGS) and selling, general, and administrative expense (SG&A)

Disaggregation—Outreach

- Performed outreach with entities on the following:
 - How entities review the components of their cost of revenue and SG&A lines.
 - On what level their accounting information systems track the components.
 - How the components are rolled up into consolidated lines.

Outreach participants:

- 7 public business entities
 - 4 technology companies
 - 3 consumer product/industrial companies
- 1 private entity
- 1 not-for-profit entity

Outreach Feedback Summary

Preparers noted several challenging areas related to disaggregating functional line item by natural expense

- Consolidation process occurs at a summarized level and the number and variety of accounting systems complicates the process
- Allocations can cover up the underlying natural expense category of allocated expenses
- Acquisitions can introduce new and different systems and charts of accounts

Mitigating characteristics made disaggregation less complicated

- Centrally managed chart of accounts
- Efficiency bringing acquisitions onto a company's platform

Disaggregation—Next Steps

- Research various ways of disaggregating expense information based on how it is viewed internally by management
- Conduct outreach with preparers and users to understand the operability and usefulness of those alternatives and consider location of information in the financial statements
- Do any PCC member have any initial reactions to the internal view approach the staff is conducting outreach on?
- If any PCC members would like to participate in the outreach please contact Rick Cole

