May 9, 2019

Is It Time to Overhaul the Income Statement?

AUDIT
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The changes to revenue recognition (ASC 606) and lease accounting (ASC 842) are now squarely in the rearview mirror for most public companies. And even though private companies continue to work through these changes, I'm often asked, "What does the FASB have in store for us next?"

Ignoring any narrow-scope improvements for purposes of this discussion, the FASB has two broad recognition and measurement projects on its current project plan, both in the early phases. One deals with distinguishing liabilities from equity, while the other addresses subsequent accounting for goodwill (yes, again). While these are both good projects, what really catches my eye is a combination of two presentation and disclosure projects – segment reporting, and disaggregation of performance information.

One of the changes under ASC 606 involved presenting revenue into disaggregated categories to help readers of the financial statements determine the nature, amount, timing and uncertainty of revenue and cash flow. The disaggregation of performance information project takes that same concept and applies it to not only the revenues, but also the expenses being reported on the income statement. Much of the FASB's discussion on this project involves disaggregating cost of goods sold and selling, general and administrative expenses into natural components for presentation, either on the face of the statements or within the footnotes.

For companies that present segment information under ASC 280, a separate project exists that could require companies to disclose even more information surrounding the operating results of its reportable segments. The FASB has discussed requiring further disclosures around cost of goods sold, R&D expenses, a measure of cash flow and inventory by reportable segment. The FASB is also working on developing principles-based disclosure requirements to supplement the list of required disclosures.

The FASB is clearly focused on providing good and meaningful information to readers of financial statements. While the results of these projects could add time and complexity for preparers, the end result would yield much better information for readers of the financial statements in helping them understand the operating results of the company. A worthwhile tradeoff, in my opinion. I'll be watching these two projects closely as they progress, and look forward to seeing how the FASB concludes.