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Frequently Asked Questions About ASU 2024-03 on Disaggregation of Income Statement Expenses (DISE)

Background

On November 4, 2024, the FASB issued ASU 2024-03[1] (codified as ASC 220-40[2]), which requires disaggregated disclosure of income statement expenses for public business entities (PBEs). The ASU does not change the expense captions an entity presents on the face of the income statement or the recognition and measurement principles of other GAAP standards; rather, it requires disaggregation of certain expense captions into specified categories in disclosures within the footnotes to the financial statements.

An expense caption is considered relevant and therefore subject to disaggregation if it is presented on the face of the income statement within continuing operations and includes any of the following natural expense categories: (1) purchases of inventory; (2) employee compensation; (3) depreciation; (4) intangible asset amortization; and (5) depreciation, depletion, and amortization (DD&A) recognized as part of oil- and gas-producing activities or other types of depletion expenses. Entities will need to disaggregate relevant expense captions into these five natural expense categories in a tabular presentation. The tabular disclosure for each relevant expense caption would also include certain other expenses, gains, or losses that must be disclosed under existing U.S. GAAP and expense reimbursements, when applicable. The graphic below illustrates the components of the disaggregated tabular disclosures of a relevant expense caption.

1 FASB Accounting Standards Update No. 2024-03, *Disaggregation of Income Statement Expenses*.
2 For titles of *FASB Accounting Standards Codification* (ASC) references, see Deloitte's "Titles of Topics and Subtopics in the *FASB Accounting Standards Codification*."

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ASU 2024-03 does not change or remove existing expense disclosure requirements; however, it may affect where that information appears in the footnotes to the financial statements.

The ASU's requirements do not apply to immaterial items, and entities are allowed to use accounting estimates or other methods that reasonably approximate the required disclosure amounts.

The ASU is effective for all PBEs for fiscal years beginning after December 15, 2026, and interim periods within fiscal years beginning after December 15, 2027.[3] Early adoption is permitted. PBEs may apply the ASU prospectively or retrospectively.

This *Accounting Spotlight* addresses frequently asked questions (FAQs) about the disclosure requirements of ASU 2024-03. References to the applicable guidance, including specific paragraph citations from the ASU and its Background Information and Basis for Conclusions, are provided at the end of each FAQ answer.

> For a comprehensive overview of ASU 2024-03, see Deloitte's November 8, 2024 (updated January 21, 2025), *Heads Up*.

FAQs Related to the Accounting and Reporting Requirements of ASU 2024-03

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FAQ 2 — Are private companies required to comply with ASU 2024-03?

FAQ 3 — Will the expense captions an entity presents on the face of the income statement change after the adoption of ASU 2024-03?

[3] On January 6, 2025, the FASB issued ASU 2025-01, which clarifies the effective date of ASU 2024-03 with respect to interim periods.

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Scope

FAQ 1

Question

Which entities are within the scope of ASU 2024-03?

Answer

The scope of ASU 2024-03 encompasses all PBEs, including those whose financial statements are filed with or furnished to the SEC (e.g., brokers and dealers in securities, voluntary filers) and those preparing for the sale of securities in a public market (e.g., in an initial public offering).

The scope of ASU 2024-03 includes the following entities, as is consistent with the definition of PBEs:

- Entities that only have debt securities trading in a public market and those that have "issued, or [are] conduit bond obligor[s] for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market."
- Broker-dealers under ASC 940.
- Investment companies under ASC 946.
- Registered insurance separate accounts under ASC 944.

The scope of ASU 2024-03, as noted in ASC 220-40-15-3, **does not** include the following:

- Private companies (see FAQ 2 for additional considerations for private companies).
- Not-for-profit entities.
- Employee benefit plans under ASC 960, ASC 962, and ASC 965.

References: ASC 220-40-15-2 and 15-3

FAQ 2

Question

Are private companies required to comply with ASU 2024-03?

Answer

It depends. ASU 2024-03 generally does not apply to private companies. However, a private company would meet the definition of a PBE, and would be required to comply with ASU 2024-03, if any of the following conditions are met:

- The company is in the process of going public through an initial public offering.
- The company's financial statements are included in another entity's SEC filing (e.g., under SEC Regulation S-X, Rule 3-05,[4] Rule 3-09,[5] or Rule 3-14[6]).
- The company is considered a to-be-acquired business or commonly referred to as a target in a Form S-4 or proxy statement or special-purpose acquisition company (SPAC) transaction.

References: ASC 220-40-15-2 and 15-3

[4] SEC Regulation S-X, Rule 3-05, "Financial Statements of Businesses Acquired or to Be Acquired."
[5] SEC Regulation S-X, Rule 3-09, "Separate Financial Statements of Subsidiaries Not Consolidated and 50 Percent or Less Owned Persons."
[6] SEC Regulation S-X, Rule 3-14, "Special Instructions for Financial Statements of Real Estate Operations Acquired or to Be Acquired."

FAQ 3

Question

Will the expense captions an entity presents on the face of the income statement change after the adoption of ASU 2024-03?

Answer

No. ASU 2024-03 does not require entities to change how expenses are presented or expense captions are reported on the face of the income statement. Instead, the ASU requires entities to disaggregate relevant expense captions within a tabular format in the footnotes to the financial statements (see FAQ 4).

Further, the SEC has addressed questions related to the interaction of ASU 2024-03 with Regulation S-X, Rule 5-03.[7] The SEC noted that Rule 5-03 includes guidance on the captions required on the face of the income statement, while the ASU imposes distinct footnote disclosure requirements related to the disaggregation of certain of those captions. The SEC has emphasized that these footnote disclosure requirements do not replace the presentation requirements in Rule 5-03.

References: ASC 220-40-50-6 and paragraph BC125 of ASU 2024-03

Relevant Expense Captions

FAQ 4

Question

How does an entity determine whether an expense caption is relevant?

Answer

An expense caption is considered "relevant" (referred to as a "relevant expense caption") if the expense caption within continuing operations includes one or more of the following natural expense categories: (1) purchases of inventory, (2) employee compensation, (3) depreciation, (4) intangible asset amortization, and (5) DD&A recognized as part of oil- and gas-producing activities or other depletion expenses.

Amortization of finance lease ROU assets and of leasehold improvements should be classified as either depreciation or intangible asset amortization. Expense captions including these amounts are considered relevant expense captions. See FAQ 27 for further discussion.

References: ASC 220-40-50-10, ASC 220-40-50-12

FAQ 5

Question

Could expenses within discontinued operations be considered relevant?

Answer

No. As noted in ASC 220-40-50-12, ASU 2024-03 only applies to expense captions within continuing operations.

Reference: ASC 220-40-50-12

[7] SEC Regulation S-X, Rule 5-03, "Statements of Comprehensive Income."

FAQ 6

Question

Could an entity's share of earnings or losses from investments accounted for under the equity method be considered a relevant expense?

Answer

No. ASC 220-40-50-13 notes that "[a]n entity's share of earnings or losses from investments accounted for under the equity method is not a relevant expense caption" for which disaggregation is required. Further, an entity is not required to disaggregate summarized information of equity method investments' results of operations under ASC 323-10-50-3(c).

Reference: ASC 220-40-50-13

FAQ 7

Question

Is an expense caption that consists entirely of one required natural expense category subject to disaggregation?

Answer

No. An expense caption that consists entirely of one of the required natural expense categories will not be subject to the new disaggregation guidance.

For example, assume that Entity X has an expense caption consisting entirely of depreciation expense on the face of the income statement. That expense caption would not need to be further disaggregated. However, if the natural expense caption includes more than one of the required expense categories, further disaggregation would be required. Consider an additional example in which Entity Y has an expense caption consisting of depreciation and intangible asset amortization. In that case, Y also would need to further disaggregate the expense caption to separately disclose depreciation and intangible asset amortization in the footnotes.

Reference: ASC 220-40-50-12

Purchases of Inventory

FAQ 8

Question

What types of costs should be included in purchases of inventory?

Answer

Amounts disclosed in purchases of inventory should include costs of acquiring raw materials and other externally purchased inputs that are within the scope of ASC 330 and, as applicable, ASC subtopics that provide industry-specific guidance on inventory (e.g., ASC 908-330).

ASU 2024-03 does not define purchases of inventory or include specific guidance on the presentation of all costs within the scope of ASC 330. Therefore, entities should follow their existing accounting policies, and may sometimes need to use judgment, to determine which costs are included in purchases of inventory as well as the appropriate categories for certain activities. See FAQs 9 through 13 for additional considerations.

References: ASC 220-40-50-7 and paragraph BC78 of ASU 2024-03

FAQ 9

Question

Should costs incurred to acquire materials (e.g., tariffs) be included in purchases of inventory?

Answer

It depends. Costs that are directly related to the acquisition of materials (those incurred to bring a material to its existing condition and location), such as tariffs, may be included in purchases of inventory, provided that these costs are capitalizable under ASC 330. Entities should follow their existing ASC 330 inventory capitalization policies when determining whether a cost is capitalizable. Alternative views may be acceptable. An entity should consistently apply its approach to all capitalizable acquisition costs.

References: ASC 220-40-50-7 and paragraph BC78 of ASU 2024-03

FAQ 10

Question

Should all costs that are referred to as “inventory” be included in purchases of inventory?

Answer

No. Purchases of inventory include only amounts within the scope of ASC 330 and, as applicable, ASC subtopics that provide industry-specific guidance on inventory, such as ASC 908-330. Costs that are colloquially referred to as “inventory” but that are not within the scope of ASC 330 (e.g., film costs or costs accumulated for long-term construction contracts) should not be included in purchases of inventory.

An entity may need to use judgment to determine the scope of material purchases in certain arrangements. For example, in some industries, entities commonly enter into contracts with customers within the scope of ASC 606 for which revenue is recognized over time, and certain materials purchased to fulfill those contracts may be immediately expensed. Upon adoption of ASU 2024-03, companies will need to consider the nature of their revenue contracts and the materials purchased to fulfill those contracts. Specifically, entities should evaluate whether the materials purchased, even if immediately expensed, would be inventoriable (i.e., capitalizable under ASC 330) or whether, depending on the nature of the contracts and corresponding materials purchased, they would not be considered inventory. Entities should consider their facts and circumstances and contract terms when determining the presentation of such material costs and should apply their conclusions consistently to similar types of costs.

See Deloitte’s November 12, 2025, *Aerospace & Defense Spotlight* and *Engineering & Construction Spotlight* for additional considerations related to the aerospace and defense and engineering and construction industries.

References: ASC 280-40-50-7 and paragraph BC76 of ASU 2024-03

FAQ 11

Question

Should purchases of inventory include amounts recognized as part of a business combination, joint venture formation, or initial consolidation of a variable interest entity that is not a business combination?

Answer

No. Purchases of inventory should not include inventory acquired through a business combination, a joint venture formation, or the initial consolidation of a variable interest entity that is not a business. These amounts should be included in other items (see FAQ 32) or voluntarily as a separate category in a tabular disclosure.

Reference: ASC 220-40-50-7

FAQ 12

Question

Should inventory acquired in an asset acquisition be included in purchases of inventory?

Answer

Yes. Purchases of inventory include inventory acquired in an asset acquisition, except for acquisitions of a variable interest entity (see FAQ 11).

References: ASC 220-40-50-7 and paragraph BC77 of ASU 2024-03

FAQ 13

Question

Are intercompany purchases included in purchases of inventory in the consolidated financial statements?

Answer

No. Purchases of inventory should include only externally purchased inputs, not intercompany purchases.

References: ASC 220-40-50-7 and paragraph BC78 of ASU 2024-03

FAQ 14

Question

What does “substantially all” mean in the context of the practical expedient related to purchases of inventory?

Answer

Although ASU 2024-03 does not define the term “substantially all,” paragraph BC80 of the ASU notes that use of this term should be consistent with that in other GAAP (e.g., ASC 810, ASC 606, ASC 842), under which it is generally interpreted as 90 percent or more.

References: ASC 220-40-50-19 and paragraph BC80 of ASU 2024-03

Relevant Expense Captions That Include Inventory Within the Scope of ASC 330

FAQ 15

Question

What is the difference between the cost-incurred basis and the expense-incurred basis?

Answer

Under ASU 2024-03, there are two acceptable bases for presenting disaggregated disclosures of a relevant expense caption containing recorded amounts that are within the scope of ASC 330: a cost-incurred basis and an expense-incurred basis.

Amounts disclosed under the cost-incurred basis include costs incurred that were capitalized to inventory in accordance with ASC 330 during the current reporting period and costs incurred that were directly expensed during the current reporting period. Under this basis, to reconcile the costs incurred to the total relevant expense caption, an entity separately discloses (1) changes in inventories and (2) other adjustments and reconciling items. Changes in inventories represent differences in inventory included on the balance sheet between the end of the prior reporting period and the current reporting period. Other adjustments and reconciling items represent other amounts needed to reconcile costs incurred to expenses recognized. See FAQ 20 for additional considerations related to these reconciling items.

Amounts disclosed under the expense-incurred basis include expenses related to the derecognition of inventory that were previously capitalized in accordance with ASC 330 and any costs incurred that were directly expensed during the current reporting period.

ASU 2024-03 notes that "[i]n many cases, an entity's chosen basis will result in disclosed amounts that are different than if the entity had chosen the alternative basis."

The example below illustrates the application of the cost-incurred and expense-incurred bases and how the two bases could result in different disclosed amounts for certain natural expense categories, including purchases of inventory. For simplicity, this example only addresses purchases of materials (it does not include amounts for other required expense categories and other items) and excludes considerations related to inventory cost flow assumptions (e.g., LIFO vs. FIFO[8]) and costing methods. Appendix B of Deloitte's November 8, 2024 (updated January 21, 2025), *Heads Up* includes a more detailed example illustrating the two different methods.

Example 1

Entity A has identified cost of goods sold as a relevant expense caption because it includes expense amounts related to the purchases of inventory recorded in accordance with ASC 330. In the fiscal year, the entity purchased $100 of materials but only sold $80 of materials. The total amount of cost of goods sold recorded in the income statement for the fiscal year is $80.

Under the cost-incurred basis, Entity A would disclose:

Purchases of inventory	$100
Changes in inventory	(20)
Total cost of goods sold	**$80**

Under the expense-incurred basis, Entity A would disclose:

Purchases of inventory	$80
Total cost of goods sold	**$80**

While entities can choose the basis to use in complying with the ASU's disclosure requirements, we believe that the expense-incurred approach may be challenging for many entities, especially entities that use the LIFO method and the retail inventory method or that use standard costing or processes that involve completed-cost methods.

[8] Last in, first out and first in, first out.

The FASB discusses some of these potential challenges in the Background Information and Basis for Conclusions of ASU 2024-03. Specifically, paragraph BC67 of the ASU highlights potential challenges associated with retrospective identification of costs capitalized as part of inventory and discusses the use of standard costing, cost flow assumptions, and aggregation of different natural costs in the calculation of variances as factors that can complicate the disaggregation of inventory-related cost information by nature. Paragraphs BC72 and BC73 further discuss complexities associated with the expense-incurred basis and state, in part:

> **BC72.** . . .The Board concluded that allowing the cost-incurred basis responds to preparers' feedback that indicated that it may be costly and difficult, or potentially impracticable, for many entities to retrospectively identify by required expense category costs capitalized as part of inventory that is sold in the current reporting period. . . .
>
> **BC73.** However, for entities applying an inventory costing methodology other than the first-in, first-out method (such as the last-in, first-out method or the average-cost method), the Board observed that applying an expense-incurred approach may be operationally challenging or potentially impracticable. For example, if an entity applies the last-in, first-out costing methodology and a liquidation of a significantly aged layer occurs, then the entity may not have sufficient information (for example, the nature of expense when the cost was initially incurred) to determine the amount to be included in each required expense category.

As entities contemplate which basis to choose when disclosing purchases of inventory,[9] they may need to consider the availability of information related to determining the amounts in this expense category. Such considerations would include potential limitations with IT systems such as inventory management systems, the use of data warehouses, the entity's inventory costing method, costing variances, and whether third parties (e.g., third-party warehouses, inventory on consignment) are involved with the management of inventory.

See FAQ 16 for additional considerations related to the use of standard costing.

References: ASC 220-40-50-31 and paragraphs BC69–BC74 of ASU 2024-03

FAQ 16

Question

When a standard cost approach is used, are cost variances included in the natural expense categories to which they are related (e.g., purchases of inventory, employee compensation, and depreciation)?

Answer

Yes. The tabular disaggregation into the natural expense categories should reflect actual costs, including standard costs and the variances between actual costs and standard costs for each natural expense category. For example, the material purchase price (standard plus variance) should be presented in purchases of inventory while labor and overhead manufacturing costs (standard plus variance) should be presented in employee compensation, depreciation, amortization, and other categories, as applicable.

This concept applies regardless of the basis elected to disclose the disaggregation of a relevant expense caption that contains expense amounts related to inventory within the scope of ASC 330. For example, under the cost-incurred basis, purchases of inventory consist of material purchases made during the period at actual cost (i.e., raw materials purchased at standard cost and current-period purchase price variances incurred). Under the expense-incurred basis, purchases of inventory consist of the actual material costs for inventory sold during the current period, including any related cost variances recognized as expense in the period. This same concept applies to other relevant expense categories (i.e., employee compensation, depreciation, and other cost of goods sold) and other variances (e.g., labor and overhead manufacturing variances).

[9] Applies to all natural expense categories within an expense caption that contains expense amounts related to inventory within the scope of ASC 330. See FAQ 18.

The calculation of variances to present in the disclosure will depend on a company's operational policies — for example, whether variances are initially recognized in the income statement, with an amount capitalized to inventory at period-end for amounts not sold, or whether variances are initially capitalized. Companies with cost variances may need to consider using estimates to calculate the required disclosure amounts. For a discussion of the use of estimates, see FAQ 37.

See Appendix B of Deloitte's November 8, 2024 (updated January 21, 2025), *Heads Up* for a detailed illustrative example.

References: ASC 220-40-50-31 and paragraphs BC67–BC69 of ASU 2024-03

FAQ 17

Question

How should changes in excess and obsolescence reserve, inventory count adjustments and manufacturing spoilage expense, and related transactions be presented in the tabular disaggregation?

Answer

It depends. As described in FAQ 8, ASU 2024-03 does not include specific guidance on the presentation of all expenses within the scope of ASC 330. Therefore, an entity must use judgment to determine the location of such items in the tabular presentation required by the ASU.

We believe that it is acceptable to present the change in excess and obsolescence reserve in the "changes in inventory" reconciling item (cost-incurred basis) or to disaggregate the amount on the basis of the natural expense category of the costs incurred (e.g., purchases of inventory, employee compensation, depreciation, other) (expense-incurred basis). However, multiple presentations may be acceptable. Similar considerations may apply to other transaction types such as inventory count adjustments and manufacturing spoilage expense. The approach taken should be applied consistently to all similar transaction types (e.g., excess and obsolescence reserve, inventory count adjustments and manufacturing spoilage expense).

For a detailed illustrative example, see Appendix B of Deloitte's November 8, 2024 (updated January 21, 2025), *Heads Up*.

References: ASC 220-40-50-31 and 50-32

FAQ 18

Question

Does the selected basis (the cost-incurred basis or the expense-incurred basis) for a relevant expense caption that contains expense amounts related to inventory within the scope of ASC 330 apply to all required natural expense categories?

Answer

Yes. The selected basis for a relevant expense caption that contains expense amounts related to inventory within the scope of ASC 330 must be applied consistently to all natural expense categories listed in ASC 220-40-50-6 (purchases of inventory, employee compensation, depreciation, amortization, and DD&A). For example, if an entity applies the cost-incurred basis and employee compensation is included in the relevant expense caption, the employee compensation category in the disaggregated expense table should include both the amounts capitalized to inventory during the current period and any costs incurred that were directly expensed during the current reporting period.

References: ASC 280-40-50-31 and paragraph BC69 of ASU 2024-03

FAQ 19

Question

Can an entity change its basis (the cost-incurred basis or the expense-incurred basis) for a relevant expense caption that contains expense amounts related to inventory?

Answer

Yes. ASU 2024-03 provides two acceptable bases for presenting disaggregated disclosures of a relevant expense caption that contains amounts recorded in accordance with ASC 330: a cost-incurred basis and an expense-incurred basis. Entities can choose the basis to use in complying with the disclosure requirements in the ASU, and the basis for a relevant expense caption that contains expense amounts related to inventory can be changed (from cost-incurred to expense-incurred, or vice versa). However, if an entity changes the basis of disclosure, prior periods presented must be recast for comparative purposes to reflect the current-period basis unless it is impracticable to do so. See FAQ 38 for considerations related to recasting when the basis of disclosure is changed.

References: ASC 280-40-50-4 and paragraph BC69 of ASU 2024-03

FAQ 20

Question

When the cost-incurred basis is applied, what amounts are included in (1) changes in inventory and (2) other adjustments and reconciling items?

Answer

Amounts disclosed under the cost-incurred basis include costs incurred that were capitalized to inventory in the current period and costs incurred that were directly expensed during the current period. Under this basis, (1) changes in inventories and (2) other adjustments and reconciling items are separately disclosed to reconcile the costs incurred to the total relevant expense caption. Changes in inventories would "equal the difference between the inventory included on the balance sheet at the end of the prior reporting period" and that "included on the balance sheet at the end of the current reporting period." Other adjustments and reconciling items should include other amounts needed to reconcile costs incurred to expenses recognized (e.g., inventory derecognized in a deconsolidation transaction within the scope of ASC 810, impacts of foreign currency translation in accordance with ASC 830-30).

References: ASC 220-40-50-32 and 50-33 and paragraphs BC70–BC71 of ASU 2024-03

Employee Compensation

FAQ 21

Question

Does employee compensation include compensation for *any* type of employee?

Answer

It depends. The definition of an "employee" in the ASC master glossary, as amended by ASU 2024-03, is aligned with that in ASC 718. If an entity has workers that do not meet the definition of an "employee" under ASC 718, the related compensation should not be included in the employee compensation category.

The ASC master glossary defines an “employee” (second definition) as follows:

ASC Master Glossary

Employee

An individual over whom a reporting entity exercises or has the right to exercise sufficient control to establish an employer-employee relationship based on common law as illustrated in case law and currently under U.S. Internal Revenue Service (IRS) Revenue Ruling 87-41. A reporting entity based in a foreign jurisdiction would determine whether an employee-employer relationship exists based on the pertinent laws of that jurisdiction. Accordingly, an individual meets the definition of an employee if the reporting entity consistently represents that individual to be an employee under common law. The definition of an employee for payroll tax purposes under the U.S. Internal Revenue Code includes common law employees. Accordingly, a reporting entity that classifies an individual potentially subject to U.S. payroll taxes as an employee also must represent that individual as an employee for payroll tax purposes (unless the individual is a leased employee as described below). An individual that meets the definition of an employee includes, but is not limited to, a full-time, part-time, temporary, or seasonal employee. An individual does not meet the definition of an employee solely because the reporting entity represents that individual as an employee for some, but not all, purposes. For example, a requirement or decision to classify an individual as an employee for U.S. payroll tax purposes does not, by itself, indicate that the individual is an employee because the individual also must be an employee of the reporting entity under common law.

A leased individual is deemed to be an employee of the lessee if all of the following requirements are met:

a. The leased individual qualifies as a common law employee of the lessee, and the lessor is contractually required to remit payroll taxes on the compensation paid to the leased individual for the services provided to the lessee.
b. The lessor and lessee agree in writing to all of the following conditions related to the leased individual:
    1. The lessee has the exclusive right to grant compensation to the individual for the employee service to the lessee.
    2. The lessee has a right to hire, fire, and control the activities of the individual. (The lessor also may have that right.)
    3. The lessee has the exclusive right to determine the economic value of the services performed by the individual (including wages and the number of units and value of stock compensation granted).
    4. The individual has the ability to participate in the lessee’s employee benefit plans, if any, on the same basis as other comparable employees of the lessee.
    5. The lessee agrees to and remits to the lessor funds sufficient to cover the complete compensation, including all payroll taxes, of the individual on or before a contractually agreed upon date or dates.

A nonemployee director does not satisfy this definition of employee. Nevertheless, nonemployee directors acting in their role as members of a board of directors are treated as employees if those directors were elected by the employer’s shareholders or appointed to a board position that will be filled by shareholder election when the existing term expires. However, that requirement applies only to awards and other compensation granted to nonemployee directors for their services as directors. Awards granted and compensation paid to those individuals for other services shall be accounted for as awards and compensation to nonemployees.

To assess whether an individual meets the definition of an employee under IRS Ruling 87-41, an entity may consider the criteria discussed in Section 2.2 of Deloitte’s Roadmap *Share-Based Payment Awards*. Further, as outlined in the definition above, the determination of an employee-employer relationship for individuals based in foreign jurisdictions should be guided by the pertinent laws of the local jurisdiction.

References: ASC master glossary definition of “employee” (second definition) and paragraphs BC90–BC96 of ASU 2024-03

FAQ 22

Question

Does employee compensation include all types of compensation costs?

Answer

Generally, yes. Paragraph BC90 of the ASU notes that employee compensation "is intended to broadly capture the major types of consideration granted or issued to employees in exchange for services." Employee compensation would be consistent with compensation costs, including those described in ASC 710, ASC 712, ASC 715, and ASC 718, as well as with the definition of employee benefits in IAS 19.[10] Employee compensation includes, but is not limited to, wages, bonuses, social security contributions, payroll taxes, employee benefits, and share-based compensation.

References: ASC master glossary definition of "employee" (second definition) and paragraphs BC90–BC96 of ASU 2024-03

FAQ 23

Question

Does a company need to separately disclose one-time employee termination benefits?

Answer

Generally, yes. In accordance with ASC 220-40-50-6(b) and ASC 220-40-50-21(e), entities should separately disclose one-time employee termination benefits within the scope of ASC 420-10-50-1, as currently required under U.S. GAAP.

However, if an entity elects the practical expedient outlined in FAQ 25 and presents salaries and employee benefits on the face of its income statement in accordance with Regulation S-X, Rule 9-04,[11] it would not be required to separately disclose one-time employee termination benefits within the DISE footnote. While entities subject to Rule 9-04 are not required to provide this disclosure under ASC 220-40, an entity may still choose to voluntarily disclose these one-time employee termination benefits within the DISE footnote. An entity should apply the chosen approach consistently. Separately, the entity must still disclose one-time termination benefits in accordance with ASC 420, irrespective of the practical expedient election in ASC 220-40.

References: ASC 220-40-50-6(b); ASC 220-40-50-20; ASC 220-40-50-21(e); ASC 420-10-50-1; ASC 220-40-55-16; paragraphs BC90–BC96 of ASU 2024-03; and SEC Regulation S-X, Rule 9-04

FAQ 24

Question

If an employer provides subsidized goods/services to employees, would the attributable cost be considered employee compensation?

Answer

It depends. An entity can elect to include in employee compensation "amounts attributable to other transactions entered into for the benefit of employees (for example, the provision of subsidized goods or services)." Such an election should be applied consistently, and an entity

[10] IAS 19, *Employee Benefits*.
[11] SEC Regulation S-X, Rule 9-04, "Statements of Comprehensive Income."

should "disclose both that those transactions have been included and a description of those transactions."

References: Paragraphs BC90–BC96 and BC115 of ASU 2024-03 and ASC 220-40-50-8

FAQ 25

Question

If a company has a caption for "salaries and employee compensation" on the face of its income statement, does the company need to disaggregate that expense caption in accordance with ASU 2024-03?

Answer

It depends. Banks and bank holding companies may be required to present certain expense captions (e.g., salaried and employee benefits) separately, either on the face of the statement of comprehensive income or in the notes, in accordance with SEC Regulation S-X, Rule 9-04. Rule 9-04 applies to the consolidated financial statements filed for "bank holding companies, savings and loan holding companies, and the financial statements of banks and savings and loan associations."

ASU 2024-03 provides a practical expedient in which entities presenting an expense caption for salaries and employee benefits (or a similarly named caption) on the face of their income statement to comply with the requirements in Rule 9-04 may continue to classify amounts in accordance with Rule 9-04 and are not required to apply the definition of employee compensation outlined in ASC 220-40 (ASU 2024-03). See FAQ 23 for a discussion of how an entity applying the practical expedient should consider one-time employee termination benefits.

All other entities that either (1) do not elect the Rule 9-04 practical expedient discussed above or (2) are not eligible for the practical expedient, and that present an expense caption consisting entirely of employee compensation expense (as defined in ASU 2024-03), would not need to further disaggregate that caption. In such cases, further disaggregation is not required because the relevant expense caption meets the ASU's disclosure requirements. However, if the natural expense caption includes more than one required expense category, further disaggregation of that employee compensation expense caption is required. See FAQ 7 for further discussion.

References: ASC 220-40-50-12; ASC 220-40-50-20; paragraphs BC28, BC46(a), and BC90–BC96 of ASU 2024-03; and SEC Regulation S-X, Rule 9-04

Depreciation, Amortization, and DD&A

FAQ 26

Question

How does a company determine the amount of depreciation, amortization, and DD&A for a relevant expense caption?

Answer

The amounts provided for the depreciation category should be consistent with the classification of amounts used to meet the disclosure requirements in ASC 360-10-50-1(a) related to total depreciation expense.

The amounts provided for the intangible asset amortization category should be consistent with the classification of amounts used to meet the disclosure requirements in ASC 350-30-50-2(a)(2) related to total intangible asset amortization expense.

When depreciation or intangible asset amortization is capitalized to assets beyond inventory, the sum of the amounts disclosed within the DISE disaggregated footnotes (ASC 220-40-50-6) may differ from the totals disclosed in the specific footnotes for property, plant, and equipment (ASC 360-10) or intangible assets (ASC 350-30). This is discussed in paragraph BC102 of ASU 2024-03, which states:

> Depending on the extent to which depreciation or intangible asset amortization is capitalized to assets other than inventory, . . . the total amounts of depreciation and intangible asset amortization disclosed in accordance with paragraph 220-40-50-6 may not be equal to total depreciation and intangible asset amortization disclosed in each respective footnote in accordance with Subtopics 360-10 and 350-30.

The entity should also consider its existing policies for presenting amortization of finance lease ROU assets and leasehold improvements when considering the disaggregation of depreciation and amortization expense, as discussed in FAQ 27.

DD&A of capitalized acquisition, exploration, and development costs should be recognized as part of oil- and gas-producing activities in a manner consistent with amounts recorded under ASC 932-360 in connection with extractive activities (oil and gas); property, plant, and equipment; or other amounts of depletion expenses. Other amounts of depletion expenses would include amounts not recognized as part of oil- and gas-producing activities in accordance with ASC 932-360 (such as depletion expense recognized by entities within the scope of ASC 930 on mining).

References: ASC 220-40-50-6, ASC 220-40-50-9 through 50-11, and paragraph BC102 of ASU 2024-03

FAQ 27

Question

How should the amortization of finance lease ROU assets and leasehold improvements be classified under ASU 2024-03?

Answer

Amortization of a finance lease ROU asset and leasehold improvements that are recorded under ASC 842-20 should be included in either depreciation or intangible asset amortization expense in a manner consistent with how the entity presents depreciation or amortization for similar assets.

References: ASC 220-40-50-10 and paragraphs BC38, BC100, and BC102 of ASU 2024-03

FAQ 28

Question

Where does amortization of DAC under ASC 944-30-35 fit into the required expense framework?

Answer

When applying ASU 2024-03, an entity should first assess whether the expense caption containing DAC includes any of the five required expense categories: (1) purchases of inventory, (2) employee compensation, (3) depreciation, (4) intangible asset amortization, and (5) DD&A recognized as part of oil and gas activities or other types of depletion expenses.

An entity should also consider the guidance on asset-related expenses. When an expense amount is related to the derecognition of an asset, other than inventory, an entity should apply the disaggregation requirements on the basis of the nature of the expense at the time it is recognized in the income statement. For example, if an entity capitalizes employee compensation cost and in a subsequent reporting period recognizes an amortization expense, the entity does not need to further disaggregate the resulting amortization (e.g., into employee compensation).

If the expense caption that includes DAC *does not* include any of the five required expense categories, no further disaggregation is required because that expense caption is not considered a relevant expense caption.

If the expense caption that includes DAC *does* include any of the five required expense categories, that caption is considered a relevant expense caption and further disaggregation is required.

Under ASC 220-40-50-22(u), amortization of capitalized acquisition costs in accordance with ASC 944-30-50-1(c) must be separately disclosed in the disaggregation of a relevant expense caption if the amounts are included entirely in one expense caption. Therefore, if the entire amount of DAC amortization is included in one expense caption and that expense caption is a relevant expense, DAC amortization should be presented as a separate category in the tabular disclosure. See FAQ 30 for a discussion of certain other expenses, gains, or losses that must be disclosed within a relevant expense caption.

References: ASC 350-30-15-4(d), ASC 944-805-25-3, ASC 944-805-50-1, ASC 220-40-50-14, ASC 220-40-50-22(u), paragraph BC44 of ASU 2024-03

FAQ 29

Question

Should amortization of capitalized software be included in depreciation or intangible asset amortization?

Answer

It depends. The principal areas in the Codification that apply to capitalized software costs are ASC 350-40 and ASC 985-20. We believe that, when determining how to classify amortization of capitalized software (whether as depreciation or as amortization of intangible assets), an entity should consult the specific standard it is using to account for the software.

ASC 985-20

Before Adoption of ASU 2025-06[12]

Paragraph BC98 of ASU 2024-03 states the following regarding software to be sold, leased, or marketed:

> [T]he current guidance is clear that costs of software to be sold, leased, or marketed capitalized in accordance with Subtopic 985-20, *Software — Costs of Software to Be Sold, Leased, or Marketed*, are subject to the disclosure requirements in Subtopic 350-30 and, therefore, amortization of those capitalized software costs is considered intangible asset amortization for the purposes of applying the amendments in this Update.

While software costs accounted for under ASC 985-20 are not subject to the accounting requirements of ASC 350, the presentation and disclosure requirements of ASC 350 apply to capitalized software costs (see ASC 985-20-45-3). The Background Information and Basis for Conclusions of ASU 2024-03 specifies that amortization of software costs accounted for in

[12] FASB Accounting Standards Update No. 2025-06, *Targeted Improvements to the Accounting for Internal-Use Software*.

accordance with ASC 985-20 is considered intangible asset amortization because those costs are subject to the disclosure requirements in ASC 350-30.

After Adoption of ASU 2025-06

Because ASU 2025-06 does not change the accounting for, or presentation or disclosure of, software within the scope of ASC 985-20, we do not believe that the adoption of ASU 2025-06 changes how an entity presents the amortization of software capitalized in accordance with ASC 985-20 in its DISE disclosure. Accordingly, entities should follow their existing accounting policies as discussed above.

ASC 350-40

Before Adoption of ASU 2025-06

Paragraphs BC100 and BC101 of ASU 2024-03 state, in part, the following regarding internal-use software:

> **BC100.** The Board also is aware of diversity in practice about the classification of the amortization of internal-use software within the scope of Subtopic 350-40, *Intangibles — Goodwill and Other — Internal-Use Software*. . . .
>
> **BC101.** The Board decided that additional guidance for internal-use software is unnecessary given the references in paragraph 350-40-50-1 to the disclosure requirements for property, plant, and equipment in Subtopic 360-10. The Board expects that entities will conclude that the amortization of internal-use software should be reflected in the disclosures required by the amendments in this Update as either depreciation recognized in accordance with Subtopic 360-10 or intangible asset amortization recognized in accordance with Subtopic 350-30.

Accordingly, entities should follow their existing accounting policies to determine whether amortization of internal-use software is included in the categorization of depreciation (in accordance with ASC 360-10) or intangible asset amortization (in accordance with ASC 350-30) and should disclose it accordingly.

After Adoption of ASU 2025-06

Upon adoption of ASU 2025-06, ASC 350-40-50-1 requires entities to apply the disclosure requirements in ASC 360-10 to capitalized internal-use software costs, regardless of the financial statement presentation. However, paragraph BC94 of ASU 2025-06 clarifies that this amendment does not affect whether amortization of internal-use software is presented as depreciation or amortization in the disaggregation disclosures required under ASC 220-40; accordingly, entities should follow their existing accounting policies in such circumstances, as discussed above.

In addition, paragraph BC94 of ASU 2025-06 states, in part, the following:

> The Board does not expect that the amendments in paragraph 350-40-50-1 will change an entity's conclusion on whether the amortization of internal-use software should be reflected in the disclosures required by Subtopic 220-40, *Income Statement — Reporting Comprehensive Income — Expense Disaggregation Disclosures*, as either depreciation or amortization.

References: ASC 985-20-45-3; paragraphs BC98, BC100, and BC101 of ASU 2024-03; ASC 350-40-50-1; paragraph BC94 of ASU 2025-06

Tabular Integration of Disclosures and Other Items

FAQ 30

Question

How do the items in ASC 220-40-50-21 differ from those in ASC 220-40-50-22, and when should such items be included in the tabular disclosure for relevant expense categories?

Answer

ASC 220-40-50-21 and 50-22 include lists of certain expenses, gains, or losses for which there is an existing GAAP disclosure requirement. If a relevant expense caption (see FAQ 4) contains one of these specified items, and if the specified expenses, gains, or losses are material and applicable to the entity, they must be included in the tabular disaggregation of that relevant expense caption.

ASC 220-40-50-21

The first list (in ASC 220-40-50-21) applies to specified expenses, gains, or losses for which there is an existing requirement to disclose both the amount and the income statement line item that includes the amount. This requirement applies to specific items that may be recorded in one or more relevant expense captions.

The table below summarizes the required GAAP disclosures related to the ASC 220-40-50-21 items:

Specified Items That Require Disclosure Under GAAP	Relevant Guidance
The amount of research and development assets acquired in a transaction other than a business combination and written off	ASC 350-30-50-1(c)
Impairment loss recognized related to an intangible asset	ASC 350-30-50-3
Impairment loss of long-lived assets classified as held and used	ASC 360-10-50-2
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	ASC 360-10-50-3
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)	ASC 420-10-50-1
Components of net benefit cost recognized (other than service cost amounts included within employee compensation)	ASC 715-20-50-1(h)
Bargain purchase gain recognized in a business combination	ASC 805-30-50-1(f)
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	ASC 810-10-50-1B
Gains and losses on derivative instruments and related hedged items	ASC 815-20-25-58, ASC 815-20-25-66, ASC 815-10-50-4A
Amortization of license agreements for program material	ASC 920-350-50-2
Impairment of license agreements for program material	ASC 920-350-50-4
Amortization of film costs	ASC 926-20-50-4A
Impairment of film costs	ASC 926-20-50-4C
The total amount of a government grant recognized during the reporting period and presented as a deduction from the related expense[13]	ASC 832-10-45-1(b), ASC 832-10-45-3(b), ASC 832-10-50-3A

[13] ASC 220-40-50-21(n) was added as a result of the issuance of FASB Accounting Standards Update (ASU) No. 2025-10, *Accounting for Government Grants Received by Business Entities*. The amendments in ASU 2025-10 are effective for all PBEs for annual reporting periods beginning after December 15, 2028, and interim reporting periods within those annual reporting periods.

ASC 220-40-50-22

The second list (in ASC 220-40-50-22) applies to specified expenses, gains, or losses for which there is an existing requirement to disclose the amount but no requirement to disclose the income statement line item that includes the amount. This requirement applies to specific items only if the entire amount is included in one relevant expense caption and not in multiple relevant expense captions. The following table summarizes the required disclosures related to the ASC 220-40-50-22 items:

Specified Items Requiring Disclosure Under GAAP if Included Entirely in One Expense Caption	Relevant Guidance
Provision for expected credit losses	ASC 326-20-50-13, ASC 326-30-50-9
Losses on firm purchase commitments	ASC 330-10-50-5
Amortization expense attributable to the expiration of an insurance or reinsurance coverage provided under a contract that transfers only significant underwriting risk	ASC 340-30-50-2
Amortization of costs to fulfill a contract with a customer	ASC 340-40-50-3
Impairment of costs to fulfill a contract with a customer	ASC 340-40-50-3
Amortization of costs to obtain a contract with a customer	ASC 340-40-50-3
Impairment of costs to obtain a contract with a customer	ASC 340-40-50-3
Amortization of capitalized implementation costs of hosting arrangements that are service contracts	ASC 350-40-50-3
Asset retirement obligation accretion expense	ASC 410-20-50-1
Loss contingencies recognized	ASC 450-20-50-1
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)	ASC 460-10-50-8
Expense related to counterparty default in own-share lending arrangements issued in contemplation of convertible debt issuance	ASC 470-20-50-2C
Aggregate gain on restructuring of payables by a debtor with a troubled debt restructuring	ASC 470-60-50-1
Gains and losses upon consolidation of a variable interest entity that is not a business	ASC 810-10-50-3
Foreign currency transaction gains or losses	ASC 830-20-50-1
Operating lease cost	ASC 842-20-50-4
Short-term lease cost	ASC 842-20-50-4
Variable lease cost	ASC 842-20-50-4
Net gain or loss recognized from sale and leaseback transactions	ASC 842-20-50-4
Gains and losses from nonmonetary transactions	ASC 845-10-50-1
Amortization of capitalized acquisition costs	ASC 944-30-50-1(c)

The requirements introduced by ASU 2024-03 to disclose the above items in the tabular format does not otherwise affect the existing disclosure requirements in other areas of GAAP.

If, under existing GAAP, an entity is only required to annually disclose the items described in ASC 220-40-50-21 and 50-22, disclosure of such items under ASU 2024-03 would only be required for annual periods. Conversely, for items that must be disclosed on an annual and interim basis under existing GAAP, both annual and interim disclosures would be required under the ASU.

Example 1 in the implementation guidance below illustrates the application of the requirements in ASC 220-40-50-21 and 50-22:

ASC 220-40

55-4 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 revenues	108,276	102,283	97,169
Operating expenses:			
Cost of products sold	63,456	60,898	57,244
Cost of services	10,496	9,568	8,898
Selling, general, and administrative	20,849	18,871	18,116
Total operating expenses	94,801	89,337	84,258
Operating income	13,475	12,946	12,911
Interest expense	4,971	4,213	4,297
Income before income taxes	8,504	8,733	8,614
Income tax expense	1,786	1,834	1,809
Net income	$ 6,718	$ 6,899	$ 6,805

55-5 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. . . .

55-7 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).

55-8 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).

ASC 220-40 (continued)

55-9 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.

References: ASC 220-40-50-21 and 50-22, paragraphs BC104–BC106 of ASU 2024-03, ASC 220-40-55

FAQ 31

Question

If the items in ASC 220-40-50-21 and ASC 220-40-50-22 are already disclosed elsewhere in the financial statements, does an entity need to disaggregate these items in the tabular disclosure for the relevant expense category?

Answer

Yes, even if the above items are already disclosed elsewhere in the financial statements, they must be included in the tabular disaggregation of the relevant expense caption as long the expense caption in the income statement includes one or more of the specified categories: (1) inventory purchases, (2) employee compensation, (3) depreciation, (4) intangible asset amortization, or (5) DD&A for oil and gas or other depletion.

References: ASC 220-40-50-21 and 50-22, paragraph BC105 of ASU 2024-03

FAQ 32

Question

What disclosures are required for “other items,” as defined in ASC 220-40-50-30, that are within a relevant expense caption?

Answer

Entities must disclose the total amount of other items. No separate quantification is needed for each natural expense item, but an entity must disclose a qualitative description of the composition of other items on the basis of their natural expense classification. This “other items” disclosure reflects the residual amount remaining in the relevant expense captions that are not separately disaggregated.

The ASC master glossary defines “natural expense classification” as “a method of grouping expenses according to the kinds of economic benefits received in incurring those expenses. Examples of natural expense classifications include salaries and wages, employee benefits, professional services, supplies, interest expense, rent, utilities, and depreciation.”

There is no quantitative threshold for what is included in “other items”; however, the ASU specifies that the level of qualitative detail should be “commensurate with the significance of the amounts being described.” Entities can voluntarily disclose additional quantified expense categories as long as such disclosures are not combined with the required disaggregated expense amounts.

The disclosure example in ASC 220-40-55-11 illustrates the qualitative disclosure of "other items" remaining in relevant expense captions:

ASC 220-40

55-11 . . .

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
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.

	20X4	20X3	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.

	20X4	20X3	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.

References: ASC 220-40-50-30, ASC 220-40-55-11, paragraph BC28(e) of ASU 2024-03, definition of "natural expense classification" in the ASC master glossary

Expense Reimbursements

FAQ 33

Question

Is an entity required to include expense reimbursements in the tabular disaggregation of a relevant expense caption?

Answer

Yes. ASU 2024-03 requires disclosure of expense reimbursement amounts included in relevant expense captions that are related to a cost-sharing or cost-reimbursement arrangement with another entity. One example of such an arrangement is a funded research and development cost-sharing arrangement with a strategic partner.

Qualifying expense reimbursements must be disaggregated in either of the following situations:

- An entity includes amounts net of expense reimbursements *from* another entity within a relevant expense caption.
- An entity includes expense reimbursement to another entity in a relevant expense caption.

Regarding the first bullet above, an entity can elect certain alternatives related to disclosing the information; see FAQ 34 for additional details.

References: ASC 220-40-50-26, ASC 220-40-50-28, ASC 220-40-55-18

FAQ 34

Question

What are the disclosure requirements related to expense reimbursements received from another entity, as well as expense reimbursement paid to another entity, when the amounts are included in a relevant expense caption?

Answer

Expense Reimbursements Received From Other Entities

An entity that presents a relevant expense caption reflecting amounts net of expense reimbursements received from another entity under a cost-sharing or cost-reimbursement arrangement must disclose this information in a tabular format. The entity may elect one of the following alternatives discussed in ASC 220-40-50-26 and should apply the alternative consistently once it is elected:

> a. Separately disclose the amount of the expense reimbursement
>
> b. Disclose the amounts of the [required] expense categories . . . that are included in the relevant expense caption net of any reimbursement effects.

An entity that elects to separately disclose the reimbursement amount (alternative (a) above) must also include a qualitative description of the expense categories related to the reimbursement.

Alternatively, an entity may elect to present expense categories net of the reimbursement from another entity (alternative (b) above). For example, if an entity receives reimbursement from a strategic partner for employee compensation as part of a funded research and development arrangement, the reimbursement would be included as a reduction of the employee compensation category.

Further, ASC 220-40-50-27 requires entities to disclose how expense reimbursements related to cost-sharing or cost-reimbursement arrangements are presented in the tabular format.

ASC 220-40-55-17 and 55-18 illustrate the scenario described in alternative (a) above.

ASC 220-40

55-17 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.

55-18 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.

	20X4	20X3	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 SG&A	$ 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.

ASC 220-40 (continued)

(Table continued)

Disaggregation of Relevant Expense Captions			
	20X4	20X3	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.

Expense Reimbursements Paid to Other Entities

Expense reimbursements that are paid to other entities in connection with a cost-sharing or cost-reimbursement arrangement and that are included within a relevant expense caption must be separately presented in the tabular disclosure (as discussed in ASC 220-40-50-28). The entity should also include a qualitative description of which natural expense categories are reimbursed (see ASC 220-40-50-29).

The table below summarizes the requirements discussed above:

Expense Reimbursement for Cost-Sharing or Cost-Reimbursement Arrangements	Election*	Tabular Format	Disclosure**
Expense reimbursement **received from** other entities within a relevant expense caption. Entity selects alternative (a).	Election (a) — Disclose separately the amount of the expense reimbursement.	Separate disclosure in the disaggregated expense table (see the example in ASC 220-40-55-17 and 55-18).	• Disclosure of the elected alternative related to how expense reimbursements are presented in tabular format. • Qualitative description of the expense categories to which the reimbursement is related.

(Table continued)

Expense Reimbursement for Cost-Sharing or Cost-Reimbursement Arrangements	Election*	Tabular Format	Disclosure**
Expense reimbursement **received from** other entities within a relevant expense caption. Entity selects alternative (b).	Election (b) — Disclose the amounts of the required expense categories that are included in the relevant expense caption, net of any reimbursement effects.	Tabular disclosure, netted with the expense category discussed in ASC 220-40-50-6.	• Disclosure of the elected alternative related to how expense reimbursements are presented in tabular format.
Expense reimbursement **paid to** other entities	Not applicable.	Separate disclosure in the disaggregated expense table within the expense categories discussed in ASC 220-40-50-6.	• Qualitative description of the expense categories related to the reimbursement.

* Elections (a) and (b) as indicated in ASC 220-40-50-26.

** Disclosure in accordance with ASC 220-40-50-27 and ASC 220-40-50-29.

References: ASC 220-40-50-26 through 50-29, ASC 220-40-55-17 and 55-18

Other

FAQ 35

Question

What needs to be disaggregated for relevant expense captions on an annual and, when applicable, interim basis?

Answer

For relevant expense captions, entities will need to disaggregate the following within a tabular disclosure:

- The five natural expenses included within the relevant expense caption, as described in ASC 220-40-50-6. These include (1) purchases of inventory,[14] (2) employee compensation, (3) depreciation, (4) intangible asset amortization, and (5) DD&A recognized as part of oil- and gas-producing activities or other types of depletion expenses.
- Certain expenses, gains, or losses that are included within the relevant expense category, as described in ASC 220-40-50-21. See FAQ 30 for more information.
- Certain other expenses, gains, or losses included within the relevant expense caption, only if those amounts are included entirely in one expense caption and not over multiple expense captions, as described in ASC 220-40-50-22. See FAQ 30 for more information.
- Expense reimbursements, if applicable to the entity, as described in ASC 220-40-50-26 through 50-29. See FAQs 33 and 34 for more information.

[14] When the cost-incurred basis is applied, (1) changes in inventory and (2) other adjustments and reconciling items are separately disclosed, as described in ASC 220-40-50-32 and 50-33. See FAQ 20 for further discussion.

- The amount of other items remaining in relevant expense captions that are not separately disaggregated should be provided in a tabular format disclosure along with a qualitative description of its composition, as noted in ASC 220-40-50-30. There is no requirement to separately quantify these other items. See FAQ 32 for additional considerations related to "other items."

References: ASC 220-40-50-6, ASC 220-40-50-10, ASC 220-40-50-21 and 50-22, ASC 220-40-50-26 through 50-30, ASC 220-40-50-32 and 50-33

FAQ 36

Question

How should an entity consider materiality when evaluating the disclosure requirements of ASU 2024-03?

Answer

In developing the ASU, the FASB observed that ASC 105-10-05-6 already establishes that the provisions of the Codification need not be applied to immaterial items. Accordingly, in a manner consistent with that guidance, the Board clarifies in paragraph BC122 of the ASU that the requirements to disaggregate relevant expenses do not apply to immaterial items. Entities are reminded to consider both quantitative and qualitative factors when using judgment to determine whether a relevant expense is immaterial under the ASU's disaggregation requirements.

Similarly, as discussed in FAQ 37, entities should consider materiality when making estimates.

References: Paragraph BC122 of ASU 2024-03, ASC 105-10-05-6

FAQ 37

Question

Can entities use estimates or other methods to approximate the amounts disclosed?

Answer

Yes. ASU 2024-03 allows entities to use accounting estimates or other methods that produce a reasonable approximation of the amounts that must be disclosed. In ASC 220-40-55-2, the Board acknowledged that the level of recordkeeping and computational detail needed to apply the guidance could be burdensome to an entity. Accordingly, paragraph BC28(j) of the ASU clarifies that the use of estimates is intended to alleviate concerns about potential reporting system and process limitations an entity could encounter in preparing the disclosures. Therefore, it may not be necessary to use "transaction-level detail" to determine the disaggregated amounts that must be disclosed under the ASU. Instead, an entity may use a reasonable approach to prepare the disclosures in a systematic and rational manner.

Entities may decide to use transaction-level detail, estimates, or a combination when developing their disclosures.

For example, an entity may use an estimate when it has many disparate IT systems and it is impractical to use transactional data to determine the expense category amount. In such cases, the entity may determine an estimate for smaller business units on the basis of transactional data from other business units. However, the entity would need to have a basis for the assumption that the transactions at the smaller business unit on a different IT system are similar enough to the business units for which transactional data are used.

When using an estimate, an entity should evaluate and document its approach to determining the estimate, including the method, data, and assumptions used and why such assumptions are appropriate. To ensure continued accuracy and relevance, the entity should regularly reevaluate and update its estimation techniques, the data used, and the underlying assumptions.

References: ASC 220-40-50-1 and 55-2, paragraphs BC28 and BC53 of ASU 2024-03

FAQ 38

Question

Are entities required to recast prior periods when changing the basis of disclosure?

Answer

Yes. Entities are required to apply the guidance in ASU 2024-03 consistently for all periods presented. ASC 220-40-50-4 states that if entities change how they present the disclosures "as a result of a change in the election of an alternative or a change in a definition of a disclosure," they are required to:

- "Disclose the reason for the change in the period of the change (in the interim and annual reporting periods affected by the change)."
- "Recast the prior periods presented for comparative purposes, except for the requirements in paragraphs 220-40-50-22 through 50-23, unless it is impracticable to do so. If it is impracticable to do so, the entity shall disclose that fact and explain why it is impracticable to recast prior periods."

ASC 220-40-50-4 further clarifies that the changes described above "do not represent a change in accounting principle in accordance with Topic 250 on accounting changes and error corrections." However, paragraph BC121 of ASU 2024-03 notes that "trend information is important to investors"; therefore, the Board expects that prior-period disclosures would be updated to provide comparative information when changes occur.

In paragraph BC124 of the ASU, the Board states that its decisions related to changes in presentation "should not be applied by analogy to disclosure requirements" outside the scope of the ASU.

If, on the basis of a change in facts and circumstances, the entity changes the presentation of an item listed in ASC 220-40-50-22 in such a way that the item is presented in one relevant expense caption in the current reporting period and in multiple relevant expense captions in a comparative reporting period, or vice versa, the entity is not required to recast the prior-period disclosures. Instead, the entity must provide the disclosure under ASC 205-10-50-1 related to changes in the basis of presentation that affect comparability.

For example, assume that, in the prior year, an entity had multiple operating leases and recognized costs in both cost of services and selling, general, and administrative expenses and therefore was not required to include operating lease costs in the disaggregated expense disclosures. In the current year, the entity has a single operating lease and recognizes costs for that lease entirely in selling, general, and administrative expenses. Therefore, in the current year, the operating lease cost must be separately disclosed in the disaggregation of selling, general, and administrative expenses. The entity is not required to recast the prior-year disclosure but is required to disclose the change in circumstance that affects comparability.

See FAQ 47 for considerations related to recasting prior-period selling expenses if an entity changes the definition of selling expenses in the current period.

References: ASC 220-40-50-4 and paragraphs BC111, 121, and 124 of ASU 2024-03

FAQ 39

Question

Can liability-related expenses, such as certain accrued expenses, be excluded from disaggregation?

Answer

It depends. ASC 220-40-50-16 indicates that certain liability-related expenses may be excluded from the disaggregation into the natural expense categories in ASC 220-40-50-6 (purchases of inventory, employee compensation, depreciation, amortization, and DD&A). The ASU provides a principle-based framework for assessing when certain liability-related expenses would not be subject to the disaggregation requirements. Specifically, ASC 220-40-50-16 states that disaggregation would not be required if all of the following criteria 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).

As indicated in paragraph BC45 of the ASU, the types of expenses that can be excluded are "based on an obligation that is an estimate of an uncertain amount that will be settled in the future." The Board further indicates that this clarification was intended to address concerns raised by some respondents that disaggregating such expenses would be operationally complex and have limited usefulness to investors. For example, if a liability-related expense, such as the accrual of a long-term warranty liability, includes estimated amounts for employee compensation and third-party costs, an entity would not be required to separately identify and disaggregate these amounts.

Examples of liability-related expenses that may meet the criteria to be excluded from the disaggregation include amounts related to provisions for contract losses, claims and claim adjustments, and asset retirement obligations.

Examples of expenses that would not meet these criteria include "amounts related to accruals for liabilities to pay for goods or services that have been received or supplied but have not been paid or invoiced, including amounts due to employees (for example, amounts relating to accrued bonuses, vacation pay, or pension obligations)."

However, entities should assess whether these liability-related expenses are subject to existing GAAP disclosure requirements and whether such disclosures should be incorporated into the tabular format outlined in ASC 220-40-50-21 and 50-22. See FAQ 30 for more information about the tabular integration of other disclosure requirements.

References: ASU 220-40-50-16 through 50-18, paragraphs BC28(h) and BC45 of ASU 2024-03

FAQ 40

Question

What should a vertically integrated entity consider when adopting ASU 2024-03?

Answer

When adopting ASU 2024-03, vertically integrated entities should report consolidated expense information that reflects only external inventory purchases, ensuring that all intra-entity transactions, such as transfers of raw materials or finished goods between subsidiaries, are eliminated upon consolidation. In paragraph BC81 of the ASU, the FASB acknowledged that it is often impracticable for many entities to separately disclose purchases or consumption of raw materials, work-in-process, and finished goods as distinct categories. Distinguishing between these categories can be challenging, particularly in situations involving significant intra-entity transactions, which are eliminated upon consolidation. Accordingly, the Board decided that purchases of inventory should reflect only those expenses remaining after consolidation, ensuring elimination of intra-entity transactions.

Similarly, in paragraph BC53, the Board acknowledged that intra-entity department allocations used in consolidated financial statements could create practical challenges and potential burdens for preparers with respect to the disaggregation of expense categories. To address these concerns, the Board clarified that entities are not required to use transaction-level detail to meet the disclosure requirements. Instead, entities may use reasonable approximations, such as estimates or other systematic approaches, to disaggregate expense categories (as discussed in FAQ 37).

Entities with significant intercompany transactions may encounter challenges given that their data may be located in disparate accounting systems and their business processes in different geographical areas may be inconsistent. An entity should consider whether the current information is sufficient to meet the disclosure requirements. That is, the entity will need to consider how to eliminate intercompany transactions from consolidated amounts that are disaggregated into the relevant expense categories in the tabular format disclosure — for example, whether the intercompany transaction can be easily unwound or whether the entity should consider using an estimate (see FAQ 37). Early engagement with local components and data owners is critical to ensuring that the disclosure requirements are understood and that local data can be aggregated to the group reporting level.

References: Paragraphs BC53 and BC81 of ASU 2024-03

FAQ 41

Question

How should a company consider the requirements in SAB Topic 11.M (SAB 74) related to disclosure of recently issued accounting standards in its periodic filings on Form 10-K and 10-Q before the adoption of ASU 2024-03?

Answer

SAB Topic 11.M (SAB 74) requires registrants to provide transition disclosures about the impact that recently issued accounting standards may have on the financial statements when the standards are adopted. These disclosures, which should take into account the impact of the full scope of the new standards, including recognition, measurement, presentation, and disclosure, are meant to help financial statement users assess the effect that the new standards will have once adopted.

According to SAB Topic 11.M, a registrant should consider including the following disclosures in MD&A and the footnotes to the financial statements:

- A brief description of the new standard, the date that adoption is required and the date that the registrant plans to adopt, if earlier.
- A discussion of the methods of adoption allowed by the standard and the method expected to be utilized by the registrant, if determined.
- A discussion of the impact that adoption of the standard is expected to have on the financial statements of the registrant, unless not known or reasonably estimable. In that case, a statement to that effect may be made.
- Disclosure of the potential impact of other significant matters that the registrant believes might result from the adoption of the standard . . . .

The registrant should also provide additional qualitative disclosures about the effect of the new accounting policies and how they compare with the current accounting policy as well as about implementation matters the registrant may need to consider or activities it may need to perform.

Reference: SAB Topic 11.M

FAQ 42

Question

Is an entity required to disaggregate costs capitalized as an asset, other than inventory, into the natural expense categories?

Answer

No. Except for inventory disclosed under the cost-incurred basis (see ASC 220-40-50-31(a) and FAQ 15), an entity is not required to further disaggregate costs capitalized as an asset, even if those capitalized costs include the natural expense categories referred to in ASC 220-40-50-6.

In paragraph BC57 of ASU 2024-03, the Board explained that "capitalization of a cost to an asset affects the natural classification of that cost" and that "any expense that is subsequently recognized would have a different natural classification than the cost that was capitalized." Therefore, in accordance with ASC 220-40-50-14, if an expense is related to the derecognition of an asset other than inventory, the entity should classify the expense on the basis of the nature of the expense at the time it is recognized in the income statement.

For example, an entity may capitalize employee compensation when constructing new property, plant, and equipment (PP&E) for internal use; the subsequent depreciation of such PP&E would be included solely within the depreciation expense category. The entity would not be required to identify the portion of the depreciation expense originally attributable to employee compensation or include it in the employee compensation category.

References: ASC 220-40-50-14 and 50-15, paragraph BC57 of ASU 2024-03

Selling Expenses

FAQ 43

Question

What are the disclosure requirements for selling expenses on an annual and interim basis?

Answer

An entity is required to present a separate total amount of its selling expenses in a manner similar to the presentation of research and development and advertising expenses. This disclosure must be provided outside the tabular disclosure of relevant expense categories and is required in both interim and annual periods.

An entity's definition of selling expenses only needs to be disclosed annually or if an entity changes the definition of selling expenses on an interim basis. See FAQ 47 for further details on recasting requirements for selling expenses. Selling expenses must be separately disclosed even if an expense caption is not presented for "selling, general and administrative expenses."

References: ASC 220-40-50-35 and 50-36, paragraph BC118 of ASU 2024-03

FAQ 44

Question

How should the term “selling expenses” be defined, and what costs should be included in such expenses?

Answer

The ASU does not define selling expenses. An entity will determine what constitutes selling expenses and disclose the definition annually or when a change in the definition is made on an interim basis (see FAQ 47). Selling expenses should include only items that are presented as expenses in the income statement.

In paragraph BC119 of the ASU, the FASB states that it expects “entities will arrive at conclusions about which expenses to classify as part of their selling function that are specific to their facts and circumstances and their own tailored definition of selling.” The FASB also acknowledged that “management has broad latitude in defining selling expenses, including whether selling expenses include or exclude fulfillment costs, costs associated with physical sales locations, websites, allocation of management expenses, and many other reasonable judgments as made by preparers.”

References: ASC 220-40-50-36, paragraph BC119 of ASU 2024-03

FAQ 45

Question

If a company presents “sales and marketing,” “advertising and marketing,” or “selling expenses” as an expense caption in its income statement, is the company still required to quantitatively disclose the selling expenses separately?

Answer

Generally, no. In paragraph BC119 of the ASU, the Board notes that many entities already present categories such as “sales and marketing” or “advertising and marketing” separately from “general and administrative” expenses in their income statements. Accordingly, if an entity’s presentation of “sales and marketing” or “advertising and marketing” is aligned with management’s definition of “selling expenses,” separate quantitative disclosure of selling expenses is not required. However, if the existing presentation is not aligned with the entity’s definition of selling expenses, separate disclosure would be required. In addition, if selling expenses are not already defined in the financial statements, the entity should disclose how it defines selling expenses (see FAQ 44). Further, see FAQ 47 for more information about recasting in instances in which a company changes how it defines selling expenses.

Similarly, unless selling expenses is a relevant expense caption because an entity presents it as a separate caption on the face of the income statement, the entity is not required to further disaggregate the disclosed amount of selling expenses into the required expense categories.

ASC 220-40-55-25 provides an example related to an entity's disclosure of selling expenses that were determined in ASC 220-40-55-22. In this example, advertising and marketing disclosed as a caption on the face of the income statement were not a relevant expense caption because they did not include any of the relevant expense categories specified in ASC 220-40-50-6 (including those referenced in ASC 220-40-50-10 and 50-11). Specifically, ASC 220-40-55-25 states:

ASC 220-40

55-25 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.

References: ASC 220-40-50-35 and 50-36, ASC 220-40-55-25, and paragraphs BC119 and BC120 of ASU 2024-03

FAQ 46

Question

Can an entity change its definition of selling expenses?

Answer

Yes. An entity should disclose when a change in the definition of selling expense occurs — in either an interim or annual reporting period. See FAQ 47 for requirements related to recasting of selling expenses.

Reference: Paragraph BC121 of ASU 2024-03

FAQ 47

Question

Should an entity recast prior-period selling expenses if it changes the definition of selling expenses in the current period?

Answer

Yes. An entity should disclose any changes in the definition of selling expenses in the interim or annual reporting period in which the change occurs. In the period in which the definition changes, the entity is required to recast prior-period selling expenses disclosed in the current-period financial statements unless it is impracticable to do so. If it is impracticable to recast prior periods, the entity should disclose that fact and explain why. Further, paragraph BC124 of the ASU notes that a change in the definition of selling expenses does not represent a change in accounting principle under ASC 250, since it represents a change in the display of a disclosure and not a presentation, measurement, or recognition change. Therefore, in such cases, a preferability assessment would not be required under ASC 250.

See FAQ 38 for more information about recasting considerations.

References: Paragraphs BC121 and BC124 of ASU 2024-03

FAQ 48

Question

Can contract costs, such as costs of obtaining and fulfilling a contract under ASC 340-40, be included in selling expenses?

Answer

It depends. The determination of which costs qualify as selling expenses requires careful consideration of costs that are within the scope of ASC 340-40. See Chapter 13 of Deloitte's Roadmap *Revenue Recognition* for GAAP recognition and presentation considerations related to contract costs.

Selling expenses should only include items that are presented as current-period expenses in the income statement. Costs capitalized during the current period should not be included in selling expenses; however, the amortization of the previously capitalized costs can be included if such amortization is part of the entity's definition of selling expenses.

References: ASC 220-40-50-36, paragraph BC57 of ASU 2024-03

FAQ 49

Question

Can consideration payable to a customer under ASC 606 that is treated as a reduction of revenue (i.e., an incentive) be included in selling expenses?

Answer

No. Paragraph BC116 of the ASU states that the Board "intends selling expenses to include only items that are presented as expenses in the income statement." Accordingly, incentive payments that are treated as a reduction of revenue should not be included in selling expenses since selling expenses should only include amounts that are presented as expenses in the income statement.

References: ASC 220-40-50-36, paragraph BC116 of ASU 2024-03

Interim Disclosures

FAQ 50

Question

Does ASU 2024-03 apply to interim periods?

Answer

Yes. ASU 2024-03 applies to both annual and interim periods.

References: ASC 220-40-50-3 and paragraph BC131 of ASU 2024-03

FAQ 51

Question

Do interim disclosures need to be provided for both the quarter-to-date (QTD) and year-to-date (YTD) interim reporting periods?

Answer

Yes. ASU 2024-03 requires DISE disclosures for each interim reporting period. An entity that is reporting both quarter-to-date (QTD) and year-to-date (YTD) amounts within its interim reporting is expected to apply the ASU to both the QTD and YTD interim reporting periods.

References: ASC 220-40-50-3 and paragraph BC131 of ASU 2024-03

FAQ 52

Question

Could the relevant expense captions in interim periods differ from those in annual periods?

Answer

Yes. If interim financial statements are condensed and, therefore, the expense captions presented on the face of the income statements in the interim and annual periods differ, there could be different relevant expense captions in interim and annual reporting periods.

References: ASC 220-40-50-5 and paragraph BC129 of ASU 2024-03

Effective Date and Transition

FAQ 53

Question

What is the effective date of ASU 2024-03 for PBEs?

Answer

ASU 2024-03 is effective for all PBEs for fiscal years beginning after December 15, 2026, and interim periods within fiscal years beginning after December 15, 2027.

Reference: ASC 220-40-65-1

FAQ 54

Question

Is early adoption of ASU 2024-03 permitted?

Answer

Yes, early adoption is permitted.

Reference: ASC 220-40-65-1

FAQ 55

Question

What are the transition requirements related to adopting ASU 2024-03?

Answer

Entities may apply the ASU either (1) prospectively to reporting periods after the effective date or (2) retrospectively to any or all prior periods presented in the financial statements. See FAQ 56 for discussion of retrospective adoption.

Reference: ASC 220-40-65-1

FAQ 56

Question

What are the presentation requirements for entities that elect the retrospective approach upon transition?

Answer

If an entity elects the retrospective approach upon transition, it may provide disclosures for some, but not all, comparative periods upon adoption. In paragraphs BC156 and BC157 of the ASU, the FASB acknowledges that many entities may not have all comparative-period information necessary to restate all comparative periods. Therefore, the Board permits disclosures for some but not all comparative periods, expecting this will enhance decision-usefulness for investors without imposing significant costs on entities that may have information available for some, but not all, comparative periods.

References: Paragraphs BC156 and BC157 of ASU 2024-03

Interaction With Other Standards

FAQ 57

Question

How do the requirements of ASU 2024-03 differ from the significant segment expense reporting requirements in ASC 280?

Answer

Companies are required to disaggregate expense information under both ASU 2024-03 and the segment reporting requirements in ASC 280, but they must do so in fundamentally different ways. ASC 280 prescribes a management approach, requiring companies to disclose significant segment expenses by reportable segment only if those expenses are regularly provided to the chief operating decision maker and included in each reported measure of segment profit or loss. Accordingly, under ASC 280, the identification and presentation of segment expenses are based on how management internally views and uses the information on a reportable segment basis. In contrast, ASU 2024-03 requires companies to disclose disaggregated information about specific natural expense categories within relevant expense captions, regardless of how management reviews expenses. That is, ASU 2024-03 does not use a management approach, instead focusing on the underlying nature of expenses and the required expense categories. As a result, the categories, types, and amounts of expenses presented in the tabular disclosures on a consolidated basis under the ASU will most likely differ from those in disclosures about significant segment expenses under ASC 280.

If an entity discloses an expense under ASU 2024-03 on the basis of the underlying nature of expenses and discloses a similar expense with a different definition under ASC 280 on the basis of management's approach, the entity may consider providing additional disclosures to help financial statement users understand the differences in how the amounts are determined.

For more information about significant segment expenses under ASC 280, see Chapter 6 of Deloitte's Roadmap *Segment Reporting*.

References: Paragraphs BC150-BC153 of ASU 2024-03

FAQ 58

Question

How do the requirements in ASU 2024-03 differ from those in IFRS Accounting Standards?

Answer

Currently, IAS 1[15] requires entities that classify expenses by function to disclose additional information about the nature of expenses, including depreciation and amortization expense and employee benefits expense. However, IAS 1 does not specifically require that an entity disclose the amounts of the natural expenses that are included in each caption in the statement of profit and loss.

IFRS 18[16] will replace IAS 1 as of annual reporting periods beginning on or after January 1, 2027. Under IFRS 18, companies have flexibility in classifying expenses by their nature (such as raw materials or employee benefits), their function (such as cost of sales), or both. Entities must consider which approach provides the most useful information for users of the financial statements, taking into account key cost drivers and industry practices. However, IFRS 18 requires companies that present operating expenses by function to disclose in a single note the total amounts for certain expenses by nature, such as employee benefits, depreciation, impairment losses and their reversals, and inventory write-downs and their reversals and amortization. In contrast, ASU 2024-03 is more prescriptive and requires disaggregation by natural expenses within the notes to the financial statements for each relevant expense of the income statement.

The table below concisely summarizes reporting practices under IFRS 18 in IFRS Accounting Standards and the FASB's ASU 2024-03 in U.S. GAAP.

	IFRS 18	ASU 2024-03
Topic	Presentation and disclosure in financial statements	Disaggregation of income statement expenses
Link to accounting standard	IFRS 18 (iGAAP)	ASU 2024-03
Scope	Entities applying IFRS Accounting Standards	PBEs applying U.S. GAAP
Nature of new requirements	Disclosure and income statement presentation	Disclosure only, does not affect income statement presentation
Presentation of expenses on the face of the income statement	Required presentation by either function or nature, or a hybrid presentation based on most useful information and industry practice	PBEs subject to SEC regulations are required to present expenses by function on the face of the income statement
Required categories on the face of the income statement	Classification as operating, investing, financing, income taxes, and discontinued operations categories	Not required
Disclosure of natural expenses in the footnotes	Required for entities that present expenses by function or hybrid	Required for all relevant expense captions

[15] IAS 1, *Presentation of Financial Statements*.
[16] IFRS 18, *Presentation and Disclosure in Financial Statements*.

(Table continued)	IFRS 18	ASU 2024-03
Required natural expense disclosures	When included in each function-based expense presented on the face of the income statement, disclosure of: • Depreciation. • Amortization. • Employee benefits. • Impairment losses (and reversals). • Inventory write-downs.	When included in each relevant expense caption presented on the face of the income statement, disclosure of: • Purchases of inventory. • Employee compensation. • Depreciation. • Intangible asset amortization. • DD&A.
Selling expense	Not required	Disclosure is required in the footnotes and, on an annual basis, entities are required to disclose their definition of selling expenses
Application method	Retrospective (required)	Either prospective or retrospective (optional)
Effective date	Annual reporting periods beginning on or after January 1, 2027, and interim reporting periods beginning on or after January 1, 2027. For a calendar year-end, reporting will begin in an entity's 2027 first quarter interim report.	Annual reporting periods beginning after December 15, 2026, and interim reporting periods beginning after December 15, 2027. For a calendar year-end, reporting will begin in an entity's 2027 annual report.
Early adoption permitted	Yes	Yes

For additional details on IFRS 18, see Deloitte's April 11, 2024, *iGAAP in Focus*.

References: Paragraphs BC145–BC149 of ASU 2024-03

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Question

Does the disaggregation of income statement expenses under ASU 2024-03 affect MD&A disclosures?

Answer

It depends. When adopting the ASU, registrants will need to assess whether any additional disclosures should be included in MD&A to comply with Regulation S-K, Item 303.[17] For instance, since the ASU requires tabular disclosure by natural expense categories (such as purchases of inventory or employee compensation) within relevant expense captions in the notes to the financial statements, registrants should consider whether discussing these items in MD&A is necessary to provide what Regulation S-K, Item 303(a), describes as "material information relevant to an assessment of the financial condition and results of operations of the registrant."

References: Paragraphs BC5 and BC66 of ASU 2024-03

[17] SEC Regulation S-K, Item 303, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

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