



# Financial Reporting Insights

## EXPANDED REPORTABLE SEGMENT DISCLOSURES

June 2024 (updated September 2024)

### OVERVIEW

The Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2023-07, *Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures*, in November 2023. The ASU was issued to improve disclosures about a public entity's reportable segments and provide additional information about a segment's expenses.

ASU 2023-07 requires incremental line-item disclosures about each reportable segment's expenses and expands the scope of interim disclosures to include all required annual disclosures about a reportable segment's profit or loss and assets, including the newly required expense disclosures. The amendments in the ASU do not remove any of the existing requirements for disclosure of specific items (such as depreciation, amortization or depletion expenses) nor do they change how a public entity identifies its operating segments, aggregates those operating segments or applies the quantitative thresholds to determine its reportable segments.

This white paper covers the requirements of ASU 2023-07, including considerations on how to apply them, their interaction with the existing requirements in Accounting Standards Codification (ASC) 280 and an example illustrating the reportable segments note disclosure after adoption of the ASU. Additionally, the white paper briefly highlights the other requirements of ASC 280 that were not affected by ASU 2023-07.

**Note to readers** - Certain sections of this publication were updated in September 2024 to reflect clarified SEC staff views related primarily to the disclosure of multiple measures of segment profit or loss and considerations for single reportable segment entities.

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## 1. Overview of ASU 2023-07

Accounting Standards Update (ASU) 2023-07, *Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures*, was issued in November 2023 to improve disclosures about a public entity's reportable segments and provide additional information about a reportable segment's expenses. ASU 2023-07 primarily accomplishes this objective through the introduction of the significant expense principle, which requires disclosure of segment expense categories and amounts that meet all the following criteria:

- Regularly provided to the chief operating decision maker (CODM)
- Included within the segment's reported measure of profit or loss
- Determined to be significant by management.

Other than the significant expense principle, ASU 2023-07 includes the following incremental changes to the existing guidance in ASC 280:

- **Introduces the other segment items disclosure:** For each reportable segment, public entities are required to describe the composition of and disclose an amount for other segment items included in the measure of segment profit or loss that are not separately disclosed as segment revenue or significant segment expenses.
- **Permits disclosure of multiple measures of a segment's profit or loss:** In addition to the measure of segment profit or loss that is most consistent with the measurement principles under generally accepted accounting principles (GAAP), a public entity is not precluded from reporting additional measures of a segment's profit or loss as long as all reported measures are used by the CODM in assessing segment performance and deciding how to allocate resources.
- **Clarifies the scope of ASC 280 for single reportable segment entities:** A public entity with a single reportable segment must provide all existing segment disclosures in ASC 280, including the requirements in ASU 2023-07.
- **Expands interim disclosures:** A public entity must provide all annual disclosures about a reportable segment's profit or loss and assets, including the new disclosure requirements in ASU 2023-07, in interim periods.

ASU 2023-07 is effective for all public entities for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024, with early adoption permitted. Entities are required to apply the new disclosure requirements on a retrospective basis unless it is impracticable to do so. As a result, calendar year public entities will be required to include the new disclosures in their 2024 financial statements and recast all prior period information presented (i.e., segment expense information for annual periods ended December 31, 2023 and 2022) to conform with the information provided in the adoption period.

The following sections provide further detail about the requirements of the new standard, including their interaction with the existing guidance in ASC 280 and relevant SEC staff views. Apart from the new requirements of ASU 2023-07, this white paper also includes a primer on the overall requirements of ASC 280 for segment reporting. As noted in Section 2, ASC 280 only applies to certain public entities, therefore this whitepaper uses the term "entity" interchangeably with "public entity."

## 2. Scope of ASC 280

ASC 280 applies to public entities as defined in the ASC Master Glossary with certain exceptions.



### Definition from ASC Master Glossary

#### **Public Entity**

A business entity or not-for-profit entity that meets any of the following conditions:

- a. It has issued debt or equity securities or is a conduit bond obligor for conduit debt securities [defined below] that are traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local or regional markets).
- b. It is required to file financial statements with the Securities and Exchange Commission (SEC).
- c. It provides financial statements for the purpose of issuing any class of securities in a public market.

#### **Conduit Debt Securities**

Certain limited-obligation revenue bonds, certificates of participation, or similar debt instruments issued by a state or local governmental entity for the express purpose of providing financing for a specific third party (the conduit bond obligor) that is not a part of the state or local government's financial reporting entity. Although conduit debt securities bear the name of the governmental entity that issues them, the governmental entity often has no obligation for such debt beyond the resources provided by a lease or loan agreement with the third party on whose behalf the securities are issued. Further, the conduit bond obligor is responsible for any future financial reporting requirements.

In accordance with ASC 280-10-15-3, the following entities are exempted from the scope of ASC 280:

- Parent entities, subsidiaries, joint ventures or investees accounted for by the equity method if those entities' separate statements also are consolidated or combined in a complete set of financial statements and both the separate statements and the consolidated or combined statements are included in the same financial report. However, ASC 280-10 does apply to those entities if they are public entities and their financial statements are issued separately.
- Not-for-profit entities (regardless of whether the entity meets the definition of a public entity as defined in the ASC Master Glossary)
- Nonpublic entities

An example of the first exemption would be if the financial statements of an unconsolidated 25%-owned investee were presented separately in the annual report (e.g., in Form 10-K) of a company that uses the equity method to account for the investment. In that circumstance, the separate financial statements of the investee would not be required to include segment information. On the other hand, if the investee were itself a public company, it would be subject to the requirements of ASC 280 in its separate financial statements. Specific to the second and third bullets, while neither not-for-profit entities nor nonpublic entities are required to provide the disclosures in ASC 280, they are not precluded from doing so. In fact, the FASB encourages entities that are not public entities to provide the disclosures in ASC 280 (see ASC 280-10-15-2).

ASU 2023-07 does not alter the scope of entities that are required to apply the guidance in ASC 280. Therefore, all for-profit entities that meet the definition of a public entity (which includes non-issuer broker dealers registered with the SEC) are required to comply with all the provisions in ASC 280, including the

new requirements in ASU 2023-07. ASU 2023-07 clarifies that the requirements of ASC 280 also apply to entities with single reportable segments (see [Section 6](#)).

### 3. Overview and application of ASC 280

Since the changes resulting from ASU 2023-07 are incremental to the existing guidance in ASC 280, it does not change the fundamental basis underlying the guidance or the steps to undertake when applying the comprehensive segment reporting requirements.

The fundamental basis underlying the requirements of ASC 280 is the use of the management approach. Under the management approach, an entity should present disaggregated information by segment in the financial statements in a manner consistent with how management organizes the segments within the entity for purposes of reviewing and assessing performance and making resource allocation decisions. This approach is therefore predicated on how an entity's internal organizational and management structure is designed. The use of this approach allows investors to analyze the information that management itself analyzes and view segments of the entity through the eyes of management.

One byproduct of the management approach is that the information provided in the segments disclosure should be consistent with other broad descriptions of the entity's business, whether those descriptions are within the Management's Discussion and Analysis (MD&A) section of an entity's annual or quarterly report filed with the SEC or if they are included elsewhere, such as the entity's press releases, website or investor presentations.

Another byproduct of the management approach is that there will be entity-to-entity differences in the identification of segments, particularly because some entities place heavy emphasis on organizing their operations by product, service or industry lines, whereas others are organized based on geographic or other factors. Moreover, because ASC 280 does not prescribe how an entity's reportable segments should be named or described, similarly named or described reportable segments of different reporting entities may be dissimilar. However, as explained in the next few sections, there are required disclosures in ASC 280, such as revenues from products and services and certain expenses, which apply to all entities and enhance the consistency of segment reporting across entities. Additionally, ASC 280 requires explanatory disclosures about how the reportable segments were identified or aggregated, which also helps users compare segment information across reporting entities.

Building off the methodology and objective of the management approach, entities should complete the following steps when applying the comprehensive segment reporting requirements in ASC 280:

- Identify the CODM
- Determine the operating segments
- Aggregate the operating segments, if applicable
- Apply the quantitative thresholds and other criteria to determine reportable segments
- Provide the required segment reporting disclosures

The SEC commonly focuses on the segment reporting disclosure due to its importance to investors. Because of this focus, it is important for companies to continually review, assess and challenge their segment reporting practices. This is especially important when an entity undergoes events that could change its internal or management structure, such as divestitures, acquisitions or changes in senior management.

ASU 2023-07 does not change how an entity identifies its operating segments, aggregates those operating segments or applies the quantitative thresholds to determine its reportable segments. Additionally, while ASU 2023-07 increases the amount of qualitative and quantitative disclosures, it does

not affect any of existing requirements for disclosure of specific items (such as depreciation, amortization or depletion expenses).

### 3.1 Identify the CODM

Under the management approach, the identification of the CODM is a crucial determination because the information received and used by the CODM to assess performance and make resource allocation decisions serves as the basis for which information is included and how it is presented in the segment disclosure required by ASC 280.

The term “CODM” refers to a function, rather than an individual with a specific title, that is responsible for allocating resources to the entity’s segments and assessing the performance of the individual segments. The CODM may be the chief executive officer, the chief operating officer or another senior position within the entity. It also may be a combination of top-level management positions who perform the function as a group, such as an executive committee. In identifying the CODM, it is important to understand both the management structure of the entity and which individual or group of individuals assesses performance, allocates resources and has authority to make significant operating decisions for the entity as a whole (versus operating decisions for components of the entity). Entities should not default to a CEO or executive management committee as the CODM without gaining an understanding of both these considerations.

### 3.2 Determine the operating segments

Under the management approach, an operating segment is derived from the established internal management and reporting structure of the entity. As stated in ASC 280-10-50-1, an operating segment is a component of an entity that meets all the following criteria:

- It engages in business activities from which it may recognize revenues and incur expenses (which can be a product of intercompany or external transactions)
- Its operating results are regularly reviewed by the CODM to allocate resources and assess performance
- Its discrete financial information is available

The first criterion is met by many components within an entity. An operating segment may be in the start-up mode and engage in business activities for which it has not yet earned revenue, which means that, under this criterion, it is not necessary that revenue has already been earned. An operating segment may also be a component of an entity that sells primarily, or exclusively, to other operating segments of the same entity. For example, the extractive or refining operations of an integrated oil company that do not sell to unaffiliated customers may be considered operating segments. At the same time, not every part of an entity is necessarily an operating segment or part of an operating segment. For example, an entity’s corporate headquarters and some functional departments that do not engage in business activities from which they may recognize revenue (or may recognize only incidental revenue) would not be operating segments because they do not meet the first criterion described in ASC 280-10-50-1. For the same reason, an entity’s pension and other postretirement benefit plans are not considered to be operating segments under ASC 280.

The second and third criteria may be more difficult to evaluate and are often considered together. The keys to evaluating these requirements are determining the CODM (see [Section 3.1](#)) and then evaluating what discrete financial information the CODM regularly reviews in making decisions about allocating resources and assessing the performance of a component.

The term “discrete financial information” is not defined in ASC 280, so it can be any measure of a segment’s profit or loss. While this may be as much as a full income statement in certain cases, we believe it can be as little as gross margin information (i.e., revenue less cost of sales) to qualify as

discrete financial information. In addition, discrete financial information is not required to be computed in accordance with GAAP (for example, not all costs may be allocated to the segments). Furthermore, discrete financial information is not required by ASC 280 to include any balance sheet information.

If a CODM receives discrete financial information for a component, we would expect that information is generally used to make decisions about resources to be allocated to the segment and assess its performance. However, an entity should not solely rely on the information received by CODM to identify its operating segments. At the [2014 AICPA National Conference on Current SEC and PCAOB Developments](#), the SEC staff explained that there are other factors that entities should also consider in determining segments beyond the discrete financial information received by the CODM, including the overall management structure, the basis on which budgets and forecasts are prepared and the basis on which executive compensation is determined.

For some entities, the three criteria set forth above clearly identify the operating segments. On the other hand, an entity may produce multiple reports presenting information about its business activities in a variety of ways. If more than one set of segment information is used by the CODM, other factors may identify a single set of components as constituting the entity's operating segments. Examples of those factors include the nature of the business activities of each component, the existence of managers responsible for the separate performance of those activities and information furnished to the board of directors or a similar group.

Generally, an operating segment will have a "segment manager" who is directly accountable to and maintains regular contact with the CODM regarding operating activities, financial results, forecasts or plans for the segment. Like the term "chief operating decision maker," the term "segment manager" is used to identify a function, and not necessarily an individual with a specific title. An individual person might be the manager for more than one operating segment and the manager for one or more segments could also be the CODM. If the three criteria set forth above apply to more than one set of an entity's components but there is only one set for which segment managers are held responsible, that set of components constitutes the operating segments.

Sometimes, an entity may be structured in a way that the three criteria apply to two or more sets of components that overlap and have different managers who oversee and are held responsible for them. For example, consider a scenario where certain managers are responsible for specific product or service lines on a worldwide basis, while other managers are responsible for all or multiple product or service lines within specific geographic areas. The CODM regularly reviews the results of both sets of components (i.e., both product or service line results and geographic results) based on the discrete financial information that is available for both. In that case, ASC 280-10-50-9 specifies that the set of components based on product and service lines (rather than those based on geography) would constitute the operating segments.

### 3.3 Aggregate the operating segments, if applicable

After the operating segments are identified, an entity may be able to combine an operating segment with other operating segments for disclosure purposes. The combination of operating segments into groups of operating segments is permitted if certain requirements in ASC 280-10-50-11 are met. Combining segments may also be necessary to place a practical limit on the number of reportable segments for which separate disclosures are presented.

Two or more operating segments can be aggregated into a single operating segment if all the following criteria are met:

- **The aggregation is consistent with the objective and basic principles of ASC 280.** The underlying objective of ASC 280 is that an entity should disclose information about the different types of business activities and economic environments (as identified by management) in which the entity

engages and operates (e.g., aggregation may not detract from a user's ability to understand the entity's performance and assess its prospects for future cash flows).

- **The operating segments have similar economic characteristics.** In addition to similar long-term average gross margins (i.e., net sales less cost of goods sold), other economic measures could be used to assess whether two operating segments possess similar economic characteristics, such as when a standard industry measure is more relevant than gross margins. For example, in some industries, two operating segments might be similar economically if they have comparable earnings before interest, taxes, depreciation and amortization (EBITDA).
- **The segments are similar in all the following areas:**
  - **The nature of the products and services:** Similar products or services generally will have similar purposes or end uses. Thus, they may be expected to have similar degrees of risk and similar opportunities for growth.
  - **The nature of the production processes:** A similar production process might be demonstrated by sharing of common or interchangeable production facilities, equipment, labor force or service group and by using similar raw materials in the production process. Similar degrees of labor or capital intensiveness may be indicative of a similar production process.
  - **The type or class of customer for their products and services:** Similar geographic marketing areas or marketing methods, as well as the use of a common or interchangeable sales force, may indicate similarity of the type or class of customers for the products and services of different operating segments. Conversely, marketing or promotion efforts that are different may indicate a dissimilar type or class of customer for products of two operating segments. For example, an entity with both retail and wholesale operations usually will promote these parts of the business differently. Retail is often marketed to customers through advertising, while wholesale operations are promoted through sales representatives.
  - **The methods used to distribute their products or provide their services:** The determination of whether two methods of distribution are similar will depend on the structure of a particular entity.
  - **If applicable, the nature of the regulatory environment (such as banking, insurance or public utilities):** Entities that operate within certain industries are subject to regulatory requirements that are promulgated by a governmental regulatory agency. Sometimes two operating segments may produce the same product through the same production process, but because of differences in the class of customer and the regulatory environment, the operating segments should not be aggregated.

If two or more operating segments meet all the aggregation criteria explained above, the operating segments may be aggregated. For example, a retail chain that has ten stores that individually meet the definition of an operating segment could aggregate the stores if the stores meet each of the aggregation criteria.

### 3.4 Apply the quantitative thresholds and other criteria to determine reportable segments

Once the individual operating segments, or aggregated groups of operating segments, have been identified, an entity must determine which of those operating segments are reportable. Reportable segments are those individual operating segments or groups of operating segments for which segment information must be separately disclosed. To make this determination, an entity must subject the identified operating segments to a series of quantitative tests.



The first of those quantitative tests (the 10% tests) are discussed in ASC 280-10-50-12. An entity should separately disclose information about an operating segment that meets any of the following quantitative thresholds:

- The operating segment's reported revenue, including both sales to external customers and intersegment sales or transfers, is 10% or more of the combined revenue (both internal and external) of all operating segments
- The absolute amount of the operating segment's reported profit or loss is 10% or more of the greater, in absolute amount, of:
  - The combined reported profit of all operating segments that did not report a loss
  - The combined reported loss of all operating segments that did report a loss
- The operating segment's assets are 10% or more of the combined assets of all operating segments

For each of the quantitative thresholds, it is important to understand that the denominator for each of the thresholds is not the consolidated amount reported on the entity's financial statements, but the combined amount of all the operating segments. Specific to the second bullet above, there may be instances in which the CODM does not use the same measure of segment profit or loss for each segment. In those circumstances, in accordance with ASC 280-10-55-40, an entity should use a consistent measure of segment profit or loss that is internally determined for each segment, whether or not that measure is used by the CODM for purposes of evaluating each segment's performance. The use of the consistent measure for purposes of the segment profit or loss quantitative threshold does not affect other required disclosures in ASC 280.

Operating segments that do not exceed any of the quantitative 10% tests can still be considered reportable, and separately disclosed by the entity, if management believes information about that segment would be useful to readers of the financial statements. Additionally, individual operating segments that do not meet any of the quantitative thresholds may be combined to create a reportable segment (i.e., one that meets one of the quantitative 10% tests) if all the following criteria are met:

- The operating segments are consistent with the objective and basic principles of ASC 280
- The operating segments have similar economic characteristics
- The operating segments are similar in a majority of the areas listed in ASC 280-10-50-11 (see [Section 3.3](#))

Once an entity has determined which of its operating segments are reportable segments (i.e., which of them met one of the quantitative 10% tests), it must then determine whether the sum of the revenue from external customers from all the reportable segments is at least 75% of the entity's total consolidated revenue (the 75% test). If the total revenue from external customers from all the reportable segments does not comprise 75% of total consolidated revenue, additional operating segments will need to be identified as reportable segments even if they do not meet any of the 10% tests. There is no specific guidance on which of the other operating segments should be reported as long the 75% test is passed.

Information about other business activities and operating segments that are not reportable are combined and disclosed in an "all other" category separately from those items required to reconcile segment amounts to the corresponding consolidated amounts in the financial statements.

### **3.5 Provide the required segment reporting disclosures**

ASC 280 requires an entity to disclose the following types of information in the notes accompanying the financial statements:

- General information about segments

- Entity-wide information
- Information about profit or loss and assets for each reportable segment and the basis of measurement for those amounts
- Reconciliations of segment information to corresponding consolidated amounts

The above segment information is required to be disclosed for each period for which an income statement is presented, though reconciliations for balance sheet amounts are required only for each year for which a balance sheet is presented. All of the disclosures are required on an annual basis, though there are some disclosures that are also required on an interim basis in accordance with ASC 280-10-50-32 through 50-33 (see [Section 7](#)).

### 3.5.1 General information about segments



#### ASC 280-10-50-21

A public entity shall disclose the following general information (see Example 3, Case A [paragraph 280-10-55-47]):

- Factors used to identify the public entity's reportable segments, including the basis of organization (for example, whether management has chosen to organize the public entity around differences in products and services, geographic areas, regulatory environments, or a combination of factors and whether operating segments have been aggregated)
- Types of products and services from which each reportable segment derives its revenues
- The title and position of the individual or the name of the group or committee identified as the chief operating decision maker.

These disclosures are predicated on how management has determined to organize and operate the business. If management has chosen to organize the entity around differences in products and services, the requirement in ASC 280-10-50-21(b) may be satisfied by the naming of the reportable segments. Conversely, if the entity is organized around differences in geography, separate disclosure will always be necessary.

ASU 2023-07 introduced the requirement to disclose the title and position of the CODM. As noted in Section 3.1, the term "CODM" refers to a function, rather than individual with a specific title. Therefore, there may be instances in which a group or committee is identified as the CODM. In those instances, we believe the disclosure should include the title of the committee and the positions of the members of the committee as shown in ASC 280-10-55-54(f) (see Appendix B).

### 3.5.2 Entity-wide information



#### ASC 280-10-50-40

A public entity shall report the revenues from external customers for each product and service or each group of similar products and services unless it is impracticable to do so. The amounts of revenues reported shall be based on the financial information used to produce the public entity's general-purpose financial statements. If providing the information is impracticable, that fact shall be disclosed.

#### ASC 280-10-50-41

A public entity shall report the following geographic information unless it is impracticable to do so (see Example 3, Case D [paragraph 280-10-55-51]):

- Revenues from external customers attributed to the public entity's country of domicile and attributed to all foreign countries in total from which the public entity derives revenues. If

revenues from external customers attributed to an individual foreign country are material, those revenues shall be disclosed separately. A public entity shall disclose the basis for attributing revenues from external customers to individual countries.

- b. Long-lived assets other than financial instruments, long-term customer relationships of a financial institution, mortgage and other servicing rights, deferred policy acquisition costs, and deferred tax assets located in the public entity's country of domicile and located in all foreign countries in total in which the public entity holds assets. If assets in an individual foreign country are material, those assets shall be disclosed separately.

The amounts reported shall be based on the financial information that is used to produce the general-purpose financial statements. If providing the geographic information is impracticable, that fact shall be disclosed. A public entity may wish to provide, in addition to the information required by the preceding paragraph, subtotals of geographic information about groups of countries.

**ASC 280-10-50-42**

A public entity shall provide information about the extent of its reliance on its major customers. If revenues from transactions with a single external customer amount to 10 percent or more of a public entity's revenues, the public entity shall disclose that fact, the total amount of revenues from each such customer, and the identity of the segment or segments reporting the revenues. The public entity need not disclose the identity of a major customer or the amount of revenues that each segment reports from that customer. For purposes of this Subtopic, a group of entities known to a reporting public entity to be under common control shall be considered as a single customer, and the federal government, a state government, a local government (for example, a county or municipality), or a foreign government each shall be considered as a single customer (see Example 3, Case E [paragraph 280-10-55-52]).

ASC 280 contains no additional guidance or illustrations indicating how the individual products and services are to be identified or how similar products and services are to be grouped for disclosure purposes. Further, it does not contain an indication of the materiality threshold to be applied for separate disclosure. These are left to management to determine based on the specific facts and circumstances unique to each entity.

ASC 280-10-50-41 notes that a "material" amount of revenue or long-lived assets would require the separate disclosure of revenue (or long-lived assets) from an individual foreign country. However, ASC 280 does not provide any further guidance as to what constitutes "material." In the illustrative disclosures contained in ASC 280, one of the separately disclosed countries contributed a little less than 10% of total revenue, but the disclosure is in a table that also indicates that assets in that country were about 13% of total assets. The revenue from all other foreign countries that were combined without separate identification were a little over 40% of total revenue. We believe that revenue (or long-lived assets) from an individual foreign country should be disclosed separately if it exceeds 10% of total revenue (or total long-lived assets). However, for qualitative reasons, the disclosure threshold may be less than 10%. For example, if operations and assets in an individual country were subject to heightened political risk such as expropriation. The disclosure guidance in ASC 275, *Risk and Uncertainties*, about current vulnerabilities due to certain concentrations may also be helpful in assessing whether individual foreign countries should be disclosed separately even if they do not exceed 10% of total revenues (or total long-lived assets).

### 3.5.3 Information about profit or loss and assets for each reportable segment and the basis of measurement for those amounts



#### ASC 280-10-50-22

A public entity shall report a measure of profit or loss and total assets for each reportable segment. A public entity also shall disclose all of the following about each reportable segment if the specified amounts are included in the measure of segment profit or loss reviewed by the chief operating decision maker or are otherwise regularly provided to the chief operating decision maker, even if not included in that measure of segment profit or loss (see Example 3, Case B [paragraph 280-10-55-48]):

- a. Revenues from external customers
- b. Revenues from transactions with other operating segments of the same public entity
- c. Interest revenue
- d. Interest expense
- e. Depreciation, depletion, and amortization expense
- f. Unusual items as described in paragraph 220-20-45-1
- g. Equity in the net income of investees accounted for by the equity method
- h. Income tax expense or benefit
- i. Subparagraph superseded by Accounting Standards Update No. 2015-01
- j. Significant noncash items other than depreciation, depletion, and amortization expense.

A public entity shall report interest revenue separately from interest expense for each reportable segment unless a majority of the segment's revenues are from interest and the chief operating decision maker relies primarily on net interest revenue to assess the performance of the segment and make decisions about resources to be allocated to the segment. In that situation, a public entity may report that segment's interest revenue net of its interest expense and disclose that it has done so. Nonetheless, a public entity shall separately disclose interest expense if it is a significant segment expense in accordance with paragraph 280-10-50-26A..

#### ASC 280-10-50-25

A public entity shall disclose both of the following about each reportable segment if the specified amounts are included in the determination of segment assets reviewed by the chief operating decision maker or are otherwise regularly provided to the chief operating decision maker, even if not included in the determination of segment assets:

- a. The amount of investment in equity method investees
- b. Total expenditures for additions to long-lived assets other than any of the following (see Example 3, Case B [paragraph 280-10-55-48]):
  1. Financial instruments
  2. Long-term customer relationships of a financial institution
  3. Mortgage and other servicing rights
  4. Deferred policy acquisition costs
  5. Deferred tax assets

**ASC 280-10-50-26**

If no asset information is provided for a reportable segment, that fact and the reason therefore shall be disclosed.

**ASC 280-10-50-27**

The amount of each segment item reported shall be the measure reported to the chief operating decision maker for purposes of making decisions about allocating resources to the segment and assessing its performance. Adjustments and eliminations made in preparing a public entity's general-purpose financial statements and allocations of revenues, expenses, and gains or losses shall be included in determining reported segment profit or loss only if they are included in the measure of the segment's profit or loss that is used by the chief operating decision maker. Similarly, only those assets that are included in the measure of the segment's assets that is used by the chief operating decision maker shall be reported for that segment. If amounts are allocated to reported segment profit or loss or assets, those amounts shall be allocated on a reasonable basis.

ASC 280 does not require that the measure of profit or loss or the assets of the segments be determined utilizing the same accounting principles that are required to be used for the consolidated financial statements. Further, entities are given wide discretion in determining which items of assets, revenue and cost (expense) are attributed to individual segments, including the method for allocating those items to segments.

It is important to consider that items described in ASC 280-10-50-22 are required to be disclosed by reportable segment if they meet either of the following criteria:

- Items are included in the measure of segment profit or loss reviewed by the CODM
- Items are regularly provided to the CODM, even if not included in the measure of segment profit or loss

For example, if the CODM evaluates the performance of the segments based on EBITDA, then depreciation and amortization expense (item e of ASC 280-10-50-22) would not be included in the measure of segment profit or loss reviewed by the CODM. However, if depreciation and amortization expense was included in the management reports reviewed by the CODM, then that expense would be required to be disclosed because the expense is regularly provided to the CODM. Under this scenario, income taxes would not meet the criteria and would not be required to be separately disclosed. Alternatively, if the reported measure of segment profit or loss is operating income, which includes depreciation and amortization expense, then even if this expense category is not regularly provided to the CODM, it is required to be disclosed because it meets one of the criteria.

In addition to the quantitative information required to be provided by segment, ASC 280-10-50-29 requires several explanatory disclosures, including how management measured the financial information as compared to the entity's consolidated general-purpose financial information and how it allocated that information to each segment. This is primarily due to ASC 280 following the management approach, which may be different from the GAAP used to prepare the consolidated general-purpose financial information.

**ASC 280-10-50-29**

A public entity shall provide an explanation of the measurements of segment profit or loss and segment assets for each reportable segment. At a minimum, a public entity shall disclose all of the following (see Example 3, Cases A through C [paragraphs 280-10-55-47 through 55-49])

- a. The basis of accounting for any transactions between reportable segments.
- b. The nature of any differences between the measurements of the reportable segments' profits or losses and the public entity's consolidated income before income taxes and discontinued operations (if not apparent from the reconciliations described in paragraphs 280-10-50-30 through 50-31). Those differences could include accounting policies and policies for allocation of centrally incurred costs that are necessary for an understanding of the reported segment information.
- c. The nature of any differences between the measurements of the reportable segments' assets and the public entity's consolidated assets (if not apparent from the reconciliations described in paragraphs 280- 10-50-30 through 50-31). Those differences could include accounting policies and policies for allocation of jointly used assets that are necessary for an understanding of the reported segment information.
- d. The nature of any changes from prior periods in the measurement methods used to determine reported segment profit or loss, including significant changes from prior periods to the measurement methods of expenses, the method for allocating expenses to a segment, or changes in the method for allocating centrally incurred expenses, and the effect, if any, of those changes on the measure of segment profit or loss.
- e. The nature and effect of any asymmetrical allocations to segments. For example, a public entity might allocate depreciation expense to a segment without allocating the related depreciable assets to that segment.
- f. How the chief operating decision maker uses the reported measure(s) of segment profit or loss in assessing segment performance and deciding how to allocate resources.

ASU 2023-07 clarifies (in item d of ASC 280-10-5-29) that the changes from prior periods in the measurement methods used to determine reported segment profit or loss required to be disclosed include:

- Significant changes from prior periods to the measurement methods of expenses
- The method for allocating expenses to a segment
- Changes in the method for allocating centrally incurred expenses

ASU 2023-07 also added the requirement to explain how the CODM uses each reported measure of segment profit or loss in assessing segment performance and deciding how to allocate resources (item f of ASC 280-10-50-29). In accordance with the new disclosure, if an entity discloses more than one measure of segment profit or loss, it will also need to disclose how the CODM uses each of them to assess segment performance.

### 3.5.4 Reconciliations of segment information to corresponding consolidated amounts



#### ASC 280-10-50-30

A public entity shall provide reconciliations of all of the following (see Example 3, Cases B and C [paragraphs 280-10-55-48 through 55-50] and Example 4, Case B [paragraph 280-10-55-55]):

- a. The total of the reportable segments' revenues to the public entity's consolidated revenues.
- b. The total of the reportable segments' amount for each measure of profit or loss to the public entity's consolidated income before income taxes and discontinued operations. However, if a public entity allocates items such as income taxes to segments, the public entity may choose to reconcile the total of the segments' measures of profit or loss to consolidated income after those items.
- c. The total of the reportable segments' assets to the public entity's consolidated assets.
- d. The total of the reportable segments' amounts for every other significant item of information disclosed to the corresponding consolidated amount (except for the segment disclosures required by paragraphs 280-10-50-26A through 50-26B). For example, a public entity may choose to disclose liabilities for its reportable segments, in which case the public entity would reconcile the total of reportable segments' liabilities for each segment to the public entity's consolidated liabilities if the segment liabilities are significant.

ASC 280 further explains that all significant reconciling items must be separately identified and described. For example, the guidance explains the amount of each significant adjustment to reconcile accounting methods used in determining segment profit or loss to the consolidated amounts must be separately identified and described. ASC 280-10-50-29(d) requires reconciliation of "every other significant item of information disclosed," which would include any of the individual items disclosed in accordance with ASC 280-10-50-22, such as depreciation expense (see [Section 3.5.3](#)).

Unlike other information disclosed for each reportable segment, significant expense categories disclosed in accordance with the significant expense principle and the other segment items disclosure (both introduced by ASU 2023-07) do not need to be reconciled back to their corresponding consolidated amounts in the financial statements (see [Section 4.1](#) and [Section 4.2](#)).

### 3.6 Recasting of segment information

ASC 280 requires that an entity recast (prior to ASU 2023-07, this was referred to as "restate") its prior period segment information, unless it is impracticable, when an entity undergoes either of the following:

- Changes to its internal structure that in turn causes the composition of its reportable segments to change
- Changes in its internal reporting information regularly provided to the CODM in such a manner that identification of the significant expenses change

Recasting prior period segment information entails conforming the prior period segment information with the segment information presented in the period of the change (current period), unless it is impracticable to do so. In the period of change, the entity should also disclose whether it has recast the corresponding segment information in the comparable periods. The changes described in the second bullet are specific to the newly required segment expense disclosures in ASU 2023-07 (see [Section 4.1](#)). An example of this type of change would be if the entity began regularly providing a specific expense category to the CODM, such as research and development expense, that was not regularly provided previously to the CODM.

While not explicitly required by ASU 2023-07, we believe changes in the significant expense categories disclosed due solely to changes in their relative significance (i.e., the segment expense categories provided to the CODM have not changed, but their relative amounts have) would require an entity to recast its prior period information, unless impracticable. In paragraph BC82 of ASU 2023-07, the Board observed that the guidance in paragraphs ASC 280-10-50-16 through 50-17 would be relevant when considering changes to significant segment expense categories disclosed due to their relevant significance under the significant expense principle. The Board specifically noted the following:

...if management determines that a segment expense that was significant in the prior period(s) and is not significant in the current period is expected to be of continuing significance, information about that segment expense should generally continue to be reported separately in the current period. Conversely, if a segment expense is identified as significant in the current period, prior period segment data presented for comparative purposes should generally be recast to reflect the newly significant expense even if that expense was not significant in the prior period.

ASC 280 describes impracticable as the information either not being available or the cost to produce the information would be excessive and explains that this could occur if the entity undergoes a fundamental reorganization. We believe that entities should generally have the information available to recast prior period information. Historically, impracticability has been a high hurdle to prove, and the SEC staff has inquired of entities that do not recast prior year information about supporting documentation for that conclusion. Accordingly, we believe it will be rare that entities do not recast prior periods for changes in the composition of reportable segments.

In those rare cases where an entity does not have the information available to recast prior periods, ASC 280 requires that the entity disclose in the current period (i.e., the period in which the change occurs) segment information under both the old basis and new basis. The prior periods would include only the old basis.

ASC 280 does not require recasting of prior period segment information for a change in the measurement of a reported measure of segment profit or loss, though ASC 280-10-50-36 notes that presenting all segment information on a comparable basis is preferable. Although prior period segment information may not be presented on a comparable basis to current period segment information in the period of change, there are other required disclosures noted in Section 3.5.3 that provide explanation of the changes in the measurement methods during the period. Therefore, a user of the financial statements should still be able to understand the differences in measurement methods under the new basis and the old basis.

## 4. Significant expense principle and other segment items disclosures

One of the objectives of ASU 2023-07 is to provide users of financial statements with additional information about a reportable segment's expenses. To meet this objective, ASU 2023-07 introduces the significant expense principle and other segment items disclosure requirements. When applying the ASU, an entity should first determine which expense information provided to the CODM for each reportable segment meets the requirements of the significant expense principle to be disclosed separately as significant expenses within that segment. Once that analysis is performed, an entity will be able to determine the composition and amount of its other segment items disclosure for each reportable segment.



## 4.1 Significant expense principle

The primary addition to ASC 280 as a result of ASU 2023-07 is the disclosure of segment expense categories and amounts for each reportable segment in accordance with the significant expense principle. The significant expense principle requires disclosure of segment expense categories that meet all the following criteria:

- Regularly provided to the CODM
- Included within the segment's reported measure of profit or loss
- Determined to be significant by management

The first two criteria of the significant expense principle are the same as the criteria for the disclosure of information about profit or loss for each reportable segment (see [Section 3.5.3](#)). However, the criteria for reporting significant segment expenses are different from the other information in ASC 280-10-50-22, because they need to meet both of the first two criteria (in addition to the last one) to be disclosed. This differs from the items listed in ASC 280-10-50-22, in which only one of the first two criteria needs to be met to be disclosed. For example, if the CODM utilizes operating income before interest and income taxes to assess segment performance, but the entity does not regularly provide a line item for depreciation and amortization expense to the CODM as part of the internal reporting package, then depreciation and amortization expense would not have to be disclosed as a significant expense category because it does not meet all the required criteria. However, because depreciation and amortization expense is included within the segment's reported measure of profit or loss (i.e., meets the second criterion above), it would be required to be disclosed in accordance with ASC 280-10-50-22.

ASU 2023-07 does not define the term "significant" used in the third criterion of the significant expense principle. As a result, judgment is required to make this determination, which is similar to how the significant threshold is already applied in other parts of ASC 280 (e.g., the requirement to disclose significant noncash items for each reportable segment). ASC 280-10-50-26A (added by ASU 2023-07) further explains that management should consider both quantitative and qualitative factors when making this determination, which we believe is consistent with how entities already assess whether segment information is significant in the context of ASC 280.

In paragraph BC59 of ASU 2023-07, the Board addressed whether the significant threshold should be applied at the segment level or the consolidated level. The Board explained that "segment information that if omitted would change a user's understanding about a segment to such a degree that it would change the user's capital allocation decisions about an entity as a whole is significant even though an item of a similar magnitude might not be considered significant if it were omitted from the consolidated financial statements."



**RSM COMMENTARY:** In paragraph BC61 of ASU 2023-07, the FASB observed that investors would likely find segment expense categories that meet the first two criteria of the significant expense principle (i.e., regularly provided to the CODM and included within the segment's reported measure of profit or loss) useful. The FASB's view may suggest that expense information meeting the first two criteria of the significant expense principle is an indicator that the expense information is significant. However, because no single factor is determinative in this assessment, management should consider all quantitative and qualitative factors when determining which expense information is significant (as noted in ASC 280-10-50-26A). For example, management should consider whether the expense information is qualitatively significant even if the information is not quantitatively significant to the reportable segment. Some qualitative factors management should consider include:

- The extent and composition of segment expense information provided to the CODM

- How the expense information compares to:
  - Other expenses determined to be significant
  - Expense information included in the MD&A, investor presentations or other published announcements about the entity's operations
- Whether the expense information affects the trends reflected in the segment or consolidated results
- Whether the expense information is considered important to future results of the segment or consolidated entity
- The importance of the segment to the operations and results of the consolidated entity

#### 4.1.1 Application of the significant expense principle (updated September 2024)

As discussed in Section 3.5.3, ASC 280 does not follow GAAP for purposes of allocating items such as expenses to reportable segments. Therefore, while segment expenses that are directly incurred by the operating segment are generally allocated to operating segments, an entity may not allocate certain corporate overhead expenses to reportable segments. However, if an entity does allocate corporate overhead expenses to the reportable segment and provides that expense information to the CODM, those corporate overhead expense categories are required to be assessed to determine if they meet the criteria of the significant expense principle. In other words, segment expense information that meets the criteria in the significant expense principle are required to be disclosed as significant expenses regardless of whether they are directly incurred by or allocated to the reportable segment.

While there is no requirement in ASC 280 to determine or calculate significant segment expenses in accordance with GAAP, the SEC staff noted that entities who report non-GAAP significant segment expense information should ensure they comply with Rule 4-01(a) of Regulation S-X. Doing so may require provision of additional information to ensure that the disclosed information is not misleading. The additional information to disclose in these circumstances could be a more detailed description of the non-GAAP significant segment expense category or an explanation of how the non-GAAP significant expense category is calculated and used by management.

ASU 2023-07 explains that the significant expense principle should also be applied to segment expense categories that are “easily computable” from the information that is regularly provided to the CODM. Although the ASU does not define the term “easily computable,” it does offer examples on how the guidance could be applied.

Scenario	Information regularly provided to CODM	Easily computable information	Reference
1	<ul style="list-style-type: none"> <li>• Segment revenue</li> <li>• Segment gross margin</li> </ul>	Segment cost of sales	ASC 280-10-55-15B
2	<ul style="list-style-type: none"> <li>• Segment revenue</li> <li>• Segment profit or loss</li> </ul>	Any expense information provided as a percentage or ratio of the information provided.	ASC 280-10-55-15B
3	<ul style="list-style-type: none"> <li>• Segment interest revenue</li> <li>• Segment interest margin</li> </ul>	Interest expense	Paragraph BC76 of ASU 2023-07

An expense category can be determined to be significant for one reportable segment and not others. In these situations, the FASB noted that for the reportable segments for which the segment expense category was determined to not be significant, an entity could either:

- Separately disclose the segment expense category as if it were significant
- Include the segment expense category as part of the other segment items line item

There may be circumstances in which a CODM is not regularly provided with segment expense information for each of the reportable segments. In these circumstances, an entity is not required to disclose any significant expense categories for the applicable reportable segment. However, when no significant expense categories are disclosed for a reportable segment, an entity will need to describe the expense information the CODM uses to manage segment operations. For example, an entity could disclose that the CODM is regularly provided with consolidated expense information or forecasted expense information for the applicable reportable segment.

#### 4.1.2 Interaction with existing segment expense disclosure requirements

When the reported measure of segment of profit or loss (e.g., operating margin) includes those expenses that are required to be disclosed in accordance with ASC 280-10-50-22, such as depreciation and amortization, those expense categories may also be subject to the significant expense principle. In these situations, those expense categories will be disclosed as a significant expense (if they meet all the significant expense principle criteria), included in the other segments item disclosure (if they do not meet the significant expense principle criteria) or included in a combination of the other segment items disclosure and other significant expenses, such as cost of sales.

Regardless of how these expense categories are disclosed when evaluating them under the disclosure requirements in ASU 2023-07, we believe entities should continue to disclose those expense categories as they have been historically (i.e., in accordance with ASC 280-10-50-22). In paragraph BC73 of ASU 2023-07, the Board made it clear that the disclosure requirements in ASU 2023-07 are incremental to other disclosure requirements in ASC 280. Additionally, unlike expense categories disclosed in accordance with the significant expense principle, the expense categories required to be disclosed in accordance with ASC 280-10-50-22 are required to be reconciled back to their corresponding consolidated financial statement amounts in accordance with ASC 280-10-50-30(d) (see [Section 3.5.4](#)).

The example in ASC 280-10-55-48 (see Appendix A) provides a helpful illustration of the interaction of the incremental disclosures required by ASU 2023-07 with the requirements of ASC 280-10-50-22. In the example, the Company discloses multiple reportable segments. One of the reported measures of segment profit or loss for all those segments (except the finance segment) is operating income before interest and taxes. Therefore, in this case, some expense information required by ASC 280-10-50-22, such as depreciation and amortization expense, may also meet the criteria to be reported as a significant expense category or, if not, included within other segment items. In the example, depreciation and amortization expense is reported within either “costs of revenue” or “other segment items,” as shown in the following excerpt of note (f) from the illustrative example included in Appendix A:

Other segment items for each reportable segment includes:

Auto parts—maintenance, professional services expense, and repairs expense and certain overhead expenses.

Motor vessels—marketing expense, professional services expense, occupancy expense, and certain overhead expenses.

Software—depreciation and amortization expense, travel expense, office supplies expense, and certain overhead expenses.

Electronics—depreciation and amortization expense, marketing expense, occupancy expense, and certain overhead expenses.

Finance—depreciation and amortization expense, property tax expense, certain overhead expenses, and other gains or losses.

The example also shows that depreciation and amortization expense is reported separately for each applicable reportable segment under “Other segment disclosures.” This illustrates that even if the expense types listed in ASC 280-10-50-22 meet the criteria to be disclosed as a significant expense category or be included within other segment items, the requirements of ASC 280-10-50-22 should still be applied when providing the other segment disclosures. Additionally, because the total of each expense type listed in ASC 280-10-50-22 is required to be reconciled back to its corresponding consolidated financial statement amount, disclosing each of these expenses by reportable segment under “Other segment disclosures” enhances the understandability of that required reconciliation.

## 4.2 Other segment items

For each reportable segment, an entity is required to disclose an amount for “other segment items” and a description of its composition. The other segment items amount is calculated as follows:

$$\text{Other segment items} = \text{Segment revenues} \text{ less significant segment expenses} \text{ less segment profit or loss}$$

The amount for other segment items and the description of its composition is required to be disclosed regardless of whether significant segment expense categories are disclosed for the reportable segment (i.e., other segment items may just be the difference between segment revenues and segment profit or loss). The other segment items disclosure may comprise items such as segment expense categories not deemed to be significant or not regularly provided to the CODM, segment other income, or segment gains and losses.

Appendix A includes an example from ASC 280 that illustrates the type of qualitative information that may be provided when describing the composition of the other segment items for each reportable segment.

## 5. Multiple measures of segment profit or loss used by CODM (updated September 2024)

In addition to the measurement of segment profit or loss that is most consistent with GAAP, an entity may also disclose additional measures of a segment’s profit or loss as long as the additional measures are utilized by the CODM for assessing segment performance and making resource allocation decisions. For example, if the CODM utilizes both operating income and EBITDA to assess segment performance, the entity would be required to disclose operating income (as it is the measure most consistent with GAAP) and would be permitted to also disclose EBITDA. However, an entity should also consider SEC rules and interpretations prior to providing additional measures of segment profit or loss that are not calculated in accordance with GAAP.

The SEC has historically focused on the intersection of the use of non-GAAP financial measures and an entity’s segment reporting, including the reported measure of segment profit or loss. In Section 104, *Segment Information*, of their [Compliance & Disclosure Interpretations \(C&DIs\)](#), the SEC explains that financial measures required to be disclosed by GAAP would not be considered non-GAAP financial measures. Therefore, the measure of segment profit or loss disclosed in accordance with ASC 280 (i.e., the measure that is most consistent with GAAP measurement principles) would be exempt from non-GAAP financial measure rules and regulations. At the 2016 AICPA National Conference on Current SEC and PCAOB Developments, the SEC staff stated that companies should not attempt to circumvent the rules on non-GAAP financial measures by disclosing multiple measures of a segment’s profit or loss in their financial statements. Accordingly, additional measures of segment profit or loss other than the

measure required to be disclosed under ASC 280 are considered to be non-GAAP measures, unless calculated in accordance with GAAP. In accordance with Regulation S-K Item 10(e), non-GAAP financial measures cannot be presented in the financial statements and the accompanying notes.

At the 2023 AICPA & CIMA Conference on Current SEC and PCAOB Developments (AICPA & CIMA Conference), the SEC staff discussed how public entities should consider the interaction between the new guidance permitting disclosure of additional measures of segment profit or loss in ASU 2023-07 and the SEC's rules and interpretive guidance on the use of non-GAAP financial measures. The SEC staff clarified that additional measures of segment profit or loss permitted to be disclosed under ASU 2023-07 that are not calculated in accordance with GAAP are subject to SEC non-GAAP financial measure requirements, including the prohibition of presenting non-GAAP financial measures on the face of the financial statements or in the accompanying notes. In other words, the SEC staff reiterated their previous views about the use of non-GAAP financial measures as it relates to the reporting of segment profit or loss in the segments' disclosure.

After the 2023 AICPA & CIMA Conference, the SEC staff received numerous questions about the disclosure of additional measures of segment profit or loss in the notes to the financial statements that are not calculated in accordance with GAAP. As a result of those questions, the SEC staff met with RSM in August 2024 to provide clarified views on the disclosure of additional measures of segment profit or loss that are non-GAAP financial measures. At that meeting, the SEC staff clarified that despite the prohibition of non-GAAP financial measures in the notes to the financial statements in Regulation S-K Item 10(e), it would not object to an entity including additional measures of segment profit or loss that are non-GAAP financial measures in the segments note if the additional measures meet the requirements in ASC 280 and the entity complies with all non-GAAP SEC rules in Regulation S-K Item 10(e) and Regulation G, as well as the related C&DIs.

Entities should carefully review each of the non-GAAP rules and related C&DIs. Certain non-GAAP rules require the entity to disclose additional information, such as:

- The most directly comparable GAAP financial measure to the non-GAAP financial measure disclosed
- A reconciliation of the non-GAAP financial measure to the most directly comparable GAAP financial measure
- An explanation of why management believes the non-GAAP financial measure is useful to investors

The SEC staff explained that the additional disclosures required by Regulation S-K Item 10(e) and Regulation G do not have to be provided in the segments note accompanying the financial statements. The staff will not object to the additional disclosures appearing in either the segment note or another section of the entity's filing with the SEC that includes the additional measure of segment profitability. In those instances where the additional disclosures and reconciliations required by the non-GAAP rules are included in other areas of an entity's interim or annual financial information filed with the SEC (e.g., the MD&A section of the entity's Form 10-K), the SEC staff noted that a cross-reference to the MD&A section should not be provided in the segments note accompanying the basic financial statements.

Entities considering disclosing an additional measure of profit or loss should thoroughly review whether that additional measure would be considered a non-GAAP financial measure and, if so, should ensure they comply with not only the requirements of ASC 280 (discussed below in this Section), but also the SEC non-GAAP rules and C&DIs.

If, after consideration of the applicable FASB and SEC guidance, an entity discloses an additional measure of segment profit or loss, the entity will need to provide the following related segment disclosures as required by ASC 280:

- Significant segment expense categories within the additional measure
- Other segment items within the additional measure
- Reconciliation of the additional measure to the corresponding consolidated amount
- Additional qualitative disclosures (see [Section 7](#))
- Recasting disclosures, if they apply

If an additional measure of segment profit or loss is disclosed by the entity for the first time in the current period, it is required to disclose that measure in all comparative periods presented if that the measure had been previously provided to the CODM for those respective periods. An entity is allowed, but not required, to disclose the additional measure of segment profit or loss for those comparative periods in which the CODM was not provided the additional measure.

If the additional measure of segment profit or loss is a non-GAAP financial measure, the reconciliation required by ASC 280 of the additional measure of segment profit or loss to the corresponding consolidated amount on the financial statements—which is generally consolidated income before income taxes (see [Section 3.5.4](#))—should not be presumed to meet the reconciliation requirements in the related non-GAAP rules. Regulation S-K Item 10(e) and Regulation G require the non-GAAP financial measure to be reconciled to the most directly comparable GAAP measure, which may not be consolidated income before income taxes.

## 6. Single reportable segment entities (updated September 2024)

ASU 2023-07 clarifies that entities with single reportable segments are required to follow all segment disclosure requirements in ASC 280, including those introduced by the ASU. Previously, single reportable segment entities would provide the entity-wide disclosures, which were clearly required by ASC 280; however, there was diversity in practice regarding the extent to which the other disclosure requirements in ASC 280 were applied.

ASU 2023-07 further explains that entities with single reportable segments should evaluate the guidance in ASC 280-10-50-4, which notes that not every part or function of an entity may be an operating segment or part of an operating segment. For entities that determine they have one operating segment, management should consider whether that operating segment constitutes all or part of a consolidated entity. For entities where the operating segment only constitutes a part of the entity, there may be situations in which the CODM regularly reviews information to assess performance and allocate resources that is different from the information that management uses to operate the consolidated entity. Under those circumstances, the information regularly reviewed by the CODM may not appear on the consolidated financial statements and should be considered for the segment disclosure. For entities where the operating segment represents the entire consolidated entity, it is more likely that the CODM will assess the consolidated, entity-wide information. In these situations, the requirements in ASU 2023-07 as well as existing segment disclosure requirements would likely result in the duplication of information from the consolidated financial statements. The FASB explained that an acceptable alternative for these situations would be to refer to the primary financial statements in the segment disclosure.

In addition to the above, ASU 2023-07 states that an entity with a single reportable segment should identify whether the segment measure of profit or loss used by the CODM is a measure that is presented on the entity's general-purpose consolidated income statement. The SEC staff provided views on the

measure of segment profit or loss for entities with single reportable segments at the 2023 AICPA & CIMA Conference. The SEC staff explained that it would expect a public company that has only one operating segment and is managed on a consolidated basis to conclude that the segment measure of profit or loss required to be disclosed in the segments note is consolidated net income.

At the August 2024 meeting between RSM and the SEC staff, the staff reiterated their previous stance on the use of consolidated net income as the measure of segment profit or loss that should be reported for those entities that are managed on a consolidated basis. The SEC staff also noted that this view would be the same for circumstances in which the CODM is not the CEO or CFO who certifies the Form 10-Q or Form 10-K because while the certification is one of several data points to review, it is not individually determinative. Additionally, the staff was also unaware of instances in which a CODM manages a single segment entity but does not regularly review a consolidated GAAP measure of profit or loss, such as consolidated net income.

The SEC staff further explained that for purposes of determining whether an entity with a single reportable segment is managed on a consolidated basis or not, the guidance in ASC 280-10-55-15D (which refers to the guidance in ASC 280-10-50-4) should be reviewed. In analyzing that guidance, the entity should consider all relevant facts and circumstances, including how it distinguishes the business activities of the single operating segment from other activities of the consolidated entity and whether there is evidence, beyond just the existence and use of a certain measure of profit or loss, that the entity is truly managed on a consolidated basis. For example, the entity should review how budgets are prepared, resources are allocated, and performance is assessed. The SEC staff also explained that, in their view, the mere exclusion of a corporate headquarters or a certain functional department from a measure of profit or loss reviewed by the CODM is not determinative as to whether an entity is managed on a consolidated basis.

Entities with a single reportable segment that conclude the entity is not managed on a consolidated basis may consider consulting with the SEC staff on their specific facts and circumstances used to reach that conclusion. We believe that entities that have a single reportable segment as a result of aggregating multiple operating segments may be able to report a measure of segment profit or loss other than consolidated net income. That is, such an entity is likely not managed on a consolidated basis, given the determination that there were multiple operating segments identified in accordance with the criteria in ASC 280. The aggregation of the multiple operating segments does not suggest that the operating segments are jointly managed for purposes of allocating resources and assessing performance.

Similar to entities with multiple reportable segments, ASU 2023-07 provides an entity with a single reportable segment the option to disclose additional measures of segment profit or loss if the multiple measures are used by the CODM to assess segment performance. However due to the SEC views on non-GAAP financial measures (see [Section 5](#)), entities that are planning to disclose additional measures of segment profit or loss that would be considered non-GAAP financial measures should ensure that they comply with the relevant SEC rules, regulations and interpretations on use of such measures.

ASC 280-10-55-15E through 55-15F discusses an example in which the CODM of a single reportable segment entity uses both net income and EBITDA to assess segment performance. While net income would already be presented on the consolidated income statement, EBITDA would not. When analyzing this example in consideration of the guidance in ASU 2023-07 and the related SEC staff views, we would expect that entities would either only disclose consolidated net income as its measure of segment profit or loss (or would refer to the consolidated income statement) or disclose consolidated net income and voluntarily disclose EBITDA as an additional measure of segment profit or loss. In the latter scenario, consolidated net income is the measure most consistent with GAAP, and EBITDA would be considered a non-GAAP financial measure that would need to comply with the relevant SEC rules, regulations and interpretations on the use of non-GAAP financial measures discussed in [Section 5](#).

ASU 2023-07 also provides an illustrative example of how an entity with a single reportable segment could apply the requirements of ASC 280. The example is included in Appendix B.

## 7. Interim disclosures

ASU 2023-07 expands the current scope of interim disclosure requirements to include all required annual disclosures in ASC 280-10-50-22 through 50-26 about a reportable segment's profit or loss and assets and includes the new disclosure requirements about significant expenses and other segment items disclosures (see ASC 280-10-50-28A through 50-28B). For each of the interim disclosures required, comparative prior period information should also be presented. Additionally, an entity should disclose differences from the last annual period, if any, regarding the basis of segmentation or in the measurement of segment profit or loss.

ASU 2023-07 does not amend other required interim disclosures. For example, the ASU does not change the frequency of the reconciliation disclosures in ASC 280-10-50-29, which only requires a reconciliation of segment profit or loss on an interim basis. However, if an entity elects to disclose multiple measures of segment profit or loss as permitted under the new standard, then each measure will need to be reconciled back to the corresponding consolidated amount on an interim basis. Additionally, an entity is still required to describe the differences from the last annual report in either the basis of segmentation or in the basis of measurement of segment profit or loss.

## 8. Effective date and transition

ASU 2023-07 is effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning December 15, 2024. Early adoption of the guidance is permitted in any interim or annual period for which financial statements have not yet been issued. If an entity elects to early adopt the ASU in an interim period after the first quarter, the guidance should be applied as of the beginning of the fiscal year that includes the interim period.

Entities are required to apply the amendments retrospectively to each comparative period presented unless it is impracticable to do so. For purposes of the transition requirements, "impracticable" is intended to be applied consistently with how it is applied elsewhere in ASC 280. As noted in Section 3.6, we believe it will be rare for entities to not apply the amendments retrospectively. In those rare cases where it is impracticable for an entity to retrospectively adopt the amendments, that fact must be disclosed as well as an explanation why retrospective application is impracticable.

To apply the amendments retrospectively, ASU 2023-07 explains that an entity should first determine the additional expense information required to be disclosed in the period of adoption and then recast all prior period information presented to conform with the information provided in the adoption period. Therefore, the significant segment expense categories determined and presented in the year of adoption will also be required to be presented in the comparative periods regardless of whether those expense categories would have met the criteria of the significant expense principle if applied in those prior years. This method of retrospectively adopting the amendments is consistent with the general recasting requirements of ASC 280.

As a result of the effective date and transition guidance in ASU 2023-07, a calendar year public entity will adopt ASU 2023-07 for its 2024 Form 10-K and recast the 2023 and 2022 comparative periods to conform with the segment expense information presented in 2024.



## Appendix A: Illustrative disclosure of components of profit or loss and assets for reportable segments



**Example A1: Case B: Information about Reported Segment Revenue, Measures of a Segment's Profit or Loss, Significant Segment Expenses, Measure of a Segment's Assets and Required Reconciliations (ASC 280-10-55-48)**

The following tables illustrate a format for presenting information about reported segment revenue, measures of a segment's profit or loss, significant segment expenses, and measure of a segment's assets (see paragraphs 280-10-50-22, 280-10-50-25, and 280-10-50-26A through 50-26C) for the current reporting period. The tables do not illustrate comparative period disclosures. Diversified Company does not allocate income taxes or unusual items to segments. In addition, not all segments have significant noncash items other than depreciation and amortization in reported profit or loss. The amounts in this Example are assumed to be the amounts in management's reports that are regularly provided to the chief operating decision maker, including interest revenue and interest expense. The following tables also illustrate a format for presenting the reconciliations of reportable segment revenues and measures of profit or loss to Diversified Company's consolidated totals (see paragraph 280-10-50-30(a) through (b)). [Highlights have been added to the original example to identify the incremental disclosures introduced by ASU 2023-07. All other disclosures illustrated in this example represent pre-existing requirements under ASC 280, which were not amended by ASC 2023-07. Refer to the RSM Commentary section at the bottom of the example for a description of the highlighted items.]

*(Continued on next page)*

	Auto Parts	Motor Vessels	Software	Electronics	Finance	Total
Revenues from external customers	\$3,000	\$5,000	\$9,500	\$12,000	\$5,000 <sup>(a)</sup>	\$34,500
Intersegment revenues	-	-	3,000	1,500	-	4,500
	3,000	5,000	12,500	13,500	5,000	39,000
<i>Reconciliation of revenue</i>						
Other revenues						1,000 <sup>(b)</sup>
Elimination of intersegment revenues						(4,500)
Total consolidated revenues						<u>\$35,500</u>
Less: <sup>(c)</sup>						
Cost of revenue	1,700	3,100	2,000	6,800	-	
Segment gross profit	1,300	1,900	10,500	6,700	- <sup>(d)</sup>	<u>\$20,400</u>
Less: <sup>(c)</sup>						
Research and development expense	-	-	3,300	-	-	
Nonmanufacturing payroll expense <sup>(e)</sup>	500	900	2,600	2,700	750	
Professional services expense	-	-	1,700	500	800	
Interest expense (finance segment)	-	-	-	-	3,000	
Other segment items <sup>(f)</sup>	700	1,130	2,300	1,600	(50)	
Segment profit/(loss)	100	(130)	600	1,900	500	<u>\$2,970</u>
<i>Reconciliation of profit or loss (segment profit/(loss))</i>						
Other profit or loss						100 <sup>(b)</sup>
Interest income/(expense), net (excluding finance segment)						1,125 <sup>(d)</sup>
Elimination of intersegment profits						(500)
Unallocated amounts:						
Litigation settlement received						500
Other corporate expenses						(750)
Adjustment to pension expense in consolidation						(250)
Income before income taxes						<u>\$3,195</u>
<i>Reconciliation of profit or loss (segment gross profit)</i>						
Total segment gross profit						<u>\$20,400</u>
Segment operating expenses, net (excluding finance segment)						(17,930) <sup>(h)</sup>
Segment profit (finance segment)						500
Other profit or loss						100 <sup>(b)</sup>
Interest income/(expense), net (excluding finance segment)						1,125 <sup>(g)</sup>
Elimination of intersegment profits						(500)
Unallocated amounts:						
Litigation settlement received						500
Other corporate expenses						(750)
Adjustment to pension expense in consolidation						(250)
Income before income taxes						<u>\$3,195</u>

- (a) The revenue from external customers for the finance segment relates to interest and noninterest income.
- (b) Revenue and profit or loss from segments below the quantitative thresholds are attributable to four operating segments of Diversified Company. Those segments include a small real estate business, an electronics equipment rental business, a software consulting practice, and a warehouse leasing operation. None of those segments has ever met any of the quantitative thresholds for determining reportable segments.
- (c) The significant expense categories and amounts align with the segment-level information that is regularly provided to the chief operating decision maker. Intersegment expenses are included within the amounts shown.
- (d) For the finance segment, the chief operating decision maker uses only pretax profit or loss as the measure to allocate resources and assess segment performance. As a result, segment gross profit is not reported for the finance segment.
- (e) The nonmanufacturing payroll expense does not include amounts capitalized on the balance sheet or included within other expense categories.
- (f) Other segment items for each reportable segment includes:  
Auto parts—maintenance, professional services expense, and repairs expense and certain overhead expenses.  
Motor vessels—marketing expense, professional services expense, occupancy expense, and certain overhead expenses.  
Software—depreciation and amortization expense, travel expense, office supplies expense, and certain overhead expenses.  
Electronics—depreciation and amortization expense, marketing expense, occupancy expense, and certain overhead expenses.  
Finance—depreciation and amortization expense, property tax expense, certain overhead expenses, and other gains or losses.
- (g) Interest income/(expense), net (excluding finance segment) of \$1,125 comprises (i) consolidated total interest revenue (excluding finance segment) of \$3,825 and (ii) consolidated total interest expense (excluding finance segment) of \$2,700.
- (h) Segment operating expenses, net (excluding finance segment) of \$17,930 includes research and development expense, nonmanufacturing payroll expense, professional services expense, and other segment items for the auto parts, motor vessels, software, and electronics segments.

	Auto Parts	Motor Vessels	Software	Electronics	Finance	Total
<i>Other segment disclosures</i>						
Interest revenue	\$450	\$800	\$1,000	1,500	\$4,000	\$7,750
Interest expense	350	600	700	1,100	3,000	5,750
Depreciation and amortization <sup>(a)</sup>	200	100	50	1,500	150	2,000
<i>Other significant noncash items:</i>						
Cost in excess of billings on long-term contracts	-	200	-	-	-	200
Segment assets	2,000	5,000	3,000	12,000	57,000	79,000
Expenditures for segment assets	300	700	500	800	600	2,900

- (a) The amounts of depreciation and amortization disclosed by reportable segment are included within the other segment expense captions, such as cost of revenue or other segment items.

## RSM COMMENTARY

The highlighted expense categories and amounts are assumed to meet all the significant expense criteria in ASC 280-10-50-26A to be separately disclosed for the respective reportable segment. See Section 4.1 for further information about these incremental disclosure requirements in accordance with ASU 2023-07.

As permitted by ASC 280-10-50-28A, this example illustrates disclosure of multiple measures of segment profit or loss, each of which is required to be reconciled (in total) to the corresponding consolidated amount on the financial statements in accordance with ASC 280-10-50-28C. See Section 5 for further information about disclosing multiple measures of segment profit or loss.

The highlighted amounts and description of the composition of other segment items are disclosed by reportable segment in accordance with ASC 280-10-50-26C. See Section 4.2 for further information about these incremental disclosure requirements in accordance with ASU 2023-07.

Represents the amount presented on the corresponding consolidated financial statement.

## Appendix B: Illustrative disclosures of entity with a single reportable segment

The following examples are from ASC 280-10-55 as amended by ASU 2023-07. These examples illustrate certain disclosures that are required by ASC 280-10 for a public entity that has a single reportable segment that is managed on a consolidated basis. The illustrations do not include the entity-wide disclosures required by ASC 280-10-50-39 through 50-42.



### **Example B1: Case A: Disclosure of Descriptive Information about the Reportable Segment (ASC 280-10-55-54) (*Italics added*)**

The following is an example of the required disclosures about a public entity's reportable segment.

- a. Description of the types of products and services from which the reportable segment derives its revenues (see paragraph 280-10-50-21(b)).

*The software segment derives revenues from customers by providing access to cloud computing applications under software-as-a-service arrangements. The most popular cloud computing application is an enterprise resource planning application used primarily by customers to manage functions such as accounting, financial management, project management, and procurement. The service term for the software arrangements is variable, with the median term being approximately five years.*

- b. Measure of segment profit or loss and assets (see paragraph 280-10-50-29).

*The accounting policies of the software segment are the same as those described in the summary of significant accounting policies.*

*The chief operating decision maker assesses performance for the software segment and decides how to allocate resources based on net income that also is reported on the income statement as consolidated net income.*

*The measure of segment assets is reported on the balance sheet as total consolidated assets.*

- c. How the chief operating decision maker uses the reported measure of segment profit or loss (see paragraph 280-10-50-29(f)).

*The chief operating decision maker uses net income to evaluate income generated from segment assets (return on assets) in deciding whether to reinvest profits into the software segment or into other parts of the entity, such as for acquisitions or to pay dividends.*

*Net income is used to monitor budget versus actual results. The chief operating decision maker also uses net income in competitive analysis by benchmarking to ABC Company's competitors. The competitive analysis along with the monitoring of budgeted versus actual results are used in assessing performance of the segment and in establishing management's compensation.*

- d. ABC Company does not have intra-entity sales or transfers.

- e. Factors that management used to identify the public entity's reportable segments (see paragraph 280-10-50-21(a)).

*ABC Company has one reportable segment: software. The software segment provides cloud computing services to customers under software-as-a-service arrangements. ABC Company derives revenue primarily in North America and manages the business activities on a consolidated basis. The technology used in the customer arrangements is based on a single software platform that is deployed to and implemented by customers in a similar manner.*

- f. The title and position of the individual or the group identified as the chief operating decision maker (see paragraph 280-10-50-21(c)).

*ABC Company's chief operating decision maker is the senior executive committee that includes the chief operating officer, chief financial officer, and the chief executive officer.*



**Example B2: Case B: Information about the Reported Segment Revenue, Segment Profit or Loss, and Significant Expenses (ASC 280-10-55-55)**

The following table illustrates a format for presenting information about reported segment revenue, segment profit or loss, and significant segment expenses. The Example does not separately illustrate all of the information required by paragraphs 280-10-50-22 and 280-10-50-25.

	<b>Software Segment</b>
Revenue	\$ 81,800
Less:	
Employee expense	41,000
Contractor expense	15,000
Occupancy and equipment expense	8,400
Hosting and data center expense	1,500
Other professional services expense	750
Customer acquisition expense	800
Other segment items <sup>(a)</sup>	2,500
Depreciation and amortization expense	3,200
Interest expense	600
Income tax expense	2,000
Segment net income	<u>6,050</u>
<i>Reconciliation of profit or loss</i>	
Adjustments and reconciling items	-
Consolidated net income	<u>\$ 6,050</u>

- (a) Other segment items included in Segment net income includes marketing expense, restructuring expense, foreign currency exchange gains and losses, and other overhead expense.

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