
# NEW EXPENSE DISAGGREGATION DISCLOSURE REQUIREMENTS

**August 2025**

## OVERVIEW

In November 2024, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2024-03, *Income Statement – Reporting Comprehensive Income – Expense Disaggregation Disclosures (Subtopic 220-40): Disaggregation of Income Statement Expenses* (ASU 2024-03 or the ASU). Under ASU 2024-03, public business entities (PBEs) are required to disclose disaggregated information about certain costs and expenses in the notes to their financial statements in both annual and interim filings. The ASU will likely require most PBEs to provide more detailed disclosures regarding the components of these costs and expenses than what is currently disclosed. The amendments are effective for annual reporting periods beginning after December 15, 2026 (or 2027 for PBEs with calendar year-ends), and interim reporting periods beginning after December 15, 2027 (or March 31, 2028, for PBEs with calendar year-ends).

This publication provides an overview of the new disclosure requirements, including illustrative examples, certain implementation considerations and what to keep in mind for 2025 reporting and beyond.

# TABLE OF CONTENTS

# 1. Summary

In response to long-standing investor requests for greater disaggregated income statement information, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2024-03 in November 2024.

Under ASU 2024-03, public business entities (PBEs) are required to disclose, in a table format, disaggregated information about certain costs and expenses in the notes to both their annual and interim financial statements. Additionally, ASU 2024-03 integrates existing disclosure requirements about certain expenses into the same tabular disclosure of the disaggregated expenses. The ASU also requires qualitative disclosure of amounts that are not quantitatively disclosed in the tabular disclosure, the disclosure of total selling expenses and—in annual reporting—an entity's definition of selling expenses.

The FASB believes that the disclosures required by ASU 2024-03 will provide investors with information on a timely basis, which will allow them to better:

- Understand the components of an entity's expenses
- Forecast expenses
- Assess and forecast an entity's prospects for future cash flows
- Compare the entity's performance over time against other entities

ASU 2024-03 adds Subtopic 220-40, *Expense Disaggregation Disclosures*, to the FASB's Accounting Standards Codification (ASC) Topic 220, *Income Statement—Reporting Comprehensive Income* (hereafter referred to as ASC 220-40), but does not change any existing financial statement presentation or recognition guidance under the ASC or the United States Securities and Exchange Commission's (SEC) regulations.

Under ASU 2024-03, at each interim and annual reporting period, PBEs will be required to disclose in the notes to their financial statements a table containing the amounts of each of the following expense categories included in each "relevant expense caption" presented on their income statement:

- Purchases of inventory
- Employee compensation
- Depreciation
- Intangible asset amortization
- Depreciation, depletion and amortization of capitalized acquisition, exploration and development costs recognized as part of oil-and gas-producing activities (DD&A)

A relevant expense caption is an expense line item presented on the face of the income statement within continuing operations that contains any of the expense categories listed above.

In addition to the tabular disaggregation requirements, a PBE will also be required to disclose the following:

- A qualitative description of the amounts remaining in relevant expense captions that are not separately disaggregated quantitatively (i.e., the "other" category)
- The total amount of selling expenses and, in annual reporting periods, the entity's definition of selling expenses

ASU 2024-03 also requires certain amounts already disclosed under existing U.S. generally accepted accounting principles (GAAP) to be disclosed as a separate category in the disaggregated expense tables if those amounts are recognized in a relevant expense caption.

ASU 2024-03 contains several practical expedients—including the use of estimates or other methods that produce a reasonable approximation of amounts required to be disclosed—and implementation guidance to assist preparers with their implementation of the new disclosure requirements.

The new disclosure requirements introduced by ASU 2024-03 apply only to PBEs and are effective for annual reporting periods beginning after December 15, 2026, and for interim periods within annual reporting periods beginning after December 15, 2027. The requirements can be applied either prospectively or retrospectively. Early adoption is permitted.

Implementation of the new disclosure requirements may be particularly challenging for entities that manufacture their own inventory (e.g., entities in the industrial products, bioscience, automotive, technology, apparel and construction industries). Capturing the necessary data from general ledger and cost accounting systems for these entities may present challenges when accumulating amounts required for the disaggregation of cost of goods sold.

Although the new disclosure requirements do not apply to entities other than PBEs, private companies contemplating an initial public offering (IPO) or other transactions that would change their reporting status to a PBE should familiarize themselves with the ASU's disclosure requirements.

**NOTE:** Unless otherwise noted, references to subtopics, sections and paragraphs of the FASB's ASC in the remainder of this publication refer to those as amended or introduced by ASU 2024-03.

# 2. Disaggregation requirements for certain income statement expense line items

## 2.1 Scope

The disclosure requirements under ASC 220-40 apply only to PBEs. Private companies, not-for-profit entities and employee benefit plans within the scope of ASC 960, *Plan Accounting – Defined Benefit Pension Plans*, ASC 962, *Plan Accounting – Defined Contribution Pension Plans,* or ASC 965, *Plan Accounting – Health and Welfare Benefit Plans,* are outside the scope of this subtopic.

**RSM COMMENTARY: Future standard-setting activities may impact private companies**

The new disclosures required under ASC 220-40, which were introduced through the issuance of ASU 2024-03, do not currently apply to non-PBEs. However, paragraph BC34 of the ASU states that Private Company Council "members discussed that they may reconsider a project on disaggregation of expenses in the future after they are able to observe the public company adoption." Consequently, non-PBEs should consider monitoring the adoption of ASU 2024-03 by PBEs in case further disaggregation of expenses becomes applicable in the future.

## 2.2 Meaning of relevant expense captions

ASU 2024-03 introduces the concept of relevant expense captions. A relevant expense caption represents any expense caption (or line item) presented on the face of the income statement in continuing operations that contains any of the expenses (or expense categories) listed in ASC 220-40-50-6, which include:

- Purchases of inventory, representing amounts within the scope of ASC 330, *Inventory*, or an Industry Subtopic in ASC 330. Purchases of inventory can be disaggregated using either a cost-incurred or expense incurred basis of accounting. See Section 2.4.1.

 

- Employee compensation, based on the ASC 718, *Compensation – Stock compensation* definition of an employee and representing major types of consideration provided to employees in exchange for services. See Section 2.4.2.
- Depreciation, representing depreciation expense consistent with amounts disclosed under ASC 360, *Property, Plant and Equipment.* See Section 2.4.3.
- Intangible asset amortization, representing intangible asset amortization consistent with amounts disclosed under ASC 350-30, *General Intangibles Other than Goodwill.* See Section 2.4.4.
- DD&A, as discussed in ASC 932-360, *Extractive Activities – Oil and Gas - Property, Plant, and Equipment*. See Section 2.4.5.

Expenses within a relevant expense caption that do not meet the definition of any of those expense categories are required to be presented in the "other" category within the disaggregated expense table for the applicable relevant expense caption. See Section 2.4.6.

An entity's share of earnings or losses from investments accounted for under the equity method in accordance with ASC 323-10-45-1 is not a relevant expense caption for purposes of applying the enhanced disclosure requirements under ASC 220-40. In addition, entities are not required to further disaggregate their disclosure of summarized information of results of operations regarding their equity method investments in accordance with ASC 323-10-50-3(c).

ASC 220-40-50-12 through 50-36 provide guidance on identifying an entity's relevant expense captions, including the disclosure requirements for each relevant expense caption. The identification of relevant expense captions is important, as this drives the information to be disclosed in the notes to the financial statements.

## 2.3 Natural versus functional expenses

The amendments in ASU 2024-03 require more disaggregated disclosures about certain expenses by their nature. Currently, expenses reported on the face of income statements are generally presented based on the activities or functions of the entity that give rise to those expenses. Examples of common functional expenses include selling, financing, marketing, manufacturing and administrative expenses. These expenses are presented as either separate line items on the face of the income statement or are aggregated into other line items, such as cost of goods sold and selling, general and administrative expenses. The amendments in ASU 2024-03 require entities to provide more disaggregated disclosures about certain expense line items when those captions include any of the five "natural" expense categories listed in ASC 220-40-50-6 (see Section 2.2).

The ASC Master Glossary defines a natural expense classification as "[a] method of grouping expenses according to the types of economic benefits received in incurring those expenses. Examples of natural expense classifications include salaries and wages, employee benefits, nonemployee professional services, supplies, interest expense, rent, utilities, and depreciation."

**RSM COMMENTARY: FASB's rationale for requiring more disaggregation of expenses by natural expense categories**

Investors have frequently commented that presenting expenses by function, rather than by nature, hinders their ability to analyze an entity's financial results comparatively as well as across entities. That is because functional expense presentation often results in combining costs of dissimilar nature within a single functional caption, making forecasting expense captions difficult. For example, employee compensation (which is an example of a natural expense category) is sometimes divided among various financial statement line items by function (e.g., manufacturing, selling). Without supplemental disclosures, this form of presentation does not allow investors to aggregate the total amount of the natural expense, which in turn limits their ability to accurately forecast expenses for future periods. Also, there is often some subjectivity when classifying expenses by function, which limits comparisons across entities.

In response to investor feedback, the amendments in ASU 2024-03 require disclosures within relevant expense captions based on the nature of the expense. This requirement is expected to enhance the predictive value of financial statements, as expenses within individual natural expense captions are generally expected to respond similarly to changes in economic conditions. Furthermore, it is expected to improve comparability between entities compared to when expenses are presented by function.

## 2.4 Disaggregating relevant expense captions by specified expense categories

ASC 220-40-50-6 requires PBEs to disclose disaggregated information about relevant expense captions shown on the face of their income statement in a tabular disclosure within the notes to their financial statements. For each relevant expense caption, PBEs are required to disaggregate the expense into the expense categories listed in Section 2.2 (i.e., purchases of inventory, employee compensation, depreciation, intangible asset amortization and DD&A). Expenses within a relevant expense caption that do not meet one of the specified expense categories are categorized as "other" within the tabular disclosure and are subject to qualitative disclosure.

If the relevant expense caption (or line item) presented on the face of the income statement is fully comprised of only one of the expense categories listed in Section 2.2 then further disaggregation is not required. For example, if depreciation is a line item on the income statement, and the line item consists entirely of depreciation in accordance with ASC 220-40-50-6(c), no additional disclosure is required in the notes accompanying the financial statements because the information in the income statement meets the disclosure objectives defined in ASC 220-40-50-1. On the other hand, if the income statement line item consists of both depreciation and intangible asset amortization, a PBE would be required to separately disclose depreciation expense and intangible asset amortization in accordance with ASC 220-40-50-6(c) and 50-6(d), respectively, in the tabular disclosure.

**RSM COMMENTARY: Materiality considerations**

When evaluating the extent of disaggregated information to be provided in the disclosures required by ASC 220-40-50, entities should consider the guidance in ASC 105-10-05-6, which states that "the provisions of the Codification need not be applied to immaterial items." When assessing the concept of materiality and determining the level of detail to be disclosed in accordance with ASC 220-40 to keep the overall financial statements from being misstated or misleading, affected entities should focus on the total mix of information from the perspective of a reasonable investor. To be consistent with the concept of materiality, this assessment should be objective and should take into consideration all relevant facts and circumstances, including both quantitative and qualitative factors. The SEC staff has repeatedly commented that a materiality analysis is not a mechanical exercise, nor should it be based solely on a quantitative analysis.

The following sections provide additional information about the expense categories and disclosure requirements of ASC 220-40.

 

### 2.4.1 Purchases of inventory

**Inventory**

**ASC 330-10-20**

The aggregate of those items of tangible personal property that have any of the following characteristics:

a. Held for sale in the ordinary course of business

b. In process of production for such sale

c. To be currently consumed in the production of goods or services to be available for sale.

The term inventory embraces goods awaiting sale (the merchandise of a trading concern and the finished goods of a manufacturer), goods in the course of production (work in process), and goods to be consumed directly or indirectly in production (raw materials and supplies). This definition of inventories excludes long-term assets subject to depreciation accounting, or goods which, when put into use, will be so classified. The fact that a depreciable asset is retired from regular use and held for sale does not indicate that the item should be classified as part of the inventory. Raw materials and supplies purchased for production may be used or consumed for the construction of long-term assets or other purposes not related to production, but the fact that inventory items representing a small portion of the total may not be absorbed ultimately in the production process does not require separate classification. By trade practice, operating materials and supplies of certain types of entities such as oil producers are usually treated as inventory.

Only purchases of inventory that fall within the scope of ASC 330, *Inventory*, or an Industry Subtopic of ASC 330 (collectively, ASC 330) are required to be included in the new tabular disclosure. Inventory purchased or acquired because of a business combination within the scope of ASC 805-10, *Business Combinations – Overall*; the formation of a joint venture within the scope of ASC 805-60, *Business Combinations – Joint Venture Formations*; or the consolidation of a variable interest entity within the scope of ASC 810-10, *Consolidation – Overall*, are excluded from the "purchases of inventory" expense category. Instead, they should be reported within the "other" expense category when disaggregating a relevant expense caption, unless separately disclosed voluntarily. However, purchases of inventory related to a transaction accounted for as an asset acquisition under ASC 805-50, *Business Combinations – Related Issues*, would be included in the purchases of inventory expense category disclosure.

Entities have two options for determining the amount of inventory purchases to be included in the disaggregated disclosure: the cost-incurred basis or the expense-incurred basis.

**ASC 220-40-50-31 (partial excerpt)**

The following are two acceptable bases for disclosing the disaggregation of a relevant expense caption that contains expense amounts related to inventory within the scope of Topic 330:

a. *Cost-incurred basis*. The amounts disclosed for the disaggregation of a relevant expense caption comprise costs incurred that were capitalized to inventory in accordance with Topic 330 during the current reporting period and any costs incurred that were directly expensed during the current reporting period (including costs that are capitalizable in accordance with Topic 330 but were directly expensed to the income statement). Under this basis, in interim and annual reporting periods, an entity shall disclose an amount for changes in inventories and an amount for other adjustments and reconciling items to reconcile the costs incurred to the total relevant expense caption (see paragraphs 220-40-50-32 through 50-34).

b. *Expense-incurred basis*. The amounts disclosed for the disaggregation of a relevant expense caption comprise expense amounts related to the derecognition of inventory that was previously capitalized in accordance with Topic 330 and any costs incurred that were directly expensed during the current reporting period (including costs that are capitalizable in accordance with Topic 330 but were directly expensed to the income statement). Under this basis, an entity shall disclose the expense amounts related to the derecognition of inventory based on the natural expense category of the costs when they were initially incurred (for example, the expense from the derecognition of inventory may relate to purchases of inventory and employee compensation incurred in prior periods).

When using the cost-incurred basis, the "changes in inventories" component of the relevant expense caption that contains expense amounts related to inventory represents the difference between the beginning and end of period inventory balance reported on the balance sheet.

The "other adjustments and reconciling items" amount represents other amounts that are necessary to reconcile inventory costs incurred to expenses recognized. Examples of such items include the amount of inventory derecognized during the period that is not recognized as an expense, such as inventory derecognized as part of a derecognition event within the scope of ASC 810-10 or the effects of differences in foreign currency exchange rates used to translate inventory amounts.

Any remaining reconciling items are included within the "other" expense category of the relevant expense caption disaggregated disclosure.

As a practical expedient, if purchases of inventory constitute substantially all of the relevant expense caption, no further disaggregation of that caption is necessary. Although ASC 220-40 does not define the term "substantially all," it is commonly understood in practice to mean at least 90%.

**RSM COMMENTARY:** Given the complexities of disaggregating purchases of inventory on an expense-incurred basis—especially for entities using an inventory cost method other than first in, first out—a majority of entities are expected to disaggregate the relevant expense caption containing inventory purchases on a cost-incurred basis.

**Example 2-1: Disaggregation and comparison of cost of goods sold under the cost-incurred and expense-incurred methods**

The following table illustrates what an entity's disaggregated cost of goods sold may look like under the cost-incurred and expense-incurred methods when cost of goods sold represents a relevant expense caption in accordance with ASC 220-40-50-6.

| Disaggregated Cost of Goods Sold | | |
|---|---|---|
| | **Cost-incurred basis** | **Expense-incurred basis** |
| Purchases of inventory | $ 92,200,000 | $ 78,725,000 |
| Employee compensation | 249,425,000 | 212,775,000 |
| Depreciation expense | 207,975,000 | 176,475,000 |
| Other cost of goods sold[a] | 74,000,000 | 64,975,000 |
| Change in inventory | (91,150,000) | - |
| Other adjustments and reconciling items (FX) | 500,000 | - |
| **Total cost of goods sold** | **$ 532,950,000** | **$ 532,950,000** |

(a) Other cost of goods sold consists of utility costs, non-income based taxes and shipping and handling costs.

When disaggregating cost of goods sold under the cost-incurred basis and the expense-incurred basis of accounting, there will often be differences in the components and the amounts disclosed for each of the five expense categories specified in ASC 220-40-50-6 (see Section 2.2). For example, the amount disclosed as purchases of inventory under the cost-incurred basis represents the current year's expenditures, whereas the amount disclosed under the expense-incurred basis represents the expense recognized for inventory sold during the year irrespective of when the costs were incurred to produce that inventory. Purchases of inventory under the expense-incurred basis could also include amounts expensed in the current year for inventory spoilage, inventory count adjustments and obsolescence, irrespective of the year in which the inventory was purchased. Under the cost-incurred basis, these amounts would generally be included in the change in inventory line of the disclosure table. The change in inventory line represents the difference between the inventory balance at the beginning and end of the period. This amount is necessary to reconcile between the cost of goods sold presented on the income statement and that disclosed under ASC 220-40-50-31(a).

See Appendix A for a comprehensive example of how to develop the disaggregated disclosure of cost of goods sold under the cost-incurred method of accounting for a manufacturing company.

### 2.4.2 Employee compensation

Expenses included within a relevant expense caption that meet the ASC Master Glossary definition of employee compensation are required to be disaggregated in the tabular disclosure. The term "employee compensation" is based on the current definition of an employee used in ASC 718, *Compensation – Stock Compensation*. The definition provides a list of different types of compensation, both cash and noncash, and is intended to broadly capture the major types of compensation provided to employees in exchange for services. One-time employee termination benefits, if applicable, are required to be separately disclosed from other employee compensation expense within the tabular disclosure.

 

**RSM COMMENTARY: Supplemental SEC reporting considerations**

If an entity includes a line item for salaries and benefits (or a similarly titled caption) on its income statement to comply with SEC Rule 210.9-04 of Regulation S-X, then the entity can use those amounts to fulfill the requirements of ASC 220-40-50-20. This is because the amounts are not expected to differ materially from employee compensation as defined in ASC 220-40-20.

Entities that also report under International Financial Reporting Standards (IFRS) should keep in mind that the term "employee compensation" broadly aligns with the term "employee benefits" in International Accounting Standard (IAS) 19, *Employee Benefits*.

### 2.4.3 Depreciation

The amounts disclosed in the tabular note for depreciation should be consistent with the classification of amounts used to satisfy the disclosure requirements for the total depreciation expense under ASC 360, *Property, Plant, and Equipment*. If applicable, depreciation would also include the amortization of right-of-use assets and leasehold improvements, if an entity's accounting policy is to include such expenses as depreciation expense, in accordance with ASC 842-20-45-4(a). However, depreciation does not need to be further disaggregated if the asset being depreciated itself contains any of the expense categories. For example, an entity that capitalizes employee salaries and wages when self-constructing new property, plant and equipment for its own use is not required to further disaggregate the resulting depreciation into the categories listed in Section 2.2.

### 2.4.4 Intangible asset amortization

The amounts disclosed in the tabular note for intangible asset amortization should be consistent with the classification of amounts used to satisfy the disclosure requirements for the total intangible asset amortization expense under ASC 350-30, *General Intangibles Other than Goodwill*. Intangible asset amortization would also include the amortization expense for right-of-use assets and leasehold improvements if an entity's accounting policy is to include such expenses as amortization expense, in accordance with ASC 842-20-45-4(a). Like depreciation expense, intangible asset amortization does not need to be further disaggregated if the asset being amortized contains any of the expense categories listed in Section 2.2.

### 2.4.5 DD&A

In addition to including amounts recognized as DD&A under ASC 932-360 related to oil- and gas-producing activities, the new disclosure would also include amounts recognized as depletion expense by entities in extractive industries other than oil and gas, such as mining entities within the scope of ASC 930, *Extractive Activities - Mining*.

### 2.4.6 Other

Any expense included within a relevant expense caption presented on the face of the income statement that does not fall within the five categories listed in Section 2.2 is included in the "other" expense category within the tabular disclosure. Although entities are not required to further disaggregate the amounts included in this other expense category, a qualitative description of its components is required to be disclosed on both an interim and annual basis.

### 2.4.7 Expense reimbursements

Entities may have arrangements or contracts that provide them with reimbursement from another entity of certain incurred expenses, with that reimbursement included in a relevant expense caption (i.e., the expenses incurred by the reporting entity are reported net of the related reimbursement within the relevant line item presented on the income statement). In such a scenario, entities have a choice of how to present that expense reimbursement in their disaggregated disclosures:

- Include the expenses subject to the arrangement gross in the disclosure table and include a separate line item in the table representing the reimbursement amount.
- Disclose the relevant expense categories net of the reimbursement.

An entity should disclose which approach it adopts and apply it consistently. Additionally, qualitative disclosure of the nature of the expenses subject to reimbursement should be included in the entity's interim and annual reports.

If an entity pays expense reimbursement to other entities, and such payments are included within a relevant expense caption, the entity must separately disclose the amount of that reimbursement in the table. This guidance does not apply to expense reimbursement presented as revenue on the income statement in accordance with ASC 606, *Revenue from Contracts with Customers*.

**Example 2-2: Disclosure of expense reimbursements in cost-sharing arrangements**

Entity ABC has a cost-sharing arrangement with Company XYZ, under which Company XYZ is required to reimburse Entity ABC for employee compensation costs associated with certain research and development activities. The following tables illustrate how Entity ABC may present its expense reimbursements in accordance with ASC 220-40-50-26 through 50-29 within its tabular disclosure.

*Option 1 – Gross presentation of a relevant expense caption (ASC 220-40-50-26(a))*

| | Research and Development Expenses | | |
|---|---|---|---|
| | **20X6** | **20X5** | **20X4** |
| Employee compensation | $ 450,000 | $ 410,000 | $ 375,000 |
| Depreciation | 115,000 | 110,000 | 100,000 |
| Other research and development expenses[(a)] | 75,000 | 75,000 | 75,000 |
| Expense reimbursements[(b)] | (125,000) | (120,000) | (110,000) |
| **Total R&D** | **$ 515,000** | **$ 475,000** | **$ 440,000** |

(a) Other research and development expenses consist of intellectual property licensing fees paid to third parties.

(b) Expense reimbursements represent payments received from a strategic partner pursuant to a cost-sharing arrangement for the reimbursement of employee compensation costs related to certain research and development programs.

 

*Option 2 – Net presentation of a relevant expense caption (ASC 220-40-50-26(b))*

| | Research and Development Expenses | | |
|---|---|---|---|
| | **20X6** | **20X5** | **20X4** |
| Employee compensation, net[a] | $ 325,000 | $ 290,000 | $ 265,000 |
| Depreciation | 115,000 | 110,000 | 100,000 |
| Other research and development expenses[b] | 75,000 | 75,000 | 75,000 |
| **Total R&D** | **$ 515,000** | **$ 475,000** | **$ 440,000** |

(a) Pursuant to a cost-sharing arrangement, Entity ABC is reimbursed by a strategic partner for employee compensation costs related to certain research and development programs. During the periods ended December 31, 20X6, 20X5 and 20X4, Entity ABC received expense reimbursements totaling $125,000, $120,000 and $110,000, respectively, which are reflected in the table in employee compensation, net.

(b) Other research and development expenses consists of intellectual property licensing fees paid to third parties.

### Example 2-3: Disclosure of expense reimbursements paid to others

Entity ABC has a cost-sharing arrangement with Company XYZ, under which Entity ABC is required to reimburse Company XYZ for certain third-party licensing fees associated with research and development. The following table illustrates how Entity ABC might reflect the expense reimbursements in accordance with ASC 220-40-50-28 within its required tabular disclosures for research and development expenses (a relevant expense caption):

| | Research and Development Expenses | | |
|---|---|---|---|
| | **20X6** | **20X5** | **20X4** |
| Employee compensation | $ 450,000 | $ 410,000 | $ 375,000 |
| Depreciation | 115,000 | 110,000 | 100,000 |
| Other research and development expenses[a] | 25,000 | 25,000 | 25,000 |
| Reimbursement costs[b] | 50,000 | 50,000 | 50,000 |
| **Total R&D** | **$ 640,000** | **$ 595,000** | **$ 550,000** |

(a) Other research and development expenses consists of intellectual property licensing fees paid to third parties.

 

(b) Reimbursement costs represent payments made by Entity ABC to a strategic partner under a cost-sharing arrangement for certain research and development costs related to third party licensing fees.

### 2.4.8 Certain liability-related expenses

Expenses are not required to be disaggregated into the five expense categories listed in Section 2.2 if all of the following conditions from ASC 220-40-50-16 are met:

a. The expense relates to an obligation that will be settled in the future and there is uncertainty about the timing of settlement.

b. The expense relates to an obligation that is based on an estimate of a future expenditure.

c. The expense is not entirely made up of one required expense category (e.g., employee compensation).

However, an expense that meets the above criteria may need to be disclosed in the same tabular format if it meets the requirements for tabular integration of other disclosure requirements discussed in Section 2.4.10. If not required to be separately disclosed, the expense would be included in the "other" expense category for the relevant expense caption presented in the tabular note accompanying the financial statements. Examples of such expenses include provisions for losses on contracts (e.g., construction-type and production-type contracts under ASC 605-35, *Revenue Recognition – Construction-Type and Production-Type Contracts*), asset retirement obligations and claims adjustments.

**Example 2-4: Disaggregation of cost of goods sold line item when it contains an expense meeting the criteria in ASC 220-40-50-16**

Entity A operates in the construction industry. It builds structures under multi-year, fixed price contracts that are subject to the accounting guidance in ASC 605-35*, Revenue Recognition – Construction-Type and Production-Type Contracts*. Entity A's construction costs include direct materials, labor, depreciation and other overhead costs. When the estimated costs of a contract exceed estimated revenue for the contract, Entity A records a loss on the contract, which is measured as the excess of the estimated total cost of the contract over its total revenue. In 20X1, Entity A recorded a loss totaling $5,200,000 on a contract that met those criteria. The loss is presented on Entity A's income statement within the cost of goods sold line item. Although further tabular disaggregation of the cost of goods sold line-item amount is required because it represents a relevant expense caption as discussed in Section 2.2, the loss on the onerous contract is not required to be disaggregated into the required expense categories listed in that section because in meets the conditions outlined in ASC 220-40-50-16 (see beginning of this section) as follows:

- The loss relates to an obligation that will be settled in the future and there is uncertainty about the timing of when the obligation will be settled
- The loss relates to an obligation that is based on an estimate of future expenditure
- The loss is not entirely comprised of one of the required expense categories discussed in Section 2.2

Moreover, because the loss is not an item that requires disclosure under other U.S. GAAP (see discussion in Section 2.4.10), the loss is included within the "other" expense category of Entity A's tabular disaggregated disclosure for costs of goods sold as illustrated below:

 

| Disaggregation of Cost of Goods Sold | | |
|---|---|---|
| | 20X1 | 20X0 |
| Purchases of inventory | $ 15,750,000 | $ 13,900,000 |
| Employee compensation | 19,500,000 | 14,100,000 |
| Depreciation expense | 3,400,000 | 3,200,000 |
| Change in inventory | (1,250,000) | 900,000 |
| Other cost of goods sold[(a)] | 14,500,000 | 8,750,000 |
| **Total cost of goods sold** | **$ 51,900,000** | **$ 40,850,000** |

(a) Other cost of goods sold consists of utility costs, non-income-based taxes and shipping and handling costs; In 20X1, other cost of goods sold also includes the loss recorded for an onerous contract.

### 2.4.9 Selling expenses

The total amount of an entity's selling expenses is required to be disclosed in both annual and interim financial statements. Also, in annual reports, entities are required to disclose their definition of selling expenses, which should be applied consistently.

### 2.4.10 Integration of existing disclosure requirements

Various topics in U.S. GAAP require the disclosure of certain expenses, gains and losses. Some disclosure requirements include both the amount of the expense, gain or loss, as well as the income statement caption containing it, while others only require the disclosure of the amount. The guidance in ASC 220-40-50-21 through 50-22 integrates these existing disclosures with the new disclosures introduced by ASU 2024-03 if the expense, gain or loss is included within a relevant expense caption.

**ASC 220-40-50-21**

An entity shall disclose, in the same tabular format disclosure in which the disclosures required by paragraph 220-40-50-6 are provided, each of the following expenses, gains, and losses and the amount recognized in each relevant expense caption (see paragraphs 220-40-50-12 through 50-13 for guidance on identifying relevant expense captions):

a. The amount of research and development assets acquired in a transaction other than a business combination and written off (see paragraph 350-30-50-1(c))

b. Impairment loss recognized related to an intangible asset (see paragraph 350-30-50-3)

c. Impairment loss of long-lived assets classified as held and used (see paragraph 360-10-50-2)

d. Gain or loss recognized in accordance with paragraphs 360-10-35-37 through 35-45 and 360-10-40-5 for long-lived assets classified as held for sale or disposed of (see paragraph 360-10-50-3)

e. Each major type of cost associated with an exit or disposal activity (for example, one-time employee termination benefits, contract termination costs, and other associated costs) (see paragraph 420-10-50-1)

f. Components of net benefit cost recognized (other than service cost amounts included within employee compensation) (see paragraph 715- 20-50-1(h))

g. Bargain purchase gain recognized in a business combination (see paragraph 805-30-50-1(f))

h. Any gain or loss recognized upon the deconsolidation of a subsidiary or the derecognition of a group of assets in accordance with paragraph 810-10-40-3A (see paragraph 810-10-50-1B)

i. Gains and losses on derivative instruments (and nonderivative instruments that are designated and qualify as hedging instruments in accordance with paragraphs 815-20-25-58 and 815-20-25-66) and related hedged items (see paragraph 815-10-50-4A)

j. Amortization of license agreements for program material (see paragraph 920-350-50-2)

k. Impairment of license agreements for program material (see paragraph 920-350-50-4)

l. Amortization of film costs (see paragraph 926-20-50-4A)

m. Impairment of film costs (see paragraph 926-20-50-4C).

These disclosures shall be included in the tabular format disclosure required by paragraph 220-40-50-6 using the same frequency (that is, whether the disclosure is required at interim and annual reporting periods or only annual reporting periods) as required by the corresponding Topic.

**ASC 220-40-50-22**

An entity shall disclose, in the same tabular format disclosure in which the disclosures required by paragraph 220-40-50-6 are provided, each of the following amounts if those amounts are included entirely in one expense caption that also is a relevant expense caption (see paragraphs 220-40-50-12 through 50-13 for guidance on identifying relevant expense captions):

a. Provision for expected credit losses (see paragraphs 326-20-50-13 and 326-30-50-9)

b. Losses on firm purchase commitments (see paragraph 330-10-50-5)

c. Amortization expense attributable to the expiration of an insurance or reinsurance coverage provided under a contract that transfers only significant underwriting risk (see paragraph 340-30-50-2)

d. Amortization of costs to fulfill a contract with a customer (see paragraph 340-40-50-3)

e. Impairment of costs to fulfill a contract with a customer (see paragraph 340-40-50-3)

f. Amortization of costs to obtain a contract with a customer (see paragraph 340-40-50-3)

g. Impairment of costs to obtain a contract with a customer (see paragraph 340-40-50-3)

h. Amortization of capitalized implementation costs of hosting arrangements that are service contracts (see paragraph 350-40-50-3)

i. Asset retirement obligation accretion expense (see paragraph 410-20-50-1)

j. Loss contingencies recognized (see paragraph 450-20-50-1)

k. Warranty expense (the total of expenses recognized related to aggregate changes in the liability for accruals related to product warranties issued during the reporting period and the aggregate changes in the liability for accruals related to preexisting warranties, including adjustments related to changes in estimates) (see paragraph 460-10-50-8)

l. Expense related to counterparty default in own-share lending arrangements issued in contemplation of convertible debt issuance (see paragraph 470-20-50-2C)

m. Aggregate gain on restructuring of payables by a debtor with a troubled debt restructuring (see paragraph 470-60-50-1)

n. Gains and losses upon consolidation of a variable interest entity that is not a business (see paragraph 810-10-50-3)

o. Foreign currency transaction gains or losses (see paragraph 830-20-50-1)

p. Operating lease cost (see paragraph 842-20-50-4)

q. Short-term lease cost (see paragraph 842-20-50-4)

r. Variable lease cost (see paragraph 842-20-50-4)

s. Net gain or loss recognized from sale and leaseback transactions (see paragraph 842-20-50-4)

t. Gains and losses from nonmonetary transactions (see paragraph 845-10-50-1)

u. Amortization of capitalized acquisition costs (see paragraph 944-30-50-1(c)).

These disclosures shall be included in the tabular format disclosure required by paragraph 220-40-50-6 using the same frequency (that is, whether the disclosure is required at interim and annual reporting periods or only annual reporting periods) as required by the corresponding Topic.

The guidance in ASC 220-40-50-21 requires an entity to integrate certain expenses, gains and losses that are already required to be disclosed when disaggregating relevant expense captions in a tabular format disclosure in accordance with ASC 220-40-50-6. For example, ASC 926-20, *Entertainment—Films—Other Assets—Film Costs*, requires that an entity disclose the amount of amortization of film costs and the caption in the income statement where the amortization is presented. Therefore, if film cost amortization is included in a relevant expense caption, it should be incorporated into the tabular format disclosure.

Additionally, ASC 220-40-50-22 requires that an entity integrate other disclosures in the tabular format disclosure if the amounts meet all of the following:

- Already required to be disclosed under current U.S. GAAP
- Not subject to a current requirement to disclose the caption(s) in the income statement where the amount is presented
- Entirely recognized in one expense caption that is also a relevant expense caption determined in accordance with the guidance in ASC 220-40-50-12 through 50-13

For example, as stated in BC105 of ASU 2024-03, the amounts of amortization of costs to fulfill a contract with a customer and warranty accruals are required to be disclosed under current U.S. GAAP, but there is no requirement to disclose the caption in the income statement where those expenses are presented. Therefore, if the amortization of costs to fulfill a contract with a customer and warranty expenses were classified entirely in cost of goods sold, and cost of goods sold was determined to be a relevant expense caption, then an entity is required to include the amortization of costs to fulfill a contract with a customer and warranty expenses in the tabular format disclosure that disaggregates cost of goods sold.

 

It is important to note that an entity is only required to incorporate the items listed in ASC 220-40-50-22 in the tabular format disclosure when those items are entirely recognized in one line item presented on the income statement that is also a relevant expense caption. If the item is included in multiple relevant expense captions, the amount is included in the “other” category within the tabular disclosure of each relevant expense caption where the amount is recorded.

The FASB believes that incorporating the existing disclosure requirements into the tabular format disclosure introduced by ASU 2024-03 will assist investors in locating relevant information while minimizing the risk of significant incremental costs for preparers. In addition, the FASB expects that incorporating those disclosures will improve the relevance of the tabular format disclosure by reducing the amounts disclosed in the “other” expense categories.

**ASC 220-40-50-23**

If there is a change in facts and circumstances that results in an item listed in paragraph 220-40-50-22 changing from being included in one relevant expense caption in the current reporting period and multiple relevant expense captions in a comparative period, or vice versa, an entity shall provide the disclosure required by paragraph 205-10-50-1.

**ASC 220-40-50-24**

The presence of the expenses, gains, and losses listed in paragraphs 220-40-50-21 through 50-22 would not cause an expense caption to be a relevant expense caption. An entity only shall include the applicable expenses listed in paragraphs 220-40-50-21 through 50-22 in the tabular format disclosures if an expense caption is a relevant expense caption in accordance with paragraphs 220-40-50-12 through 50-13.

**ASC 220-40-50-25**

To illustrate the application of the requirements in paragraph 220-40-50-22, if cost of sales was a relevant expense caption (because cost of sales includes purchases of inventory described in paragraph 220-40-50-6(a)) and if amortization of costs to fulfill a contract with a customer was recognized entirely in cost of sales and not in multiple expense captions presented on the face of the income statement, then amortization of costs to fulfill a contract with a customer would be required to be included as a separate category in the tabular format disclosure in addition to the categories required by paragraph 220-40-50-6.

The presence of any expenses, gains and losses listed in ASC 220-40-50-21 through 50-22 in an income statement line item does not itself cause that line item to be a relevant expense caption. Pursuant to ASC 220-40-50-24, a line item on the income statement would only be deemed a relevant expense caption and require tabular disclosure if the line item was (1) presented within continuing operations and (2) contained an expense specified in ASC 220-40-50-6 (see Section 2.2). For example, the inclusion of an impairment loss recognized on an intangible asset (see ASC 220-40-50-21(b)) within an income statement line item would not cause that line item to be a relevant expense caption unless that line item also contained one of the expense categories listed in ASC 220-40-50-6 (see Section 2.2).

Lastly, ASC 220-40-50-23 requires that an entity provide the disclosure required by ASC 205-10-50-1 if there is a change in facts and circumstances that results in an item listed in ASC 220-40-50-22 changing from being included in one relevant expense caption to being included in multiple relevant expense captions (or vice versa) between reporting periods. An entity is not required to recast its prior-period disclosure in the period of change. In these circumstances, the FASB concluded that providing information explaining the change in presentation is sufficient.

 

### 2.4.11 Use of estimates

While deliberating the new disclosure requirements, the FASB acknowledged that preparing the disaggregated disclosures required by ASC 220-40 based on transaction-level detail may be difficult for some entities, especially those with complex manufacturing operations. Such an approach could be burdensome due to intra-entity departmental allocations, costing and absorption methodologies, and other bookkeeping practices involved in preparing consolidated financial statements.

As a result, ASC 220-40-55-2 allows entities to use estimates or other methods that produce a reasonable approximation of the amounts required to be disclosed. As explained in paragraph BC53 of ASU 2024-03, entities may use a systematic and rational approach to prepare disclosure information, including estimates or other methods that result in a reasonable approximation of amounts when disaggregating required expense categories from the relevant expense captions. Many entities likely already use estimation techniques for financial reporting purposes.

#### 2.4.11.1 Circumstances where estimates are frequently used or may be necessary

The amounts presented on the income statement for each relevant expense caption are typically based on estimates when costs incurred relate to activities that support several functional areas (e.g., the cost of executive management or other corporate functions that support various functions within an organization). Disaggregated information about certain costs related to inventory sold that are accumulated in overhead cost pools or overhead cost variance accounts will also likely be based on management estimates because disaggregation at the transaction-level may prove to be too difficult. Under ASC 220-40, the manufacturing overhead, corporate overhead and standard cost variance components of an entity's cost of goods sold must be disaggregated into the five expense categories discussed in Section 2.2.

- *Allocation of manufacturing overhead costs*

  Generally, entities should be able to identify the costs of materials purchased and direct labor incurred in the manufacturing process at the transaction level. However, components of manufacturing overhead are frequently accumulated into cost pools and then allocated to units of inventory. These pools often include costs of varying nature, such as depreciation and amortization of buildings, machinery and other equipment used in the manufacturing process, compensation costs of manufacturing supervisory personnel and other costs such as property and casualty insurance and non-income-based taxes. Once accumulated in overhead cost pools, these costs are allocated to individual units of inventory based on factors such as usage, square footage or time incurred (referred to as allocation drivers). As a result, the amount of overhead cost included in a unit of inventory often consists of costs from multiple expense categories.

- *Allocation of corporate overhead costs*

  A similar challenge may exist when disaggregating corporate overhead costs that have been capitalized to inventory.

  Corporate activities generally support various functions within an organization. For example, executive management and other corporate activities such as procurement, legal and human resource departments assist various functions within the entity. Costs related to these activities, such as employee compensation and the depreciation or amortization of facilities or equipment that they use, frequently span multiple expense categories. Entities frequently accumulate those costs in corporate overhead cost pools, which are then allocated to the various functions that are supported by the corporate activity. Corporate overhead costs allocated to the manufacturing function are further allocated to units of inventory in a manner similar to the allocation of manufacturing overhead costs.

 

- *Standard cost variances*

  Entities frequently record manufacturing costs at their standard cost. The standard is based on the estimated cost and usage of materials, labor and overhead activities used in the manufacturing process. The use of a standard cost system for labor, materials and overhead costs eliminates the need for the entity to continually update the carrying amount of its inventory. Differences between the estimated standard cost and actual costs incurred, called variances, are then recorded as adjustments to inventory costs at the end of each reporting period.

#### 2.4.11.2 Approaches for using estimates to develop disclosures required by ASC 220-40

When electing to use estimates to develop the information required to be disclosed under ASC 220-40, an entity should create and document a process that details their use of estimates and explain how the estimates it develops yield an output that is not materially different from that which would be obtained by using transaction level data.

- *Catalog the current use of estimates*

An entity should first document where estimates are currently used in the financial reporting process. It is likely that certain estimates used in an entity's cost accounting systems will also be used to develop the disclosures required by ASC 220-40-50-6.

To perform this activity, an entity should review its current financial reporting process and validate the source for amounts that are currently used. An entity should continue this process until it is able to reconcile amounts recorded in the financial statements to those initially recorded in the general ledger, identifying where estimates are used in the cost accumulation and allocation process.

- *Assess the materiality of estimated costs allocated to business functions*

After identifying where estimates are used in developing the amounts included in each relevant expense caption presented on the face of the income statement, an entity should determine how sensitive the amounts are to changes in the assumptions on which the estimate is based. For example, an entity may allocate corporate general and administrative overhead to multiple functions based on the estimated time that senior management devotes to each function. The greater the amount of allocable overhead costs relative to the amount of relevant expense captions and related expense categories discussed in Section 2.2, the greater the risk of a material misstatement. For those estimates with greater sensitivity and greater risk of material misstatement, an entity should apply more robust procedures to assure the reasonableness of the estimates used in the allocation.

- *Assess the accuracy of estimated costs*

An entity should validate assumptions used to allocate costs to relevant expense captions that are material to the line item. For example, for an amount of corporate overhead that is allocated to a relevant expense caption based on the estimated amount of time individuals devote to a particular function, an entity should clearly document the basis for its allocation methodology and why it believes the estimate is reasonable. Evidence to support an entity's assessment may include peer group studies and internal time analyses, as well as evidence obtained through other procedures. An entity may also perform further sensitivity analysis to quantify the amount of potential error given various changes to estimation assumptions.

Additionally, an entity should periodically reassess the accuracy of estimates used. As its operations evolve, an entity should evaluate the underlying assumptions used to allocate overhead costs to ensure they reflect the current business practices. If the assumptions no longer reflect the current operations of the entity, they should be updated to reflect the changes.

Finally, an entity should ensure that any estimates used to comply with the new disclosure requirements are also consistent with those used in other aspects of its financial reporting process.

 

#### 2.4.12 Other presentation matters

Entities will need to consistently apply and present the disclosure requirements for all periods presented. If an entity makes any changes to its display of the disclosure requirements, the reason for the change needs to be disclosed in the period of the change (interim or annual, as applicable) and the prior periods presented must be recast. Such changes are not considered to be a change in accounting principle under ASC 250, *Accounting Changes and Error Corrections*.

### 2.5 Disclosure requirements – interim considerations

For interim reporting, some entities present condensed income statements; as a result, the income statement captions presented can differ between their interim and annual financial statements. In those instances, the resulting disaggregated expense disclosures may differ between interim and annual reporting periods. That is because the disaggregation requirements of ASC 220-40 apply to the income statement captions presented in the given reporting period and entities are not required to have the same relevant expense captions between interim and annual reporting periods (ASC 220-40-50-5).

### 2.6 Changing to an alternative presentation when disaggregating relevant expense captions

Generally, the disclosure requirements in ASC 220-40 should be applied consistently for all periods presented (see also Section 2.4.12). In accordance with ASC 220-40-50-4, if an entity changes its display of the disclosure requirements in the current reporting period as a result of a change in the election of an alternative (e.g., disaggregation of cost of goods sold from the expense-incurred method of accounting to the cost-incurred method of accounting) or a change in a definition of a disclosure in ASC 220-40, the entity should both:

- Disclose the reason for the change in the period of the change (in the interim and annual reporting periods affected by the change)
- Recast the prior periods presented for comparative purposes, except for the requirements in ASC 220-40-50-22 through 50-23 (see Section 2.4.10), unless it is impracticable to do so. If it is impracticable to do so, the entity should disclose that fact and explain why it is impracticable to recast prior periods.

The changes described above do not represent a change in accounting principle in accordance with ASC 250 on accounting changes and error corrections.

## 3. Effective date and transition requirements

As clarified by ASU 2025-01,[1] the amendments in ASU 2024-03 (which were codified in ASC 220-40) are effective for annual reporting periods beginning after December 15, 2026, and interim reporting periods within annual reporting periods beginning after December 15, 2027. Early adoption is permitted.

The amendments in ASU 2024-03 should be applied either prospectively to financial statements for reporting periods beginning after the effective date of the ASU or retrospectively to any or all prior periods (annual or interim) presented in the financial statements. When evaluating how it will implement the guidance in ASU 2024-03, an entity should weigh the level of effort required for retrospective adoption against the potential benefits of providing investors with information which they have long been seeking.

[1] ASU 2025-01, Income Statement—Reporting Comprehensive Income—Expense Disaggregation Disclosures (Subtopic 220-40): Clarifying the Effective Date

 

# 4. Implementation considerations

While the effective date of ASU 2024-03 may seem far off, there are some things that entities should begin planning now to ensure they are ready to apply the disclosure requirements.

Entities will want to begin reviewing their current income statement mapping to determine if system changes are needed to comply with the disaggregated disclosure requirements of the new standard. The financial reporting team will need to involve the information technology department to make the necessary system updates. Sufficient time should be allowed to review and test any system and mapping changes to ensure they are working properly and adhere to the entity's systems controls. Additionally, entities will want to review their current internal controls over financial reporting, as well as disclosure controls and procedures, to determine if changes need to be made for any new or updated processes that are necessary because of the adoption of ASU 2024-03.

Key steps in this process include:

- Developing a thorough understanding of the new disclosure requirements
- Assessing the process and systems requirements necessary to comply with the new disclosure requirements
- Comparing the requirements to the current mapping and accumulation capabilities of existing processes and systems
- Developing a gap assessment, consisting of the upgrades or changes necessary to comply with the new disclosure requirements
- Preparing a detailed project plan to develop systems and processes that support compliance; the plan should address necessary changes to internal controls over financial reporting (ICFR) both in the implementation and ongoing application of the new disclosure standard

While an entity's finance function will likely assume primary responsibility for implementing the amendments in ASU 2024-03, successful implementation will involve other functions from within the entity, such as IT and operations. Appropriate personnel from these departments should be involved in the implementation plan. Entities should develop cross-functional teams that understand the requirements of the new standard as well as the systems and operational requirements necessary to implement it.

## 4.1 Assessing the current state of systems and processes and developing a gap analysis

While the new disclosure requirements may be significantly more extensive than what is required under legacy U.S. GAAP, entities should be able to leverage existing financial reporting processes to obtain some, if not most, of the information required under the new standard. For example, entities must already aggregate account information to comply with the depreciation disclosure requirements in ASC 360. Further, they must already comply with the disclosure requirements for expenses listed in ASC 220-40-50-21 and 50-22 related to tabular integration of other disclosure requirements. Other information that is required to be disclosed under the new standard may already be accumulated as part of regulatory filings (e.g., employee compensation costs).

However, it is likely that some entities, especially those that manufacture their own inventory, will require considerable effort to enhance systems and processes to disaggregate the cost of goods sold relevant expense caption. The information needed for this disaggregation may be contained in various locations, such as the reporting entity's cost-accounting and general ledger systems. Integrating the information into a format that complies with the requirements of the new standard may be challenging and time consuming.

 

Based on the gap assessment between existing and needed system and process capabilities, an entity should develop a comprehensive list of barriers that could inhibit compliance with the new disclosure requirements. Utilizing the insights of its cross-functional implementation team, the entity should brainstorm potential responses to these barriers that balance compliance with the new disclosure requirements with the initial implementation and ongoing maintenance costs. This includes also considering when it would be appropriate to utilize estimates to develop the information required for disclosure. By developing alternative approaches to comply with the new disclosure requirements, an entity may develop a more cost-effective implementation plan that considers the flexibility provided by the ASU.

**RSM COMMENTARY: Information technology application and general controls**

If implementing changes to financial reporting systems, entities should update their internal controls over the use of information technology. In this review, entities should consider the following:

- *Automated review of coding/IT application controls*: Whether to automate a workflow to help facilitate review of general ledger coding at the purchase requisition or invoice level. Any automation should be appropriately configured and incorporated into management's control framework.
- *Key reports*: Whether new key reports are needed to help facilitate review of the new expense categories within the required disclosures. The configuration of the key report, or the manual review of such a report, needs to be incorporated into management's control framework.
- *Segregation of duties*: Whether appropriate segregation of duties exists within the purchasing process between those involved in the initial recording of transactions and those involved in reviewing those journal entries when developing the disclosures required by ASU 2024-03.
- *New configuration of expense accounts*: Whether new accounts need to be added to the financial reporting system, and subject to appropriate controls, to capture the required expense categories.

Entities should ensure they have proper information technology general controls around the relevant systems, most notably around user access and change management, given that several changes may need to be implemented in the system as a result of adopting in amendments in ASU 2024-03.

## 4.2 Implementation timeline

Developing a new—or enhancing an existing—process to prepare disclosures that fulfill the requirements of ASU 2024-03 may take considerable time. The project timeline should ensure sufficient opportunity to perform one or more dry runs, where the updated systems are tested to ensure that their output results in complete and accurate amounts that are prepared in accordance with the amendments in ASU 2024-03, both for annual and interim reporting. The timeline should also consider the need to develop, implement and test any new or updates to ICFR, inclusive of the time required for the entity's auditors to test the implementation of the ASU and any resulting updates to ICFR processes and controls.

## 4.3 Considerations for Year 2025

For interim and year-end 2025 reporting, entities should determine if they need to include or update existing Staff Accounting Bulletin (SAB) 74 disclosures in their Form 10-Q or Form 10-K filings. SAB 74 is codified in SAB Topic 11M, *Disclosure of the Impact That Recently Issued Accounting Standards Will*

 

*Have On The Financial Statements Of The Registrant When Adopted In A Future Period*. Because the amendments in ASU 2024-03 will only impact the disclosures accompanying the financial statements, SAB 74 encourages entities to disclose that an ASU has been issued, but that its adoption will not have a material impact on the entity's financial position or results of operation.

Entities may also want to start considering how they will define selling expenses and whether any updates or changes should be made to the information included or discussed in press releases or investor presentations. Further, entities may want to align how they describe the results of operations in their Management Discussion and Analysis section of SEC filings to be consistent with how expenses are disclosed under ASU 2024-03.

If an entity is considering an IPO or other transaction that would change its reporting status to a PBE, the entity will want to consider its approach to adopting the amendments in ASU 2024-03 and include that into its IPO readiness assessment if the IPO or transaction timing is near the effective date of the new standard.

# Appendix A: Illustrative Examples and Implementation Guidance

**Example A-1: Disaggregation of income statement expenses by an entity with manufacturing and service operations (ASC 220-40-55-3 through 55-12)**

This Example illustrates one type of tabular format disclosure that an entity could use to disclose disaggregated expense amounts in accordance with paragraphs 220-40-50-1 through 50-34. This Example also illustrates the disclosure of selling expenses in accordance with paragraphs 220-40-50-35 through 50-36.

For the year ended December 31, 20X4, Entity X, which is a manufacturer with significant service operations, presents the following comparative income statement.

| Entity X<br>Consolidated Income Statement<br>For the Years Ended December 31, 20X4, 20X3, and 20X2 | | | |
|---|---|---|---|
| | **20X4** | **20X3** | **20X2** |
| Revenues: | | | |
| Products | $ 82,144 | $ 79,137 | $ 75,180 |
| Services | 26,132 | 23,146 | 21,989 |
| Total revenues | 108,276 | 102,283 | 97,169 |
| Operating expenses: | | | |
| Costs of products sold | 63,456 | 60,898 | 57,244 |
| Cost of services | 10,496 | 9,568 | 8,898 |
| Selling, general, and administrative | 20,849 | 18,871 | 18,116 |
| Total operating expenses | 94,801 | 89,337 | 84,258 |
| Operating income | 13,475 | 12,946 | 12,911 |
| Interest expense | 4,971 | 4,213 | 4,297 |
| Income before income taxes | 8,504 | 8,733 | 8,614 |
| Income tax expense | 1,786 | 1,834 | 1,809 |
| Net income | $ 6,718 | $ 6,899 | $ 6,805 |

Entity X provides a disclosure that disaggregates the cost of products sold; cost of services; and selling, general, and administrative expense captions into the categories listed in paragraph 220-40-50-6. Those expense captions were identified as relevant expense captions because those captions contain one or more of the expense categories listed in paragraph 220-40-50-6. Even though Entity X presents other expense captions on the face of its consolidated income statement, such as interest expense and income tax expense, those expense captions do not contain any of the expense categories listed in paragraph 220-40-50-6 (including those described in paragraphs 220-40-50-10 through 50-11); therefore, those expense captions do not need to be disaggregated.

Because cost of products sold contains amounts related to inventory within the scope of Topic 330, Entity X may elect to disclose the amounts under a cost-incurred basis or expense-incurred basis. In this

 

Example, Entity X chooses to disclose the disaggregation of cost of products sold on a cost-incurred basis (that is, the amounts disclosed include costs incurred that were capitalized to inventory during the current reporting period and costs incurred that were directly expensed during the current reporting period) in accordance with paragraph 220-40-50-31(a). Because Entity X discloses the required expense categories using a cost-incurred basis, the entity discloses the changes in inventories caption and the other adjustments and reconciling items caption in accordance with paragraphs 220-40-50-32 through 50-33. In accordance with paragraph 220-40-50-34, Entity X qualitatively describes the nature of amounts included in other adjustments and reconciling items. If Entity X had instead disclosed the required expense categories on an expense-incurred basis (that is, the amounts disclosed comprise expense amounts related to the derecognition of inventory that was previously capitalized in accordance with Topic 330 and any costs incurred that were directly expensed during the current reporting period) in accordance with paragraph 220-40-50-31(b), then the changes in inventories caption and the other adjustments and reconciling items caption would not be necessary in the disaggregation disclosure.

Entity X also recognizes impairment of property, plant, and equipment classified as held and used in selling, general, and administrative expenses and, therefore, includes that impairment as a separate category in the tabular format disclosure in accordance with paragraph 220-40-50-21(c).

Entity X recognizes expenses associated with warranty accruals entirely within cost of products sold and, therefore, includes warranty expense as a separate category in accordance with paragraph 220-40-50-22(k).

Entity X recognizes operating lease costs in both cost of services and selling, general, and administrative expenses. Therefore, in accordance with paragraph 220-40-50-22, Entity X is not required to separately disclose the amounts of cost of services and selling, general, and administrative expenses that are attributable to operating lease cost. Instead, those expenses are included in the amount for other items for each relevant expense caption in accordance with paragraph 220-40-50-30.

Entity X recognizes amounts related to the initial recognition and subsequent measurement of a liability for an environmental obligation in cost of products sold (see Subtopic 410-30 on asset retirement and environmental obligations). In accordance with paragraph 220-40-50-16, Entity X is not required to disaggregate that amount into the expense categories listed in paragraph 220-40-50-6. Instead, that expense is included in the amount for other items in accordance with paragraph 220-40-50-30.

Entity X provides the following disclosure.

| **Disaggregation of Relevant Expense Captions** | | | |
|---|---|---|---|
| | **20X4** | **20X3** | **20X2** |
| **Cost of products sold** | | | |
| *Cost of products sold* | | | |
| Purchases of inventory | $ 20,213 | $ 19,199 | $ 16,319 |
| Employee compensation | 17,578 | 16,539 | 14,078 |
| Depreciation | 10,190 | 9,989 | 9,650 |
| Intangible asset amortization | 3,914 | 4,050 | 3,929 |
| Warranty expense | 4,394 | 3,952 | 3,894 |
| Other cost of products sold[(a)] | 7,552 | 7,606 | 7,993 |
| Changes in inventories | 157 | (861) | 843 |

 

| Disaggregation of Relevant Expense Captions | | | |
|---|---|---|---|
| Other adjustments and reconciling items[b] | (542) | 424 | 538 |
| Total cost of products sold | $ 63,456 | $ 60,898 | $ 57,244 |

(a) Other cost of products sold consists primarily of amounts paid to carriers for outbound freight services related to contract fulfillment and amounts related to the measurement of a liability for an environmental obligation for the years ended December 31, 20X4, 20X3, and 20X2. Year ended December 31, 20X4, also includes inventory amounts recognized as part of a business combination.

(b) Other adjustments and reconciling items consist of reconciling adjustments attributable to differences in the foreign exchange rates used to translate beginning inventory, ending inventory, and costs incurred from various functional currencies into the reporting currency for the years ended December 31, 20X4, 20X3, and 20X2.

| Cost of services | | | |
|---|---|---|---|
| *Cost of services* | | | |
| Employee compensation | $ 6,598 | $ 5,654 | $ 4,354 |
| Depreciation | 763 | 765 | 742 |
| Intangible asset amortization | 642 | 670 | 650 |
| Other cost of services[c] | 2,493 | 2,479 | 3,152 |
| Total cost of services | $ 10,496 | $ 9,568 | $ 8,898 |

(c) Other cost of services consists primarily of operating lease and travel expenses for the years ended December 31, 20X4, 20X3, and 20X2.

| Selling, general, and administrative | | | |
|---|---|---|---|
| *Selling, general, and administrative (SG&A)* | | | |
| Employee compensation | $ 13,242 | $ 11,379 | $ 10,764 |
| Depreciation | 1,454 | 1,755 | 1,737 |
| Property, plant, and equipment impairment | 412 | - | - |
| Intangible asset amortization | 523 | 596 | - |
| Other SG&A[d] | 5,218 | 5,141 | 5,615 |
| Total SG&A | $ 20,849 | $ 18,871 | $ 18,116 |

(d) Other SG&A consists primarily of professional services fees and operating lease expense for the years ended December 31, 20X4, 20X3, and 20X2.

In addition to the tabular format disclosure illustrated in paragraph 220-40-55-11, Entity X also must disclose its selling expenses and how it defines selling expenses in accordance with paragraphs 220-40-50-35 through 50-36.

*Selling Expenses*

During the years ended December 31, 20X4, 20X3, and 20X2, selling expenses were $13,425, $12,123, and $11,585, respectively. The entity's selling expenses include those expenses related to marketing and promotional activities and client relationship management.

**Example A-2: Disaggregation of income statement expenses by an entity with service operations (ASC 220-40-55-13 through 55-19)**

This Example illustrates one type of tabular format disclosure that an entity could use to disclose disaggregated expense amounts in accordance with paragraphs 220-40-50-1 through 50-34. This Example also illustrates the disclosure of selling expenses in accordance with paragraphs 220-40-50-35 through 50-36.

For the year ended December 31, 20X4, Entity X, which is a services provider, presents the following comparative income statement.

**Entity X**
**Consolidated Income Statement**
**For the Years Ended December 31, 20X4, 20X3, and 20X2**

| | 20X4 | 20X3 | 20X2 |
|---|---|---|---|
| Revenues | $ 737,132 | $ 710,146 | $ 694,180 |
| Cost of sales (exclusive of depreciation and amortization shown separately below) | 140,055 | 170,435 | 145,778 |
| Depreciation and amortization related to cost of sales | 31,578 | 26,178 | 23,628 |
| Selling, general, and administrative expenses | 497,962 | 458,215 | 471,626 |
| Research and development expenses | 57,235 | 52,174 | 48,898 |
| Operating income | 10,302 | 3,144 | 4,250 |
| Interest expense | 3,145 | 2,665 | 2,297 |
| Income before income taxes | 7,157 | 479 | 1,953 |
| Income tax expense | 1,503 | 101 | 410 |
| Net income | $ 5,654 | $ 378 | $ 1,543 |

Entity X provides a disclosure that disaggregates the cost of sales; depreciation and amortization; selling, general, and administrative expenses; and research and development expenses captions into the categories listed in paragraph 220-40-50-6. Those expense captions were identified as relevant expense captions because those captions contain one or more of the expense categories listed in paragraph 220-40-50-6. Even though Entity X presents other expense captions on the face of its consolidated income statement, such as interest expense and income tax expense, those expense captions do not contain any of the expense categories listed in paragraph 220-40-50-6 (including those described in paragraphs 220-40-50-10 through 50-11); therefore, those expense captions do not need to be disaggregated.

 

Entity X also recognizes one-time employee termination benefits in cost of sales; selling, general, and administrative expenses; and research and development expenses and, therefore, includes this amount as a separate category in the tabular format disclosure in accordance with paragraph 220-40-50-21. Paragraph 220-40-50-21(e) requires that an entity disclose the amount of each major type of cost associated with an exit or disposal activity (for example, one-time employee termination benefits) that is recognized in each relevant expense caption in the same tabular format in which the disclosures required by paragraph 220-40-50-6 are provided. Because one-time employee termination benefits are a form of employee compensation, Entity X discloses that its employee compensation category excludes one-time employee termination benefits because one-time employee termination benefits are disclosed as a separate category.

Entity X has a funded research and development cost-sharing arrangement with a strategic partner. Entity X recognizes an expense reimbursement from the strategic partner in research and development expenses and, in accordance with paragraph 220-40-50-26(a), elects to separately disclose the amount of that expense reimbursement. If Entity X had elected to present a relevant expense caption net of an expense reimbursement from another entity, it would have been required to disclose the amount of the expense categories that are included in each relevant expense caption. Additionally, in accordance with paragraph 220-40-50-29, Entity X qualitatively describes the expense categories to which the reimbursement relates.

Entity X provides the following disclosure.

| Disaggregation of Relevant Expense Captions | | | |
|---|---|---|---|
| | **20X4** | **20X3** | **20X2** |
| **Cost of sales** | | | |
| *Cost of sales* | | | |
| Employee compensation (exclusive of one-time employee termination benefits) | $ 86,336 | $ 83,903 | $ 100,009 |
| One-time employee termination benefits | 7,434 | 39,298 | - |
| Other cost of sales[(a)] | 46,285 | 47,234 | 45,769 |
| Total cost of sales | $ 140,055 | $ 170,435 | $ 145,778 |

(a) Other cost of sales consist primarily of subcontractor costs and travel expenses for the years ended December 31, 20X4, 20X3, and 20X2.

| **Depreciation and amortization related to cost of sales** | | | |
|---|---|---|---|
| *Depreciation and amortization related to cost of sales* | | | |
| Depreciation | $ 19,126 | $ 17,984 | $ 17,893 |
| Intangible asset amortization | 12,452 | 8,194 | 5,735 |
| Total depreciation and amortization related to cost of sales | $ 31,578 | $ 26,178 | $ 23,628 |

 

| **Selling, general, and administrative expenses** | | | |
|---|---|---|---|
| *Selling, general, and administrative expenses (SG&A)* | | | |
| Employee compensation (exclusive of one-time employee termination benefits) | $ 278,859 | $ 238,272 | $ 301,841 |
| One-time employee termination benefits | 19,243 | 60,635 | - |
| Other SG&A[b] | 199,860 | 159,308 | 169,785 |
| Total cost of sales | $ 497,962 | $ 458,215 | $ 471,626 |

(b) Other SG&A consists primarily of professional services fees and the costs paid to third parties for printing, publications, and advertising for the years ended December 31, 20X4, 20X3, and 20X2.

| **Research and development expenses** | | | |
|---|---|---|---|
| *Research and development expenses (R&D)* | | | |
| Employee compensation (exclusive of one-time employee termination benefits) | $ 46,242 | $ 41,379 | $ 40,764 |
| One-time employee termination benefits | 1,454 | 1,855 | - |
| Other R&D[c] | 17,836 | 16,845 | 15,890 |
| Cost reimbursements[d] | (8,297) | (7,905) | (7,756) |
| Total R&D | $ 57,235 | $ 52,174 | $ 48,898 |

(c) Other R&D consists primarily of payments to third parties for professional services and licenses of intellectual property for the years ended December 31, 20X4, 20X3, and 20X2.

(d) Cost reimbursements consist of payments from a strategic partner for employee compensation and materials costs related to R&D incurred as part of a funded research and development arrangement for the years ended December 31, 20X4, 20X3, and 20X2.

In addition to the tabular format disclosure illustrated in paragraph 220-40-55-18, Entity X also must disclose its selling expenses and how it defines selling expenses in accordance with paragraphs 220-40-50-35 through 50-36.

*Selling Expenses*

During the years ended December 31, 20X4, 20X3, and 20X2, selling expenses were $224,536, $223,493, and $231,892, respectively. The entity’s selling expenses include those expenses related to advertising and certain customer acquisition-related costs.

 

**Example A-3: Disaggregation of income statement expenses by a bank (ASC 220-40-55-20 through 55-25)**

This Example illustrates one type of tabular format disclosure that an entity could use to disclose disaggregated expense amounts in accordance with paragraphs 220-40-50-1 through 50-34. This Example also illustrates the disclosure of selling expenses in accordance with paragraphs 220-40-50-35 through 50-36.

For the year ended December 31, 20X4, Entity X, which is a bank, presents the following comparative income statement.

| Entity X<br>Consolidated Income Statement<br>For the Years Ended December 31, 20X4, 20X3, and 20X2 | | | |
|---|---|---|---|
| | 20X4 | 20X3 | 20X2 |
| Interest income | | | |
| Loans | $ 2,795,052 | $ 2,142,873 | $ 2,072,997 |
| Investment securities | 628,887 | 442,550 | 465,842 |
| Other | 209,629 | 116,461 | 79,193 |
| Total interest income | 3,633,568 | 2,701,884 | 2,618,032 |
| Interest expense | | | |
| Deposits | 302,797 | 30,280 | 151,399 |
| Borrowed funds | 279,505 | 83,852 | 167,703 |
| Total interest expense | 582,302 | 114,132 | 319,102 |
| Net interest income | 3,051,266 | 2,587,752 | 2,298,930 |
| Provision for (recapture of) credit losses | 116,461 | (186,337) | 372,674 |
| Net interest income after provision for (recapture of) credit losses | 2,934,805 | 2,774,089 | 1,926,256 |
| Noninterest income | | | |
| Service charges on deposit accounts | 201,702 | 171,062 | 151,969 |
| Other service charges and fees | 282,383 | 239,487 | 212,757 |
| Total noninterest income | 484,085 | 410,549 | 364,726 |
| Noninterest expense | | | |
| Salaries and employee benefits | 1,464,608 | 1,176,183 | 1,365,443 |
| Occupancy and depreciation | 376,587 | 279,875 | 349,679 |
| Data processing | 166,111 | 146,308 | 161,046 |
| Advertising and marketing | 56,876 | 30,555 | 28,192 |
| Professional fees | 73,230 | 61,459 | 74,473 |

 

| Entity X<br>Consolidated Income Statement<br>For the Years Ended December 31, 20X4, 20X3, and 20X2 | | | |
|---|---|---|---|
| Other | 30,513 | 21,399 | 24,804 |
| Total noninterest expense | 2,167,925 | 1,715,779 | 2,003,637 |
| Income before income taxes | 1,250,965 | 1,468,859 | 287,345 |
| Income tax expense | 262,703 | 308,460 | 60,342 |
| Net income | $ 988,262 | $ 1,160,399 | $ 227,003 |

Entity X provides a disclosure that disaggregates the occupancy and depreciation expense and other expense captions into the categories listed in paragraph 220-40-50-6. Those expense captions were identified as relevant expense captions because those captions contain one or more of the expense categories listed in paragraph 220-40-50-6. In this Example, even though Entity X also presents separate expense captions on the face of its consolidated income statement for interest expense, provision for (recapture of) credit losses, data processing, advertising and marketing, professional fees, and income tax expense, those expense captions do not contain any of the expense categories listed in paragraph 220-40-50-6 (including those described in paragraphs 220-40-50-10 through 50-11); therefore, those expense captions do not need to be further disaggregated. Entity X applies the practical expedient for employee compensation described in paragraph 220-40-50-20 and elects to not repeat the amount presented on the face of the income statement in the notes to financial statements.

Entity X recognizes operating lease cost entirely within occupancy and depreciation expense and, therefore, includes operating lease cost as a separate category in accordance with paragraph 220-40-50-22(p).

Entity X provides the following disclosure.

| Disaggregation of Relevant Expense Captions | | | |
|---|---|---|---|
| | 20X4 | 20X3 | 20X2 |
| **Occupancy and depreciation expense** | | | |
| *Occupancy and depreciation expense* | | | |
| Depreciation | $ 164,232 | $ 146,403 | $ 145,907 |
| Operating lease expense | 152,445 | 103,239 | 149,842 |
| Other occupancy expenses[a] | 59,910 | 30,233 | 53,930 |
| Total occupancy and depreciation expense | $ 376,587 | $ 279,875 | $ 349,679 |

(a) Other occupancy expenses consist primarily of repair and maintenance expense for the years ended December 31, 20X4, 20X3, and 20X2.

 

| **Other** | | | |
|---|---|---|---|
| *Other* | | | |
| Intangible asset amortization | $ 13,139 | $ 10,980 | $ 10,068 |
| Other(b) | 17,374 | 10,419 | 14,736 |
| Total other | $ 30,513 | $ 21,399 | $ 24,804 |

(b) Other consists primarily of regulatory licensing fees and charitable contributions for the years ended December 31, 20X4, 20X3, and 20X2.

In addition to the tabular format disclosure illustrated in paragraph 220-40-55-24, Entity X also must disclose its selling expenses and how it defines selling expenses in accordance with paragraphs 220-40-50-35 through 50-36.

*Selling Expenses*

During the years ended December 31, 20X4, 20X3, and 20X2, the entity defined selling expenses to be the same as its advertising and marketing expenses, which are presented on the face of its consolidated income statement. The entity's advertising and marketing expenses include costs incurred for advertising, market research, and business development.

**Example A-4: Disaggregation of cost of goods sold by an entity using the cost-incurred basis of accounting**

This example illustrates how an entity that manufactures its inventory and uses a standard cost system to account for its inventory costs could disaggregate cost of goods sold under the cost-incurred basis of accounting.

For simplicity, only one year's income statement is presented and only the cost of goods sold line item is considered to be a relevant expense caption requiring further disaggregation of information within the notes accompanying the financial statements.

Entity A is a U.S.-based manufacturer of specialized apparel used by emergency responders. It operates several domestic manufacturing facilities. Its workers assemble garments based on individual user specifications. Its raw materials, which are sourced from both U.S. and foreign suppliers, consist primarily of rolls of Kevlar-reinforced materials that are cut to specific dimensions by Entity A's machinery. The pieces are then stitched into protective equipment by Entity A's workforce.

Entity A uses a standard cost system to account for its inventory costs. Differences between the standard cost of raw materials, manufacturing employee compensation and manufacturing overhead and their actual cost are recorded as standard cost variances, which are expensed as incurred in accordance with ASC 330-10-30. Entity A capitalizes a portion of the standard cost variance that relates to goods that remain in inventory at the end of the reporting period.

For the year ended December 31, 20X4, Entity A presents the following consolidated income statement.

 

| Consolidated Income Statement<br>For the Year Ended December 31, 20X4 | |
|---|---|
| Revenues: | |
| Products | $ 824,750,000 |
| Other | 25,250,000 |
| Total revenue | 850,000,000 |
| Operating expenses: | |
| Costs of goods sold | 532,950,000 |
| Selling, general, and administrative | 245,500,000 |
| Total operating expenses | 778,450,000 |
| Operating income | 71,550,000 |
| Interest expense | 9,000,000 |
| Income before income taxes | 62,550,000 |
| Income tax expense | 15,650,000 |
| Net income | $ 46,900,000 |

Only the cost of goods sold expense line item presented on the consolidated income statement represents a relevant expense caption because that line item contains one or more of the expense categories listed in Section 2.2. Accordingly, Entity A provides the following disclosure in the notes accompanying the financial statements that disaggregate the cost of goods sold.

| Disaggregation of Cost of Goods Sold<br>Year ended December 31, 20X4 | |
|---|---|
| Purchases of inventory | $ 92,200,000 |
| Employee compensation | 249,425,000 |
| Depreciation expense | 207,975,000 |
| Other cost of goods sold | 74,000,000[(a)] |
| Change in inventory | (91,150,000) |
| Other adjustments and reconciling items | 500,000[(b)] |
| **Total cost of goods sold** | **$ 532,950,000** |

(a) Other cost of goods sold consists primarily of utilities costs, repair and maintenance costs, state and local non-income taxes and shipping and handling costs.

(b) Other adjustments and reconciling items consist of reconciling items attributable to differences in the foreign exchange rates used to translate beginning inventory, ending inventory, and costs incurred from various functional currencies into the reporting currency for the year ended December 31, 20X4.

**NOTE:** The discussion and analysis that follows is not part of the disclosures required under ASC 220-40, but is presented to further illustrate the type of information and analysis required to provide the disclosures required under the subtopic.

*Inventory costs incurred*

Inventory costs incurred during the year ended December 31, 20X4, consist of:

- Costs of raw material purchased
- Compensation costs for manufacturing employees
- Manufacturing overhead costs comprised of:
  - Utilities cost
  - Rent costs
  - Indirect labor related to manufacturing supervisory activities
  - Depreciation of manufacturing equipment
  - Repair and maintenance costs
  - State and local non-income-based taxes
- Shipping and handling costs related to delivery of products to customers

Based on the above, Entity A summarized the inventory costs incurred during the year into the following expense categories in accordance with the guidance in ASC 220-40-50-6 (See Section 2.2):

| Inventory costs incurred during the year ended December 31, 20X4 | | | | |
|---|---|---|---|---|
| | Purchases of Inventory | Employee Compensation | Depreciation | Other |
| Costs incurred, at standard cost | $ 90,000,000 | $ 240,000,000 | $ 210,000,000 | $ 60,000,000 |
| Standard cost variances | 2,200,000 | 9,425,000 | (2,025,000) | (1,000,000) |
| Shipping and handling costs | | | | 15,000,000 |
| Total | $ 92,200,000 | $ 249,425,000 | $ 207,975,000 | $ 74,000,000 |

The totals in the above table for each expense category are included in Entity A's tabular disclosure of disaggregated cost of goods sold. Because Entity A uses a standard cost system to account for its inventory, the total costs for purchases of inventory, employee compensation and depreciation is the sum of the standard cost and the standard cost variance for each expense category.

*Inventory roll-forward*

Pursuant to ASC 220-40-50-32 (see Section 2.4.1), when there is a difference between the cost of goods sold expensed during a reporting period and the inventory costs incurred in the same period, an entity is required to include a line item in its tabular disclosure of cost of goods sold that represents the change in the entity's inventory balance from the beginning to the end of the accounting period. This line item assists in reconciling inventory costs incurred with inventory expensed during the period.

In the following table, Entity A calculates the change in its inventory balance for the period by performing a roll-forward of its inventory balance from the beginning to the end of the accounting period. In the roll-forward, increases to the beginning inventory balance represent the cost of current period manufacturing activity, recorded at standard cost. Decreases to the beginning balance of inventory represent the cost of inventory sold during the period, at its standard cost, as well as other direct adjustments to the inventory balance for items such as inventory spoilage and shrinkage. Additionally, the roll-forward includes changes in capitalized inventory cost variance accounts and the inventory obsolescence reserve. Capitalized inventory cost variances represent the amount of standard cost variances relating to items produced in the current period that remain in ending inventory at the end of the current period.

| **Inventory roll-forward for the year ended December 31, 20X4** | |
|---|---|
| Beginning balance, January 1, 20X4 | $ 350,000,000 |
| *Add* | |
| Purchases of raw materials, at standard cost | 90,000,000 |
| Direct manufacturing labor, at standard cost | 180,000,000 |
| Manufacturing overhead, as standard cost | |
| Employee compensation | 60,000,000 |
| Depreciation | 210,000,000 |
| Other production costs | 60,000,000 |
| Change in capitalized purchase price variance | 125,000 |
| Change in capitalized manufacturing variance – labor | 925,000 |
| Change in capitalized manufacturing variance – manufacturing overhead | 600,000 |
| FX translation adjustment | 500,000 |
| *Less* | |
| Cost of inventory sold, at standard cost | (500,000,000) |
| Inventory shrinkage | (5,000,000) |
| Manufacturing waste | (4,000,000) |
| Change in obsolescence reserve | (2,000,000) |
| Ending balance, December 31, 20X4 | $ 441,150,000 |
| **Change in inventory** | **$ 91,150,000** |

The change in inventory amount calculated in the table above is incorporated into Entity A's disaggregated tabular disclosure of its cost of goods sold for the year ended December 31, 20X4.

 

*Other adjustments and reconciling items*

Pursuant to ASC 220-40-50-33 (see Section 2.4.1), in its disaggregated tabular disclosure for cost of goods sold, an entity is required to include other adjustments and reconciling items that are necessary to reconcile inventory costs incurred during the period to inventory costs expensed during the period.

For Entity A, this line item in the disaggregated tabular disclosure of cost of goods sold for the year ended December 31, 20X4, totaled $500,000 and represents the amount attributable to differences in foreign currency exchange rates used to translate costs incurred, the beginning balance of inventory and the ending balance of inventory in accordance with ASC 830-30.

# Appendix B: U.S. GAAP versus IFRS

Entities reporting under IFRS established by the International Accounting Standards Board are also required to disclose additional information about certain income statement line items disaggregated by nature. IFRS 18, *Presentation and Disclosure in Financial Statements*, which is broader in scope than ASC 220-40, provides the relevant guidance. Like ASC 220-40, IFRS 18 is effective for annual reporting periods beginning January 1, 2027, for entities with calendar year-ends. However, unlike the requirements in ASC 220-40, which can be adopted on either a prospective or retrospective basis, the requirements of IFRS 18 must be applied retrospectively to all periods presented in the financial statements.

The significant differences between the disaggregated expense disclosure requirements of ASC 220-40 and the corresponding portions of IFRS 18 are summarized in the table below.

| | **U.S. GAAP**<br>**ASC 220-40** | **International Standards**<br>**IFRS 18** |
|---|---|---|
| Scope | Applies to PBEs only. See Section 2.2. | Applies to all entities that prepare financial statements in accordance with IFRS, except those that have adopted IFRS for Small and Medium-sized Entities. [IFRS 18.2] |
| Format | The information is required to be disclosed in a tabular format in the notes accompanying the financial statements. | Presentation in a tabular format is not required, but all the required information should be disclosed in the same note accompanying the financial statements. [IFRS 18.83] |
| Disaggregated expense categories | Disaggregated expense information is required to be disclosed in the notes accompanying the financial statements for all income statement line items that are determined to be relevant expense categories. ASC 220-40 does not prescribe or amend the type or classification of information presented on the income statement.<br><br>For each relevant expense category, the following information is required to be disclosed:<br>• Purchases of inventory<br>• Employee compensation<br>• Depreciation<br>• Intangible asset amortization<br>• DD&A<br><br>See Section 2.2 and Section 2.4. | An entity is required to classify and present operating expenses on the income statement by either the nature of the expense, the function of the expense or a combination thereof (IFRS 18.78). However, for each operating expense presented on the income statement by function, an entity must also disclose in a single note accompanying the financial statements expense information classified by nature, which includes the following:<br>• Depreciation<br>• Amortization<br>• Employee benefits<br>• Impairment losses and reversals of impairment losses related to non-financial assets<br>• Write-downs and reversals of write-downs related to inventories |

 

| | U.S. GAAP<br>ASC 220-40 | International Standards<br>IFRS 18 |
|---|---|---|
| | | For each classification by nature listed above, an entity must provide the following information:<br>1) The total amount of cost recognized under applicable IFRS accounting standards<br>2) For each total amount disclosed under (1) above, the amount recognized as expense by operating category, including qualitative information about the assets to which any cost has been capitalized, as applicable<br>3) A list of nonoperating categories that include amounts under (1) above.<br>[IFRS 18.83, 18.B84] |
| Expense reimbursements | Reimbursement payments received can be presented gross or net of the related expense within the tabular disclosure of disaggregated information about relevant expense captions. See Section 2.4.7. | Offsetting of income and expenses is not allowed unless required or permitted by another IFRS Accounting Standard. [IFRS 18.44] |
| Selling expenses | Total selling expenses are required to be disclosed in both interim and annual financial statements. However, the entity's definition of selling expenses is only required to be disclosed in the annual financial statements. See Section 2.4.9. | No explicit requirement to separately disclose total selling expenses or the definition of selling expenses. |
| Condensed financial statements | Relevant expense categories can differ from annual and interim periods if the entity presents different expense captions in their condensed statements for interim reporting purposes. See Section 2.5. | IFRS 18 does not apply to the presentation and disclosure of condensed interim financial statements prepared under IAS 34. [IFRS 18.5] |

**+1 800 274 3978**
**rsmus.com**