

## FASB Mandates New Segment Details for Public Companies in 2024

On November 27, 2023, FASB issued Accounting Standards Update (ASU) [2023-07](#) requiring additional details and increased frequency on a public entity's reportable segments so financial statement users can better understand the expense categories and amounts included within segment profit or loss. Key takeaways include:

- On an annual and interim basis, significant segment expenses that are regularly provided to the chief operating decision maker (CODM) and included within each reported measure of segment profit or loss and an amount for other segment items by reportable segment with a description of its composition must be disclosed
- All annual disclosures about a reportable segment's profit or loss currently required by Accounting Standards Codification (ASC) 280, *Segment Reporting*, would now be required in interim periods
- The ASU provides guidance for multiple measures of a segment's profit or loss
- Title and position of the individual or the name of the committee identified as the CODM must be disclosed
- A public entity with a single reportable segment would be required to provide all the new disclosures and all existing segment disclosures in ASC 280

**This article also has recent important SEC commentary on the application of the new standard and other general reminders on segment reporting.**



**The ASU does not change how an entity identifies or aggregates its operating segments or applies the quantitative thresholds to determine its reportable segments.**

### Background

Investors and analysts have long requested greater details on segment reporting to reduce the challenges from over-aggregation, which reduces transparency about the mix and quality of business performance.

Segment reporting guidance was last updated in 1997 and details annual and interim operating segment information in financial statements prepared using “the management approach,” *i.e.*, the way that management internally organizes segments when allocating resources and assessing performance. An entity is first required to identify its operating segments based on the CODM perspective. Guidance allows—but does not require—aggregation of operating segments if certain criteria are met. The operating segments, including those that have been aggregated, are then evaluated against quantitative thresholds to determine an entity’s reportable segments.

Current guidance requires that a public entity disclose a measure of profit or loss and a measure of total assets for each reportable segment unless the entity explains the reason for not disclosing a measure of total assets. The reported measures should be those that the CODM uses to make decisions about allocating resources to the segment and assessing its performance.

## Scope

This ASU does not change the existing scope and scope exceptions in ASC 280 or the definition of a public entity.

Nonprofit entities that otherwise meet the definition of public entities are included in the scope exceptions in ASC 280.

The ASU clarifies that all current and new disclosure requirements apply to single reportable segment entities within ASC 280’s scope.

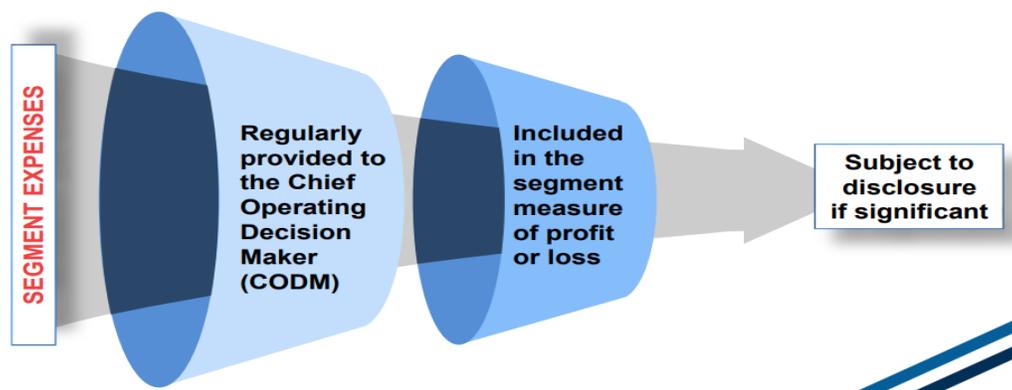
A scope exception was requested by non-issuer broker-dealers and certain registrants who are wholly owned subsidiaries applying [General Instruction I \(1\)](#) for Form 10-K that do not have separate reportable segment entities. In deliberations, FASB reviewed these requests and voted not to create any new scope exceptions for ASC 280 or the public entity definition.

## Significant Expense Principle

A public entity would be required to disclose for each reportable segment the significant expense categories and amounts that are regularly provided to the CODM and included in each reported measure of a segment’s profit or loss. When making this determination, a public entity would identify the expenses from the segment level information that is **regularly provided** to the CODM and then disclose those segment expense categories and amounts that are significant considering both qualitative and quantitative factors. Regularly provided is not defined and management judgment will be required. An entity also would evaluate for disclosure a segment expense that is easily computable from information that is regularly provided to the CODM. The information that is regularly provided to the CODM may include segment expense information that is expressed in a form other than actual amounts, *e.g.*, a ratio or an expense as a percentage of revenue. The ASU includes two examples:

- If the information that is regularly provided to the CODM includes a segment revenue amount and a segment gross margin amount, segment cost of sales can be easily computed. Therefore, if cost of sales is significant, an entity should disclose the category and amount.

- The information that is regularly provided to the CODM may include a segment revenue amount and segment warranty expense expressed as a percentage of segment revenue. Because segment warranty expense can be easily computed, if warranty expense is significant, the entity should disclose the category and amount.



Source: FASB.org

### SEC Remarks

Melissa Rocha, deputy chief accountant in the Division of Corporate Finance (DCF), provided the following reminders on compliance with existing SEC segment reporting requirements:

- The SEC staff would generally consider segment operating results that are reviewed by, or provided to, the CODM on a quarterly basis to meet the “regularly reviewed” and “regularly provided” frequency thresholds in ASC 280. However, she noted a review frequency less than quarterly also could constitute a regular review.
- “Revenues from external customers” is a specified amount that is required to be disclosed under ASC 280 for each reportable segment if it is included in the measure of segment profit or loss reviewed by the CODM or is otherwise regularly provided to the CODM, even if it is not included in that measure. The SEC staff said that such amounts are required to be determined on the basis of the applicable accounting principle, *e.g.*, ASC 606, *Revenue From Contracts with Customers*, and has objected to the disclosure of amounts that are presented on a different basis.

### Other Segment Items

An amount for other segment items would be disclosed for each reportable segment, which would be the difference between reported segment revenues less the significant segment expenses disclosed and reported segment profit or loss. A qualitative description of the composition of other segment items must be disclosed. Other segment items may include:

- The total of a reportable segment’s expenses that are included in the reported measure(s) of a segment’s profit or loss but are not regularly provided to the CODM.
- The total of a reportable segment’s expenses that are included in the reported measure(s) of a segment’s profit or loss but are not disclosed under the significant expense principle. An entity is not precluded from separately disclosing an expense that is not significant for one reportable segment but is significant for another of its segments. However, if

a segment expense that is not significant is not separately disclosed, it would be included as part of other segment items.

- The total of a reportable segment's gains, losses, or other amounts that also are included in each reported measure of a segment's profit or loss.
- Items now required on both an annual and interim basis (column B in table below) if they are included in the reported measure of segment profit or loss but are not disclosed for "other segment." For example, a public entity may report net income as the measure of a segment's profit or loss. In that case, if income tax expense by segment is not regularly provided to the CODM, it may be included within other segment items. However, income tax expense is still required to be disclosed with 280-10-50-22.

The amount and qualitative description are required even when a public entity does not separately report significant segment expense categories and amounts for each reportable segment. If a public entity does not disclose significant expense categories and amounts for one or more of its reportable segments, it must explain the nature of the expense information the CODM uses to manage operations.

The ASU does not require a reconciliation of the total of the reportable segments' significant segment expenses to the consolidated amount or a reconciliation of the significant expense categories to the consolidated income statement line items.

## Interim Reporting Requirements

All annual disclosures about a reportable segment's profit or loss currently required by ASC 280 would now be required in interim periods.

A Current Interim Requirements	B Existing Annual Disclosures to Be Reported in Interim Periods	C Significant Expense Principle & Other Items
(ASC 270-10-50-1)	(ASC 280-10-50-22)	(ASC 280-10-50-26 A & B)
Revenue	Interest revenue and expense* (interest expense should be disclosed separately if it is a significant segment expense)	Significant expense categories and amounts
Segment profit or loss	Depreciation and amortizations*	Other segment items
Reconciliation of segment profit into consolidated income	Unusual items*	
Segment assets	Equity in the income of equity method investees*	
	Income tax expense/benefit*	
	Other significant noncash items*	

A Current Interim Requirements	B Existing Annual Disclosures to Be Reported in Interim Periods	C Significant Expense Principle & Other Items
	Investment in equity method investees*	
	Expenditures for long-lived assets*	

\*To the extent such information is required for the company on an annual basis.

## Single Reportable Segment Entities

Roughly 33% of public entities have a single reportable segment.<sup>1</sup> ASC 280 currently requires that these entities apply the entitywide disclosures of financial and other qualitative information categorized based on products and services, geographic areas, and customers, if not already provided elsewhere in the segment disclosures. Existing guidance is silent about whether those entities should apply the existing segment disclosures and reconciliation requirements on an annual or interim basis. FASB concluded this ASU should apply to all public entities, which would discourage entities from aggregating operating segments into a single reporting segment to avoid certain disclosures. A single reportable segment entity would disclose a measure of segment profit or loss that the CODM uses to allocate resources and assess performance, which may be different from the profit or loss measure(s) presented on a public entity's consolidated income statement.

Due to the current diversity in practice, this could be a significant change in practice for certain entities.

### SEC Remarks

Carlton Tartar, associate chief accountant in the Office of the Chief Accountant (OCA), said when a registrant has a single reportable segment that is managed on a consolidated basis, *i.e.*, a single operating segment, the SEC staff would expect the registrant to conclude that the segment measure of profit or loss required to be disclosed is consolidated net income.

## Measurement

If the CODM uses only one measure of a segment's profit or loss to assess segment performance and allocations, segment profit or loss would be reported at that measure. If the CODM uses more than one measure of a segment's profit or loss, at least one of the reported segment profit or loss measures (or the single reported measure, if only one is disclosed) would be that which management believes is determined in accordance with the measurement principles most consistent with those used in measuring the corresponding amounts in the public entity's consolidated financial statements.

<sup>1</sup> "Major Expenses Get Top Billing in Segment Accounting Update," news.bloomberglaw.com, November 27, 2023.

The existing profit or loss disclosure requirements and the new disclosures about significant expenses and other segment items would apply to each reported measure of a segment's profit or loss.

The reconciliation of the total of the reportable segments' measure of profit or loss to consolidated income before income taxes and discontinued operations applies to the total of the reportable segments' amount for each measure of profit or loss.

## Multiple Measures



Source: FASB.org

### SEC Remarks

Lindsay McCord, DCF chief accountant, said additional segment profitability measures that a public entity chooses to disclose that are not determined in accordance with U.S. GAAP would be considered non-GAAP financial measures because the ASU does not:

- Require disclosure of additional measures of segment profit or loss, or
- Expressly permit their disclosure by prescribing or otherwise specifying the additional measures that may be disclosed

Because these additional measures would not be calculated in accordance with U.S. GAAP, they would be subject to the relevant SEC rules and regulations on the use of non-GAAP measures, including the prohibition of presenting non-GAAP financial measures on the face of the financial statements or notes. If, after adoption of the ASU, registrants disclose additional measures of segment profit or loss that are not calculated in accordance with U.S. GAAP, such measures cannot be misleading (including consideration of the SEC staff's interpretive guidance) and the filing must include the disclosure required for non-GAAP financial measures.

Companies considering early adopting ASU 2023-07 and planning to disclose additional measures of segment profit or loss that would be considered non-GAAP financial measures should consult with the OCA and a professional at **FORVIS**.

## Recasting Prior Periods

Prior-period information should be recast to conform with current-period presentation in the following cases, if practicable:

- If an entity changes its internal structure so that its reportable segments change

- If an entity changes the segment information that is regularly provided to the CODM that results in a change to the identification of significant segment expenses

Following a change in the composition of its reportable segments, a public entity must disclose whether it has recast earlier periods.

If the prior-period segment information is not recast, a public entity should disclose the segment information for the current period under both the old and the new significant expense categories.

**Recasting prior-period information is not required for a change in measurement methods used to determine reported segment profit or loss (although it is preferable to do so).**

Public entities also would be required to disclose the nature of any changes from prior periods in the measurement methods used to determine reported segment profit or loss, including significant changes from prior periods to the measurement methods of expenses, the method for allocating expenses to a segment, or changes in the policies for allocating centrally incurred expenses, and the effect, if any, of those changes on the measure of segment profit or loss.

## Transition & Effective Date

The ASU is effective for fiscal years beginning after December 15, 2023 and interim periods within fiscal years beginning after December 15, 2024.

These changes would be applied retrospectively (if practicable) to all prior periods presented in the financial statements. Upon transition, the segment expense categories and amounts disclosed in the prior periods would be based on the significant segment expense categories identified and disclosed in the period of adoption.

## Conclusion

The Assurance team at FORVIS delivers extensive experience and skilled professionals to assist with your objectives. Our proactive approach includes candid and open communication to help address your financial reporting needs. At the end of the day, we know how important it is for you to be able to trust the numbers; our commitment to independence and objectivity helps provide the security and confidence you desire. Whether you are publicly traded or privately held, FORVIS can help provide an independent and objective view into your financial reporting. We leverage the latest technologies and process automation tools to provide companies assurance on their financial statements to help meet stakeholders' needs. If you have any questions or need assistance, please reach out to a professional at FORVIS.

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