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Details on FASB's New Public Company Expense Disclosures

On November 4, 2024, FASB issued Accounting Standards Update (ASU) 2024-03, *Disaggregation of Income Statement Expenses*, which will require public business entities (PBEs) to disclose additional expense details in annual and interim financial statement notes. Inventory purchases; employee compensation; depreciation; intangible asset amortization; and depreciation, depletion, and amortization (DD&A) amounts that are included in certain expense line items, *e.g.*, cost of sales, selling general and administrative (SG&A), or research and development (R&D), will now be disclosed.

Effective Dates (as amended)

ASU 2024-03	Public Business Entities	Public Business Entities
Early adoption permitted	Annual periods beginning after December 15, 2026	Interim periods within annual reporting periods beginning after December 15, 2027

Background

There is wide diversity in the extent to which entities provide disaggregated expenses information in financial statements. Investors have long lobbied for additional expense details in financial statements, prompting FASB to begin this disaggregation project in 2017. Accounting Standards Codification (ASC) 220, *Income Statement—Reporting Comprehensive Income*, does not currently mandate specific expense captions on the face of the income statement or require any disaggregation of expense captions. Certain income statement breakouts are required by industry-specific guidance or are triggered when a specific event occurs, *e.g.*, goodwill impairment. For PBEs subject to the SEC's presentation requirements, Regulation S-X also contains certain industry-specific expense captions.

In developing this ASU, FASB highlighted the difference between natural and functional expenses. As defined in the master glossary, natural expenses are distinguished on the types of economic benefits received in incurring those expenses. Functional expenses are distinguishable based on the purpose for which the expenses are incurred. For example, employee compensation is a natural expense that can be incurred for different functional activities, such as manufacturing, selling, or research activities. Determining the purpose for which an expense was incurred is subjective and may require significant judgment. In response to comment letter feedback, FASB scaled back from a full disaggregation of expenses by nature; the ASU's requirements are limited to five categories.

The ASU does not change or remove these existing presentation requirements or require any changes to the face of the income statement. The ASU covers where information will appear in the financial statement notes since certain current disclosures will now be included with the new disaggregated tabular disclosures.

Scope

ASU 2024-03 will apply to all PBEs.[1] Private companies, nonprofits, and employee benefit plans are not in scope.

Several comment letters requested a scope exception for small reporting companies, certain industries (government contractors and regulated utilities), and nonissuers that must file or furnish financial statements to the SEC, *i.e.*, broker-dealers. FASB affirmed its decision to include all PBEs without any exceptions.

Expenses Subject to Disaggregation

ASU 2024-03 defines a relevant expense caption as any expense line item presented on the face of the income statement within continuing operations that contains any of the five following expense categories:

1. Purchases of Inventory
2. Employee Compensation
3. Depreciation
4. Intangible Asset Amortization
5. DD&A

For interim and annual reporting periods, an entity must disaggregate—in a tabular format disclosure in the notes to financial statements—all relevant expense captions presented on the face of the income statement in continuing operations that contains one or more of the five expenses noted above.

[1]ASU 2013-12 defines a PBE as a business entity meeting any one of the criteria below. Neither a nonprofit entity nor an employee benefit plan is a business entity:
a. It is required by the SEC to file or furnish financial statements, or does file or furnish financial statements (including voluntary filers), with the SEC (including other entities whose financial statements or financial information is required to be or is included in a filing).
b. It is required by the *Securities Exchange Act of 1934* (the Act), as amended, or rules or regulations promulgated under the Act, to file or furnish financial statements with a regulatory agency other than the SEC.
c. It is required to file or furnish financial statements with a foreign or domestic regulatory agency in preparation for the sale of or for purposes of issuing securities that are not subject to contractual restrictions on transfer.
d. It has issued—or is a conduit bond obligor for—securities that are traded, listed, or quoted on an exchange or an over-the-counter market.
e. It has one or more securities that are not subject to contractual restrictions on transfer, and it is required by law, contract, or regulation to prepare U.S. GAAP financial statements (including footnotes) and make them publicly available on a periodic basis, *e.g.*, interim or annual periods.
An entity must meet both of these conditions to meet this criterion. An entity may meet the definition of a PBE solely because its financial statements or financial information is included in another entity's filing with the SEC. In that case, the entity is only a PBE for purposes of financial statements that are filed or furnished with the SEC.

Disaggregation Exclusions

An entity's share of profit/loss in an equity method investee, and the summarized results of operations of equity method investees, would not be subject to further disaggregation.

Other than for inventory purchases disclosed under the cost-incurred basis, an entity is not required to further disaggregate costs capitalized as an asset, even if the costs capitalized include required expense categories. When an expense amount is related to the derecognition of an asset, other than inventory, an entity should apply the disaggregation disclosures based on the nature of the expense when it was recognized in the income statement. For example, if an entity capitalizes employee costs to software (an asset), and in a subsequent reporting period it recognizes an amortization expense, the entity is required to disaggregate the relevant expense caption that contains the amount amortized during the period but does not need to further disaggregate the resulting amortization.

Under ASU 2024-03, if the expense amount is based on an obligation that is an estimate of an uncertain amount that will be settled in the future, it should be excluded from the disaggregation requirements, even if it is in a relevant expense caption, if all of the following criteria are met:

- The expense relates to an obligation that will be settled in the future and there is uncertainty about the timing of settlement.
- The expense relates to an obligation that is based on an estimate of a future expenditure.
- The expense is not entirely made up of one required expense category.

Some non-exhaustive examples that meet the above criteria include:

- Provision for losses on contracts (ASC 605-35, Revenue Recognition—Construction-Type and Production-Type Contracts)
- Claims and claims adjustment expenses, *e.g.*, in the insurance industry
- Asset retirement obligations

FASB acknowledges that estimates are required in financial statements for many of an entity's ongoing and recurring activities: "The fact that an estimate is involved does not constitute the type of uncertainty contemplated in developing this guidance." Expense amounts related to accruals for liabilities to pay for goods or services that have been received or supplied but have not been paid or invoiced, including amounts due to employees, *e.g.*, amounts relating to accrued bonuses, vacation pay, or pension obligations, are not intended to be excluded from the disaggregation requirements.

> If an entity's income statement expense caption consists entirely of one of the five expense categories, an entity is not required to further disaggregate that expense caption.

Purchases of Inventory

Scope

This category should include only amounts covered by guidance in ASC 330, *Inventory*. Costs related to assets that are not recognized as inventory under ASC 330 should not be included in the category, *e.g.*, film costs and costs accumulated for long-term construction contracts.

Amounts recognized from business combinations (ASC 805-10), joint ventures (ASC 805-60), and the initial consolidation of a variable interest entity that is not a business combination under ASC 810-10.

Practical Expedient
When substantially all of an entity's income statement expense caption comprises purchase of inventory under ASC 330, an entity is not required to disaggregate that expense caption into required expense categories. If this practical expedient is elected, an entity must disclose a qualitative description of the composition of the expense caption.

Reporting Basis

ASC 330 provides guidance for the accounting for inventory costs and valuations. The most commonly used approved methods include weighted average cost; first-in, first-out; and last-in, first-out. The new disaggregation requirements could present operational challenges depending on the inventory valuation model used, so FASB has provided some flexibility. An entity may disclosure required expense categories that contain amounts within the scope of ASC 330 on either a cost-incurred or an expense-incurred basis.

Cost-Incurred Basis

Under a cost-incurred basis, the required expense categories include amounts capitalized to inventory under ASC 330 and amounts that were directly expensed in the current reporting period (including amounts that were capitalizable to inventory but were directly expensed in the income statement). Under ASU 2024-03, in interim and annual reporting periods, an entity would 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. For example, those items would include, if applicable:

- The amount of inventory derecognized during the period that is not recognized as an expense, *i.e.*, inventory derecognized as part of derecognition transactions within the scope of ASC 810-10, *Consolidation*
- The amount attributable to differences in the 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, *Foreign Currency Matters*

Expense-Incurred Basis

Under an expense-incurred basis, the required expense categories include period expenses that were directly expensed to the income statement and expenses incurred on the derecognition of inventory, which may relate to costs capitalized in prior periods. An entity is required to include the expense amounts related to the derecognition of inventory based on the natural expense category of the costs when they were initially incurred, *i.e.*, a portion of the amount derecognized from inventory may relate to employee compensation and depreciation that was previously capitalized in a prior period.

Whatever basis is selected must be applied consistently to all required expense categories that contain amounts within the scope of ASC 330 and disclosed in the entity's disaggregation disclosure.

Changes in Basis

If an entity changes its basis, it should recast the disclosure of the expense captions in the prior period presented for comparative purposes to reflect the current period basis unless it is impracticable to do so and disclose the reason for the change. If it is impracticable to do so, the entity should disclose that fact and explain why it is impracticable to recast prior periods. This change does not represent a change in accounting principle under ASC 250, *Accounting Changes and Error Corrections*.

Some entities provide condensed statements for interim reporting periods and could present different expense captions on their income statements at annual and interim reporting periods. For these entities, the above change guidance is applicable if an entity changes its display of the disclosure requirements between the current and prior interim reporting periods or for a change between the current and prior annual reporting periods.

Employee Compensation

In response to comment letter feedback, FASB created a new definition for employee compensation and updated the existing employee definition in ASC 718, which was developed for the stock compensation guidance rather than the broader category of employee compensation. The updated employee definition swaps out "grantor of share-based compensation award" for "reporting entity" and adds to the existing definition, "An individual meeting the definition of an employee includes, but is not limited to full-time, part-time, temporary or seasonal employee."

FASB notes in the basis for conclusion that the new compensation definition is a minimum requirement, which permits—but does not require—any entity that provides noncash compensation to classify those amounts as employee compensation. The new employee compensation definition is not intended to list all possible types of cash and noncash compensation across all entities.

> "All forms of cash consideration (including deferred cash compensation), share based payment arrangements, medical care benefits, pension benefits, postretirement benefits, and nonretirement postemployment benefits (including special or contractual termination benefits) given by an entity in exchange for service rendered by employees or for the termination of employment. This includes compensation cost arising from wages, salaries, profit-sharing, bonuses, onetime employee termination benefits, other postemployment benefits, employee stock ownership plans, employee share purchase plans, defined contribution plans, multiemployer plans, and any other compensation cost recognized in

> accordance with the guidance in Topic 710 on compensation, Topic 712 on nonretirement postemployment benefits, Topic 715 on retirement benefits, and Topic 718 on stock compensation. This also includes compulsory payments paid to the general government that confer entitlement to receive a (contingent) future social benefit, such as unemployment insurance benefits and supplements; accident, injury, and sickness benefits; old-age, disability, and survivors' pensions; and family allowances, reimbursements for medical and hospital expenses, or provision of hospital or medical services. For defined benefit plans within the scope of Topic 715, employee compensation includes only the service cost component of net periodic pension cost and the service cost component of net periodic postretirement benefit cost."

Any one-time employee termination benefits under ASC 420, *Exit or Disposal Cost Obligations*, should be disclosed separately in the tabular disclosure.

Under ASU 2024-03 , an entity may elect—but is not required—to include amounts attributable to other transactions entered into for the benefit of employees, *e.g.*, subsidized goods or services in employee compensation. For interim and annual reporting periods, an entity that includes other transactions for the benefit of employees in employee compensation would disclose both that those transactions have been included and a description of those transactions.

An entity is not precluded from disclosing subtotals that include relevant expense amounts and additional expense amounts that are voluntarily disclosed, *i.e.*, a subtotal for total workforce costs breaking out employee compensation and subcontractor costs.

Practical Expedient

Entities that must comply with SEC Regulation S-X 210.9-04 are required to present a caption for salaries and employee benefits. Under ASU 2024-03, these entities would not need to use the employee compensation definition noted above.

Depreciation/ Intangible Asset Amortization/DD&A

The definitions for depreciation and intangible asset amortization for disaggregation disclosures will be the same as in ASC 360, *Property, Plant, and Equipment* and ASC 350, *Intangibles – Goodwill and Other,* respectively.

Amortization of a right-to-use asset for a finance lease recognized under ASC 842, *Leases*, can be disclosed as part of depreciation or intangible asset amortization consistent with how an entity presents similar assets.

DD&A of capitalized acquisition, exploration, and development costs are recognized as part of oil- and gas-producing activities in accordance with ASC 932, *Extractive Activities—Oil and Gas,* or other amounts of depletion expense, *e.g.*, ASC 930, *Extractive Activities – Mining*. FASB acknowledged that this is an industry-specific expense but broke it out as a required category because it is a potentially significant noncash expense.

Other Matters

Estimates

An entity is not required to use transaction-level details. An entity may take a reasonable approach to prepare the required disclosures in a systematic and rational way. An entity may use estimates or other methods that result in a reasonable approximation of amounts when disaggregating the above expense categories for the relevant expense captions.

Expense Reimbursements/Cost Sharing

For certain industries, including construction, software development and government contracting, or cost-sharing or cost-reimbursement arrangements are common. Cost-sharing payments and receipts generally are not allocated to natural expenses. ASU 2034-03 allows an entity that presents an expense reimbursement from another entity in a relevant expense caption to either:

- Separately disclose the amount of that reimbursement in the tabular format disclosure, or
- Disclose the amounts of the required expense categories net of any reimbursement effects.

An entity should provide an explanation of how such reimbursements are reflected in the tabular format disclosure. An entity that includes an expense reimbursement to another entity in a relevant expense caption must separately disclose the amount of that reimbursement in the tabular format disclosure, as well as a qualitative description of the natural expense categories to which the reimbursement relates.

Integration With Current Disclosures

Certain existing GAAP disclosure requirements will now be included in the new tabular format with the same frequency currently required (interim or annual reporting periods).

Existing Requirements to Disclose Both the Amount & Expense Line Item

- The amount of R&D assets acquired in a transaction other than a business combination and written off (ASC 350-30-50-1(c))
- Impairment loss recognized related to an intangible asset (ASC 350-30-50-3)
- Impairment loss of long-lived assets classified as held and used (ASC 360-10-50-2)
- Gain or loss recognized for long-lived assets classified as held for sale or disposed of (ASC 360-10-50-3)
- Each major type of cost associated with an exit or disposal activity (ASC 420-10-50-1)
- Components of net benefit cost recognized (other than service cost amounts included within employee compensation) (ASC 715- 20-50-1(h))
- Bargain purchase gain recognized in a business combination (ASC 805-30-50-1(f))
- Any gain or loss recognized upon the deconsolidation of a subsidiary or the derecognition of a group of assets (ASC 810-10-50-1B)

- Gains and losses on derivative instruments and related hedged items (ASC 815-10-50-4A)
- Amortization/impairment of license agreements for program material (ASC 920-350-50-2 or 4)
- Amortization/impairment of film costs (ASC 926-20-50-4A or 4C)

Additional Relevant Expense Captions Disclosures

If amounts are included entirely in one expense caption that also is a relevant expense caption, an entity must disclose, in the same tabular format disclosure, each of the following amounts:

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

For example, if cost of sales was a relevant expense caption (because cost of sales includes purchases of inventory) 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 five required categories.

Other Items & Costs

An entity must qualitatively describe the nature of the expenses included in a relevant expense caption that are not required to be quantitatively disaggregated. The level of detail should be commensurate with the amounts being described.

An entity is not precluded from providing additional voluntary quantitative disclosures inside or outside the tabular disclosure if those voluntary disclosures are not combined with disaggregate expense amounts (except for employee compensation noted above).

Selling Expenses

An entity must disclose the total amount of selling expenses on an interim and annual basis. An entity's definition of selling expenses must be disclosed in annual reporting periods (or in interim periods if the definition is changed). Selling expenses are not defined in ASU 2024-03; an entity may tailor its definition to its specific facts and circumstances using reasonable judgment.

Transition & Effective Date

The ASU can be applied either on a prospective basis to financial statements issued for reporting periods after the effective date or retrospectively to any or all prior periods presented in the financial statements.

Conclusion

FASB notes that nearly all PBEs will disclose significantly more expense information when this ASU is adopted. Implementation could result in significant one-time and ongoing costs to design and implement reporting systems to comply with these new disaggregation requirements, along with appropriate internal controls. Cost and effort will vary depending on an entity's size, complexity, how the new information is already captured, and the degree that expenses are allocated across different functions presented in the balance sheet.

For more information, please reach out to a professional at Forvis Mazars.

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Appendix – Illustrative Example – Bank

Entity X
Consolidated Income Statement
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
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

In this example from FASB, Entity X provides a disclosure that disaggregates the occupancy and depreciation expense and other expense captions into the required categories. Those expense captions were identified as relevant expense captions because those captions contain one or more of the five expense categories.

While 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 required expense categories, so those expense captions do not need to be further disaggregated.

Entity X applies the practical expedient for employee compensation 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 includes operating lease cost as a separate category.

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.

	20X4	20X3	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.

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.