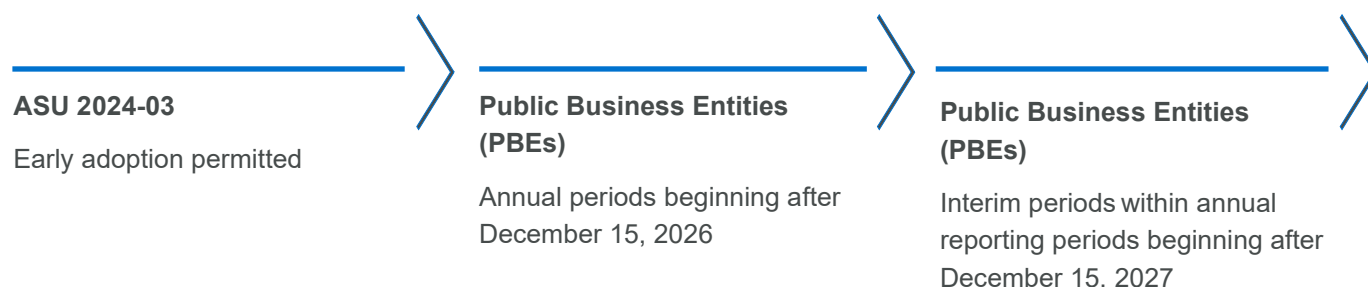


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Unpacking DISE: Insights Into Disaggregation Requirements



Investors have long called for greater transparency in financial reporting, particularly around expenses that are presented in broad, aggregated categories. In response, FASB issued Accounting Standards Update (ASU) 2024-03, *Disaggregation of Income Statement Expenses* (DISE), which requires a [PBE](#)¹ to disaggregate certain income statement expenses. This update addresses the need for more detailed information beyond a company's historical broad, high-level categories so stakeholders can better assess a company's cost structure and performance.

This update applies exclusively to PBEs. Private companies, nonprofits, and employee benefit plans are explicitly outside the scope of this update. Private companies should be aware that the requirements may become relevant if they are preparing to comply with reporting requirements as a PBE. This can occur in situations such as an upcoming initial public offering (IPO), a transaction with a strategic buyer that is a publicly traded company, or any circumstance where their financial statements will be included in public filings.

Importantly, this update does not change existing income statement presentation requirements or require any changes to the face of the income statement. Instead, it focuses on enhancing transparency through additional disclosures in the notes to the financial statements.

I. Key Provisions

○ ***Tabular Disclosure***

PBEs are required to disaggregate relevant expense captions in a tabular format within the notes to financial statements. Any expense line item on the face of the income statement within continuing operations that includes

¹FASB defines a PBE as: "A business entity meeting any one of the [following] criteria. Neither an NFP entity nor an EBP is a business entity. a. It is required by the U.S. Securities and Exchange Commission (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 are required to be or are 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. generally accepted accounting principles (U.S. GAAP) financial statements (including notes) and make them publicly available on a periodic basis (for example, 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."

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any of the following five natural expense categories is considered a relevant expense caption and must be disaggregated accordingly:

1. Purchases of Inventory
2. Employee Compensation
3. Depreciation
4. Intangible Asset Amortization
5. Depreciation, Depletion & Amortization (Related to Certain Oil- & Gas-Producing Activities)

○ ***Integration of Existing Disclosures***

This update categorizes expenses, gains, and losses in two groups based on whether they are required to be mapped under existing disclosure requirements. The first group includes 13 items that are already required to be mapped to specific income statement captions. These items must be disaggregated and presented in the tabular disclosure of each relevant expense caption. The second group includes 21 items not required to be separately mapped under GAAP. These will either be disclosed separately within a tabular disclosure (if entirely included in a single expense caption) or included in an “other” category within the tabular disclosure. However, the existence of one of these 34 items in an income statement caption does not make that caption a relevant expense caption. These integrated disclosures are only required if the item is within an otherwise relevant expense caption.

○ ***Expense Reimbursements Under a Cost-Sharing or Cost-Reimbursement Arrangement***

For reimbursements received, PBEs must either:

- Separately disclose the amount of the expense reimbursement, or
- Net the reimbursement and disclose the amounts in expense categories included in the related caption.

For reimbursements paid, the reimbursed amount must be disclosed separately in the tabular format.

Qualitative disclosure is required to be provided when the amounts received or paid are disclosed in the tabular format.

○ ***Other Required Disclosures***

• **Other Remaining Amounts**

PBEs must provide a qualitative description of any remaining expense categories aggregated into a reconciling “other” category after disaggregating the five required categories and integrating existing disclosures.

• **Selling Expenses**

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PBEs are required to disclose the total amount of selling expenses (annual and interim), including the accounting policy of how it defines selling expenses on an annual basis.

II. Practical Expedients

There are some practical expedients included in the new standard, including:

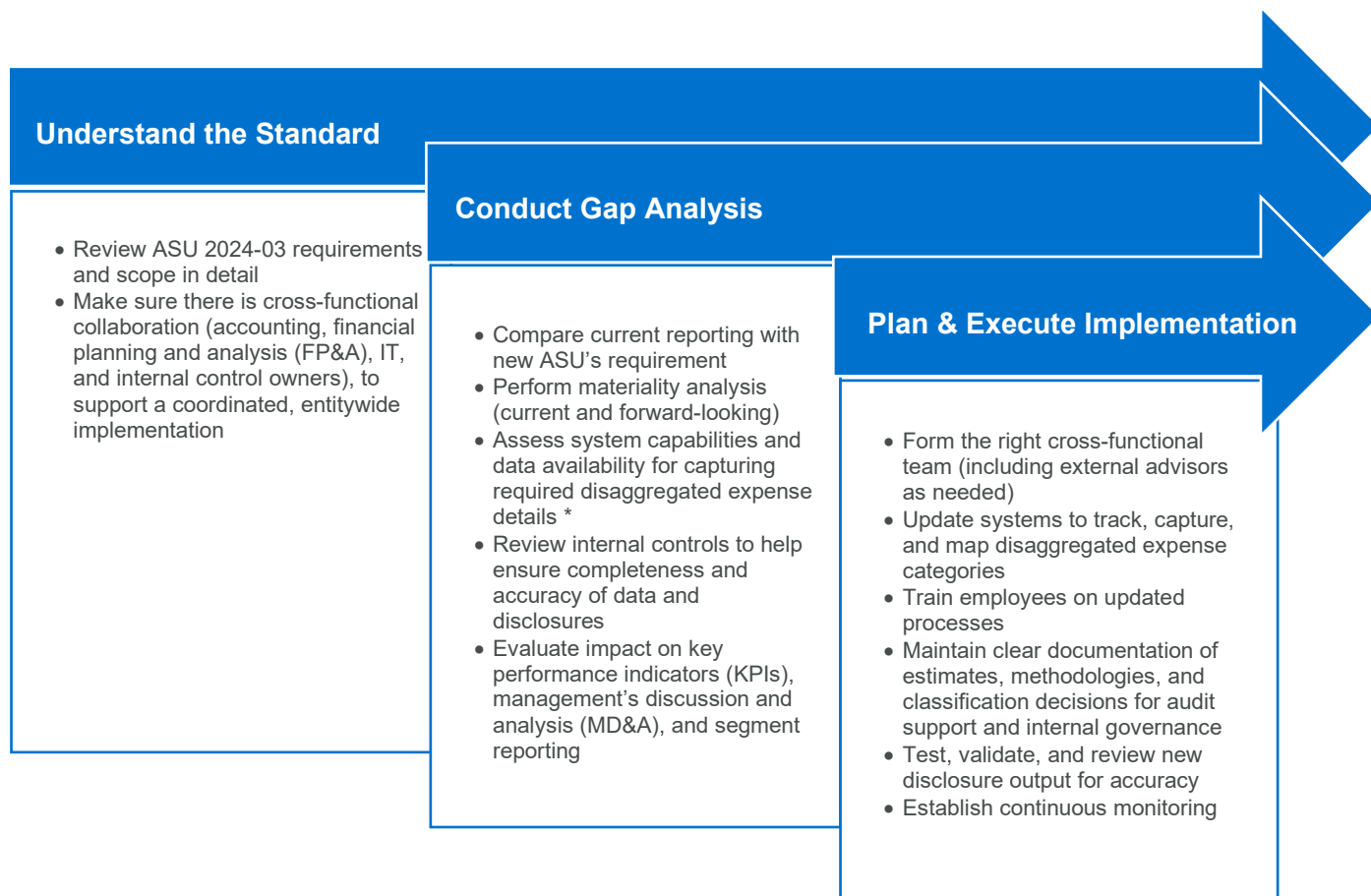
- **Inventory** – If a line item is substantially (typically more than or equal to 90%) composed of inventory purchases, a qualitative description suffices, with no tabular disclosure required.
- **Employee Compensation** – Entities subject to the SEC's Regulation S-X Rule 9-04, e.g., banks or insurers, may continue using their existing presentation under the SEC's rules instead of using the new definition included in the ASU.

III. Implementation Road Map

Given the key provisions outlined above, although the standard is not applicable until 2027, implementing this update will clearly require substantial time and effort, potentially involving the development of new processes, systems, and controls, including potentially evaluating the structure of the chart of accounts in the general ledger. As such, it is important to establish a clear implementation road map with defined milestones and assigned ownership for each phase and to take proactive steps toward implementation.

Assess system capabilities by evaluating whether the current ERP or financial software can support the new disaggregation requirements. This includes identifying specific expense categories that may need further breakdown, assessing the need for system upgrades or modifications, and helping ensure automation and data accuracy.*

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Following the gap analysis, certain key decisions need to be made based on data availability and the associated cost and effort:

- **Transition Method**

PBEs may adopt this update, either:

- Prospectively, or
- Retrospectively, to the immediate preceding period or to all comparative periods presented.

Companies may want to consider what users of the financial statements, *e.g.*, analysts, investors, and creditors, will expect, as well as what competitors may be doing to not be an outlier with the market.

- **Basis for Inventory Disaggregation**

Inventory-related expenses must be disaggregated using one of the following two acceptable approaches:

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- **Cost-Incurred Approach**

PBEs would be required to disclose cost incurred that was either capitalized to inventory or directly expensed. The entities using this approach would also be required to 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.

- **Expense-Incurred Method**

PBEs would be required to disclose expenses incurred during the period (derecognition of inventory), whether capitalized or expensed, based on the nature of the cost. Disaggregation for derecognized inventory would be presented by natural expense categories such as inventory purchases, employee compensation incurred in the prior year, and other relevant categories.

IV. Implementation Considerations

The following provisions in the update are intended to ease the implementation process and support informed planning and decision making.

- **Use of Reasonable Approximation**

Entities may use estimates or other reasonable methods to approximate the amounts disclosed.

- **Single-Category Expense Caption**

If an expense caption is composed of one type of expense, no additional tabular disaggregation is required.

- **Business Acquisition & Inventory Purchases**

Purchase of inventory would include purchase from asset acquisitions and does not include purchase of inventory from a business combination, joint venture formation, and initial consolidation of a variable interest entity (VIE). These will be included in the “other” item category.

- **Depreciation & Amortization**

Disclosures should align with existing GAAP requirements (Accounting Standards Codification (ASC) 360, *Property, Plant, and Equipment*, and ASC 350 *Intangibles—Goodwill and Other*). If depreciation or amortization appears in an expense caption, it should be disclosed accordingly.

- **Right-of-Use Asset (ROU Asset) & Leasehold Improvements**

The lease standard does not address how to classify amortization of finance ROU assets or leasehold improvements. These expenses can be reported under either depreciation or amortization, consistent with how PBEs report similar assets today.

- **Subsequent Amortization of Capitalized Costs**

If an entity capitalizes costs, *e.g.*, employee costs for internal-use software, and later recognizes amortization in the subsequent periods, it must disaggregate the related expense caption. However, the entity is not required to break out the specific nature of amortized expense further (employee cost in this case).

- **Interim Financial Reporting**

In interim periods where condensed income statements are presented, the disaggregation disclosures may vary from those in the annual filings due to differences in the expense categories presented on the income statement.

V. Conclusion

Forvis Mazars delivers independent and objective assurance that can help provide your company the security and trust you need to make informed decisions. Our skilled professionals know how to align with your objectives. Their proactive approach includes candid and open communication to help address your financial reporting needs. We go deeper to assist you by spending the time to understand your business and its needs. Implementation of this new update may be time-consuming, but we are here to help.

VI. Appendix

Illustrative Example of Disclosures – Manufacturing & Service Operations (ASU 220-40-55-3 through 55-12)

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

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

→ Relevant expense captions

Disaggregation of Relevant Expense Captions

	<u>20X4</u>	<u>20X3</u>	<u>20X2</u>
Cost of products sold			
<i>Cost of products sold</i>			
Purchases of inventory	\$ 20,213	\$ 19,199	\$ 16,319
Employee compensation	17,578	16,539	14,078
Depreciation	10,190	9,989	9,650
Intangible asset amortization	3,914	4,050	3,929
Warranty expense	4,394	3,952	3,894
Other cost of products sold ^(a)	7,552	7,606	7,993
Changes in inventories	157	(861)	843
Other adjustments and reconciling items ^(b)	(542)	424	538
Total cost of products sold	<u><u>\$ 63,456</u></u>	<u><u>\$ 60,898</u></u>	<u><u>\$ 57,244</u></u>

Included entirely in
cost of products
sold caption

Cost-incurred
approach

- (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

<i>Cost of services</i>			
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	<u><u>\$ 10,496</u></u>	<u><u>\$ 9,568</u></u>	<u><u>\$ 8,898</u></u>

- (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

<i>Selling, general, and administrative (SG&A)</i>			
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	<u><u>\$ 20,849</u></u>	<u><u>\$ 18,871</u></u>	<u><u>\$ 18,116</u></u>

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

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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.

Illustrative Example of Disclosures – Banks (Source: ASU 220-40-55-20 through 55-25)

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

Relevant Expense Captions

The entity elected practical expedient for employee compensation and has elected not to disclose, in the notes to the financial statements, the amounts already presented on the face of income statement.

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Disaggregation of Relevant Expense Captions

	20X4	20X3	20X2
Occupancy and depreciation expense			
<i>Occupancy and depreciation expense</i>			
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

→ Included entirely in occupancy and depreciation expense caption

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

Other

<i>Other</i>			
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, marketing research, and business development.

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