



BDO BULLETIN

FASB FINALIZES ASU TO DISAGGREGATE INCOME STATEMENT EXPENSES

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SUMMARY

Based on investor and other constituent feedback requests for more information about income statement expenses, the Financial Accounting Standards Board (FASB) introduced guidance requiring expanded disclosures for public business entities (as defined in U.S. GAAP) about specific income statement expenses in Accounting Standards Update (ASU) No. 2024-03: *Income Statement – Reporting Comprehensive Income – Expense Disaggregation Disclosures (Subtopic 220-40): Disaggregation of Income Statement Expenses*. The effective dates of ASU 2024-03 were subsequently clarified by ASU No. 2025-01, *Income Statement–Reporting Comprehensive Income – Expense Disaggregation Disclosures (Subtopic 220-40): Clarifying the Effective Date*.

This Bulletin summarizes the new disclosure requirements and effective dates in these ASUs, which are collectively referred to as Subtopic 220-40. Subtopic 220-40 does not change income statement presentation requirements but instead expands the disclosure requirements for specific costs and expenses.

BACKGROUND

The primary goal of Subtopic 220-40 is to provide greater transparency about the components of specific expense categories in the income statement. Previously, U.S. GAAP did not require separate presentation of specific expense captions unless required by industry-specific guidance or upon a triggering event (such as a goodwill impairment).

In finalizing Subtopic 220-40, the FASB affirmed many of the positions set forth in its July 2023 proposal, while also incorporating stakeholder feedback.

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MAIN PROVISIONS

Subtopic 220-40 requires public business entities (PBEs) to provide expanded disclosures about specific expense categories in interim and annual reporting periods, as summarized below:

MAIN PROVISION	SUMMARY OF DISCLOSURES FOR INTERIM AND ANNUAL REPORTING PERIODS FOR PBES
Expanded Expense Disclosures	<p>Disclose in a tabular format in the notes to the financial statements amounts recognized in each relevant expense caption in the income statement in continuing operations for:</p> <ul style="list-style-type: none"> ▶ Purchases of inventory¹ using the expense or cost-incurred approach ▶ Employee compensation² ▶ Depreciation ▶ Intangible asset amortization ▶ Depreciation, depletion and amortization recognized as part of oil and gas-producing activities (DD&A) <p>A relevant expense caption is one that is presented on the face of the income statement and includes any of the expenses listed above.</p>
Tabular Integration of Existing Disclosure Requirements	<p>Include existing required disclosures for specific expenses, gains, and losses in the newly required tabular format if the expense is reported in a relevant expense caption. Examples include:</p> <ul style="list-style-type: none"> ▶ Expenses, such as write-offs of in-process research and development assets acquired in an asset acquisition and impairment losses from intangibles or long-lived assets held and used. ▶ Gains and losses arising from assets classified as held for sale, derivative instruments, and the deconsolidation of a subsidiary. <p>However, other existing U.S. GAAP disclosure requirements are required to be disclosed in the tabular format only if the entire expense is included in a single relevant expense caption. Examples include disclosure of operating lease costs, warranty expense, gain on troubled debt restructuring, and foreign currency transaction gains or losses.</p> <p>This requirement does not result in new disclosures; rather, Subtopic 220-40 changes the presentation of these disclosures. For a full listing of the expenses, gains or losses that may need to be included in the tabular format, please refer to ASC 220-40-50-21 through 50-22.</p>
Expense Reimbursements Included in a Relevant Expense Caption	<p>Disclose expense reimbursements included in any relevant expense captions such as those reimbursed under shared research and development contracts. Any reimbursements may be presented in the tabular format as a separate line item or net within the relevant expense category with separate disclosure.</p>

¹ As a practical expedient, when substantially all of a PBE's expense caption is based on purchases of inventory (excluding any amounts recognized from a business combination, joint venture formation or initial consolidation of a variable interest entity), the entity may elect to qualitatively describe the make-up of the expense caption in interim and annual reporting periods rather than providing the required quantitative disclosures.

² As a practical expedient, a PBE that presents an expense caption for salaries and employee benefits on the face of its financial statement in accordance with ASC 942-330-599-1 may use those amounts to comply with Subtopic 220-40.

NEW DISCLOSURE REQUIREMENT TO DISAGGREGATE INCOME STATEMENT EXPENSES: ASC 220-40

MAIN PROVISION	SUMMARY OF DISCLOSURES FOR INTERIM AND ANNUAL REPORTING PERIODS FOR PBES
Other Items Remaining in Relevant Expense Captions	Include an amount for “other items,” which is the difference between the total relevant expense caption on the income statement and the aggregate of separately disclosed expense categories. Describe qualitatively what is included in this amount.
Selling Expenses	Disclose the total selling expenses recognized in continuing operations in the notes to financial statements. ³

A PBE also may provide voluntary disclosures in the tabular format to offer investors decision-useful information, if that information is not combined with the required, disaggregated disclosures.

The disclosure requirements must be applied consistently across all periods presented. If the PBE alters its display of these requirements because of a change in the election of an alternative or a change in the definition of a disclosure, the PBE must:

- ▶ Disclose the reason for the change.
- ▶ Recast the prior periods presented for comparative purposes, unless impracticable. If it is impracticable to recast the prior periods, the entity must also explain why.



ANALYZE THE DISCLOSURE REQUIREMENTS AND ADJUST RECORDKEEPING AND ESTIMATION PROCESSES

Producing the information necessary to comply with the new disaggregated expenses disclosure may require detailed recordkeeping. The FASB acknowledged that this process may be challenging for some entities if their financial reporting systems do not currently track information using the categories required by Subtopic 220-40. Therefore, Subtopic 220-40 explicitly allows entities to use estimates or other methods that reasonably approximate the required disclosure amounts. Nonetheless, updating recordkeeping and estimation processes may require significant time, and PBEs should begin the implementation process as soon as possible.

The Appendix provides examples of these new, disaggregated disclosure requirements.

³ A PBE is required to define what constitutes its selling expenses only in annual reporting periods. If that definition changes, the entity is required to update that definition in its interim disclosures in the period of change and recast the prior periods presented for comparative purposes unless impracticable.

EFFECTIVE DATES AND TRANSITION

The following table summarizes the effective dates and transition for Subtopic 220-40 for public business entities:

APPLICABLE ONLY TO PUBLIC BUSINESS ENTITIES	
Effective date	Annual reporting periods beginning after December 15, 2026. Interim reporting periods within annual reporting periods beginning after December 15, 2027.
Early adoption	Allowed.
Transition	Prospectively in financial statements issued after the effective date. or Retrospectively to any or all prior periods presented in the financial statements.

* * * * *

Links to ASU [2024-03](#) and ASU [2025-01](#).

CONTACTS

ANGELA NEWELL

Professional Practice Principal, Accounting
ajnewell@bdo.com

ADAM BROWN

National Managing Principal - Accounting
abrown@bdo.com

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APPENDIX – EXAMPLES

EXAMPLE 1: [ADAPTED FROM ASC 220-40-55-3 THROUGH 55-12] DISAGGREGATION OF INCOME STATEMENT EXPENSES BY AN ENTITY WITH MANUFACTURING AND SERVICE OPERATIONS

- ▶ 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			
CONSOLIDATED INCOME STATEMENT			
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	<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>\$ 6,718</u>	<u>\$ 6,899</u>	<u>\$ 6,805</u>

- ▶ Entity X discloses a breakdown of costs of products sold, cost of services, and selling, general, and administrative expenses into specified categories. These are relevant expense captions because they include one or more of the required, disaggregated categories.
- ▶ Entity X may elect to disclose amounts related to inventory under a cost-incurred or expense-incurred basis. In this example, Entity X opts for a cost-incurred basis, meaning it includes costs capitalized to inventory and those directly expensed during the reporting period.
- ▶ Entity X recognizes impairment of property, plant, and equipment classified as held and used solely within selling, general, and administrative expenses.
- ▶ Entity X recognizes expenses related to warranty accruals entirely within the cost of products sold.
- ▶ Entity X recognizes operating lease costs within both cost of services and selling, general, and administrative expenses. As a result, Entity X is not required to separately disclose the amounts attributable to operating lease costs in these categories. Instead, these expenses are included in the "other items" category for each relevant expense caption.
- ▶ Entity X recognizes an amount related to the initial recognition and subsequent measurement of a liability for an environmental obligation within cost of products sold. According to Subtopic 220-40, Entity X is not required

NEW DISCLOSURE REQUIREMENT TO DISAGGREGATE INCOME STATEMENT EXPENSES: ASC 220-40

to disaggregate this amount into specific expense categories. Instead, this expense is included in the "other items" category.

▶ Entity X provides the following disclosure:

COST OF PRODUCTS SOLD	20X4	20X3	20X2
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 goods 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	\$ 63,456	\$ 60,898	\$ 57,244

(a) Other cost of products sold consisted primarily of amounts paid to carriers for outbound freight services related to contract fulfillment and the 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 consisted 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	20X4	20X3	20X2
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 consisted primarily of operating lease and travel expenses for the years ended December 31, 20X4, 20X3, and 20X2.

SELLING, GENERAL, AND ADMINISTRATIVE	20X4	20X3	20X2
Employee compensation	\$ 13,242	\$ 11,379	\$ 10,764
Depreciation	1,454	1,755	1,732
Property, plant, and equipment impairment	412	—	—
Intangible asset amortization	523	596	—
Other selling, general and administrative expenses ^(d)	5,218	5,141	5,615
Total selling, general and administrative expenses	\$ 20,849	\$ 18,871	\$ 18,116

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

NEW DISCLOSURE REQUIREMENT TO DISAGGREGATE INCOME STATEMENT EXPENSES: ASC 220-40

- ▶ In addition to the tabular format disclosure, Entity X must also disclose its selling expenses and define how it categorizes these expenses, as illustrated in the following disclosure:

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 2: [ADAPTED FROM ASC 220-40-55-13 THROUGH 55-19] DISAGGREGATION OF INCOME STATEMENT EXPENSES BY AN ENTITY WITH SERVICE OPERATIONS

- ▶ 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 discloses a breakdown of the cost of sales, depreciation, and amortization, selling, general, and administrative expenses, and research and development expenses into specified categories. These captions are identified as relevant because they include one or more of the specified expense categories.
- ▶ Entity X recognizes one-time employee termination benefits within cost of sales, selling, general, and administrative expenses, and research and development expenses. Consequently, Entity X includes this amount as a separate category in the tabular format disclosure. Subtopic 220-40 requires an entity to disclose the amount of each major cost type from an exit or disposal activity, such as one-time employee termination benefits, in the same tabular format as other required disclosures. Since these benefits are a form of employee compensation, Entity X specifies that its employee compensation category excludes one-time employee termination benefits, because they are disclosed separately.
- ▶ Entity X has a funded research and development cost-sharing arrangement with a strategic partner and recognizes an expense reimbursement from this partner within research and development expenses. Entity X chooses to separately disclose the amount of this reimbursement.
- ▶ Entity X provides the following disclosure:

NEW DISCLOSURE REQUIREMENT TO DISAGGREGATE INCOME STATEMENT EXPENSES: ASC 220-40

COST OF SALES	20X4	20X3	20X2
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 consisted primarily of subcontractor costs and travel expenses for the years ended December 31, 20X4, 20X3, and 20X2.

DEPRECIATION AND AMORTIZATION EXPENSES	20X4	20X3	20X2
Depreciation	\$ 19,126	\$ 17,984	\$ 17,893
Intangible asset amortization	12,452	8,194	5,735
Total depreciation and amortization expenses	\$ 31,578	\$ 26,178	\$ 23,628

SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES	20X4	20X3	20X2
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 selling, general and administrative expenses ^(b)	199,860	159,308	169,785
Total selling, general and administrative expenses	\$ 497,962	\$ 458,215	\$ 471,626

(b) Other SG&A consisted 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	20X4	20X3	20X2
Employee compensation (exclusive of one-time employee termination benefits)	\$ 46,242	\$ 41,379	\$ 40,764
One-time employee termination expenses	1,454	1,855	—
Other research and development expenses ^(c)	17,836	16,845	15,890
Cost reimbursements ^(d)	(8,297)	(7,905)	(7,756)
Total research and development expenses	\$ 57,235	\$ 52,174	\$ 48,898

(c) Other R&D consisted 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 consisted of payments from a strategic partner for employee compensation and material costs related to R&D incurred as a 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, Entity X must disclose its selling expenses and define how it categorizes these expenses, as illustrated in the following disclosure:

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 specific customer acquisition-related costs.