

Understanding ASU 2024-03:

Why Public Companies Need to Prepare for
Expense Disaggregation Now



Disaggregation of Income Statement Expenses Made Simple:

Requirements, Complexities, and Action Steps

A fundamental shift in financial reporting is coming that will reshape how public companies disclose their expenses to investors. ASU 2024-03, the new standard on disaggregation of income statement expenses (DISE), requires detailed breakdowns of major expense categories in a standardized tabular format. The goal is to provide richer, more comparable data for financial statement users without changing the face of the income statement.

Currently, Generally Accepted Accounting Principles (GAAP) requirements lack the granularity needed for investors and users of financial statements to understand entities' cost structures and better forecast cash flows.

This Matters Now

Mandatory adoption dates are in the 2027/2028 timeframe. While this may seem like a distant deadline, systems and processes must evolve. The complexity and far-reaching implications of this standard make immediate preparation essential to avoid costly disruptions and compliance failures.

Annual Reporting Periods: Fiscal years beginning after December 15, 2026, with 2027 for calendar year-end public business entities.

Interim Reporting Periods: Interim periods within fiscal years beginning after December 15, 2027.

Early adoption is permitted.



ASU should be applied:

Prospectively to financial statements issued for reporting periods after the effective date, or **retrospectively** to any or all prior periods presented in the financial statements.

Understanding the Core Requirements

The heart of ASU 2024-03 lies in its requirement to disaggregate relevant income statement line items into specific natural expense categories. These categories must appear in a tabular format in the notes that reconcile to income statement totals.

The required categories include:

- Purchases of inventory
- Employee compensation
- Depreciation
- Intangible asset amortization
- Depreciation, depletion, and amortization (DD&A) for certain activities, such as oil and gas

Although not part of the tabular format, total selling expenses must also be disclosed, requiring entities to define them.

Companies must integrate specified existing GAAP disclosures into the table, such as impairment losses, warranty expenses, and lease-related costs, even if already disclosed elsewhere. Some items are required only when recorded entirely in a single relevant expense caption, and interim inclusion depends on whether the underlying GAAP disclosure is required in interim periods. The list of these expenses is relatively extensive, so a careful review of these additional categories should be conducted to ensure all applicable categories are properly disclosed.

These disclosures provide a more comprehensive picture of an entity's expense composition, with qualitative descriptions explaining any remaining amounts necessary to reconcile to the income statement totals.

Importantly, the standard only applies to “relevant expense captions” which are those income statement line items that actually contain the specified expense types. If an expense caption contains only a single category, no additional disclosure is needed. Similarly, equity method investment earnings require no disaggregation.

Key Complexities and Why They Demand Early Attention

Implementation of the new standard involves judgment-heavy decisions with long-term ripple effects. The most consequential relates to:

Inventory purchases

Two approaches are allowed to satisfy inventory purchases within each relevant expense caption.

Cost-incurred:

The cost-incurred basis includes inventorable costs that were capitalized plus any costs directly expensed during the period.

This approach requires reconciliation to show changes in inventory balances, and separate disclosures of other adjustments or reconciling items may require additional adjustments, such as for foreign currency impacts.

Expense-incurred:

The expense-incurred basis focuses on costs related to inventory derecognition plus direct expenses but requires linking back to the historical nature of previously capitalized costs.



Most companies will select the cost-incurred approach for practical reasons, particularly for manufacturers with significant overhead allocated to inventory. However, the expense-incurred model may better reflect economic reality during periods of volatile production and sales. This choice will determine data architecture and system requirements for years to come, potentially making it extremely costly to change later.

Practical Expedient: If substantially all (often interpreted as 90% or more) of an expense caption comprises purchases of inventory, disaggregation isn't requirement; however, the entity must qualitatively describe the caption's composition.

Employee Compensation

Companies must determine who qualifies as an employee for purposes of the disclosure, which can be particularly challenging for directors, contractors, and other non-traditional worker arrangements. The definition encompasses any compensation cost recognized in accordance with ASC 710 on compensation (e.g., wages, salaries, bonuses), ASC 712 on nonretirement postemployment benefits (e.g., deferred compensation plans), ASC 715 on retirement benefits (e.g., pension, defined contribution, and other relevant plans), and ASC 718 on stock compensation (e.g., stock options, RSUs).

One-time employee termination benefits must be separately disclosed.

Expense Reimbursements

If relevant expense captions are presented net of expense reimbursements relating to cost-sharing or cost-reimbursement arrangements from another party, entities can choose to separately disclose the amount of the expense reimbursement or disclose the expense categories in the table net of reimbursement effects.



This choice must be consistent and include appropriate qualitative descriptions of underlying arrangements.

If separately disclosed, a qualitative description of the expense categories to which an expense reimbursement relates is required.

Cost-sharing or cost-reimbursement arrangements to another party require a separate disclosure of the expense amount.

Certain Liability-Related Expenses

An entity is not required to disaggregate a liability-related expense into the required expense categories if all the following conditions are met:

Future settlement with uncertainty: The expense relates to an obligation that will be settled with uncertainty about the timing of settlement.

Based on estimated future expenditure: The expense is tied to an estimate of a future cost rather than a fixed, known amount.

Not solely one required expense category: The expense is not entirely attributable to a single required category, for example, purely employee compensation.

Examples of liabilities include provisions for losses on contracts, asset retirement obligations, and legal contingencies.



Key Challenges Regarding Implementation of DISE

Complexity Area	Why It Matters
System and Data Readiness	Without granular expense tracking, compliance with ASU will be costly and disruptive. System changes can take months to design, test, and deploy.
Process and Control Changes	Classification accuracy depends on end-to-end workflow changes and requires consistency across all business units and subsidiaries to ensure disclosure accuracy; controls must be in place before the effective date to avoid audit issues.
Resource Planning	Needs cross-functional coordination (Accounting, IT, FP&A) and may require hiring or reallocating staff for data mapping, testing, and system upgrades, as necessary. Ensure you understand the requirements, so you have sufficient resources to implement the required changes properly.
Inventory Basis Decision	Choosing between cost-incurred vs expense-incurred sets your data architecture for years, as changing later can be very costly. Making an educated choice requires a detailed understanding of your inventory data and process flows.
GAAP Disclosures	New disclosures must be created, and specific existing disclosures must be mapped to them. MD&A, segments, and other areas of the filing should also be carefully reviewed to ensure investors are not confused with how expense information is presented.
Transition Timeline	Don't underestimate the effort required, as waiting to evaluate and implement the new standard risks operational strain, control gaps, and rushed, error-prone reporting.

Companies starting inventory pilots or system assessments today position themselves for smooth adoption, turning compliance into a competitive edge via richer investor insights.

ASU 2024-03 elevates expense transparency from optional to mandatory, directly tying your disclosures to investor trust and market perception. Begin an immediate gap analysis of expense captions and data capabilities. Early movers will navigate complexities efficiently, avoid last-minute scrambles, and demonstrate forward-thinking governance that resonates with stakeholders.

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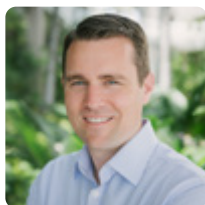
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