Financial reporting developments

A comprehensive guide

Disaggregation of income statement expenses

December 2025

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The Financial Accounting Standards Board (FASB or Board) issued Accounting Standards Codification (ASC) 220-40, *Income Statement — Reporting Comprehensive Income — Expense Disaggregation Disclosures*, which requires a public business entity to disclose disaggregated information about certain income statement expense line items and information about selling expenses. The guidance is effective for fiscal years beginning after 15 December 2026, and interim periods within fiscal years beginning after 15 December 2027. Early adoption is permitted.

This publication is designed to help readers understand the disclosures required under the standard and reflects our current views of the guidance based on our experience with financial statement preparers and users and discussions with the FASB staff. The views we express in this publication may continue to evolve as implementation continues and additional issues are identified. We will periodically update this publication with the latest implementation insights.

Appendix E of this publication summarizes significant changes since the previous edition.

Ernst + Young LLP

December 2025

Contents

Notice to readers:

This publication includes excerpts from and references to the Financial Accounting Standards Board (FASB or Board) Accounting Standards Codification (Codification or ASC). The Codification uses a hierarchy that includes Topics, Subtopics, Sections and Paragraphs. Each Topic includes an Overall Subtopic that generally includes pervasive guidance for the Topic and additional Subtopics, as needed, with incremental or unique guidance. Each Subtopic includes Sections that in turn include numbered Paragraphs. Thus, a Codification reference includes the Topic (XXX), Subtopic (YY), Section (ZZ) and Paragraph (PP).

Throughout this publication references to guidance in the Codification are shown using these reference numbers. References are also made to certain pre-Codification standards (and specific sections or paragraphs of pre-Codification standards) in situations in which the content being discussed is excluded from the Codification.

This publication has been carefully prepared, but it necessarily contains information in summary form and is therefore intended for general guidance only; it is not intended to be a substitute for detailed research or the exercise of professional judgment. The information presented in this publication should not be construed as legal, tax, accounting, or any other professional advice or service. Ernst & Young LLP can accept no responsibility for loss occasioned to any person acting or refraining from action as a result of any material in this publication. You should consult with Ernst & Young LLP or other professional advisors familiar with your particular factual situation for advice concerning specific audit, tax or other matters before making any decisions.

1 Overview and scope

1.1 Overview

Excerpt from Accounting Standards Codification

Income Statement-Reporting Comprehensive Income — Expense Disaggregation Disclosures

Overview and Background

220-40-05-1

This Subtopic provides guidance on the disaggregation disclosure requirements for certain expense captions presented on the face of an entity's income statement. This Subtopic also provides guidance on the disclosure of selling expenses.

220-40-50-1

The objective of the disclosure requirements in this Section is to provide disaggregated information about a **public business entity's** expenses to help investors:

a. Better understand the entity's performance

b. Better assess the entity's prospects for future cash flows

c. Compare an entity's performance over time and with that of other entities.

In addition, the disclosure requirements are intended to provide information about the relative proportion and trends of each category of expense identified in paragraph 220-40-50-6 in relation to the corresponding income statement expense caption amount in order to meet the overall objective described above. An entity shall consider the level of detail necessary to satisfy the disclosure objective and specific requirements of this Subtopic. An entity may use estimates or other methods that produce a reasonable approximation of the amounts required to be disclosed by this Subtopic.

ASU 2024-03 requires a public business entity (PBE) to disclose, on an annual and interim basis, disaggregated information about certain income statement line items in a tabular format in the notes to the financial statements.

The ASU provides disclosure requirements and establishes a new subtopic, ASC 220-40, that sets minimum disaggregated expense disclosure requirements. It also requires separate disclosure of selling expenses and an entity's definition of those expenses. The ASU does not change what a PBE presents on the face of its income statement or amend any existing guidance on the recognition or measurement of transactions.

The guidance is effective for PBEs for fiscal years beginning after 15 December 2026, and interim periods within fiscal years beginning after 15 December 2027. Early adoption is permitted.

The FASB issued the guidance to address requests from investors and other financial statement users (collectively, investors) for more detailed expense information, which they said is critical to understanding an entity's performance, assessing its prospects for future cash flows and comparing its performance both over time and with that of other entities. Investors have requested disclosure of the amounts of employee compensation, depreciation and amortization included in commonly presented income statement line items, such as cost of sales (COS) and selling, general and administrative expenses (SG&A).

The FASB said in paragraph BC2 in the Background Information and Basis for Conclusions of ASU 2024-03 that investors also have requested disclosure of purchases of inventory to better understand an entity's costs related to materials and how changes in those costs may affect gross margin.

1.1.1 Use of estimates or other methods that produce a reasonable approximation of required disclosures (added December 2025)

The FASB acknowledged in ASC 220-40-55-2 that applying the new guidance "might cause an entity to pursue a degree of detail in recordkeeping and computations that could be burdensome as well as unnecessary to produce a reasonable approximation of the results." Additionally, as discussed in paragraph BC53 of ASU 2024-03, the Board "did not intend for an entity to prepare the disclosure requirements using transaction level details; instead, an entity may take a reasonable approach to prepare the information in a systematic and rational way." As a result, the Board clarified in ASC 220-40-50-1 that an entity may use estimates or other methods that produce a reasonable approximation of the amounts required to be disclosed.

Question 1-1 **Is an entity required to use transaction level details to prepare the disclosures under ASC 220-40?**

No. ASC 220-40 does not require or prohibit an entity's use of transaction level details to prepare the required disclosures. As such, the use of either transaction level details or the use of estimates or other methods that produce a reasonable approximation of the amounts to be disclosed is appropriate. An entity's approach will likely depend on its systems, processes and controls, including the availability of transaction level data. Entities should apply judgment to determine when and how estimates or other methods may be applied to comply with the disclosure requirements. When estimates or other methods are used, careful consideration should be given to make sure reasonable assumptions and data are used to prepare the disclosures.

1.1.2 Materiality considerations (added December 2025)

ASC 105-10-05-6 states "the provisions of the Codification need not be applied to immaterial items." The FASB said in paragraph BC122 of ASU 2024-03 that ASC 105-10-05-6 applies to the guidance in ASC 220-40. As such, an entity is not required to disclose items determined to be immaterial to the financial statements. An entity should consider both quantitative and qualitative factors when assessing the materiality of a disclosure. For further discussion on the concepts of materiality, refer to section 6.2, *Assessing materiality of an error*, of our Financial reporting developments (FRD), ***Accounting changes and error corrections***.

1.2 Scope and scope exceptions (updated December 2025)

Excerpt from Accounting Standards Codification

Income Statement-Reporting Comprehensive Income — Expense Disaggregation Disclosures

Scope and Scope Exceptions

220-40-15-2

The guidance in this Subtopic applies to all **public business entities**.

220-40-15-3

The guidance in this Subtopic does not apply to the following entities:

a. **Private companies**

b. **Not-for-profit entities**

c. Employee benefit plans within the scope of any of the following Topics:

   1. Plan Accounting—Defined Benefit Pension Plans (Topic 960)
   2. Plan Accounting—Defined Contribution Pension Plans (Topic 962)
   3. Plan Accounting—Health and Welfare Benefit Plans (Topic 965).

The guidance applies only to PBEs. Private companies, not-for-profit entities (NFPs) and employee benefit plans are excluded from the scope of the guidance.

The guidance does not apply to NFPs because they are already subject to expense disclosure requirements that are more disaggregated than those currently required for business entities. For example, ASC 958-720-45-15 requires NFPs to report disaggregated expense information in one location on the face of the statement of activities, as a schedule in the notes to the financial statements or in a separate financial statement.

The guidance also does not apply to employee benefit plans that are subject to ASC 960, ASC 962 and ASC 965. As discussed in paragraph BC36 of ASU 2024-03, employee benefit plans are excluded from the scope because the disclosure requirements are generally not relevant to users of employee benefit plan financial statements.

Question 1-2 **What is the definition of a PBE under ASC 220-40? (added December 2025)**

ASC 220-40 applies to all PBEs. The definition of a PBE used in ASC 220-40 (see Appendix D, *Glossary*) is the same definition the FASB uses for other standards and includes more than just entities that are required to file financial statements with the Securities and Exchange Commission (SEC). That is, entities that are not traditionally thought of as public companies may meet the definition of a PBE and, thus, are subject to the disclosure requirements under ASC 220-40.

For example, an entity that is acquired by an SEC registrant may have its financial statements included in the acquirer's filing with the SEC under Rule 3-05 of Regulation S-X as financial statements of businesses acquired or to be acquired. In this example, the acquired entity would meet the definition of a PBE and be required to make the disclosures under ASC 220-40 even if it did not have its own filing requirements with the SEC. Entities should carefully assess whether they currently meet the PBE definition or could meet the definition in the future.

1.3 Legacy requirements

There were previously no broad requirements in the Codification to present specific line items (also known as captions) on the face of the income statement or to disaggregate certain expense line items. However, there are industry-specific presentation requirements, as well as presentation requirements that are triggered when a specific event occurs (e.g., goodwill impairment for a PBE). Under existing US GAAP, certain expenses, gains and losses, while not required to be separately presented on the income statement, are required to be disclosed, including in some instances, the line item(s) where the amount is included in the income statement.

SEC Regulation S-X includes general and industry-specific income statement presentation requirements for PBEs that file or furnish financial statements with the SEC. For example, Rule 5-03 of Regulation S-X lists the various expense line items that a commercial and industrial company should present on the face of the statements of comprehensive income, including "costs and expenses applicable to sales and revenues" and "selling, general and administrative expenses."

The FASB said in paragraph BC3 of ASU 2024-03 that investors have observed diversity in the amount of disaggregated expense information that entities provide in financial statements, and the naming and classification conventions for income statement expense line items vary by industry and entity. The Board noted in paragraph BC15 of ASU 2024-03 that investors have previously observed that while the disaggregation of expenses by function, such as COS and general and administrative expenses, may be helpful for analyzing overall business trends, it aggregates items with different economic drivers (e.g., labor and raw materials) and reduces the predictive value of the information. Refer to section 2.2.1, *Natural versus functional expense classifications* for further discussion.

1.4 Changes in elected disclosure alternatives and definitions (updated December 2025)

Excerpt from Accounting Standards Codification

Income Statement-Reporting Comprehensive Income — Expense Disaggregation Disclosures

Disclosure

220-40-50-4

The disclosure requirements in this Section shall be applied consistently for all periods presented. If an entity changes its display of the disclosure requirements in the current reporting period as a result of a change in the election of an alternative or a change in a definition of a disclosure in this Section, the entity shall:

a. Disclose the reason for the change in the period of the change (in the interim and annual reporting periods affected by the change)

b. Recast the prior periods presented for comparative purposes, except for the requirements in paragraphs 220-40-50-22 through 50-23, unless it is impracticable to do so. If it is impracticable to do so, the entity shall disclose that fact and explain why it is impracticable to recast prior periods.

Changes described in this paragraph do not represent a change in accounting principle in accordance with Topic 250 on accounting changes and error corrections.

220-40-50-5

Some entities provide condensed statements for interim reporting periods and, therefore, present different expense captions on their income statements at annual and interim reporting periods. For an entity that provides condensed statements for interim reporting periods, the guidance in paragraph 220-40-50-4 is applicable in instances in which an entity changes its display of the disclosure requirements for the current interim reporting period compared with the prior interim reporting period or in instances in which the entity changes its display of the disclosure requirements for the current annual reporting period compared with the prior annual reporting period.

The disclosure requirements under this guidance need to be applied consistently for all periods presented. If an entity changes its display of the required disclosures as a result of a change in the election of an alternative (e.g., cost-incurred basis to expense-incurred basis) or in a definition of a disclosure (e.g., definition of selling expense) under the guidance, it is required to (1) disclose the reason for the change in the interim and annual reporting periods affected by the change and (2) recast the prior periods presented for comparative purposes, unless changes in facts and circumstances result in a change in the disclosure requirement for items in ASC 220-40-50-22, as discussed in section 2.3, *Integration of specified existing disclosures*. If it is impracticable to recast prior periods, an entity is required to disclose that fact and explain why.

These changes do not represent a change in accounting principle in accordance with ASC 250, *Accounting Changes and Error Corrections*. The requirements described above apply when an entity changes its display of the required disclosures for the current annual or interim reporting period compared with the prior annual or interim reporting period, respectively.

Question 1-3 **How should entities assess the "impracticable" exception under ASC 220-40 when evaluating whether to recast prior periods for a change in the election of an alternative or the definition of a disclosure? (added December 2025)**

We believe the impracticable exception is assessed in the same way as similar exceptions included in other US GAAP (e.g. ASC 280, *Segment Reporting*, ASC 250, *Accounting Changes and Error Corrections*). That is, we view impracticable as a very high standard. We believe that impracticability exceptions are truly exceptions, and therefore, entities should avail themselves of these exceptions only in limited circumstances. Accordingly, if an entity concludes that it is impracticable to recast prior periods for a change in the election of an alternative or in a definition of a disclosure under the guidance in ASC 220-40, we expect this conclusion to be supported by a thoroughly documented analysis. As required by ASC 220-40-50-4(b), an entity that concludes it is impracticable to recast prior periods is required to disclose that fact and explain why in its financial statements.

Question 1-4 **What are the accounting and disclosure considerations when an entity makes a voluntary classification or presentation change to its income statement?**

The guidance in ASC 220-40-50-4 applies to changes in disclosure alternatives and definitions elected under ASC 220-40 and does not apply to changes to the income statement. If an entity makes a voluntary classification or presentation change to its income statement (e.g., an entity changes the income statement line item an expense amount is included within), we believe it should recast prior period amounts within the income statement and the disaggregated expense disclosure. The entity should also assess whether the reclassification or presentation change could be a voluntary change in accounting principle or an error correction. Refer to section 3.4.3, *Assessing reclassifications for a voluntary change in accounting principle*, and section 6.1.2, *Error correction versus a reclassification*, in our FRD, ***Accounting changes and error corrections***, for additional information.

Additionally, changes to an entity's income statement classification or presentation may result in changes to the disclosures provided in accordance with ASC 220-40.

2 Expense disaggregation disclosure

2.1 Income statement line items subject to disaggregation (updated December 2025)

Excerpt from Accounting Standards Codification

Income Statement-Reporting Comprehensive Income — Expense Disaggregation Disclosures

Disclosure

220-40-50-12

For the purposes of applying the guidance in this Subtopic, a relevant expense caption is an expense caption presented on the face of the income statement in continuing operations that contains any of the expenses listed in paragraph 220-40-50-6 (including those described in paragraphs 220-40-50-10 through 50-11). A relevant expense caption that consists entirely of one expense category listed in paragraph 220-40-50-6 is not subject to the requirements of this Subtopic. For example, if depreciation is a relevant expense caption on the income statement and the caption consists entirely of depreciation in accordance with paragraph 220-40-50-6(c), no additional disclosure is required because the information in the income statement satisfies the disclosure requirements in this Subtopic. In contrast, if the relevant expense caption comprises depreciation and intangible asset amortization, an entity would be required to separately disclose depreciation and intangible asset amortization in accordance with paragraph 220-40-50-6(c) through (d), respectively. Furthermore, in accordance with paragraph 220-40-50-31, when a relevant expense caption contains amounts within the scope of Topic 330, an entity shall apply its chosen basis for disaggregating amounts within the scope of Topic 330 to the expense categories listed in paragraph 220-40-50-6.

220-40-50-6

For interim and annual reporting periods, an entity shall disaggregate, in a tabular format disclosure in the notes to financial statements, all relevant expense captions (see paragraphs 220-40-50-12 through 50-13 for guidance on identifying relevant expense captions) presented on the face of the income statement in continuing operations into the following expense categories:

a. Purchases of **inventory** (see paragraph 220-40-50-7)

b. **Employee compensation** (disclosing separately any **one-time employee termination benefits**, if applicable, see paragraph 220-40-50-21(e))

c. Depreciation (for separate requirement to disclose depreciation expense for the period in total, see paragraph 360-10-50-1(a))

d. **Intangible asset** amortization (for separate requirement to disclose intangible asset amortization expense for the period in total, see paragraph 350-30-50-2(a)(2))

e. Depreciation, depletion, and amortization of capitalized acquisition, exploration, and development costs recognized as part of **oil- and gas-producing activities** (see Subtopic 932-360 on extractive activities—oil and gas—property, plant, and equipment) or other amounts of depletion expense (see paragraph 220-40-50-11).

When applying the guidance, an entity first identifies which expense line item(s) presented on the face of its income statement need to be disaggregated in the notes to the financial statements (i.e., relevant expense line items).

A relevant expense line item is any line item presented on the face of the income statement in continuing operations that contains at least one of the following expense categories (i.e., required expense categories):

- Purchases of inventory in the scope of ASC 330, *Inventory*
- Employee compensation
- Depreciation
- Intangible asset amortization
- Depreciation, depletion and amortization (DD&A) of capitalized acquisition, exploration and development costs recognized as part of oil- and gas-producing activities or other amounts of depletion expense

An income statement line item that does not contain any of the required expense categories is not a relevant expense line item and, therefore, is not subject to the disaggregation requirements. For example, income tax expense is not a relevant expense line item because it does not contain any of the required expense categories.

A relevant expense line item that consists entirely of one expense category listed above is not required to be disaggregated. Refer to section 3, *Expenses not required to be disaggregated*, for more information.

Additionally, a relevant expense line item that contains amounts in the scope of ASC 330 can be disaggregated using the cost-incurred or expense-incurred basis. See section 2.6.1, *Cost-incurred basis and expense-incurred basis*, for further discussion.

An entity is required to disclose, on an annual and interim basis, the following information in a table for each relevant expense line item:

<table>
<tr><td>Required expense categories (refer to section 2.2)</td><td>Separate disclosure of each of the following expense amounts (ASC 220-40-50-6):
Purchases of inventory
Employee compensation
Depreciation
Intangible asset amortization
DD&A recognized as part of oil- and gas-producing activities or other depletion expense</td></tr>
<tr><td rowspan="2">Integration of specified existing disclosures
(refer to section 2.3)
These disclosures are only required in interim disaggregated expense tables if existing US GAAP requires disclosure in interim reporting periods (ASC 220-40-50-3).</td><td>Specified expenses, gains and losses for which there is an existing requirement to disclose the amount and the line item(s) in the income statement where the amount is included (ASC 220-40-50-21)</td></tr>
<tr><td>Specified expenses, gains and losses for which there is an existing requirement to disclose the amount but no requirement to disclose the line item in the income statement where the amount is included
The amount is required to be included in the disaggregated expense tables only if it is included entirely in one expense line item on the income statement (ASC 220-40-50-22).</td></tr>
<tr><td>Expense reimbursements related to cost-sharing or cost-reimbursement arrangements (refer to section 2.4)</td><td>Expense reimbursements received from another entity if the entity chooses to separately disclose the reimbursement (ASC 220-40-50-26(a)) and expense reimbursements paid to another entity (ASC 220-40-50-28)</td></tr>
<tr><td>Other amounts remaining in relevant expense line items (refer to section 2.5)</td><td>The aggregate of other amounts remaining in relevant expense line items after breaking out separately disclosed items (e.g., required expense categories) (ASC 220-40-50-30)</td></tr>
<tr><td colspan="2">Total for each relevant expense line item</td></tr>
</table>

Question 2-1 **Should an entity provide the disaggregated expense tables for each income statement presented in its interim financial statements? (added December 2025)**

Yes. We believe that an entity should provide the disaggregated expense tables for each interim income statement presented. For example, if an entity presents both a year-to-date and a quarter-to-date income statement in its interim financial statements, we believe disaggregated expense tables should be included for both year-to-date and quarter-to-date periods.

2.2 Required expense categories

As noted in paragraphs BC49 and BC60 of ASU 2024-03, the FASB decided to limit the required expense categories to purchases of inventory, employee compensation, depreciation, intangible asset amortization and DD&A or other depletion because those categories align with the highest priority natural expense categories indicated in investors' feedback, and it will be less costly for preparers than requiring the full disaggregation of income statement line items.

2.2.1 Natural versus functional expense classifications

The ASC Master Glossary defines natural expense classification as:

> "A method of grouping expenses according to the types of economic benefits received in incurring those expenses. Examples of natural expense classifications include salaries and wages, employee benefits, nonemployee professional services, supplies, interest expense, rent, utilities, and depreciation."

The FASB said in paragraph BC55 of ASU 2024-03 that it considers the required expense categories (i.e., purchases of inventory, employee compensation, depreciation, intangible asset amortization and DD&A or other depletion) to be natural expenses. As an example, the FASB noted that the types of economic benefits received from employees' services are different from those received from the use of a constructive asset (e.g., a building).

In contrast, the ASC Master Glossary defines functional expense classification as a "method of grouping expenses according to the purpose for which costs are incurred …." Common functional expenses for a business entity include COS and SG&A. While employee compensation may represent one type of natural expense, it can be divided between different functions, such as manufacturing and production, the cost of providing services, SG&A functions, and research and development (R&D) activities, as noted in paragraph BC56 of ASU 2024-03. Therefore, functional expense line items on the income statement, such as SG&A, may include natural expense amounts that have different economic characteristics.

Determining the purpose for which a cost was incurred (i.e., the functional classification) is subjective and can require judgment. The FASB noted in paragraph BC57 of ASU 2024-03 that allocating a natural expense to multiple functional expense line items does not affect its underlying natural expense categorization. For example, allocating the cost of an employee's salary to COS and R&D does not change the natural classification of the cost incurred (i.e., it remains employee compensation).

2.2.2 Purchases of inventory (updated December 2025)

Excerpt from Accounting Standards Codification

Income Statement-Reporting Comprehensive Income — Expense Disaggregation Disclosures

Disclosure

220-40-50-7

Purchases of inventory shall include only amounts within the scope of Topic 330 or within the scope of an Industry Subtopic in Topic 330 (collectively, Topic 330) but shall not include (regardless of the basis selected in paragraph 220-40-50-31) the amounts recognized from any of the following:

a. A **business combination** within the scope of Subtopic 805-10 on business combinations

b. A **joint venture** formation within the scope of Subtopic 805-60 on joint venture formations

c. The initial consolidation of a **variable interest entity** that is not a business combination within the scope of Subtopic 810-10 on consolidation.

Amounts excluded by this paragraph shall be included in the other items category, unless separately disclosed voluntarily (see paragraph 220-40-50-30). See paragraphs 220-40-50-31 through 50-34 for additional requirements for the disaggregation of relevant expense captions that contain amounts within the scope of Topic 330.

While the term "purchases of inventory" is not defined, based on paragraph BC78 of ASU 2024-03, purchases of inventory include costs incurred or expenses incurred to obtain raw materials, finished goods and other externally purchased inputs. The purchases of inventory category represents expense amounts recognized in the income statement and includes expenses related to the derecognition of purchases of inventory that were capitalized as inventory on the balance sheet and other purchases of inventory that were directly expensed.

Purchases of inventory only include amounts in the scope of ASC 330 or an industry subtopic in ASC 330 (e.g., ASC 905-330). However, purchases of inventory do not include amounts recognized as part of a business combination, a joint venture formation or upon the initial consolidation of a variable interest entity (VIE) that is not a business combination. Amounts recognized from those transactions are disclosed in the "other amounts" category or as a separate category in the disaggregated expense table, regardless of what basis is used to disaggregate relevant expense line items that contain amounts in the scope of ASC 330 (see section 2.6.1, *Cost-incurred basis and expense-incurred basis*, below).

The Board expects the disclosure of purchases of inventory as a standalone expense category to be useful because investors can combine amounts disclosed with information from other sources (e.g., the prevailing market prices of known key inputs) to assess the effect on an entity's performance. In addition, the Board said in paragraph BC78 of ASU 2024-03 that it expects the disclosure of purchases of inventory to help an investor understand an entity's relative cost exposures.

The following table includes examples of costs that we believe should be included, are acceptable to include and are not acceptable to include in the purchases of inventory category if they are in the scope of ASC 330 (or within an industry subtopic in ASC 330). These lists are not exhaustive. Judgment may be required to determine what other inventoriable costs should be included in the amount disclosed for purchases of inventory.

Should include	Acceptable to include	Not acceptable to include
▸ Costs to obtain raw materials, finished goods and other externally purchased inputs ▸ Purchase price variances under a standard costing system ▸ Inventory acquired from an asset acquisition that is not the acquisition of a VIE	▸ External inbound freight costs capitalized on the initial recognition of inventory ▸ Sales taxes and tariffs capitalized on the initial recognition of inventory ▸ Consideration received from vendors (e.g., rebates) accounted for as a reduction of the purchase price of goods in accordance with ASC 705-20	▸ Inventory recognized as part of a business combination under ASC 805-10 ▸ Inventory recognized as part of a joint venture formation under ASC 805-60 ▸ Inventory recognized on the initial consolidation of a VIE that is not a business combination under ASC 810-10 ▸ Direct labor costs in a manufacturing operation ▸ Manufacturing overhead costs, including indirect labor costs ▸ Labor and overhead variances under a standard costing system ▸ Depreciation and intangible asset amortization ▸ Foreign currency translation

Question 2-2 **Should costs colloquially referred to as inventory but not considered inventory in the scope of ASC 330 be included in the purchases of inventory category? (added December 2025)**

No. As described in paragraph BC76 of ASU 2024-03, the disclosure of purchases of inventory should exclude amounts that are colloquially referred to as inventory (e.g., film costs, costs accumulated for long-term construction contracts) but are not considered inventory in the scope of ASC 330 or within an industry subtopic in ASC 330 (collectively, ASC 330). Judgment may be required to determine whether purchases of products and materials are within the scope of ASC 330 or other US GAAP. See Question 2-3 for additional discussion.

Question 2-3 **Should purchases of materials that are charged directly to a customer contract being recognized in revenue over time and immediately expensed be included in the purchases of inventory category? (added December 2025)**

It depends. Under ASC 606, entities may transfer promised goods and services to customers over time and, therefore, recognize the related revenue over time. These arrangements are common in the aerospace and defense and engineering construction industries.

The costs of purchases of materials that are charged directly to a customer contract being recognized in revenue over time may be immediately expensed under ASC 330 or other US GAAP (e.g., ASC 340-40). We understand there is diversity in practice. Some entities consider such purchases of materials to be costs in the scope of ASC 330, while others consider them to be costs in the scope of other US GAAP. Under either approach, the costs of these purchases are immediately expensed. Therefore, the distinction is generally not meaningful to an entity's financial statements (e.g., balance sheet, income statement, statement of cash flows).

However, for purposes of ASC 220-40's disclosures, the distinction is more relevant. This is because an entity that accounts for the purchases of these materials in the scope of ASC 330 includes the related costs in the purchases of inventory category. Alternatively, if the entity accounts for the purchases of these materials under other US GAAP (e.g., ASC 340-40), the costs are not included in the purchases of inventory category. Instead, those purchases of materials are included in the "other" category or as a separate expense category because an entity is not precluded from providing further disaggregation of relevant expense line items before applying the guidance on other amounts remaining. If the purchases of materials are included in the "other" category, an entity may need to describe their inclusion in the required qualitative disclosure of the composition of the "other" category. Refer to section 2.5, *Other amounts remaining in relevant expense line items*, for further discussion.

When US GAAP is not prescriptive about which ASC topic to apply to a transaction, entities should consider their existing accounting policy for such transactions and prepare their disaggregated disclosures accordingly and consistently.

Question 2-4 **For biotechnology and pharmaceutical companies, are the costs to purchase materials to develop products before regulatory (e.g., Federal Drug Administration) approval included in the purchases of inventory category? (added December 2025)**

It depends on whether these purchases are accounted for under ASC 330 or an industry subtopic in ASC 330.

In the life sciences industry, biotechnology and pharmaceutical entities may incur costs to purchase materials used to develop products that require regulatory approval of the product itself or of the manufacturing process before they can be sold commercially. For marketing, distribution, manufacturing lead-time and capacity constraints, many entities manufacture inventory in advance of regulatory approval (commonly referred to as pre-launch inventory).

Pre-launch inventory is capitalizable if it is probable that future revenues that exceed costs will be generated from the sale of the inventory. However, the regulatory approval process can be unpredictable, which makes it difficult to determine that future revenues are probable. This determination of whether future revenues are probable should be based on specific facts and circumstances. Pre-launch inventory costs that are not capitalizable are instead expensed when incurred under ASC 730, *Research and Development*.

ASC 220-40-50-7 states that purchases of inventory only include amounts in the scope of ASC 330 or an industry subtopic in ASC 330. Costs incurred by entities to purchase materials for pre-launch inventory that are expensed under ASC 730 are not in the scope of ASC 330 and, therefore, are not included in purchases of inventory under ASC 220-40. However, once an entity meets the threshold to capitalize costs as inventory under ASC 330 (whether before or after regulatory approval), subsequent costs incurred to purchase materials used to develop products are included in purchases of inventory.

Question 2-5 **Should the costs incurred in a contract manufacturing arrangement be disclosed in the purchases of inventory category? (added December 2025)**

The disclosure under ASC 220-40 of costs incurred in a contract manufacturing arrangement depends on:

- Whether the contract manufacturer is a consolidated entity
- Whether the contract manufacturing arrangement contains a lease under ASC 842 (i.e., the entity is leasing the manufacturing facility from the owner)
- The classification of the lease components and whether the lessee applies the practical expedient to combine lease and non-lease components, if the arrangement contains a lease

When the contract manufacturer is consolidated by the reporting entity the costs incurred in the contract manufacturing arrangement are disclosed consistent with any other consolidated manufacturing operation. See section 2.6.3, *Application of the cost-incurred basis and expense-incurred basis in the consolidated financial statements of a group and the standalone financial statements of a subsidiary*, and section A.1, *Example 1: disaggregation of income statement expenses by an entity with manufacturing and services operations*, for examples of disclosures under ASC 220-40 for consolidated financial statements that include a manufacturing entity or operations.

When the contract manufacturer is not consolidated by the reporting entity, and the contract manufacturing arrangement contains a lease, the disclosure depends on the classification of the lease components and whether the lessee elects to apply the practical expedient to combine lease and non-lease components.

It is important to note that the lessee generally is not purchasing inventory. Instead, it is producing inventory with a leased asset (e.g., a manufacturing facility, identified equipment) and the associated manufacturing service provided by the lessor/contract manufacturer. As such, certain costs associated with the lease and non-lease components in a contract manufacturing arrangement may be capitalizable as inventory under ASC 330. See our FRD, ***Lease accounting***, for more information on the accounting for leases.

The following table summarizes certain costs that may be incurred in a contract manufacturing arrangement when an entity leases a contract manufacturing asset(s) (as lessee) and when the arrangement does not contain a lease (e.g., a contract supply contract with an unrelated manufacturer) and how such costs are presented in the ASC 220-40 disclosures:

	Nature of the cost/expense	**Category if included in a relevant expense line item**	**ASC 220-40 paragraph**
Finance lease right-of-use asset and lease liability	Amortization of right-of-use asset	Either depreciation or intangible asset amortization	ASC 220-40-50-10; see section 2.2.4.1, *Amortization of a right-of-use asset for a finance lease and leasehold improvements*
	Interest expense on the finance lease liability	Other	ASC 220-40-50-30; see section 2.5, *Other amounts remaining in relevant expense line items*
Operating lease right-of-use asset and lease liability	Operating lease cost	Operating lease cost, if consolidated operating lease cost included entirely in one expense line item Other, if consolidated operating lease cost not included entirely in one expense line item	ASC 220-40-50-22(p); see section 2.3, *Integration of specified existing disclosures*

	Nature of the cost/expense	Category if included in a relevant expense line item	ASC 220-40 paragraph
Contains either a finance or operating lease component – variable lease payments	Variable lease cost	Variable lease cost, if consolidated variable lease cost included entirely in one expense line item Other, if consolidated variable lease cost not included entirely in one expense line item	ASC 220-40-50-22(r); see section 2.3, *Integration of specified existing disclosures*
Contains either a finance or operating lease component – payments allocated to the non-lease component if practical expedient to combine lease and non-lease components not elected	Manufacturing service cost	Other	ASC 220-40-50-30; see section 2.5, *Other amounts remaining in relevant expense line items*
Arrangement does not contain a lease	Inventory acquisition cost	Purchases of inventory	ASC 220-40-50-6(a); see section 2.2.2, *Purchases of inventory*

2.2.2.1 Practical expedient for purchases of inventory (updated December 2025)

Excerpt from Accounting Standards Codification

Income Statement-Reporting Comprehensive Income — Expense Disaggregation Disclosures

Disclosure

220-40-50-19

As a practical expedient, when substantially all of an entity's income statement expense caption comprises purchases of inventory as described in paragraph 220-40-50-7, the entity is not required to apply the guidance in paragraph 220-40-50-6 to that caption. An entity that applies this practical expedient shall disclose a qualitative description of the composition of the expense caption in interim and annual reporting periods.

When substantially all of an entity's relevant expense line item comprises purchases of inventory in the scope of ASC 330 (which may be common in certain sectors, such as airlines and oil and gas), the entity is not required to provide the disaggregated disclosure for that expense line item. An entity that elects this practical expedient is required to qualitatively disclose the composition of the expense line item. As discussed in paragraph BC79 of ASU 2024-03, the Board decided to allow this practical expedient because the cost of disaggregating purchases of inventory in the scope of ASC 330 from insignificant amounts of other items would outweigh the expected benefits.

Question 2-6 **How should an entity apply the "substantially all" threshold? (added December 2025)**

While ASC 220-40 does not define the term substantially all, the Board indicated in paragraph BC80 of ASU 2024-03 that the term is meant to be applied consistently with how it is used in other areas of US GAAP. While there is no bright line, one reasonable approach to assessing substantially all would be to conclude that 90% or more is substantially all (refer to ASC 842-10-55-2).

The example below illustrates the application of the practical expedient for purchases of inventory.

Illustration 2-1: Application of practical expedient for purchases of inventory

Scenario A

Entity L presents cost of goods sold in continuing operations on its income statement. Entity L purchases products for resale that are delivered to its warehouse. The products are then shipped directly to customers once a sale transaction occurs. The following expense amounts make up the cost of goods sold line item (i.e., amounts of inventory derecognized, amounts directly expensed):

Purchases of inventory	$ 500
Employee compensation	100
Outbound shipping costs	50
Cost of goods sold	$ 650

Analysis: Purchases of inventory comprise 77%[(a)] of cost of goods sold. Therefore, purchases of inventory do *not* comprise substantially all of the line item, and Entity L cannot apply the practical expedient.

(a) $ 500 / $650 = 77%

Scenario B

Assume the same facts as in Scenario A, except that the following expense amounts make up the cost of goods sold line item:

Purchases of inventory	$ 500
Employee compensation	30
Outbound shipping costs	20
Cost of goods sold	$ 550

Analysis: Purchases of inventory comprise 91%[(b)] of cost of goods sold. Therefore, Entity L may reasonably conclude that purchases of inventory comprise substantially all of the line item, and it can apply the practical expedient. If Entity L elects to apply the practical expedient, it needs to disclose qualitatively the composition of cost of goods sold.

(b) $ 500 / $550 = 91%

2.2.3 Employee compensation

2.2.3.1 Definition of employee (updated December 2025)

The guidance uses the definition of employee that is used in ASC 718, *Compensation — Stock Compensation*, with minor conforming changes to consider forms of compensation other than stock compensation and clarify that the term includes full-time, part-time, temporary, seasonal and inactive employees. As noted in paragraph BC91 of ASU 2024-03, the changes to the definition do not affect how the term is currently interpreted for the purpose of applying the guidance in ASC 718.

The definition of employee includes US common law employees (and employees based on the pertinent laws of the relevant jurisdiction) and certain non-employee directors (for their services as directors). The term also includes leased individuals who meet certain requirements. Leased individuals who do not meet the requirements are not considered employees under the definition (e.g., non-employee contractors). Refer to Appendix D for the full definition of employee and section 2.2 of our FRD, ***Share-based payment***, for additional guidance.

2.2.3.2 Definition of employee compensation (updated December 2025)

Excerpt from Accounting Standards Codification

Income Statement-Reporting Comprehensive Income — Expense Disaggregation Disclosures

Glossary

Employee Compensation

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, **one-time 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**.

Disclosure

220-40-50-8

When applying the guidance in paragraph 220-40-50-6(b), an entity may elect, but is not required, to include amounts attributable to other transactions entered into for the benefit of employees (for example, the provision of subsidized goods or services) in employee compensation. For interim and annual reporting periods, an entity that includes other transactions entered into for the benefit of employees as part of employee compensation shall disclose both that those transactions have been included and a description of those transactions.

The guidance defines employee compensation broadly to include 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 one-time, special or contractual termination benefits) given by an entity in exchange for services rendered by employees or for the termination of employment.

Given the broad definition of employee compensation, the amount disclosed includes compensation costs arising from wages, salaries, profit-sharing, bonuses, one-time termination benefits, other postemployment benefits, employee stock ownership plans, employee share purchase plans, defined contribution plans and multiemployer plans.

The amount 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 or reimbursements for medical and hospital expenses, or provision of hospital or medical services. For defined benefit plans, employee compensation includes only the service cost component of net period pension cost and net periodic postretirement benefit cost.

The definition of employee compensation establishes a minimum requirement of the types of cash and noncash compensation that are considered employee compensation for purposes of preparing the required disclosures. An entity is permitted to make an election to include amounts attributable to other transactions entered into for the benefit of employees (e.g., the provision of subsidized goods or services) in employee compensation. The entity is required to disclose that other transactions for the benefit of employees have been included in employee compensation and also disclose a description of the transactions that have been included. See section 1.4, *Changes in elected disclosure alternatives and definitions*, for requirements when an entity changes its election to include other amounts.

Employee compensation excludes compensation amounts related to non-employees (e.g., independent contractors). An entity is not precluded from including other costs related to non-employees (e.g., contract labor and professional service providers) in the disaggregated expense table, but those amounts need to be disclosed separately from the employee compensation expense category.

Even though one-time employee termination benefits accounted for in accordance with ASC 420 are included in the definition of employee compensation, those benefits are required to be disclosed separately from employee compensation in the disaggregated expense tables as required by ASC 220-40-50-6(b) and 220-40-50-21(e). Refer to section 2.3, *Integration of specified existing disclosures*, for further information.

Question 2-7 **Should employee-related labor costs included in overhead that are allocated to a line item on the income statement be included in the disaggregated disclosure of employee compensation for that line item? (added December 2025)**

Yes. Allocated overhead that includes labor costs meeting the definition of employee compensation is included in the disclosure of employee compensation for the relevant expense line item. Additionally, entities that use cost pools to aggregate costs and allocate them to various functions (e.g., departments) should disaggregate that allocation by the required categories, including employee compensation. In accordance with ASC 220-40-50-1, an entity is permitted to use reasonable estimates to approximate the amount of employee compensation and other categories that are included in the original allocations to prepare the disclosure.

Question 2-8 **Do employee reimbursements meet the definition of employee compensation? (added December 2025)**

It depends. We believe consideration paid to employees in the form of reimbursements exchanged for services rendered (e.g., reimbursement of wellness costs, such as gym membership fees) are included in employee compensation. However, consideration paid to an employee in the form of reimbursements that do not represent compensation in exchange for services rendered by an employee (e.g., reimbursement of travel expenses for business meetings) does not meet the definition of employee compensation.

2.2.3.3 Practical expedient for determining employee compensation

Excerpt from Accounting Standards Codification

Income Statement-Reporting Comprehensive Income — Expense Disaggregation Disclosures

Disclosure

220-40-50-20

As a practical expedient for determining what amounts are classified as employee compensation in paragraph 220-40-50-6(b), an entity that presents an expense caption for salaries and employee benefits (or a similarly named caption) on the face of its income statement to comply with the requirements in SEC Regulation S-X Rule 210.9-04, Statements of Comprehensive Income (see paragraph 942-220-S99-1), may use the amounts classified as salaries and employee benefits in accordance with SEC Regulation S-X Rule 210.9-04 rather than in accordance with the definition of employee compensation included in this Subtopic.

Article 9 of SEC Regulation S-X provides rules for the form and content of consolidated financial statements filed for bank holding companies, savings and loan holding companies, and the financial statements for banks and savings and loan associations. Entities that comply with Rule 9-04 of Regulation S-X generally present "salaries and employee benefits" as a separate line item on the face of the income statement.

As a practical expedient for determining what amounts are classified as employee compensation, entities that present "salaries and employee benefits" (or a similarly named line item) on the face of the income statement to comply with Rule 9-04 are permitted to use those amounts for purposes of disclosing employee compensation rather than the amounts determined in accordance with the definition of employee compensation. As discussed in paragraph BC96 of ASU 2024-03, the FASB does not expect this practical expedient to result in substantially different amounts for employee compensation than under the definition in the new guidance.

2.2.4 Depreciation and intangible asset amortization

Excerpt from Accounting Standards Codification

Income Statement-Reporting Comprehensive Income — Expense Disaggregation Disclosures

Disclosure

220-40-50-9

The amounts provided for depreciation in accordance with paragraph 220-40-50-6(c) and intangible asset amortization in accordance with paragraph 220-40-50-6(d) shall be consistent with the classification of amounts used to satisfy the disclosure requirements for the total depreciation expense and total intangible asset amortization expense disclosures in paragraphs 360-10-50-1(a) and 350-30-50-2(a)(2), respectively, and with the classification of amounts described in paragraph 220-40-50-10.

The amounts provided separately for depreciation and intangible asset amortization need to be consistent with the existing requirement to disclose "depreciation expense for the period" in ASC 360-10 and "the aggregate amortization expense for the period" in ASC 350-30, respectively.

2.2.4.1 Amortization of a right-of-use asset for a finance lease and leasehold improvements

Excerpt from Accounting Standards Codification

Income Statement-Reporting Comprehensive Income — Expense Disaggregation Disclosures

Disclosure

220-40-50-10

Amortization of a **right-of-use asset** for a **finance lease** recognized in accordance with paragraphs 842-20-35-7 through 35-8 and amortization of leasehold improvements recognized in accordance with paragraphs 842-20-35-12 through 35-13 shall be disclosed in a manner consistent with how an entity presents depreciation or amortization of similar assets (see paragraph 842-20-45-4(a)). That is, amounts shall be included as part of either depreciation in paragraph 220-40-50-6(c) or intangible asset amortization in paragraph 220-40-50-6(d).

The amortization of a right-of-use asset for a finance lease and leasehold improvements recognized in accordance with ASC 842, *Leases*, is included in either the depreciation or intangible asset amortization expense category in a manner consistent with how an entity presents depreciation or amortization of similar assets. This is because ASC 842 does not address whether amortization of these types of assets should be included in the existing disclosure requirements for depreciation or intangible asset amortization. Because amortization of these amounts needs to be included in either the depreciation or intangible asset amortization expense category (in a manner consistent with how an entity presents depreciation or amortization of similar assets), the presence of these amounts in an income statement line results in that line item being a relevant expense line item.

The Board acknowledged in paragraph BC102 of ASU 2024-03 that the total amounts of depreciation and amortization disclosed in accordance with this guidance may differ from the disclosed amounts required under ASC 360-10 and ASC 350-30 because of the addition of amortization of right-of-use assets for finance leases and leasehold improvements and the capitalization of depreciation and amortization to assets other than inventory.

2.2.4.2 Amortization of capitalized costs related to software to be sold, leased or marketed

Capitalized costs related to software to be sold, leased or marketed are subject to the disclosure requirements in ASC 350-30. Therefore, amortization of those costs needs to be considered intangible asset amortization for purposes of applying the guidance, as noted in paragraph BC98 of ASU 2024-03.

2.2.4.3 Amortization of capitalized costs related to internal-use software

ASC 220-40 does not address how amortization of internal-use software should be disclosed. The FASB said in paragraph BC101 of ASU 2024-03 that those amounts should be included in either depreciation recognized in accordance with ASC 360-10 or intangible asset amortization recognized in accordance with ASC 350-30. Because amortization of capitalized internal-use software costs is included in either the depreciation or intangible asset amortization expense category in the disaggregated disclosure, the presence of that amount in an income statement line results in that line item being a relevant expense line item.

2.2.5 DD&A and other depletion expense

Excerpt from Accounting Standards Codification

Income Statement-Reporting Comprehensive Income — Expense Disaggregation Disclosures

Disclosure

220-40-50-11

In determining the amounts to be disclosed in paragraph 220-40-50-6(e), an entity also shall include amounts for depletion expense that are not recognized as part of oil- and gas-producing activities in accordance with Subtopic 932-360 (such as depletion expense recognized by entities within the scope of Topic 930 on mining).

Extractive Activities-Oil and Gas - Overall

Scope and Scope Exceptions

932-10-15-2A

Oil- and gas-producing activities include the following:

a. The search for crude oil, including **condensate** and natural gas liquids, or natural gas in their natural states and original locations

b. The acquisition of property rights or **properties** for the purpose of further **exploration** or for the purpose of removing the oil or gas from such properties

c. The construction, drilling, and **production** activities necessary to retrieve oil and gas from their natural reservoirs, including the acquisition, construction, installation, and maintenance of field gathering and storage systems, such as:

   1. Lifting the oil and gas to the surface

   2. Gathering, treating, and field processing (as in the case of processing gas to extract liquid hydrocarbons).

d. Extraction of **saleable hydrocarbons**, in the solid, liquid, or gaseous state, from oil sands, shale, coalbeds, or other nonrenewable natural resources that are intended to be upgraded into synthetic oil or gas, and activities undertaken with a view to such extraction.

DD&A recognized as part of oil- and gas-producing activities in accordance with ASC 932-360 is required to be disclosed as a separate line in the disaggregated expense table. In addition to disclosing depletion expense recognized as part of oil- and gas-producing activities under ASC 932-360, entities that recognize depletion expense associated with other activities (e.g., depletion expense recognized by entities in the scope of ASC 930 on mining) would also provide this disclosure.

The FASB acknowledged in paragraph BC63 of ASU 2024-03 that DD&A (or other amounts of depletion expense) is an industry-specific expense but said it included it as a required expense category because "it represents a potentially significant noncash expense that is recognized systematically like depreciation and intangible asset amortization."

2.3 Integration of specified existing disclosures (updated December 2025)

Excerpt from Accounting Standards Codification

Income Statement-Reporting Comprehensive Income — Expense Disaggregation Disclosures

Disclosure

220-40-50-21

An entity shall disclose, in the same tabular format disclosure in which the disclosures required by paragraph 220-40-50-6 are provided, each of the following expenses, gains, and losses and the amount recognized in each relevant expense caption (see paragraphs 220-40-50-12 through 50-13 for guidance on identifying relevant expense captions):

a. The amount of research and development assets acquired in a transaction other than a business combination and written off (see paragraph 350-30-50-1(c))

b. Impairment loss recognized related to an intangible asset (see paragraph 350-30-50-3)

c. **Impairment** loss of long-lived assets classified as held and used (see paragraph 360-10-50-2)

d. Gain or loss recognized in accordance with paragraphs 360-10-35-37 through 35-45 and 360-10-40-5 for long-lived assets classified as held for sale or disposed of (see paragraph 360-10-50-3)

e. Each major type of cost associated with an exit or disposal activity (for example, one-time employee termination benefits, contract termination costs, and other associated costs) (see paragraph 420-10-50-1)

f. Components of net benefit cost recognized (other than service cost amounts included within employee compensation) (see paragraph 715-20-50-1(h))

g. Bargain purchase gain recognized in a business combination (see paragraph 805-30-50-1(f))

h. Any gain or loss recognized upon the deconsolidation of a **subsidiary** or the derecognition of a group of assets in accordance with paragraph 810-10-40-3A (see paragraph 810-10-50-1B)

i. Gains and losses on **derivative instruments** (and nonderivative instruments that are designated and qualify as hedging instruments in accordance with paragraphs 815-20-25-58 and 815-20-25-66) and related hedged items (see paragraph 815-10-50-4A)

j. Amortization of **license agreements** for program material (see paragraph 920-350-50-2)

k. Impairment of license agreements for program material (see paragraph 920-350-50-4)

l. Amortization of **film costs** (see paragraph 926-20-50-4A)

m. Impairment of film costs (see paragraph 926-20-50-4C).

These disclosures shall be included in the tabular format disclosure required by paragraph 220-40-50-6 using the same frequency (that is, whether the disclosure is required at interim and annual reporting periods or only annual reporting periods) as required by the corresponding Topic.

Pending Content:

Transition Date: *(P) December 16, 2028; (N) December 16, 2029* | **Transition Guidance:** 832-10-65-2

[…]

n. The total amount of a **government grant** recognized during the reporting period and presented as a deduction from the related expense (see paragraphs 832-10-45-1(b), 832-10-45-3(b), and 832-10-50-3A)).

[…]

220-40-50-22

An entity shall disclose, in the same tabular format disclosure in which the disclosures required by paragraph 220-40-50-6 are provided, each of the following amounts if those amounts are included entirely in one expense caption that also is a relevant expense caption (see paragraphs 220-40-50-12 through 50-13 for guidance on identifying relevant expense captions):

a. Provision for expected credit losses (see paragraphs 326-20-50-13 and 326-30-50-9)

b. Losses on firm purchase commitments (see paragraph 330-10-50-5)

c. Amortization expense attributable to the expiration of an insurance or **reinsurance** coverage provided under a contract that transfers only significant **underwriting risk** (see paragraph 340-30-50-2)

d. Amortization of costs to fulfill a contract with a customer (see paragraph 340-40-50-3)

e. Impairment of costs to fulfill a contract with a customer (see paragraph 340-40-50-3)

f. Amortization of costs to obtain a contract with a customer (see paragraph 340-40-50-3)

g. Impairment of costs to obtain a contract with a customer (see paragraph 340-40-50-3)

h. Amortization of capitalized implementation costs of **hosting arrangements** that are service contracts (see paragraph 350-40-50-3)

i. **Asset retirement obligation accretion expense** (see paragraph 410-20-50-1)

j. **Loss contingencies** recognized (see paragraph 450-20-50-1)

k. **Warranty** expense (the total of expenses recognized related to aggregate changes in the liability for accruals related to product warranties issued during the reporting period and the aggregate changes in the liability for accruals related to preexisting warranties, including adjustments related to changes in estimates) (see paragraph 460-10-50-8)

l. Expense related to counterparty default in own-share lending arrangements issued in contemplation of convertible debt issuance (see paragraph 470-20-50-2C)

m. Aggregate gain on restructuring of payables by a debtor with a **troubled debt restructuring** (see paragraph 470-60-50-1)

n. Gains and losses upon consolidation of a variable interest entity that is not a business (see paragraph 810-10-50-3)

o. Foreign currency **transaction gains or losses** (see paragraph 830-20-50-1)

p. **Operating lease** cost (see paragraph 842-20-50-4)

q. **Short-term lease** cost (see paragraph 842-20-50-4)

r. Variable lease cost (see paragraph 842-20-50-4)

s. Net gain or loss recognized from sale and leaseback transactions (see paragraph 842-20-50-4)

t. Gains and losses from nonmonetary transactions (see paragraph 845-10-50-1)

u. Amortization of capitalized **acquisition costs** (see paragraph 944-30-50-1(c)).

These disclosures shall be included in the tabular format disclosure required by paragraph 220-40-50-6 using the same frequency (that is, whether the disclosure is required at interim and annual reporting periods or only annual reporting periods) as required by the corresponding Topic.

220-40-50-23

If there is a change in facts and circumstances that results in an item listed in paragraph 220-40-50-22 changing from being included in one relevant expense caption in the current reporting period and multiple relevant expense captions in a comparative period, or vice versa, an entity shall provide the disclosure required by paragraph 205-10-50-1.

220-40-50-24

The presence of the expenses, gains, and losses listed in paragraphs 220-40-50-21 through 50-22 would not cause an expense caption to be a relevant expense caption. An entity only shall include the applicable expenses listed in paragraphs 220-40-50-21 through 50-22 in the tabular format disclosures if an expense caption is a relevant expense caption in accordance with paragraphs 220-40-50-12 through 50-13.

Presentation of Financial Statements — Overall

Disclosure

205-10-50-1

If, because of reclassifications or for other reasons, changes have occurred in the manner of or basis for presenting corresponding items for two or more periods, information shall be furnished that will explain the change. This procedure is in conformity with the well-recognized principle that any change in practice that affects comparability of financial statements shall be disclosed.

Specified expenses, gains and losses that are already disclosed under existing US GAAP (i.e., specified existing disclosures) are required to be included in the disaggregated expense tables. This requirement only applies to relevant expense line items. That is, an income statement line item that includes a specified existing disclosure but does not include any required expense categories (i.e., purchases of inventory, employee compensation, depreciation, intangible asset amortization and DD&A or other depletion expense) is not a relevant expense line item that is disaggregated.

This requirement is intended to assist investors in locating relevant information in the notes to the financial statements, as well as reduce the other items remaining for each relevant expense line item after breaking out all the required disaggregated information. Refer to section 2.5, *Other amounts remaining in relevant expense line items*, for further discussion.

The guidance includes two lists of existing disclosures that are required to be integrated into the disaggregated expense tables if certain conditions are met.

The first list (ASC 220-40-50-21) includes specified expenses, gains and losses for which there is an existing requirement to disclose **both:**

- The amount
- The line item in the income statement where the amount is included

For example, ASC 815, requires an entity to disclose the amount for gains and losses on derivative instruments and related hedged items and the income statement line item where the amount is aggregated. Because this requirement is included in ASC 220-40-50-21(i), an entity needs to include that disclosure as a separate category in the disaggregated expense table for each relevant expense line item that includes such gain or loss.

The second list (ASC 220-40-50-22), includes specified expenses, gains and losses for which there is an existing requirement to disclose the amount but no requirement to disclose the line item in the income statement where the amount is included. These amounts are required to be included in the disaggregated expense tables only if the amount is recorded entirely in one relevant expense line item.

For example, ASC 842 requires an entity to disclose operating lease cost but not the income statement line item(s) where that amount is included. An entity that recognizes the total amount entirely in SG&A is required to include it as a separate expense category in the SG&A disaggregated expense table. Conversely, an entity that presents the aggregate amount within COS and SG&A is not required to include the individual amounts as a separate expense category in the respective disaggregated expense tables. Instead, it includes operating lease cost in other amounts remaining within each relevant expense line item table, and, if significant, provides a qualitative description.

If there is a change in facts and circumstances that results in an item listed in ASC 220-40-50-22 changing from being included in one relevant expense line item to being included in multiple relevant expense line items, or vice versa, the entity would not recast the comparative period to reflect the current year disclosure. The entity would need to provide disclosure, as required by ASC 205-10-50-1, that explains the change affecting comparability of the financial statements.

As an example, assume an entity enters into a new operating lease in the current year and includes the operating lease cost for that lease in COS. The entity also has one other operating lease in place during the current and comparative period and includes the operating lease cost for that lease in SG&A. In the comparative period, operating lease cost was entirely included in one relevant expense line item and was, therefore, required to be separately disclosed in the SG&A disaggregated expense table. In the current year, operating lease cost is included in both COS and SG&A (i.e., two relevant expense line items), so it is not required to be separately disclosed in the current period's disaggregated expense table. In this example, the entity does not recast the comparative period disclosure to reflect the change in the current period but needs to disclose the change in facts and circumstances.

There are certain existing disclosure requirements that are not included in ASC 220-40-50-21 and 50-22, such as the requirements to disclose "total research and development costs charged to expense" in ASC 730 and "total amount charged to advertising expense" in ASC 720-35, respectively. The Board said in paragraph BC104 of ASU 2024-03 that it selected the specified existing disclosures that are included in the ASU based on whether the amount disclosed is a type of expense, gain or loss that is mutually exclusive from the required expense categories. That is, the Board intentionally excluded certain expenses, gains and losses that may overlap with the required expense categories. However, the guidance does not prohibit entities from providing additional disclosure information beyond what is required. Refer to section 2.5, *Other amounts remaining in relevant expense line items*, for further discussion.

2.3.1 Interim reporting considerations (updated December 2025)

An entity is required to include a specified existing disclosure in the interim disaggregated expense tables only if such disclosure is required in interim reporting periods. That is, the guidance does not change existing US GAAP requirements for specified existing disclosures. Therefore, the disaggregated expense table may have different specified existing disclosures in interim and annual periods.

FASB standard-setting update

The FASB issued ASU 2025-11, *Interim Reporting (Topic 270)*, that clarifies that the guidance in ASC 270 applies to all entities that provide interim financial statements and accompanying notes in accordance with US GAAP. The amendments create a comprehensive list of interim disclosures in ASC 270 that are required in interim financial statements and the accompanying notes under US GAAP. They also incorporate a disclosure principle requiring entities to disclose in interim periods events and changes that occur after the end of the most recent annual reporting period that have a material impact on the entity.

Readers should consider these amendments when evaluating the completeness of an entity's expense disaggregation disclosures in interim periods.

Effective date: This guidance is effective for interim reporting periods within annual reporting periods beginning after 15 December 2027 for public business entities and beginning after 15 December 2028 for entities other than public business entities. Early adoption is permitted for all entities. Entities may apply this guidance prospectively or retrospectively.

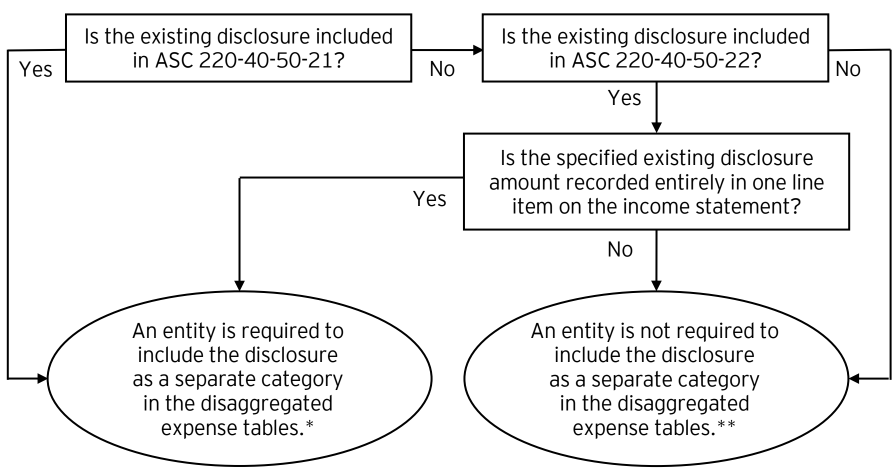
For additional considerations about interim disclosure requirements, refer to section 2.1, *Income statement line items subject to disaggregation*.

2.3.2 Materiality considerations for integration of specified existing disclosures

In some circumstances, an entity may not make an existing required US GAAP disclosure due to the application of ASC 105-10-05-6, which states "the provisions of the Codification need not be applied to immaterial items." The Board stated in paragraph BC122 of ASU 2024-03 that it does not expect the implementation of this guidance to affect an entity's conclusion that an existing US GAAP disclosure is not required. See section 1.1.2, *Materiality considerations*, for additional discussion.

2.3.3 Decision tree on the integration of specified existing disclosures

The following decision tree summarizes how an entity determines which existing disclosures are integrated into the disaggregated expense tables for each relevant expense line item:



* An entity is not required to include the disclosures listed in ASC 220-40-50-21 and 50-22 in the interim disaggregated expense tables if the existing disclosure requirements referenced in those paragraphs are not required in interim reporting periods. In addition, if an entity does not make an existing disclosure in ASC 220-40-50-21 and 50-22 (e.g., because it concludes the disclosure is immaterial), the guidance does not affect that conclusion.

** Existing disclosures that are not separately disclosed as an expense category are included in "other amounts" (or a similarly titled caption) in the disaggregated expense tables and described qualitatively.

2.4 Expense reimbursements in relevant expense line items (updated December 2025)

Excerpt from Accounting Standards Codification

Income Statement-Reporting Comprehensive Income — Expense Disaggregation Disclosures

Disclosure

220-40-50-26

For interim and annual reporting periods, an entity that presents a relevant expense caption that includes amounts that are recorded net of an expense reimbursement related to a cost-sharing or cost-reimbursement arrangement from another entity, in the same tabular format disclosure in which the disclosures required by paragraph 220-40-50-6 are provided, shall either:

a. Separately disclose the amount of the expense reimbursement

b. Disclose the amounts of the expense categories required by paragraphs 220-40-50-6 and 220-40-50-21 through 50-22 that are included in the relevant expense caption net of any reimbursement effects.

220-40-50-27

For interim and annual reporting periods, an entity shall disclose how expense reimbursements related to a cost-sharing or cost-reimbursement arrangement are included in the tabular format disclosure, as described in paragraph 220-40-50-26.

220-40-50-28

For interim and annual reporting periods, an entity that includes an expense reimbursement related to a cost-sharing or cost-reimbursement arrangement to another entity in a relevant expense caption shall separately disclose the amount of that expense reimbursement in the same tabular format disclosure in which the disclosures required by paragraph 220-40-50-6 are provided.

220-40-50-29

For interim and annual reporting periods, when applying the guidance in paragraph 220-40-50-26(a) or 220-40-50-28, an entity shall disclose qualitative descriptions of the expense categories (based on their **natural expense classification**) to which an expense reimbursement relates.

An entity that participates in cost-sharing or cost-reimbursement arrangements may receive or pay reimbursements from or to another entity. The way an entity presents the reimbursements in the disaggregated expense tables depends on whether it receives or pays the reimbursement.

An entity that includes an expense reimbursement received from another entity in a relevant expense line item needs to either (1) separately disclose the amount of the expense reimbursement in the disaggregated expense table or (2) disclose the expense amounts of the required categories net of the related reimbursement amount. See section 1.4, *Changes in elected disclosure alternatives and definitions*, for requirements when an entity changes how it discloses reimbursements received in the disaggregated expense tables.

An entity that receives an expense reimbursement from another entity is also required to disclose how the expense reimbursements are included in the disaggregated expense tables. An entity that receives reimbursement from another entity and applies method (1) above is also required to disclose qualitative descriptions of the expense categories based on their natural expense classification to which the reimbursement relates.

An entity that includes an expense reimbursement paid to another entity in a relevant expense line item is required to separately disclose the amount of that expense reimbursement in the disaggregated expense tables. The entity is also required to disclose qualitative descriptions of the expense categories based on their natural expense classification to which the reimbursement relates.

Cost-sharing or cost-reimbursement arrangements are common in industries such as life sciences and oil and gas. For example, in applying this guidance to an entity in the oil and gas industry, an operator that receives expense reimbursements might apply method (2) above if it records expenses net of reimbursements. A non-operator that pays expense reimbursements would separately disclose expense reimbursements paid if that cost is included in a relevant expense line item and would disclose qualitative descriptions of the expense categories to which the reimbursement relates.

As discussed in paragraph BC112 of ASU 2024-03, the Board provided this guidance to address stakeholder feedback that noted cost-sharing payments and receipts are generally not allocated to natural expenses and allocating reimbursements to the required categories may not be operable due to these arrangements being with third parties.

Question 2-9 **What kinds of arrangements are in the scope of cost-sharing or cost-reimbursement arrangements for the purposes of applying ASC 220-40-50-26 through 50-29? (added December 2025)**

Cost-sharing and cost-reimbursement arrangements are not defined in ASC 220-40. However, we believe the guidance in ASC 220-40-50-26 through 50-29 is largely intended to address entities that receive or pay reimbursements from or to another entity through collaborative arrangements, joint operations or joint arrangements. Such arrangements include joint interests in oil and gas properties and funded research and development cost-sharing arrangements. However, other arrangements may qualify as cost-sharing or cost-reimbursement arrangements.

We do not believe this guidance is intended to address payments between vendors and customers in their capacity as vendors and customers. For example, we do not believe rebates or other vendor consideration paid to customers are considered reimbursements in the scope of the cost-sharing or cost-reimbursement arrangements guidance. Additionally, we do not believe customer payments to a real estate lessor for common area maintenance services and payments to a vendor for goods or services received that are based on the lessor's or vendor's costs plus a margin (e.g., cost-plus arrangements) are considered reimbursements in the scope of the cost-sharing or cost-reimbursement arrangements guidance.

The evaluation of what constitutes a cost-sharing or cost-reimbursement arrangement under ASC 220-40 may require judgment and such judgments should be applied consistently to similar facts and circumstances.

2.5 Other amounts remaining in relevant expense line items

Excerpt from Accounting Standards Codification

Income Statement-Reporting Comprehensive Income — Expense Disaggregation Disclosures

Disclosure

220-40-50-30

For interim and annual reporting periods, an entity, in the same tabular format disclosure in which the disclosures required by paragraph 220-40-50-6 are provided, shall disclose for each relevant expense caption an amount for other items. The amount for other items is the difference between the following:

a. The amount of the relevant expense caption presented on the face of the income statement

b. The aggregate amount of expense categories separately disclosed in accordance with paragraphs 220-40-50-6, 220-40-50-21 through 50-22, 220-40-50-26(a), and 220-40-50-28 that are included in the relevant expense caption.

For interim and annual reporting periods, an entity also shall disclose qualitative descriptions of the composition (based on their natural expense classification) of other items. The detail provided in those qualitative disclosures shall be commensurate with the significance of the amounts being described. Notwithstanding that requirement, an entity is not precluded from further disaggregating relevant expense captions before applying the guidance in this paragraph to the remaining other items. Additional voluntary disclosures may be provided inside or outside the tabular disclosure if those disclosures are not combined with the disaggregated expense amounts required by paragraphs 220-40-50-6, 220-40-50-21 through 50-22, 220-40-50-26(a), and 220-40-50-28.

An entity is required to quantitatively disclose the other amounts remaining within each relevant expense line item in the tabular disclosure after breaking out the required expense categories, integrating the specified existing disclosures and separately disclosing other amounts (e.g., expense reimbursements) in the disaggregated expense table.

Other amounts remaining in relevant expense line items represent the difference between the following:

- The amount of the relevant expense line item presented on the face of the income statement
- The aggregate amount of expense categories that are separately disclosed, including the required expense categories, specified existing disclosures and expense reimbursements

An entity needs to provide the quantitative disclosure of other amounts remaining in relevant expense line items so that the total for each disaggregated expense table agrees to the income statement line item.

An entity is also required to qualitatively describe the composition of other amounts remaining based on the natural expense classifications of the amounts. The detail provided in the qualitative disclosure needs to be commensurate with the significance of the amounts being described. The FASB said in paragraph BC115 of ASU 2024-03 that stakeholders commented that a qualitative disclosure of the remaining items is operable and provides investors with additional relevant expense information without resulting in significant costs for preparers.

An entity is not precluded from providing further disaggregation of relevant expense line items before applying the guidance on other amounts remaining. That is, an entity can elect to separately disclose expense categories that are not required under the guidance. For example, an entity that outsources labor activities can elect to separately disclose compensation paid to independent contractors in the disaggregated expense tables to provide investors further disaggregated information on labor-related costs that do not meet the definition of employee compensation. However, an entity may not combine the voluntary disclosure amounts with the expense categories that are required to be separately disclosed in the disaggregated expense tables.

2.6 Relevant expense line items containing amounts related to inventory in the scope of ASC 330

2.6.1 Cost-incurred basis and expense-incurred basis

Excerpt from Accounting Standards Codification

Income Statement-Reporting Comprehensive Income — Expense Disaggregation Disclosures

Disclosure

220-40-50-31

The following are two acceptable bases for disclosing the disaggregation of a relevant expense caption that contains expense amounts related to inventory within the scope of Topic 330:

a. Cost-incurred basis. The amounts disclosed for the disaggregation of a relevant expense caption comprise costs incurred that were capitalized to inventory in accordance with Topic 330 during the current reporting period and any costs incurred that were directly expensed during the current reporting period (including costs that are capitalizable in accordance with Topic 330 but were directly expensed to the income statement). Under this basis, in interim and annual reporting periods, an entity shall 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 (see paragraphs 220-40-50-32 through 50-34).

b. Expense-incurred basis. The amounts disclosed for the disaggregation of a relevant expense caption comprise expense amounts related to the derecognition of inventory that was previously capitalized in accordance with Topic 330 and any costs incurred that were directly expensed during the current reporting period (including costs that are capitalizable in accordance with Topic 330 but were directly expensed to the income statement). Under this basis, an entity shall disclose the expense amounts related to the derecognition of inventory based on the natural expense category of the costs when they were initially incurred (for example, the expense from the derecognition of inventory may relate to purchases of inventory and employee compensation incurred in prior periods).

In many cases, an entity's chosen basis will result in disclosed amounts that are different than if the entity had chosen the alternative basis. An entity's chosen basis should be applied consistently to all expense categories listed in paragraph 220-40-50-6.

The guidance provides an entity with two acceptable bases for disclosing the disaggregation of a relevant expense line item that contains expense amounts related to inventory in the scope of ASC 330 (e.g., cost of products sold):

- Cost-incurred basis: This includes any costs incurred that were capitalized to inventory in accordance with ASC 330 and those that were directly expensed during the current period, including costs that are capitalizable under ASC 330 but were directly expensed to the income statement. An entity that applies the cost-incurred basis needs to disclose an amount for changes in inventories and an amount for other adjustments and reconciling items to reconcile costs incurred to the total relevant expense line item. Refer to section 2.6.2, *Changes in inventories and other adjustments and reconciling items*, for further discussion.

- Expense-incurred basis: This includes expense amounts related to the derecognition of inventory that was previously capitalized in accordance with ASC 330 and any costs incurred that were directly expensed during the current period, including costs that are capitalizable under ASC 330 but were directly expensed to the income statement. An entity is required to disclose the expense amounts related to the derecognition of inventory based on the natural expense category when the costs were initially incurred (e.g., the expense from the derecognition of inventory may relate to costs from purchases of inventory and employee compensation that were incurred in prior periods).

An entity's chosen basis needs to be applied consistently to all required expense categories. For example, if an entity applies the cost-incurred basis and employee compensation is included in the relevant expense line item, the employee compensation category in the disaggregated expense table needs to include amounts capitalized to inventory and amounts directly expensed during the current reporting period. See section 1.4, *Changes in elected disclosure alternatives and definitions*, for requirements when an entity changes its chosen basis.

The FASB said in paragraph BC66 of ASU 2024-03 that investors have requested greater visibility into costs included in cost of goods sold and similar expense line items. The Board received feedback from preparers that disaggregating inventory expense into natural categories (e.g., employee compensation, depreciation and materials) would be prohibitively costly because it would require an entity to identify costs capitalized as part of inventory in a prior period and expensed in the current period. Preparers also said such a disaggregation would be challenging in cases where costs may have been capitalized to inventory many years ago (e.g., during a last-in, first-out liquidation), as noted in paragraph BC67 of ASU 2024-03. In response, the Board decided to allow an entity to present the required disclosures on a cost-incurred basis or expense-incurred basis.

Below is a simplified illustration to demonstrate the difference in display of the disaggregated disclosure tables under the cost-incurred basis and expense-incurred basis. See Appendix A for additional illustrations.

Illustration 2-2: Cost-incurred basis versus expense-incurred basis

A company presents cost of goods sold on the face of the income statement, which includes expense amounts related to purchases of inventory recorded in accordance with ASC 330. The company has the following activity during the year:

- Purchases of inventory: $500
- Cost of inventory sold: $300

The company's inventory balance at the beginning of the year was $0, and therefore, its ending inventory balance is $200 ($500-$300). The difference in disclosure under the cost-incurred basis and the expense-incurred basis is illustrated below. For simplicity, the amounts for other required expense categories and other items are not included in this illustration.

	Cost-incurred basis	Expense-incurred basis
Purchases of inventory	$ 500	$ 300
Changes in inventories	(200) [(a)]	– [(b)]
Cost of goods sold	$ 300	$ 300

(a) Changes in inventories: beginning balance less ending balance ($0-$200).

(b) Changes in inventories is not a necessary line when applying the expense-incurred basis.

2.6.2 Changes in inventories and other adjustments and reconciling items (updated December 2025)

Excerpt from Accounting Standards Codification

Income Statement-Reporting Comprehensive Income — Expense Disaggregation Disclosures

Disclosure

220-40-50-32

When the amounts disclosed in accordance with paragraph 220-40-50-6 include costs incurred that were capitalized to inventory in accordance with Topic 330 during the reporting period (because an entity has applied the cost-incurred basis in paragraph 220-40-50-31(a)), those amounts often will not equal the amounts expensed as incurred during the reporting period. If the amount of expense recognized and the amount of costs incurred in the current reporting period are not equal, then an entity shall disclose in interim and annual reporting periods a category for the changes in inventories balances to reconcile the costs incurred (which shall include costs capitalized to inventory and costs expensed during the reporting period) to expenses recognized. The amount disclosed for changes in inventories in the current reporting period shall equal the difference between the amount of inventory included on the balance sheet at the end of the prior reporting period and the amount of inventory included on the balance sheet at the end of the current reporting period. As described in paragraph 220-40-50-33, a separate category that comprises any other adjustments and reconciling items shall be provided to reconcile costs incurred to expenses recognized during the reporting period.

220-40-50-33

In addition to the changes in inventories category described in paragraph 220-40-50-32, for interim and annual reporting periods, under the cost-incurred basis (see paragraph 220-40-50-31(a)), an entity shall disclose the amount of other adjustments and reconciling items that include (to the extent not disclosed in a separate caption) other amounts that are necessary to reconcile costs incurred to expenses recognized. For example, those items would include, if applicable:

a. The amount of inventory derecognized during the period that is not recognized as an expense (for example, inventory derecognized as part of derecognition transactions within the scope of Subtopic 810-10 on consolidation)

b. 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 Subtopic 830-30 on foreign currency matters—translation of financial statements.

220-40-50-34

Consistent with the requirements in paragraph 220-40-50-30, for interim and annual reporting periods, an entity shall qualitatively describe the nature of amounts (based on their natural expense classification when applicable) included in other adjustments and reconciling items in accordance with paragraph 220-40-50-33.

An entity that applies the cost-incurred basis is required to disclose changes in inventories and other adjustments and reconciling items to reconcile total costs incurred to the relevant expense line item on the income statement.

- **Changes in inventories** in the current period equal the difference between the amount of inventory included on the balance sheet presented at the end of the prior period and the amount presented at the end of the current period (i.e., an entity needs to subtract ending inventory of the current period from ending inventory of the prior period to calculate changes in inventories). An impairment recognized in the current period of inventory held at the end of the prior period is included within the changes in inventories under a cost-incurred basis.
- **Other adjustments and reconciling items** include other amounts that are necessary to reconcile costs incurred to expenses recognized during the reporting period. This could include the amount of inventory derecognized during the period that is not recognized as an expense (e.g., inventory sold to noncustomers in connection with derecognition transactions such as divestitures) or the amount attributable to foreign currency translation. An entity is also required to qualitatively describe the composition of those amounts based on their natural expense classification.

The following table summarizes the similarities and differences between the cost-incurred basis and expense-incurred basis under this guidance.

<table>
<tr><th></th><th>Cost-incurred</th><th>Expense-incurred</th></tr>
<tr><td rowspan="2">Costs</td><td>Costs incurred that were capitalized to inventory in accordance with ASC 330 during the current reporting period</td><td>Expense amounts related to the derecognition of inventory in the current reporting period that were previously capitalized in accordance with ASC 330</td></tr>
<tr><td colspan="2">Costs incurred that were directly expensed during the reporting period, including those that were capitalizable in accordance with ASC 330 but were directly expensed</td></tr>
<tr><td>Additional required categories</td><td>Entity also discloses the following additional categories to reconcile costs incurred to the relevant expense line item
▸ Changes in inventories
▸ Other adjustments and reconciling items</td><td>None</td></tr>
</table>

2.6.3 Application of the cost-incurred basis and expense-incurred basis in the consolidated financial statements of a group and the standalone financial statements of a subsidiary (added December 2025)

In the consolidated financial statements, a PBE applies ASC 220-40's guidance after eliminating intercompany activity. Subsidiaries within a consolidated group may also be PBE's. Therefore, the PBE subsidiaries would also apply ASC 220-40 when preparing their own (consolidated, as applicable) financial statements. Refer to the illustrations below for additional discussion.

Question 2-10 **When a subsidiary prepares its own financial statements, should the subsidiary further disaggregate purchases of inventory acquired from another entity under common control (i.e., a different subsidiary of its parent entity) using that entity's natural expense classifications? (added December 2025)**

No. In the subsidiary's financial statements, the subsidiary disaggregates a relevant expense line item into required expense categories just like any other entity. See Illustration 2-4 below for additional discussion.

The following illustrates the cost-incurred basis and expense-incurred basis for an entity's consolidated financial statements and the standalone (consolidated, as applicable) financial statements of its subsidiaries.

Illustration 2-3: Application of the cost-incurred basis and expense-incurred basis in consolidated financial statements

Company T is a PBE and holding company with two subsidiaries – Subsidiary A and Subsidiary B. Subsidiary A manufactures ice cream and sells it to Subsidiary B to repackage and market the ice cream for sale to third-party customers. For simplicity, assume that both Subsidiary A and Subsidiary B start fiscal year 20X5 with no inventory.

In fiscal year 20X5, Subsidiary A had the following activity:

- Purchased raw materials (e.g., milk, cream, sugar) from third parties for $120,000 and used those materials to produce 1,000 units of ice cream ($120/unit)
- Incurred $80,000 of direct and indirect labor costs (employee compensation) ($80/unit) to manufacture ice cream which were capitalized to inventory
- Recorded $20,000 of depreciation expense ($20/unit) related to manufacturing facilities and equipment that was capitalized to inventory
- Incurred $5,000 of manufacturing overhead costs (e.g., premiums to insure the manufacturing facilities) ($5/unit) that were capitalized to inventory
- Sold 800 units of ice cream produced to Subsidiary B for $216,000 ($270/unit)
- Recorded $180,000 of cost of goods sold (COGS) (800 units at a cost of $225/unit)
- Realized gross margin of $36,000 ($45/unit)

Subsidiary A had $45,000 of inventory on hand at the end of 20X5 (200 units at a cost of $225/unit).

In fiscal year 20X5, Subsidiary B had the following activity:

- Purchased 800 units of ice cream from Subsidiary A for $216,000 ($270/unit)
- Incurred $32,000 of direct and indirect labor costs (employee compensation) ($40/unit) to repackage and store ice cream that were capitalized to inventory
- Recorded $12,000 of amortization expense ($15/unit) related to a right-of-use asset for a finance lease of a cold storage facility used to repackage and hold ice cream waiting to be sold to customers that was capitalized to inventory (assume Subsidiary B includes amortization of a right-of-use asset for a finance lease in intangible asset amortization)
- Incurred $3,000 of outbound shipping and handling costs ($5/unit) to deliver units of ice cream to customers that were directly expensed since they are not capitalizable under ASC 330
- Sold 600 units of ice cream to third-party customers for $257,400 ($429/unit)
- Recorded $198,000 of COGS (600 units at a cost of $325/unit plus $5/unit for outbound shipping and handling costs)
- Realized gross margin of $59,400 ($99/unit)

Subsidiary B had $65,000 of inventory on hand at the end of 20X5 (200 units at $325/unit). Subsidiary B had intercompany profit in ending inventory of $9,000 (200 units at $45/unit, i.e., the gross margin realized by Subsidiary A).

Company T had consolidated COGS of $171,000 (COGS of $198,000 from Subsidiary B less intercompany profit included Subsidiary B's sales of $27,000 (600 units at Subsidiary A's gross margin of $45/unit)).

Company T had consolidated ending inventory of $101,000 (Subsidiary A's ending inventory ($45,000) plus Subsidiary B's ending inventory ($65,000) less intercompany profit in ending inventory ($9,000)).

For Company T, COGS is a relevant expense line item as it contains multiple required expense categories (e.g., purchases of inventory, employee compensation).

Application of the cost-incurred basis

Under the cost-incurred basis, Company T discloses the following tabular disaggregation for COGS in fiscal year 20X5 in its consolidated financial statements:

	20X5
Purchases of inventory	$ 120,000[(a)]
Employee compensation	112,000[(b)]
Depreciation	20,000[(c)]
Intangible asset amortization	12,000[(d)]
Other cost of goods sold	8,000[(e)]
Changes in inventories	(101,000)[(f)]
Other adjustments and reconciling items	–
Total cost of goods sold	$ 171,000

(a) Subsidiary A's purchases of raw materials from third parties in the current period

(b) Subsidiary A's employee compensation ($80,000) plus Subsidiary B's employee compensation ($32,000) in the current period

(c) Subsidiary A's depreciation expense in the current period

(d) Subsidiary B's amortization expense for its right-of-use asset for a finance lease in the current period

(e) Subsidiary A's manufacturing overhead costs ($5,000) plus Subsidiary B's outbound shipping and handling costs ($3,000) in the current period. Under ASC 220-40-50-30, Company T is required to disclose a qualitative description of the composition of the "other" line item, which has been excluded for simplicity.

(f) Company T's inventory balance at the end of the prior period ($0) less the balance at the end of the current period ($101,000)

Application of the expense-incurred basis

Under the expense-incurred basis, Company T discloses the following tabular disaggregation for COGS in fiscal year 20X5 in its consolidated financial statements:

	20X5
Purchases of inventory	$ 72,000[(g)]
Employee compensation	72,000[(h)]
Depreciation	12,000[(i)]
Intangible asset amortization	9,000[(j)]
Other cost of goods sold	6,000[(k)]
Total cost of goods sold	$ 171,000

(g) Subsidiary A's purchases of raw materials from third parties related to the 600 units sold to third-party customers in the current period (600 units sold x $120/unit = $72,000)

(h) Employee compensation incurred by Subsidiary A and Subsidiary B related to the 600 units sold to third-party customers in the current period ((600 units sold x ($80/unit incurred by Subsidiary A + $40/unit incurred by Subsidiary B)) = $72,000)

(i) Subsidiary A's depreciation expense related to the 600 units sold to third-party customers in the current period (600 units x $20/unit = $12,000)

(j) Subsidiary B's amortization expense for its right-of-use asset for a finance lease related to the 600 units sold to third-party customers in the current period (600 units x $15/unit = $9,000)

(k) Subsidiary A's manufacturing overhead costs related to the 600 units sold to third-party customers in the current period (600 units x $5/unit = $3,000) plus Subsidiary B's outbound shipping and handling costs ($3,000) in the current period. Under ASC 220-40-50-30, Company T is required to disclose a qualitative description of the composition of the "other" line item, which has been excluded for simplicity.

Illustration 2-4: Application of the cost-incurred basis and expense-incurred basis in the financial statements of subsidiaries

Assume the same facts as Illustration 2-3. Also, assume that Subsidiary A and Subsidiary B are both PBEs.

For Subsidiary A and Subsidiary B, COGS is a relevant expense line item as it contains multiple required expense categories (e.g., purchases of inventory, employee compensation).

Application of the cost-incurred basis

Under the cost-incurred basis, Subsidiary A discloses the following tabular disaggregation for COGS in fiscal year 20X5 in its standalone financial statements:

	20X5
Purchases of inventory	$ 120,000[a]
Employee compensation	80,000[b]
Depreciation	20,000[c]
Intangible asset amortization	-
Other cost of goods sold	5,000[d]
Changes in inventories	(45,000)[e]
Other adjustments and reconciling items	-
Total cost of goods sold	$ 180,000

(a) Subsidiary A's purchases of raw materials from third parties in the current period

(b) Subsidiary A's employee compensation in the current period

(c) Subsidiary A's depreciation expense in the current period

(d) Subsidiary A's manufacturing overhead costs in the current period. Under ASC 220-40-50-30, Subsidiary A is required to disclose a qualitative description of the composition of the "other" line item, which has been excluded for simplicity.

(e) Subsidiary A's inventory balance at the end of the prior period ($0) less the balance at the end of the current period ($45,000)

Under the cost-incurred basis, Subsidiary B discloses the following tabular disaggregation for COGS in fiscal year 20X5 in its standalone financial statements:

	20X5
Purchases of inventory	$ 216,000[f]
Employee compensation	32,000[g]
Depreciation	-
Intangible asset amortization	12,000[h]
Other cost of goods sold	3,000[i]
Changes in inventories	(65,000)[j]
Other adjustments and reconciling items	-
Total cost of goods sold	$ 198,000

(f) Subsidiary B's purchases of units of ice cream from Subsidiary A in the current period

(g) Subsidiary B's employee compensation in the current period

(h) Subsidiary B's amortization expense for its right-of-use asset for a finance lease in the current period

(i) Subsidiary B's outbound shipping and handling costs in the current period. Under ASC 220-40-50-30, Subsidiary B is required to disclose a qualitative description of the composition of the "other" line item, which has been excluded for simplicity.

(j) Subsidiary B's inventory balance at the end of the prior period ($0) less the balance at the end of the current period ($65,000)

Application of the expense-incurred basis

Under the expense-incurred basis, Subsidiary A discloses the following tabular disaggregation for COGS in fiscal year 20X5 in its standalone financial statements:

	20X5
Purchases of inventory	$ 96,000[k]
Employee compensation	64,000[l]
Depreciation	16,000[m]
Intangible asset amortization	-
Other cost of goods sold	4,000[n]
Total cost of goods sold	$ 180,000

(k) Subsidiary A's purchases of raw materials from third parties related to the 800 units sold to Subsidiary B in the current period (800 units sold x $120/unit = $96,000)

(l) Subsidiary A's employee compensation related to the 800 units sold to Subsidiary B in the current period (800 units sold x $80/unit = $64,000)

(m) Subsidiary A's depreciation expense related to the 800 units sold to Subsidiary B in the current period (800 units x $20/unit =$16,000)

(n) Subsidiary A's manufacturing overhead costs related to the 800 units sold to Subsidiary B in the current period (800 units x $5/unit = $4,000)

Under the expense-incurred basis, Subsidiary B discloses the following tabular disaggregation for COGS in fiscal year 20X5 in its standalone financial statements:

	20X5
Purchases of inventory	$ 162,000[o]
Employee compensation	24,000[p]
Depreciation	-
Intangible asset amortization	9,000[q]
Other cost of goods sold	3,000[r]
Total cost of goods sold	$ 198,000

(o) Subsidiary B's purchases of units of ice cream from Subsidiary A related to the 600 units sold to third-party customers in the current period (600 units sold x $270/unit = $162,000)

(p) Subsidiary B's employee compensation related to the 600 units sold to third-party customers in the current period (600 units sold x $40/unit = $24,000)

(q) Subsidiary B's amortization expense for its right-of-use asset for a finance lease related to the 600 units sold to third-party customers in the current period (600 units x $15/unit = $9,000)

(r) Subsidiary B's outbound shipping and handling costs ($3,000) in the current period. Under ASC 220-40-50-30, Subsidiary B is required to disclose a qualitative description of the composition of the "other" line item, which has been excluded for simplicity.

3 Expenses not required to be disaggregated

The guidance includes certain exceptions to the requirement to disclose disaggregated expense information for relevant expense line items.

3.1 Relevant expense line item consisting entirely of one required category

Under ASC 220-40-50-12, an entity is not required to disclose in the notes to the financial statements a disaggregated table of a relevant expense line item (i.e., one that contains purchases of inventory, employee compensation, depreciation, amortization, or DD&A or other depletion) that consists entirely of one of the required categories. That is because the line item on the income statement satisfies the disclosure requirements of this guidance.

For example, if depreciation is a relevant expense line item and the line item consists entirely of depreciation, no additional disclosure is required. Alternatively, if the relevant expense line item includes depreciation and intangible asset amortization, an entity is required to separately disclose the disaggregation of that line item.

3.2 Equity method investments

Excerpt from Accounting Standards Codification

Income Statement-Reporting Comprehensive Income — Expense Disaggregation Disclosures

Disclosure

220-40-50-13

An entity's share of earnings or losses from investments accounted for under the equity method in accordance with paragraph 323-10-45-1 is not a relevant expense caption for purposes of applying the guidance in this Subtopic. Additionally, an entity is not required to further disaggregate its disclosure of summarized information of results of operations of investments accounted for under the equity method in accordance with paragraph 323-10-50-3(c).

An entity's share of earnings or losses from equity method investments (accounted for in accordance with ASC 323-10-45-1) is not a relevant expense line item under the guidance. Additionally, an entity is not required to further disaggregate its disclosure of summarized information of results of operations of equity method investments (disclosed in accordance with ASC 323-10-50-3(c)).

3.3 Certain asset-related expenses

Excerpt from Accounting Standards Codification

Income Statement-Reporting Comprehensive Income — Expense Disaggregation Disclosures

Disclosure

220-40-50-14

With the exception of inventory disclosed under the cost-incurred basis described in paragraph 220-40-50-31(a), an entity is not required to further disaggregate costs capitalized as an asset, even if the costs capitalized include the categories listed in paragraph 220-40-50-6. In addition, when an expense amount relates to the derecognition of an asset other than inventory, an entity shall apply the guidance in paragraph 220-40-50-6 based on the nature of the expense at the time that it is recognized in the income statement.

220-40-50-15

To illustrate the application of the requirements in paragraph 220-40-50-14, an entity is not required to further disaggregate amortization of costs to fulfill a **contract** with a **customer** into the categories required by paragraph 220-40-50-6 (for example, employee compensation). As another example, an entity that capitalizes employee compensation when self-constructing new property, plant, and equipment for internal use is not required to further disaggregate the resulting depreciation into the categories listed in paragraph 220-40-50-6.

The FASB said in paragraph BC57 of ASU 2024-03 that when costs are capitalized to an asset, it affects the natural classification of that cost, and any expense subsequently recognized from the derecognition of the asset would have a different natural classification than the cost that was capitalized. Refer to section 2.2.1, *Natural versus functional expense classifications*, for further discussion.

As described in ASC 220-40-50-14 and 15, an entity is not required to disaggregate costs capitalized as an asset. This exception does not apply to costs that are capitalized to inventory, because those are required to be disaggregated by natural expense classification. Refer to section 2.6.1, *Cost-incurred and expense-incurred basis*, for further discussion. When an expense amount is recognized as the result of the derecognition of an asset other than inventory, an entity is required to apply the disaggregation requirements of this guidance based on the nature of the expense at the time it is recognized in the income statement.

For example, employee compensation costs capitalized to assets other than inventory (e.g., internal-use software) are excluded from the disclosure of employee compensation expense. This includes commissions paid to an employee that are capitalized in accordance with ASC 340-40. Such costs (i.e., capitalized costs to obtain a contract with a customer) are subsequently recognized as an expense through amortization (or impairment). Because the amortization of that cost does not retain the original natural classification of employee compensation, an entity does not include the amortization of previously capitalized commission costs in its disclosure of employee compensation. Amortization of costs to obtain a contract with a customer are separately disclosed in a disaggregated expense table if certain conditions are met. Refer to section 2.3, *Integration of specified existing disclosures*, for further discussion.

3.4 Certain liability-related expenses (updated December 2025)

Excerpt from Accounting Standards Codification

Income Statement-Reporting Comprehensive Income — Expense Disaggregation Disclosures

Disclosure

220-40-50-16

An entity is not required to disaggregate an expense amount into the required expense categories as part of the disclosures required by paragraph 220-40-50-6 if all of the following criteria are met:

a. The expense relates to an obligation that will be settled in the future and there is uncertainty about the timing of settlement.

b. The expense relates to an obligation that is based on an estimate of a future expenditure.

c. The expense is not entirely made up of one required expense category (for example, employee compensation).

An expense that meets the above criteria may be required to be disclosed in the same tabular format if it is listed in paragraphs 220-40-50-21 through 50-22.

220-40-50-17

Examples of expenses that meet the criteria in paragraph 220-40-50-16 include provision for losses on contracts (see Subtopic 605-35 on revenue recognition—construction-type and production-type contracts), claims and claims adjustment expenses, and asset retirement obligations, among others.

220-40-50-18

Examples of expenses that do not meet the criteria in paragraph 220-40-50-16 include 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 (for example, amounts relating to accrued bonuses, vacation pay, or pension obligations).

An entity is not required to disaggregate an expense amount into the required expense categories 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 (e.g., employee compensation).

Examples of expenses that meet the criteria above include provision for losses on contracts and claims and claims adjustment expenses. However, an expense that meets the above criteria may be required to be separately disclosed in a disaggregated expense table if it is a specified expense, gain or loss listed in ASC 220-40-50-21 and 50-22 (e.g., warranty expense). Refer to section 2.3, *Integration of specified existing disclosures*, for further discussion.

Examples of expenses that do not meet the criteria above include 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. This includes amounts due to employees, such as accrued bonuses, vacation pay or pension obligations.

The Board provided this guidance to limit the complexity that would otherwise exist by disaggregating certain liability-related expenses into the required expense categories because these types of expenses relate to future obligations that are estimates at the time of recognition. However, the Board acknowledged in paragraph BC45 of ASU 2024-03 that estimates are required in the financial statements for many of an entity's activities. Therefore, the fact that an estimate is involved does not solely constitute the type of uncertainty contemplated in developing the guidance discussed above. For example, expenses related to accruals for goods that have been received but for which an entity has not paid or employee bonuses are not intended to be excluded from the disaggregation requirements.

Illustration 3-1: Application of exception to disaggregate certain liability-related expenses

Scenario A

In year 1, Company T records a $100 expense within the cost of sales line item on its income statement and a $100 liability related to the initial recognition and measurement of an environmental obligation under ASC 410-30.

Company T anticipates incurring a combination of employee compensation costs and third-party costs to settle the $100 obligation. In accordance with ASC 220-40-50-16, Company T does not disaggregate the $100 expense into the required expense categories in ASC 220-40-50-6. Instead, the expense is included in the amount for other items in accordance with ASC 220-40-50-30.

Assume Company T had other activities in cost of sales (e.g., purchases of inventory) in years 1 and 2 that make it a relevant expense line item for purposes of applying guidance in ASC 220-40-50-6. However, those other activities are not included in this illustration for simplicity.

Year 1 disaggregated disclosure:

	Year 1
Employee compensation	$ -
Other cost of sales	100
Total cost of sales	$ 100

In year 2, Company T settles the $100 obligation by incurring $40 of employee compensation costs and $60 of third-party (e.g., services) costs. Operationally, Company T records journal entries to recognize $40 of employee compensation expense and $60 of services expense to its general ledger consistent with recording similar expenses in the normal course of business. The $100 accrual for the environmental obligation is reversed in the general ledger in the same liability and expense accounts as the accrual/expense was initially recorded.

Analysis:

The expense for the $100 environmental obligation was fully recognized in year 1 and, after reversing the original liability, no expense for the obligation is recognized in year 2. Therefore, we believe an entity may reasonably conclude there is no expense to be disaggregated within cost of sales related to the environmental obligation in year 2. While no expense is disaggregated in year 2, the entity may need to track (or develop reasonable estimates and approximations) to determine what year 2 costs recorded in the general ledger relate to settling the accrual for the environmental obligation.

Year 1 and year 2 disaggregated disclosure:

	Year 2	Year 1
Employee compensation	$ -	$ -
Other cost of sales	-	100
Total cost of sales	$ -	$ 100

Scenario B

Assume Company T has the same fact pattern in year 1 as presented in Scenario A above. However, in year 2, Company T changes its estimate of the environmental obligation to $120 compared to $100 recognized in year 1 due to higher than anticipated inflation increasing the cost of labor to settle the obligation.

Later in year 2, Company T settles the $120 obligation by incurring $60 of employee compensation costs and $60 of third-party (e.g., services) costs. Operationally, Company T records journal entries to recognize $60 of employee compensation expense and $60 of services expense to its general ledger consistent with recording similar expenses in the normal course of business. The $120 accrual for the environmental obligation is reversed in the general ledger in the same liability and expense accounts as the accrual/expense was initially recorded.

Analysis:

In accordance with ASC 220-40-50-16, Company T does not disaggregate the $20 of expense into the required expense categories in ASC 220-40-50-6 as the change in estimate still represents an estimated liability that is not required to be disaggregated. Instead, the expense is included in the amount for other items in accordance with ASC 220-40-50-30. The entity may need to track (or develop reasonable estimates and approximations) to determine what year 2 costs recorded in the general ledger relate to settling the accrual for the environmental obligation.

Year 1 and year 2 disaggregated disclosure:

	Year 2	Year 1
Employee compensation	$ -	$ -
Other cost of sales	20	100
Total cost of sales	$ 20	$ 100

4 Disclosure of selling expenses

Excerpt from Accounting Standards Codification

Income Statement-Reporting Comprehensive Income — Expense Disaggregation Disclosures

Disclosure

220-40-50-35

For interim and annual reporting periods, an entity shall disclose, in the notes to financial statements, the total selling expenses recognized in continuing operations.

220-40-50-36

An entity shall make its own determination of what constitutes a selling expense. An entity's definition of selling expenses shall include only items that are presented as expenses in the income statement. An entity shall disclose how it defines the term selling expenses in annual reporting periods (or in interim reporting periods if the definition is changed).

An entity is required to disclose total selling expenses recognized during the period on an annual and interim basis and disclose how it defines selling expenses on an annual basis, or in interim periods if the definition is changed. See section 1.4, *Changes in elected disclosure alternatives and definitions*, for requirements when an entity changes its definition of selling expenses.

An entity's definition of selling expenses is required to include only items presented as expenses in the income statement. The Board said in paragraph BC119 of ASU 2024-03 that management has broad latitude in defining selling expenses, including whether selling expenses include or exclude fulfillment costs, costs associated with physical sales locations, websites, allocation of management expenses and many other acceptable judgments made by preparers.

This guidance is intended to address investors' requests for disclosure of selling expenses separate from other expenses (e.g., general and administrative expense), which they said will improve their ability to predict an entity's performance by providing insight into costs that are more likely to vary based on changes in revenue, as noted in paragraph BC5 of ASU 2024-03.

5 Transition and effective date (updated December 2025)

Excerpt from Accounting Standards Codification

Income Statement-Reporting Comprehensive Income — Expense Disaggregation Disclosures

Transition and Open Effective Date Information

220-40-65-1

The following represents the transition and effective date information related to Accounting Standards Updates No. 2024-03, *Income Statement — Reporting Comprehensive Income — Expense Disaggregation Disclosures (Subtopic 220-40): Disaggregation of Income Statement Expenses*, and No. 2025-01, *Income Statement — Reporting Comprehensive Income — Expense Disaggregation Disclosures (Subtopic 220-40): Clarifying the Effective Date*:

Effective date and early adoption

a. The pending content that links to this paragraph shall be effective for **public business entities** for annual reporting periods beginning after December 15, 2026, and interim reporting periods within annual reporting periods beginning after December 15, 2027. Early adoption is permitted.

Transition method

b. A public business entity shall apply the pending content that links to this paragraph prospectively to financial statements issued for reporting periods beginning after the effective date of the pending content that links to this paragraph. The disclosures required by the pending content that links to this paragraph do not need to be included in financial statements for reporting periods beginning before the effective date that are being presented for comparative purposes with financial statements issued for periods after the effective date.

c. A public business entity may elect to apply the pending content that links to this paragraph retrospectively to any or all prior periods presented in the financial statements. If applied to financial statements for periods beginning before the effective date, those disclosures shall be prepared and presented in accordance with this Subtopic.

The guidance is effective for public business entities for fiscal years beginning after 15 December 2026, and interim periods within fiscal years beginning after 15 December 2027.[1] Early adoption is permitted.

The guidance may be applied prospectively or retrospectively. Entities that apply it prospectively do not need to include the required disclosures for reporting periods beginning before the effective date that are presented for comparative purposes in financial statements issued after the effective date. Entities that apply it retrospectively need to include the required disclosures for reporting periods beginning before the effective date that are presented for comparative purposes with financial statements issued after the effective date. An entity can apply the guidance retrospectively to any or all periods presented on the income statement. For example, an entity that presents three years of income statements and adopts the guidance in 2027

[1] The FASB issued ASU 2025-01 amending ASU 2024-03 to clarify that entities are required to adopt the guidance in interim periods within fiscal years beginning after 15 December 2027.

could include the required disclosures for 2027 and 2026 but not for 2025. An entity is not required to provide comparative disclosures when adopting the guidance for its interim reporting periods. For example, an entity that adopts the guidance in its 2027 annual period, and in 2028 for interim periods, is not required to provide the comparative disclosures for 2027 interim periods in its 2028 interim reporting disclosures.

An entity should consider the data necessary to make the required disclosures under ASC 220-40 in a period before adoption when electing retrospective transition for any comparative period(s) for which it chooses to provide the required disclosures. For example, an entity that adopts the guidance in its 2027 annual period and elects to retrospectively adopt in all comparative periods presented would need to have data necessary to make the comparative disclosures for its 2025 and 2026 annual periods (assuming it presents three years of income statements).

6 Internal control considerations

The new requirements may have significant implications on an entity's internal control over financial reporting. Entities should familiarize themselves with the guidance and evaluate whether their existing systems can capture the data needed to make the required disclosures and whether additional processes and controls are necessary.

Applying the guidance may be complex, and certain circumstances and events may factor into how an entity implements the guidance, including:

- The extent and existence of allocation methodologies (e.g., intra-entity cost center allocations)
- The extent of anticipated use of significant estimates
- The relative complexity of the entity's inventory costing policies
- The use of standard costing systems
- Consolidation processes, including those that may eliminate intra-entity transactions
- The effect of foreign currency transactions
- Recent disposals or acquisitions (e.g., acquisitions requiring an integration of the acquired entities' processes and systems that track expenses or use different inventory cost-flow assumptions)
- Whether the entity plans to adopt the new guidance prospectively or retrospectively

Entities should also consider the complexity of their organizations (e.g., multinational operations) and the extent that internal control processes (including accounting and reporting systems) across business units are decentralized. They need to make sure entity-wide processes are designed to facilitate the consistent collection and classification of data for preparing the required disclosures. Entities also need to consider providing the proper training to their accounting and financial reporting personnel.

A Illustrations

A.1 Example 1: disaggregation of income statement expenses by an entity with manufacturing and service operations

Excerpt from Accounting Standards Codification

Income Statement-Reporting Comprehensive Income — Expense Disaggregation Disclosures

Implementation Guidance and Illustrations

220-40-55-3

This Example illustrates one type of tabular format disclosure that an entity could use to disclose disaggregated expense amounts in accordance with paragraphs 220-40-50-1 through 50-34. This Example also illustrates the disclosure of selling expenses in accordance with paragraphs 220-40-50-35 through 50-36.

220-40-55-4

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	108,276	102,283	97,169
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	94,801	89,337	84,258
Operating income	13,475	12,946	12,911
Interest expense	4,971	4,213	4,297
Income before income taxes	8,504	8,733	8,614
Income tax expense	1,786	1,834	1,809
Net income	$ 6,718	$ 6,899	$ 6,805

220-40-55-5

Entity X provides a disclosure that disaggregates the cost of products sold; cost of services; and selling, general, and administrative expense captions into the categories listed in paragraph 220-40-50-6. Those expense captions were identified as relevant expense captions because those captions contain one or more of the expense categories listed in paragraph 220-40-50-6. Even though Entity X presents other expense captions on the face of its consolidated income statement, such as interest expense and income tax expense, those expense captions do not contain any of the expense categories listed in paragraph 220-40-50-6 (including those described in paragraphs 220-40-50-10 through 50-11); therefore, those expense captions do not need to be disaggregated.

220-40-55-6

Because cost of products sold contains amounts related to inventory within the scope of Topic 330, Entity X may elect to disclose the amounts under a cost-incurred basis or expense-incurred basis. In this Example, Entity X chooses to disclose the disaggregation of cost of products sold on a cost-incurred basis (that is, the amounts disclosed include costs incurred that were capitalized to inventory during the current reporting period and costs incurred that were directly expensed during the current reporting period) in accordance with paragraph 220-40-50-31(a). Because Entity X discloses the required expense categories using a cost-incurred basis, the entity discloses the changes in inventories caption and the other adjustments and reconciling items caption in accordance with paragraphs 220-40-50-32 through 50-33. In accordance with paragraph 220-40-50-34, Entity X qualitatively describes the nature of amounts included in other adjustments and reconciling items. If Entity X had instead disclosed the required expense categories on an expense-incurred basis (that is, the amounts disclosed comprise expense amounts related to the derecognition of inventory that was previously capitalized in accordance with Topic 330 and any costs incurred that were directly expensed during the current reporting period) in accordance with paragraph 220-40-50-31(b), then the changes in inventories caption and the other adjustments and reconciling items caption would not be necessary in the disaggregation disclosure.

220-40-55-7

Entity X also recognizes **impairment** of property, plant, and equipment classified as held and used in selling, general, and administrative expenses and, therefore, includes that impairment as a separate category in the tabular format disclosure in accordance with paragraph 220-40-50-21(c).

220-40-55-8

Entity X recognizes expenses associated with **warranty** accruals entirely within cost of products sold and, therefore, includes warranty expense as a separate category in accordance with paragraph 220-40-50-22(k).

220-40-55-9

Entity X recognizes **operating lease** costs in both cost of services and selling, general, and administrative expenses. Therefore, in accordance with paragraph 220-40-50-22, Entity X is not required to separately disclose the amounts of cost of services and selling, general, and administrative expenses that are attributable to operating lease cost. Instead, those expenses are included in the amount for other items for each relevant expense caption in accordance with paragraph 220-40-50-30.

220-40-55-10

Entity X recognizes amounts related to the initial recognition and subsequent measurement of a liability for an environmental obligation in cost of products sold (see Subtopic 410-30 on asset retirement and environmental obligations). In accordance with paragraph 220-40-50-16, Entity X is not required to disaggregate that amount into the expense categories listed in paragraph 220-40-50-6. Instead, that expense is included in the amount for other items in accordance with paragraph 220-40-50-30.

220-40-55-11

Entity X provides the following disclosure.

Disaggregation of Relevant Expense Captions

	20X4	20X3	20X2
Cost of products sold			
Cost of products sold			
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	$ 63,456	$ 60,898	$ 57,244

(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 incurr ed from various functional currencies into the reporting currency for the years ended December 31, 20X4, 20X3, and 20X2.

	20X4	20X3	20X2
Cost of services			
Cost of services			
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 consists primarily of operating lease and travel expenses for the years ended December 31, 20X4, 20X3, and 20X2.

	20X4	20X3	20X2
Selling, general, and administrative			
Selling, general, and administrative (SG&A)			
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	$ 20,849	$ 18,871	$ 18,116

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

220-40-55-12

In addition to the tabular format disclosure illustrated in paragraph 220-40-55-11, Entity X also must disclose its selling expenses and how it defines selling expenses in accordance with paragraphs 220-40-50-35 through 50-36.

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.

A.2 Example 2: disaggregation of income statement expenses by an entity with service operations

Excerpt from Accounting Standards Codification

Income Statement-Reporting Comprehensive Income — Expense Disaggregation Disclosures

Implementation Guidance and Illustrations

220-40-55-13

This Example illustrates one type of tabular format disclosure that an entity could use to disclose disaggregated expense amounts in accordance with paragraphs 220-40-50-1 through 50-34. This Example also illustrates the disclosure of selling expenses in accordance with paragraphs 220-40-50-35 through 50-36.

220-40-55-14

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

For the year ended December 31, 20X4, Entity X, which is a services provider, presents the following comparative income statement.

220-40-55-15

Entity X provides a disclosure that disaggregates the cost of sales; depreciation and amortization; selling, general, and administrative expenses; and research and development expenses captions into the categories listed in paragraph 220-40-50-6. Those expense captions were identified as relevant expense captions because those captions contain one or more of the expense categories listed in paragraph 220-40-50-6. Even though Entity X presents other expense captions on the face of its consolidated income statement, such as interest expense and income tax expense, those expense captions do not contain any of the expense categories listed in paragraph 220-40-50-6 (including those described in paragraphs 220-40-50-10 through 50-11); therefore, those expense captions do not need to be disaggregated.

220-40-55-16

Entity X also recognizes **one-time employee termination benefits** in cost of sales; selling, general, and administrative expenses; and research and development expenses and, therefore, includes this amount as a separate category in the tabular format disclosure in accordance with paragraph 220-40-50-21. Paragraph 220-40-50-21(e) requires that an entity disclose the amount of each major type of cost associated with an exit or disposal activity (for example, one-time employee termination benefits) that is recognized in each relevant expense caption in the same tabular format in which the disclosures required by paragraph 220-40-50-6 are provided. Because one-time employee termination benefits are a form of employee compensation, Entity X discloses that its employee compensation category excludes one-time employee termination benefits because one-time employee termination benefits are disclosed as a separate category.

220-40-55-17

Entity X has a funded research and development cost-sharing arrangement with a strategic partner. Entity X recognizes an expense reimbursement from the strategic partner in research and development expenses and, in accordance with paragraph 220-40-50-26(a), elects to separately disclose the amount of that expense reimbursement. If Entity X had elected to present a relevant expense caption net of an expense reimbursement from another entity, it would have been required to disclose the amount of the expense categories that are included in each relevant expense caption. Additionally, in accordance with paragraph 220-40-50-29, Entity X qualitatively describes the expense categories to which the reimbursement relates.

220-40-55-18

Entity X provides the following disclosure.

Disaggregation of Relevant Expense Captions

	20X4	20X3	20X2
Cost of sales			
Cost of sales			
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 consist primarily of subcontractor costs and travel expenses for the years ended December 31, 20X4, 20X3, and 20X2.

	20X4	20X3	20X2
Depreciation and amortization related to cost of sales			
Depreciation and amortization related to cost of sales			
Depreciation	$ 19,126	$ 17,984	$ 17,893
Intangible asset amortization	12,452	8,194	5,735
Total depreciation and amortization related to cost of sales	$ 31,578	$ 26,178	$ 23,628
Selling, general, and administrative expenses			
Selling, general, and administrative expenses (SG&A)			
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 SG&A [(b)]	199,860	159,308	169,785
Total SG&A	$ 497,962	$ 458,215	$ 471,626

(b) Other SG&A consists 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

Research and development expenses (R&D)			
Employee compensation (exclusive of one-time employee termination benefits)	$ 46,242	$ 41,379	$ 40,764
One-time employee termination benefits	1,454	1,855	-
Other R&D [(c)]	17,836	16,845	15,890
Cost reimbursements [(d)]	(8,297)	(7,905)	(7,756)
Total R&D	$ 57,235	$ 52,174	$ 48,898

(c) Other R&D consists 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 consist of payments from a strategic partner for employee compensation and materials costs related to R&D incurred as part of a funded research and development arrangement for the years ended December 31, 20X4, 20X3, and 20X2.

220-40-55-19

In addition to the tabular format disclosure illustrated in paragraph 220-40-55-18, Entity X also must disclose its selling expenses and how it defines selling expenses in accordance with paragraphs 220-40-50-35 through 50-36.

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 certain customer acquisition-related costs.

A.3 Example 3: disaggregation of income statement expenses by a bank

Excerpt from Accounting Standards Codification

Income Statement-Reporting Comprehensive Income — Expense Disaggregation Disclosures

Implementation Guidance and Illustrations

220-40-55-20

This Example illustrates one type of tabular format disclosure that an entity could use to disclose disaggregated expense amounts in accordance with paragraphs 220-40-50-1 through 50-34. This Example also illustrates the disclosure of selling expenses in accordance with paragraphs 220-40-50-35 through 50-36.

220-40-55-21

For the year ended December 31, 20X4, Entity X, which is a bank, presents the following comparative income statement.

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

220-40-55-22

Entity X provides a disclosure that disaggregates the occupancy and depreciation expense and other expense captions into the categories listed in paragraph **220-40-50-6**. Those expense captions were identified as relevant expense captions because those captions contain one or more of the expense categories listed in paragraph 220-40-50-6. In this Example, even though 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 expense categories listed in paragraph 220-40-50-6 (including those described in paragraphs 220-40-50-10 through 50-11); therefore, those expense captions do not need to be further disaggregated. Entity X applies the practical expedient for employee compensation described in paragraph 220-40-50-20 and elects to not repeat the amount presented on the face of the income statement in the notes to financial statements.

220-40-55-23

Entity X recognizes operating lease cost entirely within occupancy and depreciation expense and, therefore, includes operating lease cost as a separate category in accordance with paragraph 220-40-50-22(p).

220-40-55-24

Entity X provides the following disclosure.

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.

220-40-55-25

In addition to the tabular format disclosure illustrated in paragraph 220-40-55-24, Entity X also must disclose its selling expenses and how it defines selling expenses in accordance with paragraphs 220-40-50-35 through 50-36.

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.

A.4 Example 4: disaggregation of income statement expenses by an insurance entity (added December 2025)

Illustration A-1: Disaggregation of income statement expenses by an insurance entity

For the year ended 31 December 20X4, Insurer X presents the following comparative statement of operations.

Consolidated Statement of Operations
For the Years Ended 31 December 20X4, 20X3 and 20X2

	20X4	20X3	20X2
Revenues			
Premiums	$ 6,000	$ 5,000	$ 9,500
Fee income	5,000	3,500	7,250
Net investment income	5,500	4,000	550
Net realized gains (losses)	750	1,000	2,500
Other revenues	500	400	300
Total revenues	17,750	13,900	20,100
Expenses			
Benefits/claims and claims adjustments[(1)]	$ 5,700	$ 6,100	$ 9,000
Interest credited	5,500	5,200	7,800
Amortization of deferred acquisition costs[(2)]	5,450	3,200	1,700
Interest expense	350	325	305
Other expense	100	75	95
Total expenses	17,100	14,900	18,900
Income (loss) before income taxes	650	(1,000)	1,200
Income tax expense (benefit)	137	(210)	250
Net income (loss)	$ 513	$ (790)	$ 950

Assume Insurer X:

- Accrues for applicable employee compensation costs as part of claims reserves
- Capitalizes certain employee compensation costs in accordance with ASC 944-30 as a deferred acquisition costs (DAC) asset
- Includes administrative function expenses, such as its other employee compensation and operating lease expense, within other expense
- Recognizes operating lease expense entirely within other expense

Analysis:

(1) Insurer X is not required to disaggregate expense amounts related to benefits/claims and claims adjustments into the required expense categories because they meet the requirements for certain liability-related expenses in ASC 220-40-50-16. This expense related to obligations that will be settled in the future, and for which the timing of settlement is uncertain, is based on an estimate of a future expenditure and is not entirely made up of one required expense category.

(2) DAC: Insurer X is not required to further disaggregate costs capitalized as DAC, even though the costs capitalized include employee compensation as it meets the requirements for certain asset-related expenses in ASC 220-40-50-14.

Other expense is the only relevant expense line item for Insurer X.

Insurer X provides the following disclosure.

Example footnote disclosure: disaggregation of relevant expense line items

Other expense	20X4	20X3	20X2
Employee compensation	$ 26	$ 14	$ 28
Depreciation	20	19	18
Intangible asset amortization	24	27	25
Operating lease expense	8	7	6
Other expenses[(a)]	22	8	18
Total other expense	**$ 100**	**$ 75**	**$ 95**

(a) Other expenses consisted primarily of regulatory licensing fees and charitable contributions for the years ended 31 December 20X4, 20X3 and 20X2.

Example footnote disclosure: selling expenses

Selling expenses

During the years ended 31 December 20X4, 20X3 and 20X2, selling expenses were $12, $6 and $14, respectively. The entity's selling expenses include costs incurred for advertising, market research and business development.

B ASC references used in this publication

ASC Paragraph	Section	
105-10-05-6	1.1.2	Materiality considerations
105-10-05-6	2.3.2	Materiality considerations for integration of specified existing disclosures
205-10-50-1	2.3	Integration of specified existing disclosures
220-40-05-1	1.1	Overview
220-40-15-2	1.2	Scope and scope exceptions
220-40-15-3	1.2	Scope and scope exceptions
220-40-50-1	1.1	Overview
220-40-50-1	1.1.1	Use of estimates or other methods that produce a reasonable approximation of required disclosures
220-40-50-1	2.2.3.2	Definition of employee compensation
220-40-50-3	2.1	Income statement line items subject to disaggregation
220-40-50-4	1.4	Changes in elected disclosure alternatives and definitions
220-40-50-5	1.4	Changes in elected disclosure alternatives and definitions
220-40-50-6	2.1	Income statement line items subject to disaggregation
220-40-50-6	2.2.2	Purchases of inventory
220-40-50-6	2.2.3.2	Definition of employee compensation
220-40-50-6	3.4	Certain liability-related expenses
220-40-50-7	2.2.2	Purchases of inventory
220-40-50-8	2.2.3.2	Definition of employee compensation
220-40-50-9	2.2.4	Depreciation and intangible asset amortization
220-40-50-10	2.2.2	Purchases of inventory
220-40-50-10	2.2.4.1	Amortization of a right-of-use asset for a finance lease and leasehold improvements
220-40-50-11	2.2.5	DD&A and other depletion expense
220-40-50-12	2.1	Income statement line items subject to disaggregation
220-40-50-12	3.1	Relevant expense line item consisting entirely of one required category
220-40-50-13	3.2	Equity method investments
220-40-50-14	3.3	Certain asset-related expenses
220-40-50-14	Appendix A.4	Example 4: disaggregation of income statement expenses by an insurance entity
220-40-50-15	3.3	Certain asset-related expenses
220-40-50-16	3.4	Certain liability-related expenses
220-40-50-16	Appendix A.4	Example 4: disaggregation of income statement expenses by an insurance entity
220-40-50-17	3.4	Certain liability-related expenses
220-40-50-18	3.4	Certain liability-related expenses
220-40-50-19	2.2.2.1	Practical expedient for purchases of inventory

ASC Paragraph	Section	
220-40-50-20	2.2.3.3	Practical expedient for determining employee compensation
220-40-50-21	2.1	Income statement line items subject to disaggregation
220-40-50-21	2.2.3.2	Definition of employee compensation
220-40-50-21	2.3	Integration of specified existing disclosures
220-40-50-21	2.3.3	Decision tree on the integration of specified existing disclosures
220-40-50-21	3.4	Certain liability-related expenses
220-40-50-22	1.4	Changes in elected disclosure alternatives and definitions
220-40-50-22	2.1	Income statement line items subject to disaggregation
220-40-50-22	2.2.2	Purchases of inventory
220-40-50-22	2.3	Integration of specified existing disclosures
220-40-50-22	2.3.3	Decision tree on the integration of specified existing disclosures
220-40-50-22	3.4	Certain liability-related expenses
220-40-50-23	2.3	Integration of specified existing disclosures
220-40-50-24	2.3	Integration of specified existing disclosures
220-40-50-26	2.1	Income statement line items subject to disaggregation
220-40-50-26	2.4	Expense reimbursements in relevant expense line items
220-40-50-26 through 50-29	2.4	Expense reimbursements in relevant expense line items
220-40-50-27	2.4	Expense reimbursements in relevant expense line items
220-40-50-28	2.1	Income statement line items subject to disaggregation
220-40-50-28	2.4	Expense reimbursements in relevant expense line items
220-40-50-29	2.4	Expense reimbursements in relevant expense line items
220-40-50-30	2.1	Income statement line items subject to disaggregation
220-40-50-30	2.2.2	Purchases of inventory
220-40-50-30	2.5	Other amounts remaining in relevant expense line items
220-40-50-30	2.6.3	Application of the cost-incurred basis and expense-incurred basis in the consolidated financial statements of a group and the standalone financial statements of a subsidiary
220-40-50-30	3.4	Certain liability-related expenses
220-40-50-31	2.6.1	Cost-incurred basis and expense-incurred basis
220-40-50-32	2.6.2	Changes in inventories and other adjustments and reconciling items
220-40-50-33	2.6.2	Changes in inventories and other adjustments and reconciling items
220-40-50-34	2.6.2	Changes in inventories and other adjustments and reconciling items
220-40-50-35	4	Disclosure of selling expenses
220-40-50-36	4	Disclosure of selling expenses
220-40-55-2	1.1.1	Use of estimates or other methods that produce a reasonable approximation of required disclosures
220-40-55-3 through 55-12	Appendix A.1	Example 1: Disaggregation of Income Statement Expenses by an Entity with Manufacturing and Service Operations
220-40-55-13 through 55-19	Appendix A.2	Example 2: Disaggregation of Income Statement Expenses by an Entity with Service Operations
220-40-55-20 through 55-25	Appendix A.3	Example 3: Disaggregation of Income Statement Expenses by a Bank
220-40-65-1	5	Transition and effective date

ASC Paragraph	Section	
323-10-45-1	3.2	Equity method investments
323-10-50-3	3.2	Equity method investments
842-10-55-2	2.2.2.1	Practical expedient for purchases of inventory
932-10-15-2A	2.2.5	DD&A and other depletion expense
958-720-45-15	1.2	Scope and scope exceptions

C Abbreviations used in this publication

Abbreviation	*FASB Accounting Standards Codification*
ASC 105	FASB ASC Topic, *Generally Accepted Accounting Principles*
ASC 205	FASB ASC Topic, *Presentation of Financial Statements*
ASC 220-40	FASB ASC Topic, *Income Statement-Reporting Comprehensive Income — Expense Disaggregation Disclosures*
ASC 250	FASB ASC Topic, *Accounting Changes and Error Corrections*
ASC 270	FASB ASC Topic, *Interim Reporting*
ASC 280	FASB ASC Topic, *Segment Reporting*
ASC 323	FASB ASC Topic, *Investments-Equity Method and Joint Ventures*
ASC 330	FASB ASC Topic, *Inventory*
ASC 340-40	FASB ASC Topic, *Other Assets and Deferred Costs — Contracts with Customers*
ASC 350-30	FASB ASC Topic, *Intangibles — Goodwill and Other — General Intangibles Other Than Goodwill*
ASC 360-10	FASB ASC Topic, *Property, Plant, and Equipment — Overall*
ASC 410-30	FASB ASC Topic, *Asset Retirement and Environmental Obligations — Environmental Obligations*
ASC 420	FASB ASC Topic, *Exit or Disposal Cost Obligations*
ASC 606	FASB ASC Topic, *Revenue from Contracts with Customers*
ASC 705-20	FASB ASC Topic, *Cost of Sales and Services — Accounting for Consideration Received from a Vendor*
ASC 718	FASB ASC Topic, *Compensation — Stock Compensation*
ASC 720-35	FASB ASC Topic, *Other Expenses — Advertising Costs*
ASC 730	FASB ASC Topic, *Research and Development*
ASC 805-10	FASB ASC Topic, *Business Combinations — Overall*
ASC 805-60	FASB ASC Topic, *Business Combinations — Joint Venture Formations*
ASC 810-10	FASB ASC Topic, *Consolidation — Overall*
ASC 815	FASB ASC Topic, *Derivatives and Hedging*
ASC 842	FASB ASC Topic, *Leases*
ASC 905-330	FASB ASC Topic, *Airlines — Inventory*
ASC 930	FASB ASC Topic, *Extractive Activities — Mining*
ASC 932-360	FASB ASC Topic, *Extractive Activities — Oil and Gas — Property, Plant and Equipment*
ASC 944-30	FASB ASC Topic, *Financial Services — Insurance*
ASC 958	FASB ASC Topic, *Not-for-Profit Entities*
ASC 960	FASB ASC Topic, *Plan Accounting — Defined Benefit Pension Plans*
ASC 962	FASB ASC Topic, *Plan Accounting — Defined Contribution Pension Plans*
ASC 965	FASB ASC Topic, *Plan Accounting — Health and Welfare Benefit Plans*
ASU 2024-03	FASB Accounting Standards Update No. 2024-03, *Income Statement — Reporting Comprehensive Income — Expense Disaggregation Disclosures (Subtopic 220-40): Disaggregation of Income Statement Expenses*
ASU 2025-01	FASB Accounting Standards Update No. 2025-01, *Income Statement — Reporting Comprehensive Income — Expense Disaggregation Disclosures (Subtopic 220-40): Clarifying the Effective Date*

Abbreviation	*Other authoritative standards*
ASU 2025-11	FASB Accounting Standards Update No. 2025-11, *Interim Reporting (Topic 270): Narrow-Scope Improvements*
Rule 3-05	SEC Regulation S-X Rule 3-05, *Financial statements of businesses acquired or to be acquired*
Rule 5-03	SEC Regulation S-X Rule 5-03, *Statements of comprehensive income*
Rule 9-04	SEC Regulation S-X Rule 9-04, *Statements of comprehensive income*

D Glossary

Excerpt from Accounting Standards Codification

Master Glossary

Business Combination

A transaction or other event in which an **acquirer** obtains control of one or more **businesses**. Transactions sometimes referred to as true mergers or mergers of equals also are business combinations. See also **Acquisition by a Not-for-Profit Entity**.

Employee (second definition)

An individual over whom a reporting entity exercises or has the right to exercise sufficient control to establish an employer-employee relationship based on common law as illustrated in case law and currently under U.S. Internal Revenue Service (IRS) Revenue Ruling 87-41. A reporting entity based in a foreign jurisdiction would determine whether an employee-employer relationship exists based on the pertinent laws of that jurisdiction. Accordingly, an individual meets the definition of an employee if the reporting entity consistently represents that individual to be an employee under common law. The definition of an employee for payroll tax purposes under the U.S. Internal Revenue Code includes common law employees. Accordingly, a reporting entity that classifies an individual potentially subject to U.S. payroll taxes as an employee also must represent that individual as an employee for payroll tax purposes (unless the individual is a leased employee as described below). An individual that meets the definition of an employee includes, but is not limited to, a full-time, part-time, temporary, or seasonal employee. An individual does not meet the definition of an employee solely because the reporting entity represents that individual as an employee for some, but not all, purposes. For example, a requirement or decision to classify an individual as an employee for U.S. payroll tax purposes does not, by itself, indicate that the individual is an employee because the individual also must be an employee of the reporting entity under common law.

A leased individual is deemed to be an employee of the lessee if all of the following requirements are met:

a. The leased individual qualifies as a common law employee of the **lessee**, and the **lessor** is contractually required to remit payroll taxes on the compensation paid to the leased individual for the services provided to the lessee.

b. The lessor and lessee agree in writing to all of the following conditions related to the leased individual:

   1. The lessee has the exclusive right to grant compensation to the individual for the employee service to the lessee.

   2. The lessee has a right to hire, fire, and control the activities of the individual. (The lessor also may have that right.)

   3. The lessee has the exclusive right to determine the economic value of the services performed by the individual (including wages and the number of units and value of stock compensation granted).

   4. The individual has the ability to participate in the lessee's employee benefit plans, if any, on the same basis as other comparable employees of the lessee.

5. The lessee agrees to and remits to the lessor funds sufficient to cover the complete compensation, including all payroll taxes, of the individual on or before a contractually agreed upon date or dates.

A nonemployee director does not satisfy this definition of employee. Nevertheless, nonemployee directors acting in their role as members of a board of directors are treated as employees if those directors were elected by the employer's shareholders or appointed to a board position that will be filled by shareholder election when the existing term expires. However, that requirement applies only to awards and other compensation granted to nonemployee directors for their services as directors. Awards granted and compensation paid to those individuals for other services shall be accounted for as awards and compensation to nonemployees.

Employee Compensation

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, **one-time 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**.

Finance Lease

From the perspective of a **lessee**, a **lease** that meets one or more of the criteria in paragraph 842-10-25-2.

Intangible Assets

Assets (not including financial assets) that lack physical substance. (The term intangible assets is used to refer to intangible assets other than goodwill.)

Inventory

The aggregate of those items of tangible personal property that have any of the following characteristics:

a. Held for sale in the ordinary course of business

b. In process of production for such sale

c. To be currently consumed in the production of goods or services to be available for sale.

The term inventory embraces goods awaiting sale (the merchandise of a trading concern and the finished goods of a manufacturer), goods in the course of production (work in process), and goods to be consumed directly or indirectly in production (raw materials and supplies). This definition of inventories excludes long-term assets subject to depreciation accounting, or goods which, when put into use, will be so classified. The fact that a depreciable asset is retired from regular use and held for sale does not indicate that the item should be classified as part of the inventory. Raw materials and supplies purchased for production may be used or consumed for the construction of long-term assets or other purposes not related to production, but the fact that inventory items representing a small portion of the total may not be absorbed ultimately in the production process does not require separate classification. By trade practice, operating materials and supplies of certain types of entities such as oil producers are usually treated as inventory.

Joint Venture

An entity owned and operated by a small group of businesses (the joint venturers) as a separate and specific business or project for the mutual benefit of the members of the group. A government may also be a member of the group. The purpose of a joint venture frequently is to share risks and rewards in developing a new market, product, or technology; to combine complementary technological knowledge; or to pool resources in developing production or other facilities. A joint venture also usually provides an arrangement under which each joint venturer may participate, directly or indirectly, in the overall management of the joint venture. Joint venturers thus have an interest or relationship other than as passive investors. An entity that is a subsidiary of one of the joint venturers is not a joint venture. The ownership of a joint venture seldom changes, and its equity interests usually are not traded publicly. A minority public ownership, however, does not preclude an entity from being a joint venture. As distinguished from a **corporate joint venture**, a joint venture is not limited to corporate entities.

Natural Expense Classification

A method of grouping expenses according to the types of economic benefits received in incurring those expenses. Examples of natural expense classifications include salaries and wages, employee benefits, nonemployee professional services, supplies, interest expense, rent, utilities, and depreciation.

Not-for-Profit Entity

An entity that possesses the following characteristics, in varying degrees, that distinguish it from a business entity:

a. Contributions of significant amounts of resources from resource providers who do not expect commensurate or proportionate pecuniary return

b. Operating purposes other than to provide goods or services at a profit

c. Absence of ownership interests like those of business entities.

Entities that clearly fall outside this definition include the following:

a. All investor-owned entities

b. Entities that provide dividends, lower costs, or other economic benefits directly and proportionately to their owners, members, or participants, such as mutual insurance entities, credit unions, farm and rural electric cooperatives, and employee benefit plans.

One-Time Employee Termination Benefits

Benefits provided to current employees that are involuntarily terminated under the terms of a one-time benefit arrangement.

Private Company

An entity other than a **public business entity**, a **not-for-profit entity**, or an employee benefit plan within the scope of Topics 960 through 965 on plan accounting.

Public Business Entity

A public business entity is a business entity meeting any one of the criteria below. Neither a **not-for-profit entity** nor an employee benefit plan 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. 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 public business entity 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 public business entity for purposes of financial statements that are filed or furnished with the SEC.

Right-of-Use Asset

An asset that represents a **lessee's** right to use an **underlying asset** for the **lease term**.

Variable Interest Entity

A **legal entity** subject to consolidation according to the provisions of the Variable Interest Entities Subsections of Subtopic 810-10.

E Summary of important changes

The following highlights the topics for which substantive updates have been made in recent editions of this publication. Other non-substantive or clarifying changes are not listed.

Section 1: Overview and scope

- Section 1.1.1 was added to provide guidance on the use of estimates or other reasonable methods of approximation when making the disclosures required in ASC 220-40. (December 2025)
- Section 1.1.2 was added to provide materiality considerations for the disclosures required under ASC 220-40. (December 2025)
- Section 1.2 was updated to include a question and answer (Q&A) that provides additional guidance on the definition of a public business entity under ASC 220-40. (December 2025)
- Section 1.4 was updated to include a Q&A on the application of the impracticable exception related to changes in elected disclosure alternatives and definitions under ASC 220-40. (December 2025)

Section 2: Expense disaggregation disclosure

- Section 2.1 was updated to include a Q&A on the periods in interim financial statements that the disaggregated disclosures under ASC 220-40 are required. (December 2025)
- Section 2.2.2 was updated to provide additional guidance on the purchases of inventory category. It was also updated to include Q&As on whether the following costs should be included in the purchases of inventory category:
  - Costs colloquially referred to as inventory but not considered inventory in the scope of ASC 330 (December 2025)
  - Costs to purchase materials that are immediately expensed because they are charged directly to a customer contract being recognized into revenue over time (December 2025)
  - Costs to purchase materials to develop products before regulatory approval for biotechnology and pharmaceutical companies (December 2025)
  - Costs incurred in a contract manufacturing arrangement (December 2025)
- Section 2.2.2.1 was updated to include a Q&A that provides additional guidance on the substantially all threshold and an illustration of the application of the practical expedient for purchases of inventory. (December 2025)
- Section 2.2.3.1 was updated to provide additional guidance on the definition of employee under ASC 220-40. (December 2025)
- Section 2.2.3.2 was updated to include Q&As on whether employee-related labor costs included in overhead that are allocated to a line item on the income statement and employee reimbursements should be included in the disaggregated disclosure of employee compensation. (December 2025)
- Section 2.3 was updated to provide guidance on the new FASB standard on the accounting for government grants and the potential effects to disclosures under ASC 220-40. (December 2025)

- Section 2.3.1 was updated to provide guidance on the new FASB standard on interim reporting and the potential effects to disclosures under ASC 220-40. (December 2025)
- Section 2.4 was updated to include a Q&A that provides guidance on what kinds of arrangements are in the scope of cost-sharing or cost-reimbursement arrangements under ASC 220-40. (December 2025)
- Section 2.6.2 was updated to include a table that summarizes the similarities and differences between the cost-incurred basis and expense-incurred basis. (December 2025)
- Section 2.6.3 was added to provide guidance on and an illustration of the application of the cost-incurred basis and expense-incurred basis in the consolidated financial statements of a group and the standalone financial statements of a subsidiary. (December 2025)

Section 3: Expenses not required to be disaggregated

- Section 3.4 was updated to illustrate the application of the exception for certain liability-related expenses not required to be disaggregated. (December 2025)

Section 5: Transition and effective date

- Section 5 was updated to highlight the need for entities to consider the data needed to make the required disclosures if retrospective application is elected. (December 2025)

Appendix A: Illustrations

- Appendix A.4 was added to include an example illustrating the disaggregation of income statement expenses by an insurance entity. (December 2025)

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SCORE no. 27503-251US
(Updated 18 December 2025)

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