



SEGMENT REPORTING  
**BDO Knows:  
New Segment  
Reporting Disclosures**

October 2024



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# New Segment Reporting Disclosures

## 1. INTRODUCTION

Segment reporting disclosure requirements are changing, beginning with the 2024 Form 10-K filing season for calendar-year-end public entities. In November 2023, the Financial Standards Accounting Board (FASB) issued Accounting Standards Update (ASU) 2023-07, *Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures*, which introduced new annual and interim disclosure requirements for all public entities. The FASB issued the ASU to respond to investor requests for more detailed information about a reportable segment's expenses.

Historically, public entities with more than one reportable segment disclosed information about segment revenues, profit or loss, and assets. However, before the ASU, single reportable segment entities were required to provide only some entity-wide disclosures. After the ASU's effective date, all public entities, including those with one reportable segment, must disclose segment expense information on an annual and interim basis. The ASU also requires that single reportable segment entities provide both existing and new segment reporting disclosures each period.

While the ASU requires new disclosures, it does not change or remove existing disclosures such as reporting depreciation, amortization, and depletion under some circumstances. It also does not change how entities identify and aggregate operating segments or how they apply qualitative thresholds to determine reportable segments.

This publication discusses only the new and modified disclosure requirements in the ASU. It is not a comprehensive segment reporting disclosures guide; accordingly, management should read Accounting Standards Codification (ASC) 280, *Segment Reporting*, in its entirety.

## 2. OVERVIEW

The ASU introduces new segment reporting disclosures for all public entities and modifies some existing disclosures. The amendments are effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024.

### 2.1 New Segment Reporting Disclosures

The ASU requires that public entities, including those with single reportable segments, disclose the following:

- ▶ Significant segment expenses for each reportable segment (see Section 3)
- ▶ Other segment items for each reportable segment (see Section 4)
- ▶ Title and position of the individual or the name of the group or committee identified as the chief operating decision maker (the CODM) (see Section 5)
- ▶ Explanation of how the CODM uses the disclosed measure(s) of segment profit or loss (see Section 5)

There is no requirement to reconcile significant segment expenses and other segment items to the corresponding amounts in the consolidated financial statements.

### 2.2 Amended Segment Reporting Disclosures

The ASU now allows (but does not require) an entity to disclose multiple measures of a segment's profit or loss **if** the CODM uses these measures to allocate resources and assess segment performance (see Section 6). However, **at least one** of the disclosed measures (or the single measure if only one is disclosed) must be the measure most consistent with measurement principles under U.S. generally accepted accounting principles (U.S. GAAP). ASC 280 previously limited an entity to presenting one measure of segment of profit or loss: the measure most consistent with U.S. GAAP measurement principles.

Unless it is impracticable to do so, the ASU requires that public entities recast prior period segment information, including significant segment expenses, when either:

- ▶ The composition of reportable segments changes
- ▶ Significant change in segment expense categories caused by changes in the segment information regularly provided to the CODM (see Section 8)

ASC 280 previously required recasting only when the composition of reportable segments changed.

Also, entities must now provide most of the existing annual disclosures in interim periods (see Section 9). That includes reconciling each measure of segment profit or loss to the consolidated income statement on an interim basis (see Sections 2.2 and 6). However, an entity is not required to reconcile a segment's total assets to consolidated assets or a segment's revenues to consolidated revenues.



### ALL PUBLIC ENTITIES ARE IN THE SCOPE OF THE ASU

The ASU has no scope exceptions for any public entities. All entities that meet the definition of a public entity must comply with the new guidance. The FASB Codification Master Glossary defines a public entity as:

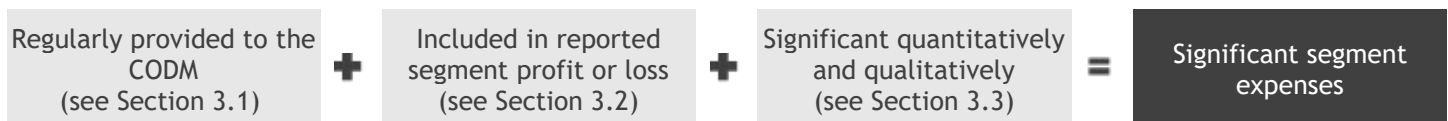
*“A business entity or a not-for-profit entity that meets any of the following conditions:*

- a. It has issued debt or equity securities or is a conduit bond obligor for conduit debt securities that are traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local or regional markets).*
- b. It is required to file financial statements with the Securities and Exchange Commission (SEC).*
- c. It provides financial statements for the purpose of issuing any class of securities in a public market.”*

We encourage public entities to allow sufficient time to familiarize themselves with the new guidance and design and implement the necessary internal controls over financial reporting.

## 3. SIGNIFICANT SEGMENT EXPENSES

The ASU introduces the significant expense principle, which is based on the management approach underlying ASC 280. That approach allows financial statement users to see disaggregated information about entities through the eyes of management and to assess segment performance the same way management does. Under the significant expense principle, public entities, including those with single reportable segments, must disclose on an annual and interim basis expenses that meet **all** the following criteria for each reportable segment:



Entities with financial operations segments that disclose net interest revenue must disclose gross interest expense if interest expense meets the significant expense principle criteria. Further, entities with segments that have no material financial operations must disclose interest expense if it is a significant segment expense. Unlike segment revenues, profit and loss, assets, and other items determined to be significant in accordance with ASC 280-10-50-22, entities are not required to reconcile significant segment expenses to the corresponding expense captions in their consolidated income statements.

Because of inherent differences in how entities manage their businesses and thus determine their reportable segments, significant expenses may vary between reportable segments within an entity, between entities in the same industry, or across different industries. However, that variation in disclosures may inform investors about how an entity manages its segments and how one entity's approach differs from that of another entity operating in the same or similar industries.

### 3.1 Regularly Provided to the CODM

The new guidance requires an entity to identify significant segment expenses from the information regularly provided to the CODM. The FASB explained in BC18 of the ASU that when determining whether expense information is regularly provided to the CODM under the significant expense principle, an entity should apply the same concepts it uses to determine whether financial information is regularly provided to the CODM for determining existing segment disclosures. For example, an entity must determine segment expenses that are regularly provided to the CODM in the

same manner as when determining whether some segment information, such as revenue from external customers, is regularly provided to the CODM and thus must be disclosed under the existing ASC 280 disclosure requirements.



### INFORMATION REGULARLY PROVIDED IS BROADER THAN INFORMATION REGULARLY REVIEWED

One of the characteristics of an operating segment as defined in ASC 280 is that the CODM **regularly reviews** the segment's results to assess performance and make decisions about resources to be allocated to the segment. Conversely, an entity identifies significant expenses based on information **regularly provided** to the CODM, which is a broader term than **regularly reviewed**. Said differently, when applying the significant expense principle, entities ignore whether the information regularly provided to their CODMs is regularly reviewed. Also, an entity must consider all information regularly provided to the CODM in hardcopy and electronic format or via regular meetings. Such regular provision of information may result in additional segment expense disclosures.



### SEC STAFF INSIGHTS

While U.S. GAAP does not explicitly define the term “regularly provided,” we believe it means at least quarterly. That view is consistent with the SEC staff's view expressed at the 2023 AICPA & CIMA Conference on Current SEC and PCAOB Developments (the Conference). However, at the Conference, the SEC staff also cautioned that information provided less frequently may constitute a **regular** provision of information. Reaching a conclusion on whether information is regularly provided to the CODM requires the use of professional judgment based on the facts and circumstances.

The ASU also introduces the concept of easily computable information because CODMs may be regularly provided with expense information in alternative forms, such as ratios or percentages. An entity must disclose segment expenses that are easily computable from the information regularly provided to the CODM, included in segment profit or loss, and significant quantitatively and qualitatively. The examples in the table below illustrate the easily computable concept. However, the examples do not contemplate all possible forms of segment information regularly provided to the CODM. Entities must consider the substance of the specific information they regularly provide to their CODMs to determine whether any expenses are easily computable and thus subject to disclosure.

#### SEGMENT INFORMATION REGULARLY PROVIDED TO THE CODM

#### EASILY COMPUTABLE SEGMENT EXPENSES

- ▶ Revenues
- ▶ Gross margin

Cost of sales can be computed by subtracting gross margin from revenues.

- ▶ Revenues
- ▶ Advertising expenses as a percentage of revenues

Advertising expenses are easily computable from this information by multiplying the percentage provided by revenues.

- ▶ Revenues
- ▶ Warranty expenses as a percentage of revenues

Warranty expenses are easily computable from this information by multiplying the percentage provided by revenues.

### 3.2 Included in Reported Segment Profit or Loss

Once an entity has identified segment expenses regularly provided to the CODM or segment expenses that can be easily computed from the information regularly provided to the CODM, it must consider whether those expenses are included in the segment's profit or loss for each measure of profit or loss reported. For example, an entity that discloses gross margin as the measure of a segment's profit or loss would consider cost of sales as a potential significant segment expense if cost of sales is regularly provided to the CODM or easily computable from the information regularly provided to the CODM.



#### CORPORATE OVERHEAD ALLOCATIONS ARE NOT EXEMPT FROM THE SIGNIFICANT EXPENSE PRINCIPLE

Some entities allocate corporate overhead functions, such as information technology, human resources, and finance, to their segments. A CODM may be provided with segment expense information, such as allocated corporate overhead, that also is included in the segment's measure of profit or loss. The FASB clarified in BC46 of the ASU that corporate overhead is not exempt from the significant expense principle because treating it differently than other segment expenses would be contradictory to the principle. Although a CODM may not use allocated corporate overhead when assessing segment performance and allocating resources to segments, the entity must still determine whether allocated corporate overhead that is regularly provided to the CODM and included in a segment's profit or loss is quantitatively and qualitatively significant.



#### SEC STAFF INSIGHTS

ASC 280 does not require significant segment expenses to be calculated in accordance with U.S. GAAP. However, the SEC staff has stated that if significant segment expenses are not calculated in accordance with U.S. GAAP, entities should consider additional SEC disclosure requirements that may apply in such circumstances. For example, Regulation S-X 4-01(a) states, "*The information required with respect to any statement shall be furnished as a minimum requirement to which shall be added such further **material** information as is necessary to make the required statements, in the light of the circumstances under which they are made, not misleading.*" [Emphasis added.] Therefore, we believe entities that report a significant segment expense that is not calculated in accordance with U.S. GAAP should disclose that, as well as how the expense is calculated. Depending on the facts and circumstances, additional disclosures may be appropriate.






### 3.3 Significant Quantitatively and Qualitatively

After an entity has identified segment expenses that are regularly provided to the CODM (or that can be easily computed from the information regularly provided to the CODM) and included in the segment profit or loss, it must determine which expenses are significant quantitatively and qualitatively. The ASU does not provide quantitative thresholds or example qualitative factors to consider when identifying significant segment expenses.

ASC 280 uses the term "significant" in various respects, such as by requiring that entities disclose significant noncash items (other than depreciation, depletion, and amortization expense). Because ASC 280 uses the term, and the FASB was not aware of practice issues with applying it, the FASB<sup>1</sup> did not provide any additional guidance, other than by stating in BC57 of the ASU that entities must consider both quantitative and qualitative factors. The FASB also did not specify whether an entity must apply the significance threshold at the segment or consolidated level.

### BDO INSIGHTS – JUDGMENT IS REQUIRED TO IDENTIFY SIGNIFICANT SEGMENT EXPENSES

The ASU requires management to make judgments not previously required by ASC 280, particularly in determining which expenses are significant and therefore must be disclosed. While the ASU does not explicitly define the term “significant,” the FASB stated in BC19 that omitted segment information is significant if it would change financial statement users’ capital allocation decisions about an entity as a whole, even though an expense of a similar magnitude might not be considered significant if it were omitted from the consolidated financial statements. We believe entities also may consider several factors when identifying significant segment expenses for disclosure, including:

	Size relative to other expenses of the segment or expenses of other segments
	Importance of the expenses relative to the segment’s operating results and industry
	Events that may have caused or will cause specific expenses to grow significantly – for example, increase in maintenance and repairs expenses caused by unforeseen events such as fires
	Economic changes that may affect the expenses’ perceived importance by investors – for example, foreign currency devaluation in countries where entities have significant operations
	Footnote disclosures, management’s discussion and analysis (MD&A), annual reports, press releases, or articles highlighting specific expenses incurred by the entity – for example, commitments and contingencies disclosures in the Form 10-K

That list is not exhaustive; an entity must holistically evaluate the information regularly provided to the CODM. While no factor above is meant to be conclusive, we believe an entity should disclose quantitatively material segment expenses regularly provided to the CODM (or easily computable from information regularly provided to the CODM) and included in the segment profit or loss. Based on interactions with the SEC staff, we believe the staff may challenge nondisclosure of material segment expenses based on qualitative factors only. Identifying significant segment expenses requires the application of professional judgment based on the facts and circumstances.

### BDO INSIGHTS – SIGNIFICANCE OF EXPENSES VARIES FROM PERIOD TO PERIOD

If an entity determines that a specific segment expense is not significant in the current period, it should consider whether the expense will be significant in future periods. The FASB stated in BC82 of the ASU that if management determines that a previously significant segment expense is not significant in the current period but is expected to be of continuing significance, the entity should generally continue reporting that segment expense separately in the current period. Identifying significant segment expenses for disclosure requires the application of professional judgment based on the facts and circumstances.

## 4. OTHER SEGMENT ITEMS

After entities apply the significant expense principle (see Section 3), they must calculate other segment items as follows:



Other segment items may include:

- ▶ Segment expenses included in the segment's profit or loss but not regularly provided to the CODM
- ▶ Segment expenses included in the segment's profit or loss but not considered significant quantitatively and qualitatively
- ▶ Segment gains, losses, or other amounts included in the segment's profit or loss
- ▶ Segment expenses that an entity must disclose in accordance with ASC 280-10-50-22 and that are included in the segment's profit or loss but are not disclosed as significant segment expenses

Entities must disclose the following on an annual and interim basis for **each** reportable segment and for **each** measure of profit and loss:

- ▶ An amount and qualitative description of other segment items, regardless of whether significant segment expenses are disclosed.
- ▶ Expense information used by the CODM to manage operations if the entity does not disclose significant segment expenses—for example, when a CODM is not regularly provided with expense information for at least one of the entity's segments. That may be the case when the CODM is regularly provided with only budgeted or forecasted expense information for a reportable segment or the CODM uses consolidated expense information to manage operations. However, if an entity discloses significant segment expenses for a reportable segment, it is not required to disclose the expense information used by the CODM to manage that segment's operations.

The ASU does not provide specific guidance on the level of granularity required when describing other segment items, so entities must use judgment when determining the appropriate level of detail to describe such items.

Further, an expense may be significant for one reportable segment but not another. In that situation, an entity may separately report the nonsignificant expense for the reportable segment for which the expense is not significant or include it as part of other segment items for that reportable segment.

Finally, the ASU does not require an entity to reconcile other segment items to its consolidated income statement.



### OTHER SEGMENT ITEMS DISCLOSURE IS INCREMENTAL TO OTHER SEGMENT REPORTING DISCLOSURES

The requirement to disclose other segment items is incremental to the disclosure requirements in ASC 280-10-50-22. In other words, an entity must disclose an amount and qualitative description for other segment items, even though that amount may include expenses that must otherwise be disclosed.

For example, an entity may disclose net income as the segment's measure of profit or loss. Income tax expense is included in the segment's measure of profit or loss but might not be regularly provided to the CODM and therefore would not be subject to the significant expense principle. Thus, the entity must include income tax expense in the other segment items amount and disclose that other segment items include income tax expense. Also, in accordance with ASC 280-10-50-22, the entity must separately present income tax expense because the expense is included in the segment's measure of profit or loss.



## 5. OTHER DISCLOSURES

In addition to significant segment expenses (see Section 3) and other segment items (see Section 4), the ASU requires an entity to disclose the following new information:

OTHER DISCLOSURE	FREQUENCY
Title and position of the individual or name of the group or committee identified as the CODM	Annually
Explanation of how the CODM uses the reported measure(s) of segment profit or loss in assessing segment performance and deciding how to allocate resources	Annually
Significant changes from prior periods in segment expense measurement and allocation methods and any effect on the measure of segment profit or loss	In the interim and annual period of change
Changes in the method for allocating centrally incurred expenses such as corporate overhead and any effect on the measure of segment profit or loss	In the interim and annual period of change

Example 5-1 illustrates this concept.

### EXAMPLE 5-1 (ADAPTED FROM BC85 OF THE ASU): DISCLOSURE OF CHANGE IN EXPENSE ALLOCATION METHOD

#### FACTS

- ▶ ABC Co. is a public entity that manages its pension obligation at the corporate level.
- ▶ For purposes of reporting segment results to its CODM, in the current period, ABC allocates pension expense to its segments based on each segment's salary expense relative to consolidated salary expense.
- ▶ For purposes of reporting segment results to its CODM, in prior periods, ABC allocated pension expense to its segments based on cash payments made to the pension plan.

#### CONCLUSION AND ANALYSIS

In the current period, ABC changed the method it uses to allocate pension expense from allocating expense based on cash payments made to the pension plan to allocating expense based on each segment's salary expense relative to consolidated salary expense. Therefore, ASC 280-10-50-29(d) requires that ABC disclose that change in method.

## 6. MEASURES OF SEGMENT PROFIT OR LOSS

The ASU also allows (but does not require) an entity to disclose multiple measures of a segment's profit or loss **if** the CODM uses those measures to allocate resources and assess segment performance. However, at least one of the disclosed measures (or the single measure if only one is disclosed) must be the measure most consistent with U.S. GAAP measurement principles. ASC 280 previously limited entities to presenting one measure of segment of profit or loss – the measure most consistent with U.S. GAAP measurement principles. ASC 280 also continues to allow different measures of segment performance for different segments if the CODM evaluates different segments based on different measures of profit or loss.

An entity that discloses more than one measure of segment profit or loss in the current period must report the additional measure(s) for the prior periods in which the measure(s) were provided to the CODM. For example, if an entity presents gross profit as an additional measure of segment profit or loss for a reportable segment in the current period, it must disclose gross profit for that segment in prior periods if the CODM was provided with gross profit for that segment in those periods. The entity is not precluded from reporting gross profit for that specific segment if the CODM was not provided with the segment's gross profit in prior periods. However, the entity must comply with the disclosure requirements for significant segment expenses (see Section 3) and other segment items (see Section 4) in those prior periods, regardless of whether the measure was provided to the CODM in those prior periods.

Lastly, the ASU requires an entity to reconcile each measure of segment profit or loss to its consolidated profit or loss before tax (or net income if the entity allocates income tax expense to its reportable segments) annually and in interim periods.



## SEC STAFF INSIGHTS

As discussed above, the ASU allows (but does not require) additional measures of segment profit or loss within the financial statements if the CODM uses multiple measures of profit or loss to manage a segment. Because ASC 280 uses a management approach, the additional measures do not have to be consistent with the recognition and measurement principles of U.S. GAAP.

At the 2023 Conference, the SEC staff expressed its view that additional measures of segment performance not calculated in accordance with U.S. GAAP are not considered *expressly permitted* by U.S. GAAP (that is, the ASU does not specify what measures to present). As a result, such measures are subject to the SEC's rules on non-GAAP measures, which prohibit the inclusion of additional non-GAAP measures of segment performance in the financial statements. Despite that prohibition, the SEC staff later offered the following guidance for an entity that elects to disclose additional measures of segment performance that do not comply with U.S. GAAP:

- ▶ The entity must continue to disclose the measure of segment profit or loss that is most consistent with U.S. GAAP.
- ▶ Any measure of segment performance disclosed should be regularly reviewed by the CODM and used by the CODM to allocate resources and assess performance.
- ▶ Any additional measure of segment performance that is a non-GAAP financial measure must not be misleading and must comply with Regulation G, Item 10(e) of Regulation S-K, and the SEC staff's Compliance & Disclosure Interpretations, which include requirements to disclose:
  - A statement about why the non-GAAP measure is useful to investors
  - A reconciliation to the nearest U.S. GAAP measure.

The incremental disclosures about the usefulness of an additional non-GAAP measure of segment performance and the reconciliation to the nearest U.S. GAAP measure do not have to be included in the financial statements but must be included in the filing (for example, within MD&A). SEC rules generally prohibit entities from including in their financial statements cross-references to information or disclosures outside their financial statements unless specifically permitted or required. Accordingly, entities that make the incremental disclosures in MD&A to comply with the non-GAAP rules for additional measures of segment performance should not include cross-references to MD&A in their financial statements.

## 7. SINGLE REPORTABLE SEGMENT ENTITIES

Before the ASU's effective date, ASC 280 allowed single reporting segment entities to disclose only some entity-wide information. Because the objective of the ASU was to improve segment disclosures and address investor requests for additional information, ASC 280-10-55-15D explicitly requires that entities reporting a single segment provide all ASC 280 disclosures after the ASU's effective date, including both existing segment disclosures and those added by the ASU. The following table lists the incremental segment information that such entities must now disclose.

DISCLOSURE REQUIREMENT	FREQUENCY
General information:	Annual
▶ Factors used to identify reportable segments	
▶ Types of products and services from which the reportable segment derives its revenues	
▶ Title and position of the individual or name of the group or committee identified as the CODM (see Section 5)	

DISCLOSURE REQUIREMENT	FREQUENCY
Segment profit or loss measures(s) (see this section and Section 6).	Annual and interim
Segment total assets measure if provided to the CODM.	Annual and interim
<p>Information about segment assets and profit or loss if regularly provided to the CODM or included in the segment's assets and profit or loss regularly reviewed by the CODM:</p> <ul style="list-style-type: none"> <li>▶ Revenues from external customers</li> <li>▶ Inter-segment revenues</li> <li>▶ Interest revenue and expense – an entity with no or immaterial financial operations need not disclose interest information unless interest expense is a significant segment expense (see Section 3)</li> <li>▶ Significant segment expenses (see Section 3)</li> <li>▶ Other segment items and a description of their composition (see Section 4)</li> <li>▶ Depreciation, depletion, and amortization expense</li> <li>▶ Unusual items described in ASC 220-20-45-1</li> <li>▶ Equity in the net income of equity method investees</li> <li>▶ Income tax expense or benefit</li> <li>▶ Significant noncash items other than depreciation, depletion, and amortization expense</li> </ul>	Annual and interim
<p>The following if the specified amounts are included in the measure of segment assets reviewed by the CODM:</p> <ul style="list-style-type: none"> <li>▶ Total investment in equity method investees</li> <li>▶ Total expenditures for additions to long-lived assets</li> </ul> <p>If the CODM is not provided with segment asset information, an entity must disclose that and explain the reason for not providing such information.</p>	Annual and interim
Qualitative measurement disclosures about segment assets and profit or loss as required by ASC 280-10-50-29, including how the CODM uses each reported measure.	Annual
<p>Reconciliation of segment profit or loss to income before taxes and discontinued operations. An entity may reconcile segment profit or loss to consolidated net income if it allocates income taxes to segments.</p> <ul style="list-style-type: none"> <li>▶ The following reconciliations: <ul style="list-style-type: none"> <li>• Segment revenues to consolidated revenues</li> <li>• Segment assets to consolidated assets</li> <li>• Other significant items (excluding significant segment expenses and other segment items) to the corresponding consolidated amount</li> </ul> </li> </ul>	Annual and interim
<p>Entity-wide information (which was also required before the ASU) about the following:</p> <ul style="list-style-type: none"> <li>▶ Products and services</li> <li>▶ Geographic areas</li> <li>▶ Major customers</li> </ul>	Annual

**BDO INSIGHTS –DETERMINE ON WHAT BASIS THE CODM ASSESSES PERFORMANCE OR ALLOCATES RESOURCES**

Single reportable segment entities must make judgments when adopting the ASU. In addition to applying judgment in determining significant segment expenses, single reportable segment entities must evaluate whether the business activities of the single reportable segment differ from those of the consolidated entity. Specifically, entities must consider the guidance in ASC 280-10-50-4, which states that not every part of an entity is an operating segment or part of an operating segment. For example, some departments or corporate headquarters might not be part of the single operating segment. The graphic illustrates this concept.



When some business activities are not part of the single reportable segment’s business activities, the CODM may regularly assess the operating results and performance of the single reportable segment differently from how management assesses the consolidated entity’s performance. Alternatively, if the single reportable segment represents the entire consolidated entity, the CODM may regularly review the entity-wide operating results and performance. Determining how an entity manages its single reportable segment requires the application of professional judgment based on the facts and circumstances (see the SEC staff insights below).

After a single reportable segment entity has determined the basis on which the CODM assesses segment performance and allocates resources, it must identify the segment’s measure(s) of profit or loss.

Step 1: Determine on what basis the CODM assesses segment performance and allocates resources

Step 2: Determine the measures of segment profit or loss

**SEC STAFF INSIGHTS**

At the 2023 Conference and in later interactions, the SEC staff said it expects the measure of segment performance for an entity with a single reportable segment that is managed on a consolidated basis to be consolidated net income. That is because ASC 280 requires disclosure of the segment performance measure that is most consistent with U.S. GAAP. Additional measures of segment performance not calculated in accordance with U.S. GAAP for a single reportable segment entity are acceptable and subject to the requirements in Section 6.

In those interactions, the SEC staff also shared its views on other questions about single reportable segment entities:

**Question:** Would the SEC staff’s views about the measure of segment performance for an entity managed on a consolidated basis differ if the CODM was not the chief executive officer (CEO) or chief financial officer (CFO) that certify the Form 10-K and Form 10-Q filings?

**Answer:** The CEO and CFO certifications represent only one data point that indicates the certifying officers receive and review consolidated results. The SEC staff is unaware of circumstances in which a single segment entity is managed on a consolidated basis and the CODM is not regularly reviewing a consolidated U.S. GAAP measure of profit or loss, such as consolidated net income.

**Question:** Could there be circumstances in which the CODM manages a single operating segment entity on something other than a consolidated basis?

**Answer:** It depends. The SEC staff encourages entities to consider the guidance in ASC 280-10-55-15D, which explicitly addresses this question. Careful consideration of the facts and circumstances (including how budgets are prepared and resources are allocated) is required to determine what business activities constitute part of an operating segment and whether the entity is managed on a consolidated basis. For example, corporate headquarters or certain functional departments may not be part of the operating segment in certain cases. However, the SEC staff believes the mere exclusion of a corporate headquarters or certain functional department from the measure of segment performance would not be determinative as to whether the entity is managed on a consolidated basis.

By definition, a CODM allocates resources to and assesses the performance of a segment. Although the CODM of a reporting entity that operates in a single reportable segment does not allocate resources among segments, it still decides how to allocate the entity's resources. Depending on the entity's facts and circumstances, the CODM may use a measure that focuses more on assessing segment performance than allocating resources. While an entity is not precluded from disclosing that measure, it must comply with the SEC staff's guidance on the measure of segment profit or loss for a single reportable segment entity discussed in this section and Section 6.

Further, the FASB acknowledged that a single reportable segment entity's CODM may use measure(s) not reported in the entity's consolidated income statement to assess segment performance and allocate resources. For example, a CODM may regularly review both consolidated net income and earnings before interest, taxes, depreciation, and amortization which is not presented in the entity's consolidated income statement. Consistent with the requirements for an entity with multiple reportable segments, when the CODM of a single reportable segment entity uses multiple measures of segment profit or loss, at least one of the reported measures of segment profit or loss must be the measure most consistent with U.S. GAAP measurement principles.



#### DUPLICATING INFORMATION FROM THE PRIMARY FINANCIAL STATEMENTS IS NOT NECESSARY

When the CODM of a single operating segment entity uses a consolidated profit or loss measure presented in the entity's income statement to allocate resources and assess performance, the disclosures required by the significant expense principle and existing segment requirements could include information already presented in the primary financial statements. In such cases, an entity may choose to reference the primary financial statements in the segment footnote rather than duplicating information in the segment footnote. While duplication is not prohibited, the FASB said in BC32 of the ASU that it believes that duplicating the consolidated income statement in the segment footnote is unnecessary.

## 8. RECASTING PRIOR PERIOD SEGMENT INFORMATION

As amended by the ASU, unless it is impracticable to do so, ASC 280 requires entities to recast prior period segment information, including interim period information, when either:

- ▶ When the composition of reportable segments changes
- ▶ When significant segment expense categories change because of changes in the segment information regularly provided to the CODM.

For example, an entity may update the information regularly provided to the CODM to include research and development (R&D) expenses. If those expenses are included in the segment profit or loss and determined to be

significant quantitatively and qualitatively, unless it is impracticable to do so, the entity must recast its disclosure of significant expenses to include the expenses in the period in which the change occurs.

Entities that recast prior period segment information to conform to the current-year presentation must disclose that. If recasting prior period information is impracticable, entities must disclose segment information, including significant expense amounts and categories, under both the new and old bases of segmentation in the year in which the change occurs.

If the measurement of a segment's profit or loss changes because of changes in expense measurement or allocation methods, an entity is not required to recast prior period segment information, but it is preferable to do so. However, ASC 280 requires that entities disclose the nature of change in expense measurement or allocation methods.

## 9. INTERIM DISCLOSURE REQUIREMENTS

The ASU expands the disclosures required for interim periods. Entities must now provide in their interim financial statements most of the ASC 280 annual disclosures, as well as the new significant segment expenses and other segment items disclosures. After the ASU's effective date, the interim disclosure requirements are as shown in the table:

### INTERIM DISCLOSURE REQUIREMENTS

New interim segment reporting disclosures	<ul style="list-style-type: none"> <li>▶ Information about segment assets and profit or loss if regularly provided to the CODM or included in the segment's assets and profit or loss regularly reviewed by the CODM:               <ul style="list-style-type: none"> <li>• Interest revenue and expense – an entity with no or immaterial financial operations need not disclose interest information unless interest expense is a significant segment expense (see Section 3)</li> <li>• Significant segment expenses (see Section 3)</li> <li>• Other segment items (see Section 4)</li> <li>• Depreciation, depletion, and amortization expense</li> <li>• Unusual items, as described in ASC 220-20-45-1</li> <li>• Equity in the net income of equity method investees</li> <li>• Income tax expense or benefit</li> <li>• Significant noncash items other than depreciation, depletion, and amortization expense</li> </ul> </li> <li>▶ The following, if the specified amounts are included in the measure of segment assets reviewed by the CODM:               <ul style="list-style-type: none"> <li>• Total equity method investments</li> <li>• Total expenditures for additions to long-lived assets</li> </ul> </li> <li>▶ If the CODM is not provided with segment asset information, an entity must disclose that and explain the reason for not providing such information</li> <li>▶ A reconciliation of each measure of segment profit or loss disclosed to consolidated income before taxes and discontinued operations (or consolidated net income, if applicable).</li> </ul>
Existing interim segment reporting disclosures	<ul style="list-style-type: none"> <li>▶ Revenues from external customers</li> <li>▶ Intersegment revenues</li> <li>▶ Segment profit or loss</li> <li>▶ A description of differences from the last annual financial statements in the basis of segmentation or measurement of segment profit or loss</li> <li>▶ Reconciliation of segment profit or loss to income before taxes and discontinued operations. An entity may reconcile segment profit or loss to consolidated net income if it allocates income taxes to the segment for which the CODM reviews performance and allocates resources.</li> </ul>

## 10. EFFECTIVE DATE AND TRANSITION

The following table summarizes transition for the ASU:

ALL PUBLIC ENTITIES	
Effective date	Fiscal years beginning after December 15, 2023, and interim periods in fiscal years beginning after December 15, 2024.
Early adoption	Allowed. Entities that adopt early must adopt the ASU in its entirety.
Transition	Retrospective unless impracticable. For prior periods, entities must disclose segment expense categories and amounts based on the significant segment expense categories identified and disclosed in the period of adoption.

## 11. ILLUSTRATIVE EXAMPLES

### EXAMPLE 11-1 (ADAPTED FROM ASC 280-10-55-47 THROUGH 55-48): MULTISEGMENT ENTITY WITH MULTIPLE MEASURES OF SEGMENT PROFIT OR LOSS DISCLOSED

#### FACTS

- ▶ Diversified Co. is a public entity with multiple reportable segments: auto parts, motor vessels, software, electronics, and finance.
- ▶ Diversified chooses to disclose multiple measures of segment profit or loss.
- ▶ Diversified's CODM uses both segment gross profit and segment earnings from operations before interest and income taxes (EBIT) for all reportable segments except the finance segment.
- ▶ The CODM evaluates performance of the finance segment based on pretax profit or loss.

#### CONCLUSION AND ANALYSIS

Diversified discloses the information below to comply with the new and modified ASC 280 disclosures. Information in red boxes is newly required by the ASU.\*

- ▶ Title and position of the individual or name of the group or committee identified as the CODM (see Section 5). Diversified's CODM is the CEO.
- ▶ Explanation of how the CODM uses the reported measures of segment profit or loss in assessing segment performance and deciding how to allocate resources (see Section 5).  
For the auto parts, motor vessels, software, and electronics segments, the CODM uses both segment gross profit and segment EBIT to allocate resources (including employees, property, and financial or capital resources) for each segment predominantly in the annual budget and forecasting process. The CODM considers budget-to-actual variances on a monthly basis for both profit measures when making decisions about allocating capital and personnel to the segments. The CODM also uses segment gross profit for evaluating product pricing and segment EBIT to assess each segment's performance by comparing the results and return on assets of each segment with one another and in the compensation of specific employees.  
For the finance segment, the CODM uses segment pretax profit or loss to allocate resources (including employees and financial or capital resources) to that segment in the annual budget and forecasting process and uses that measure as a basis for evaluating lending terms for customer loans. The CODM also uses segment pretax profit or loss to assess the performance of the finance segment by monitoring the margin between interest revenue and interest expense.
- ▶ The table illustrates how Diversified could comply with new and modified disclosure requirements about segment revenue, measures of profit or loss, significant segment expenses, and other segment items. It does not illustrate comparative disclosures. Assume the amounts are actual amounts from management's reports regularly provided to the CODM.

	AUTO PARTS	MOTOR VESSELS	SOFTWARE	ELECTRONICS	FINANCE	TOTAL
External revenues	\$ 3,000	\$ 5,000	\$ 9,500	\$ 12,000	\$ 5,000 <sup>(a)</sup>	\$ 34,500
Intersegment revenues	—	—	3,000	1,500	—	4,500
	3,000	5,000	12,500	13,500	5,000	39,000
<b>Reconciliation of revenue</b>						
Other revenues						1,000 <sup>(b)</sup>
Elimination of intersegment revenues						(4,500)
Total consolidated revenues						\$ 35,500
Less: <sup>(c)</sup>						
Cost of revenue	1,700	3,100	2,000	6,800	—	
Segment gross profit	1,300	1,900	10,500	6,700	— <sup>(d)</sup>	\$ 20,400
Less: <sup>(c)</sup>						
R&D	—	—	3,300	—	—	
Nonmanufacturing payroll <sup>(e)</sup>	500	900	2,600	2,700	750	
Professional services	—	—	1,700	500	800	
Interest (finance segment)	—	—	—	—	3,000	
Other segment items <sup>(f)</sup>	700	1,130	2,300	1,600	(50)	
Segment profit or (loss)	100	(130)	600	1,900	500	\$ 2,970
<b>Reconciliation of segment profit (loss)</b>						
Other profit or loss						100 <sup>(b)</sup>
Interest income (expense), net (excluding finance segment)						1,125 <sup>(g)</sup>
Elimination of intersegment profits						(500)
Unallocated amounts:						
Litigation settlement received						500
Other corporate expenses						(750)
Adjustment to pension expense in consolidation						(250)
Income before income taxes						\$ 3,195
<b>Reconciliation of segment gross profit</b>						
Total segment gross profit						\$ 20,400
Segment operating expenses, net (excluding finance segment)						(17,930) <sup>(h)</sup>

Because Diversified discloses multiple measures of segment profit or loss, it must reconcile each measure to profit before income taxes (see Section 6); apply the significant segment expense principle to each measure of profit or loss (see Section 3); and disclose other segment items for each measure, as applicable (see Section 4). The footnotes to this example illustrate the qualitative disclosures required for the composition of other segment items and significant segment expenses.



Segment profit (finance segment)	500
Other profit or loss	100 <sup>(b)</sup>
Interest income (expense), net (excluding finance segment)	1,125 <sup>(g)</sup>
Elimination of intersegment profits	(500)
Unallocated amounts:	
Litigation settlement received	500
Other corporate expenses	(750)
Adjustment to pension expense in consolidation	(250)
Income before income taxes	<u>\$ 3,195</u>

- (a) External revenues for the finance segment relates to interest and noninterest income.
- (b) Revenue and profit or loss from segments below the quantitative thresholds are attributable to four operating segments of Diversified. Those segments include a small real estate business, electronics equipment rental business, software consulting practice, and warehouse leasing operation. None of those segments has ever met any of the quantitative thresholds for determining reportable segments.
- (c) The significant expense categories and amounts align with the segment-level information that is regularly provided to the CODM. Intersegment expenses are included in the amounts shown.
- (d) For the finance segment, the CODM uses only pretax profit or loss as the measure to allocate resources and assess segment performance. As a result, segment gross profit is not reported for the finance segment.
- (e) Nonmanufacturing payroll expense does not include amounts capitalized on the balance sheet or included in other expense categories.
- (f) Other segment items for each reportable segment include:
- ▶ Auto parts: maintenance and repairs, professional services, and some overhead expenses
  - ▶ Motor vessels: marketing, professional services, occupancy, and some overhead expenses
  - ▶ Software: depreciation and amortization, travel, office supplies, and some overhead expenses
  - ▶ Electronics: depreciation and amortization, marketing, occupancy, and some overhead expenses
  - ▶ Finance: depreciation and amortization, property tax, and some overhead expenses and other gains or losses.
- (g) Interest income (expense), net (excluding finance segment) of \$1,125 consists of (i) consolidated total interest revenue (excluding finance segment) of \$3,825 and (ii) consolidated total interest expense (excluding finance segment) of \$2,700.
- (h) Segment operating expenses, net (excluding finance segment) of \$17,930 includes R&D, nonmanufacturing payroll, and professional services expenses and other segment items for the auto parts, motor vessels, software, and electronics segments.

\* This example does not include the additional information required by Regulation G and Item 10(e) of Regulation S-K related to the additional measure of profit and loss (EBIT) that is voluntarily disclosed. That information is presumed to be provided elsewhere in the filing.

#### EXAMPLE 11-2 (ADAPTED FROM ASC 280-10-55-53 THROUGH 55-55): SINGLE REPORTABLE SEGMENT ENTITY FACTS

- ▶ ABC Co. is a public entity with a single reportable segment.
- ▶ Because ABC has one reportable segment, before adopting the ASU, it provided only the entity-wide disclosures required by ASC 280.

**CONCLUSION AND ANALYSIS**

ABC discloses the following to comply with ASC 280 disclosures upon adoption of the ASU\*:

- ▶ Description of the types of products and services from which the reportable segment derives its revenues (see ASC 280-10-50-21(b))

The software segment derives revenues from customers by providing access to cloud computing applications under software-as-a-service arrangements. The most popular cloud computing application is an enterprise resource planning application used primarily by customers to manage functions such as accounting, financial management, project management, and procurement. The service term for the software arrangements is variable, with the median term being approximately five years.

- ▶ Measure of segment profit or loss and assets (see ASC 280-10-50-29)

The accounting policies of the software segment are the same as those described in the summary of significant accounting policies.

The CODM assesses performance for the software segment and decides how to allocate resources based on consolidated net income as reported on the income statement.

The measure of segment assets is reported on the balance sheet as total consolidated assets.

- ▶ Explanation of how the CODM uses the reported measure of segment profit or loss (see ASC 280-10-50-29(f))

The CODM uses net income to evaluate income generated from segment assets (return on assets) in deciding whether to reinvest profits into the software segment or into other parts of the entity, such as for acquisitions or to pay dividends.

Net income is used to monitor budget versus actual results. The CODM also uses net income in competitive analysis by benchmarking to ABC's competitors. The competitive analysis and the monitoring of budgeted versus actual results are used in assessing the segment's performance and in establishing management's compensation.

- ▶ Intersegment revenues if regularly provided to the CODM or included in the segment's assets and profit or loss regularly reviewed by the CODM (see ASC 280-10-50-22)

ABC does not have intra-entity sales or transfers.

- ▶ Factors that management used to identify the public entity's reportable segments (see ASC 280-10-50-21(a))

ABC has one reportable segment: software. The software segment provides cloud computing services to customers under software-as-a-service arrangements. ABC derives revenue primarily in North America and manages the business activities on a consolidated basis. The technology used in the customer arrangements is based on a single software platform that is deployed to and implemented by customers in a similar manner.

- ▶ Title and position of the individual or name of the group or committee identified as the CODM (see ASC 280-10-50-21(c))

ABC's CODM is the senior executive committee that includes the chief operating officer, CFO, and CEO.

- ▶ The table illustrates how ABC could comply with the disclosure requirements about segment revenue, segment profit or loss, significant segment expenses, and other segment items. It does not illustrate comparative disclosures. Assume the amounts are actual amounts from management's reports regularly provided to the CODM.

	<b>SOFTWARE SEGMENT</b>
Revenue	\$ 81,800
Less:	
Employee expense	41,000
Contractor expense	15,000
Occupancy and equipment expense	8,400
Hosting and data center expense	1,500
Other professional services expense	750

Customer acquisition expense	800
Other segment items <sup>(a)</sup>	2,500
Depreciation and amortization expense	3,200
Interest expense	600
Income tax expense	<u>2,000</u>
Segment net income	<u>6,050</u>
<b>Reconciliation of profit or loss</b>	
Adjustments and reconciling items	<u>—</u>
Consolidated net income	<u>\$ 6,050</u>

(a) Other segment items included in segment net income include marketing expense, restructuring expense, foreign currency exchange gains and losses, and other overhead expense.

\* This example excludes the entity-wide disclosures required by ASC 280.

# Appendix A – BDO Blueprints

Publications in BDO's Blueprint series are available on the [BDO Center for Accounting Standards and Reporting Matters](#).



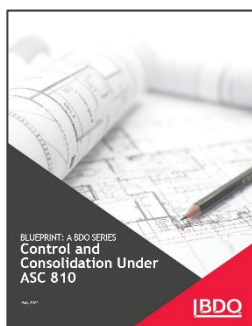
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## [Accounting for Business Combinations \(ASC 805\)](#)

This Blueprint, *Accounting for Business Combinations (ASC 805)*, guides professionals through the application of ASC 805 (issued June 2024).

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