SUMMARY
The FASB recently updated U.S. GAAP to require additional disclosures by public entities about certain expenses. More specifically, all public entities will begin disclosing new segment expense information in response to investor requests for additional details. The new requirements will result in incremental disclosures in annual and interim reports. They apply to fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. The new guidance must be applied retrospectively to all prior periods presented in the financial statements unless impracticable. Early adoption is permitted.

AFFECTED ENTITIES
All public entities, including those with a single reportable segment.

MAIN PROVISIONS
ASU 2023-07 ("the ASU") requires all public entities to disclose “significant segment expenses” and “other segment items” for each reportable segment. There is no requirement to reconcile the new information to the corresponding consolidated expense financial statement captions. In addition, all of the existing annual disclosures about a reportable segment’s profit or loss and assets will now be provided in interim periods too. See the appendix for an example.

The ASU also permits entities to disclose multiple measures of a segment’s profit or loss. However, at least one of the disclosed measures must be the measure most consistent with U.S. GAAP measurement principles. Entities must reconcile each measure of segment profit or loss to the consolidated income statement annually and on an interim basis. There are no other reconciliation requirements for interim financial statements.

ADDITIONAL MEASURES OF SEGMENT PROFIT OR LOSS
Entities can disclose multiple measures of segment profit or loss, but the chief operating decision maker (CODM) must use these measures to allocate resources and assess segment performance. Further, if the CODM regularly received these measures in prior periods, entities must disclose them for those periods. However, if the CODM did not receive the measures in prior periods, entities are not precluded from reporting them for those periods.
SIGNIFICANT EXPENSE PRINCIPLE

The new guidance introduces the significant expense principle, which requires public entities to disclose expenses for each reportable segment that meet all of the following criteria:

- Regularly provided to the CODM
- Included in reported segment profit or loss
- Determined to be significant based on qualitative and quantitative factors

The principle applies to allocated corporate overhead expenses and each reported measure of a segment’s profit or loss. Entities with financial operations segments that disclose net interest expense must disclose gross interest expense, if interest expense meets the significant expense principle criteria.

The ASU also introduces the concept of easily computable information. That is, the CODM may be regularly provided with expense information in alternative forms including ratios or percentages. For example, the CODM may be provided with segment revenue and segment gross margin. Cost of sales is easily computable from this information and therefore, entities must disclose cost of sales if considered significant. Entities should focus on the substance of the information regularly provided to the CODM rather than its form.

BDO INSIGHTS: JUDGMENT IS REQUIRED TO IDENTIFY SIGNIFICANT SEGMENT EXPENSES

The revised segment reporting guidance introduces new judgments for entities, particularly in determining which expenses are significant and therefore must be disclosed. The FASB did not explicitly define “significant.” However, in the Basis for Conclusions the FASB noted that omitted segment information that would change financial statement users’ capital allocation decisions is significant, even though an expense of a similar magnitude might not be considered significant if it were omitted from the financial statements. Entities may want to consider investor relations information when identifying significant segment expenses.

OTHER SEGMENT ITEMS

The ASU requires entities to disclose an amount and qualitative description of other segment items for each reportable segment. These items represent the difference between a segment’s profit or loss and segment revenues less significant segment expenses.

The new guidance requires disclosing other significant items, regardless of whether significant segment expenses are disclosed. Entities that do not disclose significant segment expenses must disclose the expense information used by the CODM to manage operations. For example, entities may disclose that the CODM is regularly provided with only budgeted or forecasted expense information for a reportable segment or that the CODM uses consolidated expense information.

OTHER DISCLOSURES

In addition to the significant segment expense information and other segment items, the ASU requires entities to disclose the following:

- Title and position of the CODM
- 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
- Significant changes from prior periods in expense measurement and allocation methods and their effect, if any, on the measure of segment profit or loss
- Changes in the method for allocating centrally incurred expenses and their effect, if any, on the measure of segment profit or loss

SINGLE REPORTABLE SEGMENT ENTITIES

Entities with a single reportable segment must disclose the measure(s) of profit or loss used by the CODM to allocate resources and assess performance. Such entities may distinguish the business activities of the single operating segment from those of the consolidated entity. For example, certain functional departments or corporate headquarters may not be part of the single operating segment. In those situations, the CODM may regularly review the operating results and performance of the single operating segment differently than how management assesses the consolidated entity’s
performance. Alternatively, if the single operating segment represents the entire consolidated entity, the CODM may
regularly review the entity-wide operating results and performance.

**Duplicating Information from the Primary Financial Statements**

When the CODM of a single operating segment entity uses a consolidated profit or loss measure presented on the
entity's income statement, the disclosures required by the significant expense principle and existing segment
requirements may result in duplicative information in the segment footnote. In such cases, an entity may choose to
reference the primary financial statements in the segment footnote. While duplication is not prohibited, the FASB
believes that duplicating the entire consolidated income statement in the segment footnote is unnecessary.

**Recasting of Prior Period Segment Information**

As amended by the ASU, ASC 280 requires entities to recast prior period segment information, including significant
segment expenses, in the following situations unless it is impracticable to do so:

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

If recasting prior period significant segment expenses is impracticable, entities must disclose both the new and old
significant segment expense categories.

If significant segment expense categories and amounts change due to changes in measurement methods, entities are
not required to recast prior period significant segment expenses, but it is preferable to do so.

**Effective Dates and Transition**

The following table summarizes transition for the ASU:

<table>
<thead>
<tr>
<th>ALL PUBLIC ENTITIES</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>EFFECTIVE DATE</strong></td>
</tr>
<tr>
<td><strong>EARLY ADOPTION</strong></td>
</tr>
<tr>
<td><strong>TRANSITION</strong></td>
</tr>
</tbody>
</table>

Link to the ASU

**Contact**

**ADAM BROWN**
Professional Practice Managing Principal, Accounting
abrown@bdo.com

**ILIYANA DALE**
Professional Practice Senior Manager, Accounting
idale@bdo.com
APPENDIX: EXAMPLE DISCLOSURE

The following example has been adapted from the ASU\(^1\) to illustrate how entities can report significant segment expenses and other segment items. This table omits a reconciliation of segment profit and loss to the entity’s consolidated totals for simplicity.

<table>
<thead>
<tr>
<th></th>
<th>AUTO PARTS</th>
<th>MOTOR VESSELS</th>
<th>SOFTWARE</th>
<th>ELECTRONICS</th>
<th>FINANCE</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>External revenues</td>
<td>$3,000</td>
<td>$5,000</td>
<td>$9,500</td>
<td>$12,000</td>
<td>$5,000</td>
<td>$34,500</td>
</tr>
<tr>
<td>Intersegment revenues</td>
<td>—</td>
<td>—</td>
<td>3,000</td>
<td>1,500</td>
<td>—</td>
<td>4,500</td>
</tr>
<tr>
<td>Reconciliation of revenue</td>
<td>3,000</td>
<td>5,000</td>
<td>12,500</td>
<td>13,500</td>
<td>5,000</td>
<td>39,000</td>
</tr>
<tr>
<td>Other revenues</td>
<td>1,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Elimination of intersegment revenues</td>
<td>(4,500)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total consolidated revenues</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$35,500</td>
</tr>
<tr>
<td>Less:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost of revenue</td>
<td>1,700</td>
<td>3,100</td>
<td>2,000</td>
<td>6,800</td>
<td>—</td>
<td></td>
</tr>
<tr>
<td>Segment gross profit</td>
<td>1,300</td>
<td>1,900</td>
<td>10,500</td>
<td>6,700</td>
<td>—</td>
<td>$20,400</td>
</tr>
<tr>
<td>Less:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Research and development</td>
<td>—</td>
<td>—</td>
<td>3,300</td>
<td>—</td>
<td>—</td>
<td></td>
</tr>
<tr>
<td>Nonmanufacturing payroll</td>
<td>500</td>
<td>900</td>
<td>2,600</td>
<td>2,700</td>
<td>750</td>
<td></td>
</tr>
<tr>
<td>Professional services</td>
<td>—</td>
<td>—</td>
<td>1,700</td>
<td>500</td>
<td>800</td>
<td></td>
</tr>
<tr>
<td>Interest (finance segment)</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>3,000</td>
<td></td>
</tr>
<tr>
<td>Other segment items (a)</td>
<td>700</td>
<td>1,130</td>
<td>2,300</td>
<td>1,600</td>
<td>(50)</td>
<td></td>
</tr>
<tr>
<td>Segment profit/(loss)</td>
<td>100</td>
<td>(130)</td>
<td>600</td>
<td>1,900</td>
<td>500</td>
<td>$2,970</td>
</tr>
</tbody>
</table>

(a) Other segment items for each reportable segment include:
- Auto parts—maintenance and repairs expense and certain overhead expenses
- Motor vessels—marketing expense, occupancy expense, and certain overhead expenses
- Software—depreciation and amortization expense, travel expense, office supplies expense, and certain overhead expenses
- Electronics—depreciation and amortization expense, marketing expense, occupancy expense, and certain overhead expenses
- Finance—depreciation and amortization expense, property tax expense, certain overhead expenses, and other gains or losses

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\(^1\) See ASC 280-10-55-48