

ASC Insights

FASB's Accounting Standard Update (ASU 2024-03)

Disaggregation of Income Statement Expenses
(Subtopic 220-40)



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Welcome to our “Uniquis’ ASC Insights: Guide to Accounting Standards”, where we combine our collective wisdom to understand various Accounting Standard Codifications (ASCs) comprehensively. This series is an invaluable tool for accounting professionals, offering detailed explanations, illustrative disclosure, and our expert point of view. Designed to support your professional journey, this guide helps you navigate required disclosure requirements and deepen your knowledge.

In this publication, we will dive deep into the requirements introduced by ASU 2024-03, focused on disaggregation of expense disclosures. By exploring its implications, key considerations, and practical applications, and by providing clear illustrations and expert commentary, we aim to make the standard accessible and actionable for practitioners.

We hope you enjoy reading this document and find it valuable!

Thank you.

Yours faithfully
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ASU 2024-03, Income Statement—Reporting Comprehensive Income—Expense Disaggregation Disclosures (Subtopic 220-40): Disaggregation of Income Statement Expenses (DISE), is intended to enhance the transparency and decision-usefulness of income statement information for public business entities (PBEs). It responds to investor requests for greater visibility into the components of commonly presented expense captions (such as cost of sales and selling, general, and administrative (SG&A) expenses) by requiring those captions to be disaggregated by nature in the notes to the financial statements.

The standard does not change how entities recognize or measure expenses under existing GAAP, nor does it require entities to alter the expense captions presented on the face of the income statement. Instead, it focuses on a more granular note disclosure framework that helps users assess expense drivers and trends and improve period-to-period and peer-to-peer comparability.

This publication provides an overview of the key disclosure requirements, scoping considerations, and implementation issues associated with ASU 2024-03, with a particular focus on how entities can design processes, systems, and controls to generate the required disaggregated expense information efficiently and reliably.

This publication builds on our **DISE Early Impressions** released in December 2024 and expands the discussion from ‘what the standard requires’ to ‘how to implement it’ for repeatable quarterly and annual reporting. In addition to the technical requirements, we include implementation guidance on inventory basis elections, disclosure build mechanics, sector-specific considerations, and SOX/controls readiness.





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ASU 2024-03 adds Subtopic 220-40, Expense Disaggregation Disclosures, to ASC 220, Income Statement—Reporting Comprehensive Income. The new Subtopic establishes a structured framework under which PBEs must disaggregate, in a tabular format in the notes, specific natural expense categories included within certain income statement line items (referred to as “relevant expense captions”) in accordance with the expense disaggregation disclosure requirements.

The main provisions of the new guidance include:

Date ASU 2024-03 becomes effective for PBEs

Identify relevant expense captions presented in continuing operations, exceptions and any applicable practical expedients, and confirm which required natural expense categories are present within each caption.

For captions that include inventory amounts within Topic 330, select an inventory disaggregation basis (cost-incurred or expense-incurred) and document the election and rationale.

Building DISE table: Disaggregation of relevant expense captions into each required natural expense category

Determine which topic-specific disclosure items must be presented as separate lines in the DISE tables and establish a monitoring process for items subject to the “single relevant expense caption” condition.

Define ‘selling expenses’ and establish a repeatable method to calculate the total selling expense amount each period.

Interim disclosure and subsequent changes to disclosures

Taken together, ASU 2024-03 represents a significant evolution in how entities communicate the composition of their operating expenses. While it does not alter recognition and measurement, it will often require new or enhanced data capture, mapping, and reporting processes to identify and aggregate expenses by nature across functions, systems, and legal entities/business units (as applicable), and to present them coherently within the new disclosure framework. This includes designing the DISE table build process, including (i) tie-outs to the income statement captions, and (ii) qualitative descriptions for “other items”, and establishing controls and change governance (including SOX/ICFR considerations where applicable) over mapping, preparation, review, and changes in elections/definitions (inventory basis, reimbursement presentation approach, selling expense definition).

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The flowchart below summarizes the DISE workflow described in this publication:

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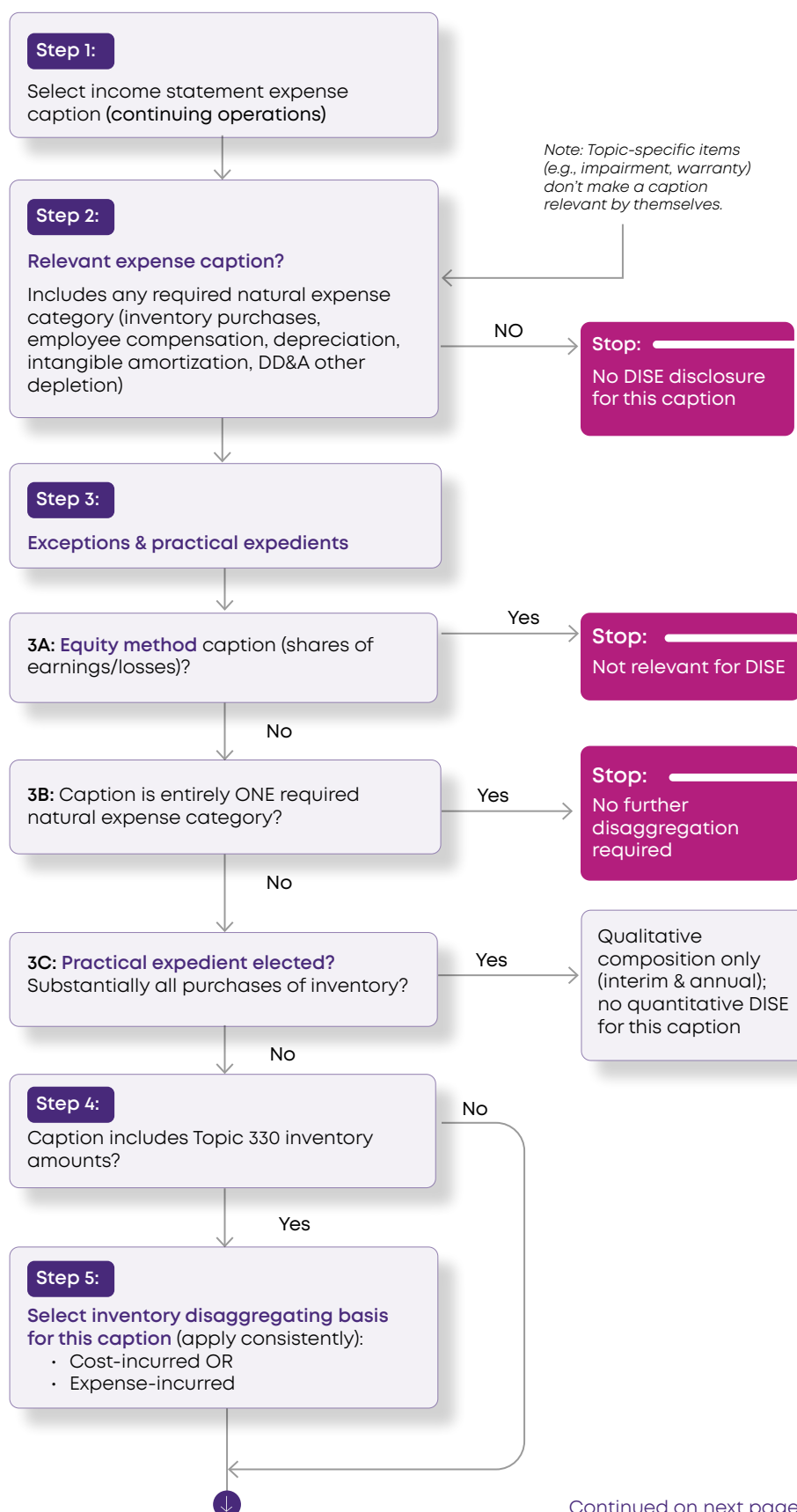
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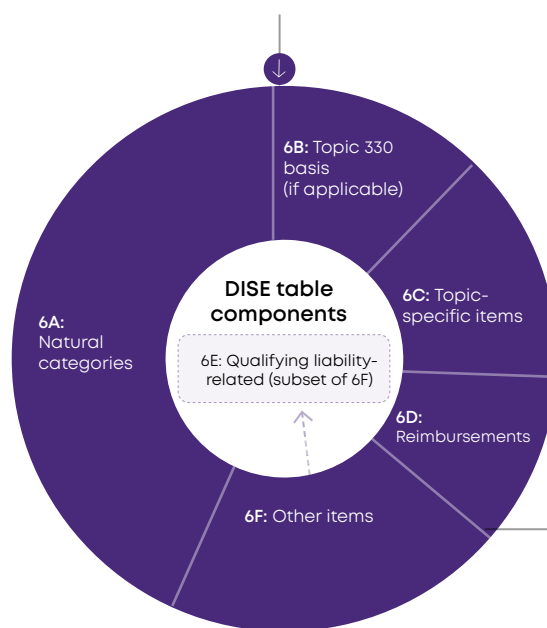
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DISE table (what the slices mean)

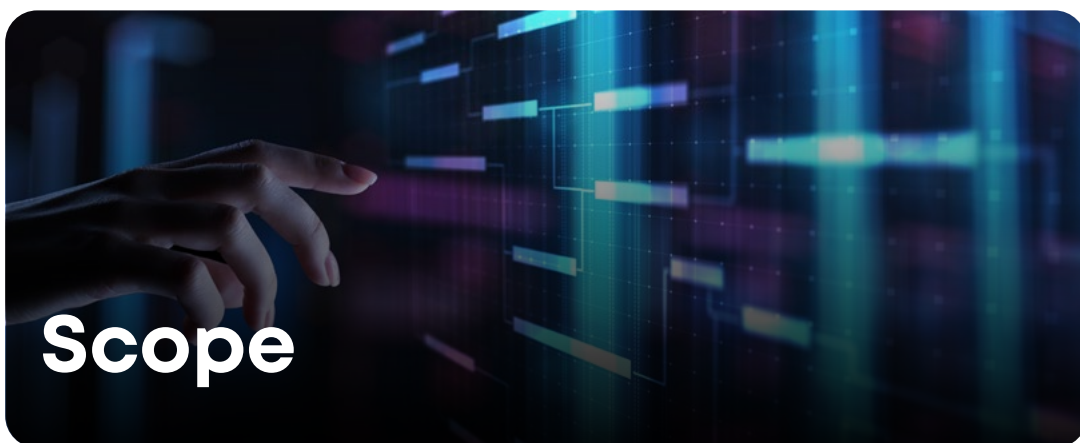
- **6A Natural categories:**
Purchases of inventory; employee compensation (termination benefits shown separately); depreciation; intangible amortization; DD&A/other depletion
- **6B Topic 330 basis (if applicable):**
 - Cost-incurred includes 'Changes in inventories' + 'Other adjustments & reconciling items' (with qualitative description);
 - expense-incurred: those lines not presented
- **6C Topic-specific items (ASC 220-40-50-21 / 50-22):**
 - Always disclose as a separate line item (50-21)
 - Disclose separately only if entirely within one relevant expense caption (50-22)
- **6D Reimbursements**
 - If caption is net of reimbursement received: Disclose reimbursement separately OR present categories Net (policy);
 - Reimbursements paid: separate line
- **6E Qualifying liability-related (subset of 6F):**
If criteria met, do not disaggregate into natural expense categories and include in "Other items" (e.g., contract loss provision; ARO)
- **6F Other items (reconciling):** Residual needed to tie the table to the income statement expense caption + qualitative description

Step 7: Totals reconcile → DISE complete for this caption

Step 8: Global disclosure (note level):

- Total selling expenses (interim & annual)
- Definition/composition of "selling expenses" (annual; also if changed in interim)

Note: After DISE has been completed for all relevant expense captions.



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Subtopic 220-40 applies to all PBEs; it does not provide transition relief for smaller reporting companies or emerging growth companies. The guidance also covers entities whose financial statements are included within another registrant's SEC filing. It currently does not apply to private companies, not-for-profit entities, or specified employee benefit plans. However, private companies that anticipate becoming PBEs should assess

the implications in advance, because once they are included in a registration statement, other SEC offering documents, or in separate financial statements filed or furnished in connection with an acquisition by an SEC registrant, those historical financial statements will need to comply with the Subtopic 220-40 disclosure requirement.

The disclosure requirements under DISE do not supersede or replace the disclosure requirements of Topic 280, Segment Reporting, even when an entity has only a single reportable segment. Segment disclosures continue to follow the management approach, whereas DISE requires disaggregation of income statement expenses by natural expense categories. In addition, DISE requires a separate disclosure of total selling expenses and the entity's definition of those expenses, which is based on how management groups and monitors selling costs and may be consistent with information reviewed by the CODM.

In addition, Subtopic 220-40 does not change existing disclosure requirements for specific expenses, gains, and losses under other codification topics; instead, it integrates those items into the DISE table when they are included in a relevant expense caption. Certain items must always be shown as separate line items in the DISE table, whereas others are only presented separately if the entire amount is recorded within a single relevant expense caption—otherwise they may remain within "other items", with the underlying Topic-specific disclosures still provided outside the DISE table.



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1. Date ASU 2024-03 Becomes Effective for PBEs

For public business entities, ASU 2024-03 is effective for annual reporting periods beginning after December 15, 2026, and for interim periods within fiscal years beginning after December 15, 2027. Early adoption is permitted. Entities apply the guidance prospectively unless they elect retrospective application for any or all prior periods presented. Under prospective adoption, comparative disclosures are not required for periods before adoption; comparative information will be added over time as additional post-adoption periods are presented. If achieving the required level of detail would be impracticable, the guidance permits the use of estimates or other methods that reasonably approximate the required amounts.

Most entities will start with prospective adoption, given data availability. If retrospective application is elected, an entity may provide the disclosures for some (but not necessarily all) comparative periods for which it has the information; any comparative period presented retrospectively should reflect the full set of required disclosures.

2. Identifying Relevant Expense Captions; Exceptions, and Applicable Practical Expedients (Steps 1-3)

A **relevant expense caption** is a line item presented on the face of the income statement in continuing operations that includes at least one of the required natural expense categories (i.e., purchases of inventory; employee compensation; depreciation, intangible asset amortization; depreciation, depletion and amortization (DD&A) (or other depletion expense)). Determination of a relevant expense caption is driven not by the name of the expense caption as it appears on the face of the income statement, but by what is contained within that expense caption line item, in other words, the substance of the expenses.

Cost of sales, SG&A, and R&D are generally expected to be relevant expense captions when presented, because they typically include at least one natural expense (this could be employee compensation or depreciation).

Additional Considerations
Related to Costs/Expenses
Contained in the Relevant
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01 Lease-Related Expense
Items

If an expense caption includes amortization of ROU asset for a finance lease or amortization of leasehold improvements, these amortization amounts fall within the natural category of “depreciation” or “intangible asset amortization” and, as such, inclusion of this expense would make the caption a **relevant expense caption** and is subject to disaggregation under DISE.

In addition, existing required specific disclosures under ASC 842 are incorporated into the DISE table disclosure as separate items; this includes operating lease cost, variable lease cost, short-term lease cost, as well as net gain (loss) on sale and leaseback arrangements to the extent those amounts are included entirely within a single relevant expense caption. In contrast, inclusion of these lease-related expenses/costs does not, by itself, make a caption relevant; relevance is driven only by whether the caption includes a required natural expense category.

02 Other Codification
Topics

As stated previously, inclusion of a disclosure specifically required by other codification topics does not by itself cause an expense caption to become a **relevant expense caption**. However, when a relevant expense caption includes the specific disclosures covered by other codification topics, then those disclosures are embedded in the DISE table to make the disclosure table more decision-useful by reducing the amount that goes to “other items”.

03 Asset-Related
Expenses

Other than costs capitalized to inventory, entities are not required to further disaggregate the amounts capitalized to an asset even if they relate to one of the natural expense categories (i.e., employee compensation). When depreciation on an asset is recorded in the income statement, the DISE table reflects the natural expense category for that depreciation, based on its nature at the time it is recognized in the income statement. Entities are not required to “look through” the depreciation/ amortization to separately identify the underlying capital inputs (other than capitalization to inventory).



Required Natural Expense Categories

After identifying relevant expense captions, DISE requires those captions to be disaggregated into **five required natural expense categories** (i.e., common cost types intended to be comparable across entities):

01

Purchases of Inventory

This category includes the costs of acquiring raw materials and other externally purchased inputs within the scope of Topic 330 or relevant Subtopics that provide industry-specific guidance, such as Subtopic 932-330 (oil and gas). This is narrower than inventoriable costs, which may also include labor, overhead, depreciation, etc.

04

Intangible Asset Amortization

This category includes amounts that are classified as amortization consistent with amounts recorded under Subtopic 350-30 (not all items labeled “amortization” in practice are included in this category).

05

DD&A / Depletion

This category includes depreciation, depletion, and amortization of capitalized acquisition, exploration, and development costs recognized as part of oil-and-gas-producing activities plus other depletion expense (i.e., recognized by industries other than the oil-and-gas industry under Topic 930 Extractive Industries – Mining).

02

Employee Compensation

This category includes compensation (i.e., consideration granted or issued to employees in exchange for services such as cash compensation, share-based payments, and employee benefits) for full-time, part-time, temporary, and seasonal employees. This includes common elements such as wages/bonuses, payroll-type taxes, benefits, and share-based compensation, for individuals meeting the guidance’s “employee” concept.

03

Depreciation

This category includes amounts that are classified as depreciation, consistent with amounts recorded for long-lived assets under Topic 360.



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Exceptions: Items that are **not** Considered Relevant Expense Captions Under ASU 2024-03

Below are some of the exceptions to the relevant expense caption:

01

Discontinued Operations

As the assessment focuses on expense captions presented on the face of the income statement in continuing operations, any expense caption that forms part of discontinued operations is excluded from this analysis. Disclosure requirements pertaining to discontinued operations continue to be addressed under Topic 205-20 instead of DISE.

02

Equity Method Caption

Equity pick-up (gain/loss) from equity method investment is not a relevant expense caption. Entity is not required to further disaggregate summarized results-of-operations information for equity method investees for DISE table disclosures, and as such, this caption is excluded.

03

Qualifying Liability-Related Expenses

If the criteria for qualifying liability-related expense (as discussed below) are met (i.e., obligations with uncertain settlement times and future expenditure estimates rather than routine accruals), then the entity is not required to disaggregate the required natural expense categories for certain liability-driven expense amounts. As such, the amounts linked to these remain within the residual “other items” for that particular relevant expense caption that contains these qualifying liability-related expenses. For example, asset retirement obligations. However, if the item that meets the qualifying liability-related expense criteria is required for disclosure under other codification Topics/Subtopics, it may still need to be disclosed in the DISE table.

04

Pure Caption Exception

A relevant expense caption that consists entirely of one required natural category (e.g., a standalone Depreciation line that is only depreciation) is not subject to further DISE disaggregation (i.e., no incremental note breakdown for that caption). However, if the caption includes more than one required natural expense category (for example, depreciation and intangible asset amortization), the entity would separately present those categories in the DISE table.

Implementing the disaggregation disclosure requires entities to gather granular data on items, which can be complex, especially if the existing accounting systems and processes do not capture expenses at the required level of natural detail.



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Practical Expedient Available

01 Substantially all (Purchases of Inventory)

If a **relevant expense caption** is comprised of substantially all of the purchases of inventory, then the entity can elect this practical expedient and avoid disaggregation of this relevant expense caption in the DISE table. However, entities are still required to provide a qualitative description (both interim/annual) of what is contained within this caption. This practical expedient is limited to the relevant expense caption, which includes only inventory purchase amounts, and does not extend to inventoriable costs, e.g., labor and depreciation.

‘Substantially all’ is typically interpreted in practice as approximately a 90% threshold under US GAAP.



02 Bank Practical Expedient

Banking entities presenting “salaries and employee benefits” (or similarly described caption) under SEC Regulations S-X Rule 9-04 can use that as a practical expedient for the **employee compensation** category, rather than applying DISE’s detailed employee-compensation definition and disaggregating the caption further.



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3. Accounting Policy for Disaggregation of Inventory Amounts within Relevant Expense Captions (Step 4 / Step 5)

Subtopic 220-40 includes specific requirements for disaggregating amounts capitalized to inventory within Topic 330. This is different from most other asset-capitalized costs, which generally do not require a “look-through” to the underlying cost nature for DISE purposes.

Conceptually, each required natural expense category within the relevant caption captures costs incurred in the period that are either (1) capitalized into inventory or (2) expensed in the period, whether inventory-related or not. In practice, that means:

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- a. purchases of inventory reflect external inventory purchases incurred in the period that are either capitalized or expensed;
- b. employee compensation reflects inventoriable labor capitalized to inventory and employee-related amounts expensed in the period (including inventory-related amounts that are expensed rather than capitalized);
- c. depreciation and intangible asset amortization similarly reflect inventoriable amounts capitalized to inventory and related amounts expensed in the period;
- d. amounts not captured in a required natural category (or that are separately required/presented under other guidance) typically remain in the “other items” category within the DISE table, with an accompanying qualitative description.

When a relevant expense caption (most commonly cost of sales/cost of services) includes amounts within the scope of ASC 330, an entity selects an inventory disaggregation basis for that caption and applies it consistently to all inventory amounts within the caption.



The two approaches are commonly described as the cost-incurred and expense-incurred bases. The election is applied consistently within each relevant expense caption:

1 Cost Incurred Basis

The disclosure is anchored to inventory-related costs incurred in the current period (including amounts capitalized into inventory), and the presentation in the DISE table commonly includes reconciling lines that bridge the inventory-related categories to the income statement caption total (for example, “changes in inventory” and “other reconciling items”). Costs incurred tend to be easier when natural-category detail is available for current-period activity, but become harder when reconciling items (including inventory changes and variances) are significant.

Under the cost incurred basis, the disclosed amounts reflect current-period cost activity:

- a. costs incurred in the current period that are capitalized to inventory under Topic 330, and
- b. costs incurred in the current period that are directly expensed (including costs that could have been capitalized under Topic 330 but were expensed)

Because “costs incurred” in a period generally will not equal the “expense recognized” in the caption for the same period, this basis requires additional lines to reconcile to the income statement caption total:

- a. changes in inventories: This line is intended to bridge the period’s incurred cost activity to the expense recognized by reflecting the change in inventory balance from the beginning of the period to the end of the period (a balance sheet–derived amount), and
- b. other adjustments and reconciling items (with a qualitative description of the nature of amounts included): This line captures reconciling effects that impact inventory balances or the reconciliation but do not represent current-period costs that should be classified into the required natural categories. For example, foreign currency translation effects related to inventory balances/ costs when translation adjustments are recorded outside earnings.

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2 Expense Incurred Basis

The disclosure is anchored to the inventory costs recognized in the income statement in the period and disaggregates those amounts based on the original nature of costs before capitalization (for example, purchases of inventory, employee compensation, depreciation). This approach may require maintaining visibility into the original natural classification of the expenses across periods until inventory is derecognized.

Under the expense-incurred basis, the disclosed amounts are anchored to what is recognized in the income statement during the period:

- a. expense amounts related to derecognition of inventory previously capitalized under Topic 330, classified based on the natural category of the costs when initially incurred, and
- b. costs incurred in the current period that are directly expensed (including costs that could have been capitalized under Topic 330 but were expensed).

Because this basis is tied to expense recognized, changes in inventories and other adjustments and reconciling items are not required.

This basis requires the entity to retain (or reasonably reconstruct) the original natural classification of inventory costs until derecognition. That can be more challenging when cost flow assumptions or operational practices cause the caption to include older inventory layers or when costing relies heavily on allocations and periodic re-costing (for example, long holding periods or layer liquidations).

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- Practical considerations in selecting a basis include whether systems and processes retain the original natural classification of costs after capitalization, the length of time inventory remains on hand (turnover), and the cost flow and costing methods used (for example, standard costing and variances).
- The cost-incurred basis typically requires more governance around the two reconciliation lines, including consistent rules for what is presented in changes in inventories versus other adjustments and reconciling items, and clear qualitative explanations of the reconciling items. These reconciling items are a feature of applying the cost-incurred model and should be supported by clear mapping and a concise qualitative description.
- Nonroutine inventory inflows/outflows (for example, acquisitions, formations/initial consolidations, disposals/deconsolidations, and certain translation effects) should be identified early because they can significantly affect the “other items” and/or reconciliation lines under the elected basis.
- If detailed tracking is not feasible, the guidance permits estimates or other approaches to provide a reasonable approximation of the required amounts; the methodology, assumptions, and controls should be documented and applied consistently.

4. Building DISE Table: Disaggregation of Relevant Expense Captions into Each Required Natural Expense Category (Step 6, Step 7)

This section discusses how to build the tabular disclosure for each relevant expense caption, including (1) required natural expense categories, (2) inventory mechanics under Topic 330, (3) integration of specified disclosure items from other Topics/Subtopics, (4) “other items” and qualitative descriptions, (5) expense reimbursements, and (6) qualifying liability-related expenses.

DISE disclosures are subject to the general materiality guidance in ASC 105. As a practical matter, entities do not need to disaggregate immaterial amounts in a way that obscures useful information, and if an item is not required to be disclosed under other GAAP because it is immaterial, it likewise would not be required to be separately presented as an integrated item in the DISE table.

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Step 6A:

Natural Expense Categories (What Goes in Each Line and Common Judgment Points)



1. Purchases of Inventory:

This category is limited to external purchases of tangible items (raw materials, supplies, work-in-progress, finished goods) within Topic 330 and relevant industry guidance (as applicable). It generally excludes inventory recognized from nonrecurring transactions (for example, business combinations, joint venture formations, and initial variable-interest-entity consolidations) and may require special consideration for intercompany activity (i.e., looking through intercompany movements and eliminating internal margins). Purchases of inventory do not include all inventoriable costs (for example, labor and overhead) even if those costs are capitalized to inventory; those cost types are captured through other required natural categories when inventory mechanics apply. Nonroutine inventory inflows (for example, inventory recognized in an acquisition or certain formation/initial consolidation events) are typically not treated as purchases of inventory for DISE purposes and may end up in “other items” or “other adjustments and reconciling items” depending on the inventory basis used.

In addition, entities may take a **broader view** (including not only the price paid net of discounts but also direct external acquisition costs such as inbound shipping, tariffs, and taxes) or a **narrower view** (price paid net of discounts only, with other acquisition-related costs left in “other items”). Either approach can be acceptable if consistently applied and disclosed when material.

As noted previously, if substantially all of an income statement caption represents purchases of inventory, the caption does not need to be disaggregated; instead, a qualitative description of the caption’s composition is provided in both interim and annual periods. As stated previously, “substantially all” is generally understood in practice to be around 90%, and the relief is limited to purchases of inventory (not broadly to inventoriable costs).



2. Employee Compensation:

Employee compensation is intended to capture the major forms of consideration provided to employees in exchange for services.

“Employee” DISE uses an employee concept aligned to the definition of employee in Topic 718 (i.e., generally grounded in a common-law “employment” relationship concept) and includes full-time, part-time, temporary, and seasonal employees. Individuals commonly referred to as employees may not meet the definition, including employee leasing arrangements (which can require analyzing whether the employee leasing criteria are met), co-employment models (such as PEO arrangements), and individuals providing services in multiple capacities; however, for non-employee directors, service in the elected director capacity is treated as an employee for this purpose, while services rendered in a separate nonelected capacity are not.

“Employee compensation”: Employee compensation is defined broadly to capture common significant forms of consideration provided to employees in exchange for services or for termination of employment, including cash compensation and non-cash consideration (e.g., share-based compensation), medical care benefits, pension benefits, postretirement benefits, and non-retirement postemployment benefits. Non-employee labor (for example, subcontractors and external consultants) is not included in employee compensation and is instead reflected in “other items” or presented separately if helpful.

Each major type of cost associated with exit or disposal activity (e.g., one-time employee termination benefits) within the scope of Topic 420 are disclosed separately in the DISE table when applicable. Because those costs are a form of employee compensation (but represent exit or disposal activities).

An entity may elect to include certain additional employee-related items (for example, subsidized goods or services provided for the benefit of employees) within ‘Employee compensation’; if elected, the inclusion is applied consistently.



3. Depreciation:

Depreciation reflects amounts classified as depreciation consistent with Topic 360 and should be applied consistently with how the entity determines and discloses total depreciation. As discussed previously, DISE generally does not require “looking through” depreciation to separately identify the underlying capitalized inputs (other than the inventory-specific mechanics described in Topic 330). Additionally, finance lease ROU asset amortization and leasehold improvement amortization are treated as a subset of depreciation or intangible amortization for DISE purposes; their presence can affect both relevance and classification.

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4. Intangible Asset Amortization:

Intangible asset amortization includes amounts recorded for assets capitalized under Subtopic 350-30 and excludes amortization of assets outside that scope. The guidance gives examples of other “amortization” types that are not part of this required category (for example, certain contract cost amortization, certain hosting implementation cost amortization, debt issue costs, program material/film costs). Some of those excluded amortization types may nevertheless be required to be shown as separate lines in the DISE table under the topic-specific integration lists when the conditions are met; otherwise, they typically remain in “other items”. The guidance notes that internal-use software classification was not separately addressed for DISE; the expectation is that the related amortization is included in either depreciation or intangible asset amortization, consistent with balance sheet presentation and existing disclosure practice.



5. DD&A and other Depletion:

DD&A includes depreciation, depletion, and amortization for oil-and-gas producing activities, and the category also captures other depletion expenses outside the oil and gas industry (for example, mining).

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Step 6B:

Topic 330 Basis and Inventory-Specific Mechanics

Inventoriable costs under Topic 330 represent the direct and indirect expenditures to bring inventory to its existing condition and location and typically include multiple natural expense types (purchases of inventory, employee compensation, depreciation/amortization, and others). DISE mechanics are designed so that, when the inventory basis applies, inventoriable labor and inventoriable depreciation can be reflected in the employee compensation and depreciation lines (rather than being buried within purchases of inventory).

As discussed previously, when a relevant expense caption contains inventory amounts, the caption is disaggregated on either a cost-incurred basis or an expense-incurred basis:

- a** Cost-incurred basis: The disclosure reflects (a) current-period costs capitalized to inventory and (b) current-period costs expensed, classified into the required natural categories. Two additional lines are included to reconcile the table to the expense caption total: “changes in inventories” and “other adjustments and reconciling items” (with a qualitative description). Practically, the “other adjustments and reconciling items” line is often where entities capture inventory balance movements that do not correspond to expense in the caption (for example, inventory derecognized in certain disposals/deconsolidation, and certain translation effects recorded outside earnings). Those items should not be combined into “other items” because their purpose is to reconcile the inventory rollforward logic under the cost-incurred model. These two reconciliation lines apply only under the cost-incurred basis.

- b** Expense-incurred basis: The expense-incurred basis is anchored to expense recognized in the income statement and requires classifying the derecognized inventory back to the original nature of costs when incurred. The ability to do this depends on cost flow assumptions and operational practices; older layer derecognition and standard costing/variance models can make the original nature difficult to identify without estimates.

Step 6C:

Integration of Specified Items From other Topics/Subtopics (Disclosures that Get Pulled Into the DISE Table)

DISE includes a “tabular integration” concept to pull certain existing GAAP-required disclosure items into the same table, with the intent of making the table more decision-useful (including by reducing what is left in “other items”).

There are two lists:

- a** Items for which GAAP already requires disclosure of both the amount and the income statement line item(s) in which the amount is included: these items are included in the DISE table for each relevant expense caption in which they are recognized. Examples may include one-time employee termination benefits, contract termination costs, bargain purchase gain, gain/(loss) on derivative instruments, and impairment loss related to intangible assets.
- b** Items for which GAAP requires disclosure of the amount but does not require disclosure of the income statement line item(s) that include the amount: these items are included in the DISE table only when the entire amount is recorded in a **single** relevant expense caption. Examples may include provision for expected credit losses, operating lease cost, amortization/impairment of cost to fulfill contract with customer, but only when the “single relevant expense caption” condition is met. If the amount is spread across multiple captions, DISE does not require duplicating it across those caption tables. For example, if warranty expense is recorded entirely in cost of products sold, it is shown as a separate line in that caption’s DISE table; If operating lease cost spans multiple relevant captions, separate presentation in each relevant expense caption table is not required, and the amounts can remain in “other items”.

Step 6D:

Expense Reimbursements (Received and Paid)

DISE includes specific disclosure mechanics for certain reimbursements arising in cost-sharing or cost-reimbursement type arrangements. The terms cost-sharing and cost-reimbursement are not defined, so judgment is required. It is generally not intended for traditional customer-vendor arrangements (though facts matter, such as cost-plus structures). Examples of such arrangements that may require assessment include funded R&D cost-sharing and management fees.

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Reimbursements received (recorded net in a relevant expense caption):

If a relevant expense caption is presented net of an expense reimbursement received (or due) from another entity, the entity uses one of two approaches in the DISE table:

- a. Gross, i.e., separately show the reimbursement amount as its own line, or
- b. Net, i.e., present the required natural expense categories net of the reimbursement effects (for example, show employee compensation net of an employee-compensation reimbursement).

The selected approach is applied consistently, and the entity discloses how reimbursements are presented in both interim and annual periods. If the reimbursement is shown as a separate line, a qualitative description explains which expense categories the reimbursement relates to.

Reimbursements paid (included in a relevant expense caption):

Reimbursements paid (or due) to another entity that are included in a relevant expense caption are presented separately in the DISE table. A qualitative description of the natural expense categories to which the reimbursement relates is required. A key consideration is that reimbursements paid cannot be combined into required natural categories even if the reimbursement relates to a single type of cost (for example, reimbursement of a third party’s employee compensation). Instead, it is shown separately with a description of the related expense nature.

Step 6E:

Qualifying Liability-Related Expenses

DISE includes an exception for certain liability-driven expenses where disaggregating the amount into the required natural categories is not required when the obligation:

- a will be settled in the future, and there is uncertainty about the timing of settlement.
- b is based on an estimate of a future expenditure, and
- c is not entirely one required natural expense category.

When all of the stated criteria are met, the amount is generally left in “other items” (with an appropriate qualitative description) within the relevant expense caption table. Other GAAP disclosure requirements for the underlying obligation continue to apply even if the amount is not disaggregated into the required natural categories.

Importantly, this exception is not intended to exclude routine accruals for ongoing and recurring activities (for example, accruals for goods/services received but not yet invoiced/paid, or employee-related accruals such as bonuses, vacation pay, or pension obligations).

Step 6F:

Other Items, Qualitative Descriptions, and Reconciliation Lines

“Other items” For each relevant expense caption, the DISE table includes a residual other items amount. This is generally the difference between (a) the expense caption total on the face of the income statement and (b) the aggregate of amounts separately presented in the table (required natural categories, integrated specified items, and any separately presented reimbursements).

A qualitative description of the composition of “other items” is required for both interim and annual periods. In practice, the narrative should focus on the most significant components and scale with the size and volatility of the residual amount.

In a manufacturing example, “other cost of products sold” is described as consisting primarily of outbound freight (paid to carriers) and the measurement of a liability for an environmental obligation, and also includes inventory recognized in a business combination in one year; in an SG&A example, “other SG&A” is described as consisting primarily of professional services fees and certain third-party costs.

Entities may provide additional voluntary quantitative lines beyond what DISE requires, but any voluntary categories should be presented clearly and should not be combined with the required natural expense categories in a way that obscures comparability. For example, if operating lease cost spans multiple relevant expense captions, separate presentation as a line item in each caption’s DISE table is not required; the amounts remain within “other items” for each table (with the underlying lease disclosures still provided elsewhere); if an environmental obligation liability expense meets the qualifying liability-related expense criteria, it is not disaggregated into the required natural expense categories and instead remains within “other items” for the relevant expense captions.

- A common application challenge is mapping each relevant expense caption, i.e., linking each face caption to underlying natural costs across systems and allocation methods, especially when expense captions are aggregated functionally.
- Practical scoping issues commonly include deciding whether freight-in, tariffs, and similar acquisition-related costs follow the entity’s existing inventory cost policy and therefore are captured within purchases of inventory, as well as how vendor consideration recorded as a reduction of cost of sales is reflected in the DISE table.
- Separating employee compensation from non-employee labor when payroll, benefits, and contractor spend are blended in the same accounts or allocations, ensuring employee compensation does not inadvertently include non-employee labor, and deciding whether to voluntarily break out contractor costs.
- Designing a consistent approach for items that can be classified in more than one natural expense category, depending on existing policy (for example, certain lease-related amortization or software amortization), and aligning DISE classification with how total depreciation and amortization are tracked and disclosed.
- Creating a repeatable process to identify which items fall into the two specified lists and applying the “single caption only” condition for items subject to that requirement to avoid duplicate presentation across relevant expense captions.

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5. Disclosure Related to Selling Expenses (Step 8)

For interim and annual reporting periods, DISE requires an entity to disclose the total amount of selling expenses recognized in continuing operations. Because the standard does not prescribe a single definition of selling expenses, each entity establishes its own definition and applies it consistently.

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Selling Expenses: Inclusions

The definition must include only items presented as expenses in the income statement. For example, marketing/promotions, advertising, market research, business development, customer acquisition costs, including amortization of certain previously capitalized contract costs, and other selling-related activities based on the entity's facts and circumstances.



Selling Expenses: Exclusions

Capitalized contract costs are not included in selling expenses because they are not presented as expenses, although amortization of those capitalized amounts may qualify if within the entity's definition. Also, amounts presented as a reduction of revenue (for example, certain customer incentives treated as consideration payable to customers) are not included in selling expenses.



Defining Disclosure

In annual reporting periods, an entity also discloses how it defines selling expenses (for example, the types of costs included, and which income statement captions are considered part of selling expenses). Items that clearly fit within another defined expense category (for example, research and development) are not intended to be included in selling expenses.

If an entity changes its definition of selling expenses, it discloses that change in the interim period in which the change occurs and recasts prior period selling expense disclosures for comparability unless doing so is impracticable (and then explains why).



- Entities need to be mindful of drafting a selling expense definition that is specific enough to be decision-useful (what is in, what is out, and which captions are included), while avoiding overlap with defined expense categories such as R&D.
- Maintaining consistency may require governance when organizational or reporting changes (for example, new go-to-market motions, new channels, or reclassifications between SG&A and cost of sales) shift where selling costs are recorded, so that the selling expense definition remains applied consistently and any changes are identified and disclosed appropriately.



6. Interim Disclosures and Subsequent Changes to Disclosures

DISE tabular disclosures are provided for both annual and interim reporting periods, based on the expense captions presented in continuing operations for that period. This matters in practice because interim financial statements may be condensed and may present different (more aggregated) expense captions than the annual financial statement. Entities, therefore, reassess relevant expense captions for interim reporting based on the expense captions actually presented for the interim period.

DISE disclosures may change as a result of: changing an elected disclosure alternative (for example, changing the Topic 330 basis from cost-incurred to expense-incurred or vice versa for a caption that includes inventory amounts), or changing a definition used in the disclosures (for example, the definition of selling expenses). When those changes occur, the entity discloses the reason for the change in the interim and annual periods affected, and recasts prior periods presented for comparative purposes to reflect the current-period approach, unless impracticable (and then discloses that fact and explains why the recast is impracticable). These changes are treated as disclosures (not as changes in accounting principles).

Change in reimbursement presentation (received): If an entity shifts between showing reimbursements received as a separate line and netting them within the affected natural expense categories, this is treated as a change in display

of required disclosures, and the entity applies the recast/discard framework above.

A specific comparability exception applies when a change in facts and circumstances causes an item in the list that is only required to be separately presented when entirely within one relevant expense caption to shift between being entirely within a single relevant expense caption and being spread across multiple relevant expense captions. In those cases, the entity does not recast the comparative period to match the current-period requirement. Instead, the entity provides a comparability explanation consistent with the comparability disclosure guidance in ASC 205.



- Entities typically need a repeatable close process to populate the DISE table each interim period, including updating qualitative descriptions for “other items”, where applicable, and reimbursement descriptions.
- Entities need a process to monitor items that are only required to be separately presented when entirely within one relevant expense caption, and to prepare comparability explanations when those items shift across captions.
- Because changes in elections (for example, inventory disaggregation basis) or definitions (for example, selling expenses) can trigger reason-for-change disclosures and comparative recast requirements (unless impracticable), entities should establish governance and an approval process to manage those changes and avoid unintended recast effort.

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DISE will affect multiple sections of the annual and quarterly filings. Companies should conduct a holistic assessment of where DISE interacts with existing disclosure requirements across the entire filing.



Notes to Financial Statements

1. New tabular disclosure note presenting disaggregation of each relevant expense caption into natural expense categories, integrated specified items, and “other items”.
2. Qualitative descriptions of the composition of “other items” for each relevant expense caption.
3. Total selling expenses disclosure with management’s definition (annual only).
4. Disclosure of the inventory disaggregation basis elected (cost-incurred vs. expense-incurred).
5. For entities electing retrospective application, the comparative period DISE tables.



Segment Reporting Interaction

1. DISE does not supersede Topic 280 segment disclosures—segment disclosures follow the management approach, while DISE requires natural expense category disaggregation.
2. For single-segment entities, DISE effectively provides disaggregation that segment reporting does not.
3. Multi-segment entities may face questions about how DISE disclosures reconcile to segment-level expense disclosures—consider cross-references between notes.



MD&A Considerations

1. DISE tabular data will provide investors with granular cost information that may inform MD&A commentary—management should ensure consistency between DISE disclosures and MD&A discussion of cost trends.
2. Unusual items in “other items” or significant reconciling items should be addressed in MD&A if they are material to understanding operating results.
3. Changes in selling expense definitions or inventory basis elections should be explained in context.



Interim Reporting (10-Q)

1. DISE tabular disclosures are required for both annual and interim periods.
2. Interim captions may differ from annual captions (more aggregated), requiring reassessment of relevant expense captions each quarter.
3. Build a repeatable quarterly process to populate DISE tables, including updating qualitative descriptions for “other items”.
4. Changes in elections or definitions during the year trigger disclosure and comparative recast requirements.



XBRL/iXBRL Tagging

1. DISE disclosures will require new XBRL taxonomy elements for the tabular data and qualitative descriptions.
2. Entities should coordinate with their XBRL tagging providers early to ensure tags are available and properly mapped.
3. Budget for one-time retagging effort as part of the 2027 filing cycle.



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DISE implementation is not one-size-fits-all. Each industry faces distinct challenges depending on its cost structure, business model, and existing reporting practices. The following sector perspectives highlight the unique considerations for four key sectors.



1. Manufacturing

Manufacturing entities will experience some of the most complex DISE implementations due to deep inventory mechanics, multi-layered cost allocation systems, and the interplay between functional captions and natural expense categories.

Key Challenges

1. Complex inventory costing: Standard costing with purchase price variances, labor efficiency variances, and overhead absorption creates difficulty in mapping costs to natural categories.
2. Multi-site operations: Different plants may use different costing methodologies (standard, actual, weighted-average), requiring harmonized mapping rules.
3. Purchases of inventory vs. inventoriable costs: Distinguishing raw material purchases from labor and overhead capitalized to inventory requires clear system tagging.
4. Overhead allocation: Fixed and variable manufacturing overhead allocated to inventory includes depreciation, employee compensation, and utilities—all requiring disaggregation.

Practical Guidance

1. Evaluate the cost-incurred vs. expense-incurred basis in the context of inventory turnover cycles and the granularity of cost accounting data.
2. Map standard cost elements (material, labor, overhead) to DISE natural expense categories at the cost center/work center level.
3. Establish clear treatment rules for purchase price variances, freight-in, tariffs, and vendor consideration (rebates).
4. Design controls over the “changes in inventories” and “other adjustments and reconciliation items” lines under the cost-incurred basis.





2. SaaS / Technology

SaaS and technology companies typically present a cost structure dominated by employee compensation and intangible amortization, with limited physical inventory. DISE implementation focuses heavily on separating employee vs. non-employee labor costs and addressing capitalized software amortization.

Key Challenges

1. Employee vs. contractor spend: SaaS companies rely heavily on contractors, outsourced development teams, and PEO arrangements—separating employee compensation from non-employee labor is critical.
2. Capitalized software costs: Internal-use software amortization (ASC 350-40) must be classified as either depreciation or intangible asset amortization, consistent with balance sheet presentation.
3. Hosting and cloud costs: Certain implementation costs under ASC 350-40 are excluded from the intangible amortization natural expense category.
4. Stock-based compensation (“SBC”): SBC is a significant component of employee compensation in tech entities, and must ensure consistent capture across all functional captions.

Practical Guidance

1. Perform a complete mapping of the workforce: full-time employees, contractors, staff augmentation, PEO arrangements, and non-employee directors.
2. Align the DISE classification of capitalized software amortization with the current balance sheet and cash flow statement presentation.
3. Given that SaaS companies often have no inventory, the purchases of the inventory category may be zero; focus resources on employee compensation accuracy.
4. Evaluate whether R&D expense warrants additional voluntary disaggregation given investors’ interest in R&D investment composition.



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3. Semiconductor

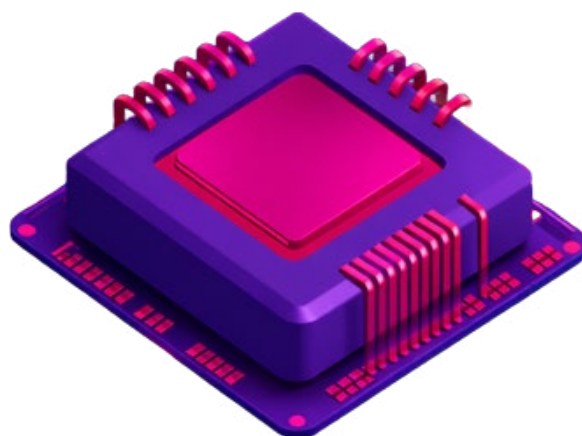
Semiconductor companies face unique DISE challenges arising from capital-intensive manufacturing (fabs), complex supply chain structures (fabless vs. integrated), long-lived asset bases, and significant intangible assets from acquisitions.

Key Challenges

1. Capital-intensive depreciation: Fab equipment depreciation is a dominant cost element—properly categorizing depreciation across cost of goods sold, R&D, and SG&A requires detailed asset-to-caption mapping.
2. Fabless vs. IDM models: In our view, Fabless companies purchasing wafers from foundries classify those purchases differently from integrated device manufacturers with in-house production.
3. Acquisition-related intangibles: Developed technology and customer relationship amortization are significant—classification between cost of sales and operating expenses requires careful mapping.
4. Inventory complexity: Semiconductor inventory often includes work-in-process across multiple production stages with long cycle times, complicating the cost-incurred basis.

Practical Guidance

1. Build a detailed asset register mapping that links each depreciation charge to the income statement caption where it is recorded.
2. For fabless companies, evaluate whether foundry payments constitute purchases of inventory or a contracted manufacturing service requiring different treatment.
3. Map acquisition-related intangible amortization to the correct DISE table for each relevant expense caption.
4. Consider the impact of inventory write-downs and excess/obsolete provisions on the DISE table presentation.



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4. Pharma & Life Sciences

Pharmaceutical and life sciences companies face DISE complexities driven by high R&D intensity, complex licensing arrangements, specialized manufacturing, and significant regulatory-driven cost structures.

Key Challenges

1. R&D disaggregation: R&D is a massive expense caption containing employee compensation, contractor costs, clinical trial expenses, depreciation on lab equipment, and amortization of acquired IP—DISE requires disaggregation of all natural expense categories within each relevant expense caption.
2. In-process R&D and milestone payments: Determining whether upfront and milestone payments to collaborators constitute employee compensation, purchases of inventory, or fall into “other items” requires careful analysis
3. Contract manufacturing: CMO/CDMO payments may include embedded employee compensation and depreciation that are difficult to disaggregate.
4. Selling expense definition: Pharma companies must carefully define selling expenses to include sales representative compensation, marketing, and medical affairs costs while excluding R&D field activities.

Practical Guidance

1. Map clinical trial costs to natural expense categories: CRO fees typically fall in “other items”, while internal clinical staff is employee compensation.
2. Establish clear policies for collaboration agreements—milestones, upfronts, and royalties require consistent classification.
3. Build the selling expense definition in coordination with commercial, medical affairs, and legal teams to ensure consistency and defensibility.
4. Evaluate whether the “qualifying liability-related expense” exception applies to contingent consideration, litigation reserves, or environmental remediation obligations depending on facts and circumstances.



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DISE disclosures are part of the audited financial statements and therefore fall squarely within the scope of SOX 404 internal controls over financial reporting (ICFR). Companies must treat DISE adoption not merely as a disclosure exercise but as a controls transformation project that impacts the risk control matrix (RCM), COSO framework mapping, and management's annual assessment of ICFR effectiveness.

Impact on the COSO Framework

The introduction of DISE disclosures impacts multiple COSO 2013 components and principles. The following table maps DISE-specific control considerations to the COSO framework:

Control Environment	COSO Component
DISE Impact Area Tone at the top regarding new disclosure quality; assignment of DISE ownership.	Control Considerations Designate DISE disclosure owner; establish governance over inventory basis elections and selling expense definitions.
Risk Assessment	COSO Component
DISE Impact Area New risk of material misstatement in DISE tabular disclosures.	Control Considerations Perform DISE-specific risk assessment; evaluate data gaps, estimation risk, and classification judgment areas.

Control Activities

COSO Component

DISE Impact Area

New processes for natural category mapping, reconciliation, and review.

Control Considerations

Design preparer-reviewer controls for DISE tables, automated mapping validations, and management review procedures.

Information & Communication

COSO Component

DISE Impact Area

Data flows from sub-ledgers and cost accounting to DISE tables.

Control Considerations

Map data lineage from source systems to DISE output; establish cross-functional communication protocols.

Monitoring

COSO Component

DISE Impact Area

Ongoing assessment of DISE control effectiveness.

Control Considerations

Include DISE controls in quarterly self-assessment; design KPIs for DISE data quality and timeliness.

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Key Controls to Design and Implement

a. Data Capture and Mapping Controls

1. Chart of accounts (CoA) mapping: Each GL account must map to a DISE natural expense category. Establish a master mapping table with preparer-reviewer approval workflow.
2. Automated validation rules: System controls that flag unmapped accounts, new accounts without DISE tags, or accounts mapped to multiple categories.
3. Cross-functional data collection: Controls over the completeness and accuracy of data gathered from HR (employee vs. contractor), procurement (inventory purchases), and fixed assets (depreciation by caption).

b. Process-level Controls Over DISE Tables

1. Preparer-reviewer-approver workflow: Each DISE table should follow a documented preparation, independent review, and management approval process.
2. Reconciliation controls: DISE table totals must tie to the face of the income statement. Implement automated reconciliation with reasonable approximation as permitted.
3. Inventory basis reconciliation: Under the cost-incurred basis, controls must ensure the “changes in inventories” and “other adjustments and reconciling items” lines are complete, accurate, and properly described.
4. Qualitative description review: Management must review “other items” descriptions for completeness, accuracy, and compliance with DISE requirements.

c. Disclosure Controls and Procedures (DC&P)

1. Disclosure committee review: DISE disclosures should be included in the disclosure committee’s review checklist for both 10-K and 10-Q filings.
2. Certification process: CEO/CFO certifications under SOX 302 cover all material disclosures, including DISE—ensure that the sub-certification process explicitly addresses DISE completeness.
3. Selling expense definition governance: Establish an approval process for changes to the selling expense definition, with documented rationale and impact assessment.

IT General Controls (ITGCs) and System Changes

1. System configuration changes to enable DISE tagging should follow change management procedures.
2. New reports and extracts for DISE data should be tested (UAT) and validated before going live.
3. Access controls over DISE mapping tables and configuration parameters should be restricted and monitored.

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Updating the Risk Control Matrix (RCM)

Companies should add DISE-specific risks and controls to their existing RCMs. At a minimum, the following risk statements should be assessed:

- 01

Risk that relevant expense captions are not properly identified or that exceptions are not properly applied.
- 02

Risk that natural expense categories are incomplete or inaccurately mapped from source systems.
- 03

Risk that the inventory disaggregation basis is not consistently applied or that reconciliation lines contain errors.
- 04

Risk that the selling expense definition is inconsistent with management's actual practice.
- 05

Risk that qualitative descriptions for "other items" are incomplete, misleading, or not updated for changes.
- 06

Risk that DISE tables do not reconcile to the face of the income statement.



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The following illustrative example is based on a hypothetical public business entity, Entity Y, that manufactures equipment and provides related maintenance services.

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For the year-ended December 31, 20X5, Entity Y presented the following comparative income statement

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Entity Y

Consolidated Income Statement

For the years ended December 31, 20X5, 20X4, and 20X3 (in thousands)

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Illustrative Disclosure	20X5	20X4	20X3
Revenue			
Product revenue	\$120,500	\$114,800	\$109,200
Service revenue	36,200	34,100	32,000
Total revenues	156,700	148,900	141,200
Operating expenses			
Cost of goods sold	84,900	81,500	78,000
Cost of services	15,400	14,600	13,800
Selling, general, and administrative	29,250	27,900	26,500
Research and development	11,300	10,800	10,200
Total operating expenses	140,850	134,800	128,500
Operating income	15,850	14,100	12,700
Interest expense	3,900	3,700	3,500
Income before income taxes	11,950	10,400	9,200
Income tax expense	2,450	2,100	1,850
Net income	\$9,500	\$8,300	\$7,350

Additional Information on Fact Pattern:

Cost of goods sold includes amounts within the scope of Topic 330. Entity Y has elected to disclose the disaggregation of cost of goods sold on a cost-incurred basis and presents separate lines for “changes in inventories” and “other adjustments and reconciling items” as required by ASC 220-40-50-31(a) and 50-32 through 50-34.

Certain other expenses (for example, warranty costs or one-time employee termination benefits) are disclosed as separate categories in the table below when they are required to be disclosed under other GAAP and are recorded entirely within a single relevant expense caption.

Remaining amounts within each caption that are not separately disaggregated are presented within “Other items” with a qualitative description of their composition.

Based on the background and fact pattern above, the following illustrates one way an entity might apply the requirements under ASU 2024-03 within its footnotes:

Disaggregation of relevant expense captions

Cost of goods sold

	20X5	20X4	20X3
Purchases of inventory	\$46,000	\$44,000	\$41,800
Employee compensation	17,800	16,900	16,200
Depreciation	7,600	7,200	6,800
Intangible asset amortization	2,000	1,900	1,800
Warranty expense	3,200	3,000	2,800
Other cost of goods sold ^(a)	9,100	8,700	8,300
Changes in inventories	(1,300)	(1,200)	(1,100)
Other adjustments and reconciling items ^(b)	500	1,000	1,200
Total cost of goods sold	\$84,900	\$81,500	\$78,000

- (a). “Other cost of goods” sold consists primarily of outbound freight and logistics costs, quality inspection services purchased from third parties, and inventory write-downs not separately presented.
- (b). “Other adjustments and reconciling items” mainly comprise foreign currency translation effects arising from inventory denominated in foreign currencies and inventory derecognized in transactions that did not result in expense (for example, transfers of inventory as part of a business divestiture).

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Cost of services

	20X5	20X4	20X3
Employee compensation	\$9,000	\$8,400	\$7,900
Depreciation	900	850	800
Intangible asset amortization	700	650	600
Other cost of services ^(c)	4,800	4,700	4,500
Total cost of services	\$15,400	\$14,600	\$13,800

(c). "Other cost" of services" consists primarily of subcontractor fees, travel, and lodging for field technicians related to delivered services.

Selling, general, and administrative expenses

	20X5	20X4	20X3
Employee compensation	\$18,600	\$17,700	\$16,800
Depreciation	1,200	1,150	1,100
Intangible asset amortization	800	750	700
Property, plant, and equipment impairment	900	600	400
Other SG&A ^(d)	7,750	7,700	7,500
Total selling, general, and administrative expenses	\$29,250	\$27,900	\$26,500

(d). "Other SG&A" consists primarily of professional services, operating lease expenses, and other general corporate expenses.

Research and development expenses

	20X5	20X4	20X3
Employee compensation	\$7,100	\$6,700	\$6,300
Depreciation	400	380	350
Other R&D ^(e)	4,800	3,720	3,550
Total research and development expenses	\$11,300	\$10,800	\$10,200

(e). "Other R&D" includes fees paid to contract research organizations, license fees for third-party technology, and laboratory supplies. party technology, and laboratory supplies.

Selling Expenses

During the years ended December 31, 20X5, 20X4, and 20X3, selling expenses were \$5,250, \$4,825, and \$3,200, respectively. The entity's selling expenses include expenses related to marketing, advertising, and business development.

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Both the FASB and the IASB have issued new guidance to improve the transparency of income statement expenses. Under US GAAP, ASU 2024-03 introduces DISE note disclosures requiring public business entities to disaggregate relevant expense captions into specified natural expense categories. IFRS 18, Presentation and Disclosure in Financial Statements, primarily restructures the statement of profit or loss and strengthens aggregation/disaggregation requirements, including specified “by-nature” disclosures when operating expenses are presented “by function.” While the objective is similar, the mechanisms and scope differ, as summarized below.

Primary Objective

U.S. GAAP (ASU 2024-03)

The primary objective of ASU 2024-03 is to provide disaggregated information about expenses to help investors:

- Better understand the entity's performance
- Better assess the entity's prospects for future cash flows
- Compare an entity's performance over time and with that of other entities.

IFRS 18

Although the underlying objective is similar, the changes introduced by IFRS 18 are broader in scope, including changes to the structure of the statement of profit or loss.

Scope of Entities

U.S. GAAP (ASU 2024-03)

Applies to public business entities only. Private companies, not-for-profit entities, and employee benefit plans are out of scope.

IFRS 18

Applies to all entities applying IFRS.

Disaggregation of Income Statement Expenses

U.S. GAAP (ASU 2024-03)

Relevant expense captions are required to be disaggregated between natural expense categories, which include (1) purchases of inventory, (2) employee compensation, (3) depreciation, (4) intangible amortization, and (5) DD&A.

IFRS 18

IFRS 18 requires disclosure of specified expenses, particularly if operating expenses are presented by function. These specified expenses include employee benefits¹, depreciation, amortization, impairment losses and their reversals, and write-downs of inventories and their reversals.

Selling Expenses

U.S. GAAP (ASU 2024-03)

Requirement to disclose total selling expenses for each period, including a definition of selling expenses.

IFRS 18

No requirement to separately disclose selling expenses nor a definition of selling expenses.

Structure of the Income Statement

U.S. GAAP (ASU 2024-03)

No changes to the structure of the income statement were introduced by ASU 2024-03.

IFRS 18

IFRS 18 replaces IAS 1 introducing a more structured statement of profit or loss with required categories (operating, investing, financing, taxes and discontinued operations).

Effective Dates

U.S. GAAP (ASU 2024-03)

The new disclosure requirements introduced by ASU 2024-03 are effective for fiscal years beginning after December 15, 2026, and interim periods within fiscal years beginning after December 15, 2027. Early adoption is permitted with an option to apply prospectively or retrospectively.

IFRS 18

IFRS 18 is effective for annual reporting periods beginning on or after January 1, 2027, with early adoption permitted, subject to appropriate disclosure in the notes. The standard applies retrospectively in accordance with Accounting Policies, Changes in Accounting Estimates and Errors ("IAS 8"), subject to specified exemptions.

¹Note: IFRS 18 uses the term 'employee benefits' which is broader than DISE's 'employee compensation

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Although DISE will not be effective until fiscal years beginning after December 15, 2026, adoption will often require more than a disclosure “bolt-on.” Following the main provisions of the new guidance, management will need to cover the following key steps.

01

Identification of relevant expense captions and assessment of the composition of each caption

02

If inventory is applicable, determine the policy to be applied in disaggregating inventory amounts

03

Build a tabular disclosure of each relevant expense caption and break them out to their natural expense categories

04

Develop a clear definition of “selling expenses”

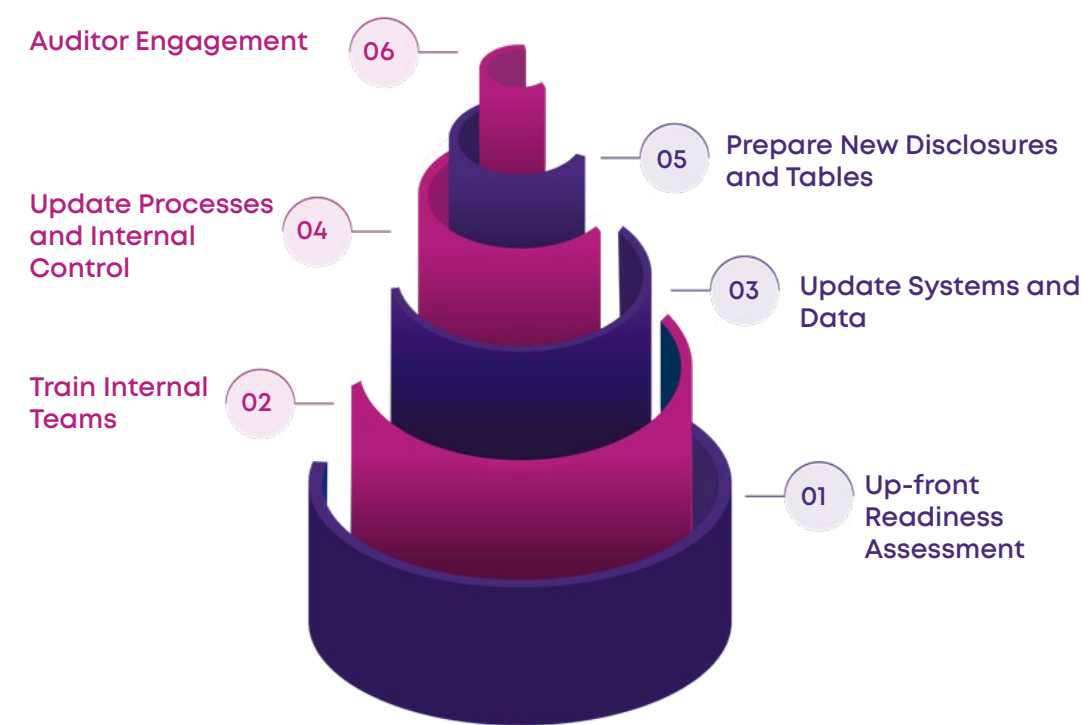
In certain situations, management may be required to apply judgment and estimation to ensure alignment with the objectives of DISE. In covering these key steps, management will have to consider the following factors to ensure a streamlined adoption of DISE requirements:

Management should perform an evaluation of their **chart-of-accounts, data sources, and data tagging** to determine if there are any gaps in data or systems

Gaps identified as part of the evaluation may require **system configuration changes, expanded reporting tools, updated reporting processes and internal controls, cross-functional coordination, and incremental resourcing/training** for finance and operations teams

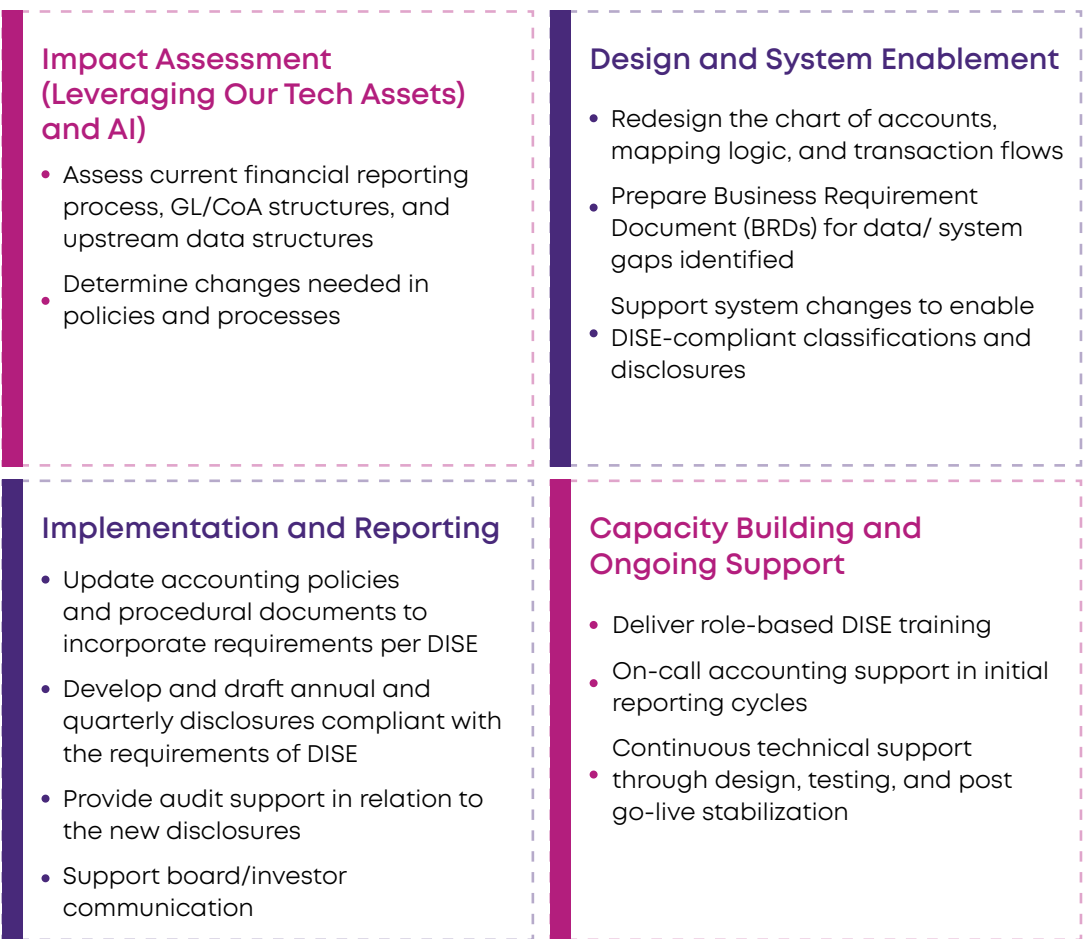
Entities will need to build **repeatable close processes and internal controls**, with clear documentation of assumptions, data sources, and review steps to comply with DISE.

Steps to Operationalize Adoption

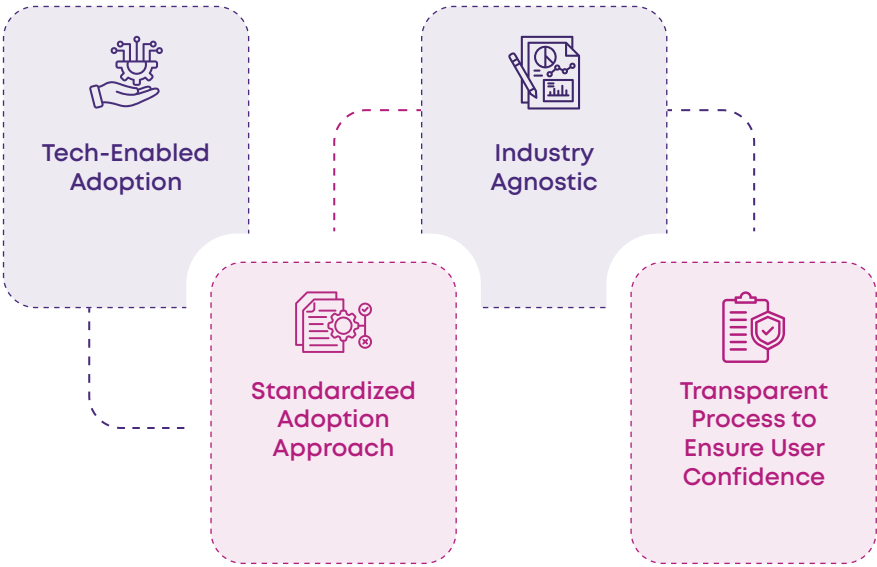


How Uniquis can help

We can support DISE adoption through an integrated, outcome-focused approach:



Key Benefits & Value Proposition



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About Uniquis Consultech:

Uniquis Consultech is a global tech-enabled consulting company that specializes in Accounting & Reporting, Governance, Risk & Compliance, Sustainability & Climate, Tech Consulting, and Valuations. The Company is co-founded by consulting veterans Jamil Khatri and Sandip Khetan and backed by marquee investors such as Nexus Venture Partners, Sorin Investments, and UST.

Uniquis has a global team of 700+ professionals led by 85+ Partners & Directors across eleven offices in the USA, the Middle East, and India. The company serves more than 300 clients, including marquee names in each of the markets it operates in.

Uniquis is committed to leveraging technology and an integrated global delivery model to provide best-in-class consulting services to its clients.

About Our Accounting & Reporting Consulting Services:

In today's dynamic business environment, organizations are continuously required to adapt to the dynamic shifts in accounting & reporting standards and regulations. Enhanced management reporting requirements and accelerated reporting timelines necessitate increased automation within the finance function. Special events, such as preparing for an IPO/capital market transaction or fulfilling the reporting requirements arising from an M&A transaction, introduce additional complexities and challenges for the finance function.

As a result, organizations need to transform their finance functions from time to time with a focus on people, processes, and technology. Our Accounting & Reporting Consulting (ARC) practice is designed to partner with the finance function through these challenges. Our teams function as an extension of your finance teams to execute your plans seamlessly.

We bring the necessary technical expertise, skills, technology, and bandwidth, enabling you to navigate your plans in real time without adding additional manpower costs within the organization.

A Team That You Can Trust To Deliver



Sandip Khetan

Co-Founder, Global Head of Accounting & Reporting Consulting



Arda Kaya

Partner, Accounting & Reporting Consulting



Avinash Ramkumar

Partner, Accounting & Reporting Consulting



Sharad Chaudhry

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