

Snapshot

FASB introduces disaggregated income statement disclosure requirements

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FASB ASU 2024-03, *Income Statement – Reporting Comprehensive Income – Expense Disaggregation Disclosures (Subtopic 220-40)*, expands the note disclosures required for certain expenses incurred by public business entities. These amendments were prompted by stakeholders’ requests for more granular information about the expenses that make up income statement line items, such as cost of sales and selling, general, and administrative expenses. The incremental disclosures are designed to provide a clearer understanding of an entity’s costs and to allow financial statement users to better forecast an entity’s future cash flows.

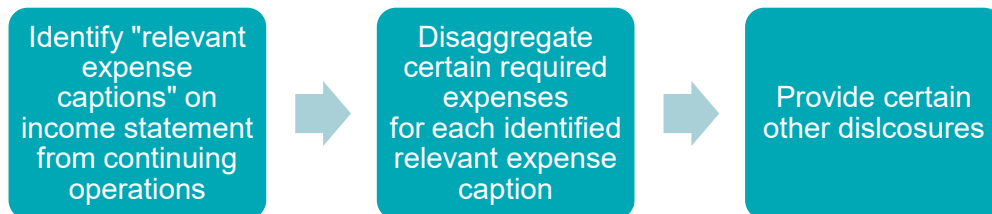
The amendments are effective for annual reporting periods beginning after December 15, 2026 and for interim reporting periods within annual reporting periods beginning after December 15, 2027. Early adoption is permitted.

A. Executive summary

Existing U.S. GAAP provides limited guidance regarding the presentation of expenses in the income statement. In particular, Topic 220 does not require specific financial statement line items, also referred to as “expense captions,” to be presented on the face of the income statement, while SEC Regulation S-X and the limited industry-specific sections of the FASB’s Codification generally require disclosure of expenses by functional category rather than by type of expense. As a result, entities have traditionally classified expenses by function, such as general and administrative expenses or cost of sales. However, this approach provides investors with limited information about the amounts and types of expenses included within the functional expense line items. Investors told the FASB that the disclosure of disaggregated information about expenses is critically important in understanding an entity’s performance, assessing an entity’s prospects for future cash flows, and comparing an entity’s performance over time with the performance of other entities.

In response to investors’ requests for additional expense information, the FASB issued ASU 2024-03 in November 2024. The amendments in ASU 2024-03 create new requirements for public business entities to disclose additional information about the amounts and types of expenses included within their existing income statement captions and to provide additional information about selling expenses in the notes to the financial statements. The new requirements do not modify the presentation requirements on the face of the financial statements but instead require incremental disclosures for annual and interim financial statements, which are outlined within this publication.

Under the amendments in ASU 2024-03, entities are required to determine which income statement line items presented within continuing operations now meet the definition of a “relevant expense caption,” as defined in the amendments. For each relevant expense caption, an entity must provide additional disclosures within the notes to the financial statements using a tabular format detailing the types and amounts of expenses that make up that line item. Entities are not required to apply the provisions to discontinued operations.



B. Scope

The amendments in the ASU apply to public business entities only. Private companies, not-for-profit entities, and employee benefit plans are excluded from the scope of the new guidance. As defined in the FASB Codification Master Glossary, “public business entities” are not limited to SEC registrants. An entity may meet the definition of a public business entity solely because its financial statements or financial information is included in another entity’s filing with the SEC. The amendments in ASU 2024-03 do not make any changes to the existing definition of a public business entity in the Master Glossary, which is shown below.

Public Business Entity

A public business entity is a business entity meeting any one of the criteria below. Neither a not-for-profit entity nor an employee benefit plan is a business entity.

- a. It is required by the U.S. Securities and Exchange Commission (SEC) to file or furnish financial statements, or does file or furnish financial statements (including voluntary filers), with the SEC (including other entities whose financial statements or financial information are required to be or are included in a filing).
- b. It is required by the Securities Exchange Act of 1934 (the Act), as amended, or rules or regulations promulgated under the Act, to file or furnish financial statements with a regulatory agency other than the SEC.
- c. It is required to file or furnish financial statements with a foreign or domestic regulatory agency in preparation for the sale of or for purposes of issuing securities that are not subject to contractual restrictions on transfer.
- d. It has issued, or is a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market.
- e. It has one or more securities that are not subject to contractual restrictions on transfer, and it is required by law, contract, or regulation to prepare U.S. GAAP financial statements (including notes) and make them publicly available on a periodic basis (for example, interim or annual periods). An entity must meet both of these conditions to meet this criterion.

C. Identifying income statement line items that require disaggregation

Currently, the guidance on reporting comprehensive income in ASC 220 does not provide specific requirements for presenting line items on the face of the income statement. For public companies subject to SEC reporting requirements, S-X Rule 210 provides specific presentation requirements for the income statement, differentiated by industry. The amendments in ASU 2024-03 do not modify the SEC's existing requirements or the existing requirements for specific expense disclosures in U.S. GAAP (for example, the requirement to disclose depreciation expense under ASC 360).

To apply the new amendments, entities must first evaluate each line item within continuing operations on the face of the income statement to determine whether disaggregated disclosures are required. The disaggregation of line items is not required on the face of the income statement but instead is disclosed in tabular format in the notes to the financial statements.

The amendments require entities to disaggregate income statement line items in the notes to the financial statements when those line items include certain types of "natural" expense categories. Broadly, *natural expense* classification is determined based on the underlying activity or benefit that the expense is linked to, such as payroll, rent, supplies, or depreciation. In contrast, *functional expense* classification groups expenses based on the outcome that they achieve, such as cost of sales or research and development. Generally, entities present income statement line items on a functional expense basis.

C.1 Relevant expense captions

The new guidance identifies expense captions (income statement line items) that contain certain types of natural expenses as “relevant expense captions” and requires the disaggregation of these relevant expense captions into certain natural expense categories. An expense caption is identified as a relevant expense caption if it contains any of the following natural expense categories, which this publication will hereafter refer to as “relevant expenses”:

- Purchases of inventory
- Employee compensation
- Depreciation
- Intangible asset amortization
- Depreciation, depletion, and amortization of certain capitalized oil- and gas-producing activities

If an income statement line item does not include any of the relevant expenses outlined in the amendments, it is not subject to the new disaggregation disclosures. The number of income statement line items that may be subject to the new disclosures is expected to vary by entity, as the presentation of income statement line items varies widely among entities and industries.

C.2 Income statement line items that do not require disaggregation

In addition to line items that do not contain one of the five relevant expense categories, certain other income statement line items that may otherwise qualify as a relevant expense caption do not require disaggregation under the new amendments.

Income statement line items with only one expense

If the financial statement expense caption is comprised entirely of only one of the relevant expenses identified above, further disaggregation is not required in the notes to the financial statements. For example, if a reporting entity discloses depreciation as an income statement line item, disaggregation is not required if the line item contains only fixed-asset depreciation under ASC 360. However, if the depreciation income statement line item comprises both fixed-asset depreciation and intangible-asset amortization, disaggregation would be required to comply with the new amendments. Entities should carefully assess the composition of individual line items to determine whether they contain only a single relevant expense.

Equity-method investment caption exception

Under ASC 323, entities with one or more equity-method investments are required to disclose the share of earnings or losses from such investments as a single amount in a separate line item in their income statements. The income statement caption for earnings or losses from equity-method investments comprises both the revenue and expense of the underlying investment. However, the amendments state that the caption for earnings or losses from equity-method investments should not be considered a relevant expense caption, regardless of whether it includes one or more of the five relevant expenses identified in the ASU. Therefore, a line item for equity-method investments is not subject to the tabular disclosure requirements in the new guidance.

C.3 Use of estimates in disaggregation

Entities are not required to use transaction-level detail to determine the disaggregated expense amounts in the new tabular disclosures. Rather, the amendments in ASU 2024-03 permit entities to use estimates in determining which amounts to include in the disaggregated note disclosures using a “systematic and rational approach.” Estimates are permitted so long as the method of estimate used produces a reasonable approximation of the actual amount. Entities should exercise judgment in evaluating whether the method used to make an estimate is appropriate.

D. Disaggregated tabular disclosure for each relevant expense caption

Any income statement line item that meets the definition of a relevant expense caption under the new amendments must be disaggregated using a tabular format in the notes to the financial statements. An entity should follow the steps below to apply the new guidance when disaggregating relevant expense line items:

1. Separately disaggregate each of the five relevant expenses identified in the amendments, unless a disaggregation “exception” applies.
2. Disaggregate additional expenses, gains, and losses specified by the standard that are either partially or entirely included in the line item.
3. Disaggregate or disclose expense reimbursements either received or made by the entity, as appropriate.
4. Present a total of remaining expenses or costs that have not been separately disaggregated and provide a qualitative disclosure about the expenses and costs included in that total.

Each of these steps is discussed in greater detail in the following sections.

D.1 Relevant expense categories

The same five natural expense categories used to identify an income statement line item as a relevant expense caption are also required to be disaggregated separately within the tabular disclosure of that line item in the notes. The following section discusses each of those expense categories in detail: purchases of inventory; employee compensation; depreciation; intangible-asset amortization; and depreciation, depletion, and amortization for oil- and gas-producing activities.

Purchases of inventory

The amendments require an entity to separately disclose purchases of inventory when included in a relevant expense caption. Purchases of inventory represent the costs or expenses incurred to acquire raw materials, finished goods, and other externally sourced inputs capitalized into inventory.

Under the amendments, the term *inventory* includes purchases of assets accounted for within the scope of ASC 330, but excludes purchases of assets often referred to as “inventory” that do not fall within the scope of ASC 330, such as film costs accounted for under ASC 926. In addition, purchases of inventory include inventory acquired through an asset acquisition within the scope of ASC 805-50 to ensure that inventory purchased in the ordinary course of business is accurately reflected in the total inventory purchase amount.

The amendments further state that the amount disclosed for purchases of inventory should not include amounts recognized from the following transactions:

- A business combination within the scope of ASC 805-10;
- A joint venture formation within the scope of ASC 805-60; and
- The initial consolidation of a variable-interest entity (VIE) that is not a business combination within the scope of ASC 810-10.

Inventory purchases from these excluded transactions should be included in the single line item disclosure under the “other items” category in an entity’s disaggregated tabular disclosure and should then be qualitatively disclosed. An entity may also elect to voluntarily disclose these amounts separately.

The amendments allow entities to choose between two acceptable methods of disaggregation when disclosing purchases of inventories: the *expense-incurred basis* or the *cost-incurred basis*. The chosen basis will affect the amounts and items disclosed.

The *expense-incurred basis* focuses on the disaggregation of amounts derecognized from inventory during the current period, as well as any period costs related to inventory. This basis requires an entity to disaggregate into natural expense categories those expenses previously capitalized into the balances of inventory derecognized during the period. For example, consider an item of inventory with a cost total of \$100, comprised of \$50 of employee compensation, \$30 of raw materials, and \$20 of overhead. Under the expense-incurred method, when that item of inventory is derecognized, the entity must disclose those natural expense categories in the disaggregated expense disclosure. An entity must also include in the disaggregation disclosure any period costs incurred related to a relevant expense category that were directly expensed in the relevant expense caption during the current reporting period. For example, period costs incurred related to inventory purchases might include costs that are capitalizable in accordance with Topic 330 but were directly expensed to the income statement.

The *cost-incurred basis* focuses on the disaggregation of activity related to changes in the inventory balance in the current period. Unlike the expense-incurred basis, the cost-incurred basis does not require a breakout of previously capitalized inventory costs. Instead, the cost-incurred basis requires the disaggregation of costs incurred in the current period that were capitalized into inventory, as well as any costs incurred related to purchases of inventory that were directly expensed during the period. Costs incurred during the period that were directly expensed might include costs that are capitalizable in accordance with Topic 330 but were directly expensed to the income statement. The entity also must present a “change in inventory” line item to reconcile the amounts included in the disaggregated disclosure to the line item on the income statement. An entity may need to present a reconciling line item in the disaggregated disclosure for “other adjustments” necessary to reconcile the disclosure on a cost-incurred basis to the related line item on the financial statement. These other adjustments may include items such as inventory derecognized during the period that did not result in an expense (such as for a deconsolidation event under ASC 810) and amounts attributable to foreign-currency adjustments. The “other adjustments” line should include a qualitative note disclosure describing the composition of the item.

The following figure summarizes the major tenets of these two methods.

Expense-incurred basis	Cost-incurred basis
<ul style="list-style-type: none"> ➤ Inventory derecognized in the current period, disaggregated into natural expense categories (e.g., employee compensation, purchase of raw materials or finished goods, depreciation, etc.) ➤ Costs expensed in the current period ➤ Other items* <p>*Disclosure of a qualitative description of what makes up the balance is required.</p>	<ul style="list-style-type: none"> ➤ Costs capitalized into inventory in the current period, disaggregated into natural expense categories (e.g., employee compensation, purchase of raw materials, depreciation, etc.) ➤ Costs expensed in the current period ➤ Change in inventory balance ➤ Other adjustments and reconciling items (e.g., inventory derecognized in a deconsolidation transaction, impact of foreign currency translation)* ➤ Other items* <p>*Disclosure of a qualitative description of what makes up the balance is required.</p>

An entity must apply the chosen basis consistently to all relevant expense line items that contain purchases of inventory. Regardless of the basis chosen, an entity is required to disaggregate in the tabular disclosure any amounts for inventory directly expensed during the current reporting period. If an entity decides to change to the other basis of presentation, prior periods must be recast, unless it is impracticable to do so. However, in Paragraph 69 of the Basis for Conclusions (BC69) in ASU 2024-03, the Board noted that changing the method for the disaggregation of purchases of inventory should not be considered a change in accounting principle under ASC 250.



ASC 220-40-50-31

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

- Cost-incurred basis.** The amounts disclosed for the disaggregation of a relevant expense caption comprise costs incurred that were capitalized to inventory in accordance with Topic 330 during the current reporting period and any costs incurred that were directly expensed during the current reporting period (including costs that are capitalizable in accordance with Topic 330 but were directly expensed to the income statement). Under this basis, in interim and annual reporting periods, an entity shall disclose an amount for changes in inventories and an amount for other adjustments and reconciling items to reconcile the costs incurred to the total relevant expense caption (see paragraphs 220-40-50-32 through 50-34).
- Expense-incurred basis.** The amounts disclosed for the disaggregation of a relevant expense caption comprise expense amounts related to the derecognition of inventory that was previously capitalized in accordance with Topic 330 and any costs incurred that were directly expensed during

the current reporting period (including costs that are capitalizable in accordance with Topic 330 but were directly expensed to the income statement). Under this basis, an entity shall disclose the expense amounts related to the derecognition of inventory based on the natural expense category of the costs when they were initially incurred (for example, the expense from the derecognition of inventory may relate to purchases of inventory and employee compensation incurred in prior periods).

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

The new guidance includes an example illustrating a disclosure made on the cost-incurred basis disaggregating a relevant expense caption (cost of goods sold) containing purchases of inventory.



Example 1: Disaggregation of Income Statement Expenses by an Entity with Manufacturing and Service Operations (excerpt)

ASC 220-50-55-6

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

ASC 220-40-55-11 (excerpt)

Entity X provides the following disclosure

Disaggregation of Relevant Expense Captions

	20X4	20X3	20X2
Cost of products sold			
<i>Cost of products sold</i>			
Purchases of inventory	\$ 20,213	\$19,199	\$16,319
Employee compensation	17,578	16,539	14,078
Depreciation	10,190	9,989	9,650

Intangible asset amortization	3,914	4,050	3,929
Warranty expense	4,394	3,952	3,894
Other cost of product sold ^(a)	7,552	7,606	7,993
Changes in inventories	157	(861)	843
Other adjustments and reconciling items ^(b)	(542)	424	538
Total R&D	<u>\$63,456</u>	<u>\$60,898</u>	<u>\$57,244</u>

- (a) Other cost of products sold consists primarily of amounts paid to carriers for outbound freight services related to contract fulfillment and amounts related to the measurement of a liability for an environmental obligation for the years ended December 31, 20X4, 20X3, and 20X2. Year ended December 31, 20X4, also includes inventory amounts recognized as part of a business combination.
- (b) Other adjustments and reconciling items consist of reconciling adjustments attributable to differences in the foreign exchange rates used to translate beginning inventory, ending inventory, and costs incurred from various functional currencies into the reporting currency for the years ended December 31, 20X4, 20X3, and 20X2.



Grant Thornton insight: Disaggregation of income statement line items that include purchases of inventory

Entities may elect one of two acceptable methods for the disaggregation of income statement line items containing purchases of inventory. For most entities, the “Cost of goods sold” income statement line item will be the income statement caption that contains purchases of inventory. The FASB notes in the Basis for Conclusions of ASU 2024-03 that feedback indicated the use of the expense-incurred method may be challenging for some entities, as that method requires the retrospective identification of cost categories previously capitalized into inventory, which may be challenging for entities based on their existing information systems. The FASB noted in BC73 that the expense-incurred method may be particularly challenging for entities using the last-in, first-out (LIFO) or average-cost inventory methods. In BC74, the Board notes that the “cost-incurred basis may be the most practicable and cost-effective approach for most entities.”

We believe that entities selling inventory as a part of their business model should consider selecting between these disaggregation methods as an early step in their implementation efforts for the new guidance. This selection should include a careful evaluation of the data available in an entity’s information systems, and consideration of the complexity of the entity’s inventory balance (purchase of finished goods versus manufacturing as well as other considerations).

Purchases of inventory practical expedient

Certain entities already use income statement expense captions that represent, or largely encompass, purchases of inventory. As a practical expedient, these entities are not required to disaggregate an income statement expense caption that includes purchases of inventory, provided that “substantially all” of the purchases within that caption consist of inventory purchases that would require disaggregation under the amendments in ASU 2024-03. If this practical expedient is applied, entities must disclose in the

notes a qualitative description of the composition of the expense caption in place of a tabular disaggregation.



Grant Thornton insight: Determining what constitutes ‘substantially all’ under the practical expedient for inventory purchases

The amendments in ASU 2024-03 do not define what constitutes “substantially all” of the purchases under the inventory purchases caption, which is a requirement for applying the new practical expedient. With no bright lines to use in this assessment, entities should exercise judgment when determining whether substantially all of the purchases within an income statement expense caption comprise purchases of inventory. In BC80 in the ASU, the Board notes that the term “substantially all” should be applied consistently with how that term is used in other areas of U.S. GAAP.

For example, the guidance in ASC 842 requires an entity to assess whether it has obtained the right to enjoy *substantially all* of the economic benefits of an asset being transferred, while ASC 606 requires assessing whether an entity will collect *substantially all* of the consideration to which it expects to be entitled. While neither Topic uses a set percentage to define “substantially all,” it is considered to be a high threshold, and the guidance in ASC 842-10-55-2(c) notes that using a threshold of 90 percent would be a reasonable approach to evaluating *substantially all* for the purposes of the classification test in ASC 842.

Generally, we believe the use of 90 percent as a benchmark when evaluating whether substantially all of the purchases within the relevant expense caption consist of inventory purchases may be appropriate, although entities should evaluate the specific facts and circumstances of their disclosure.

Employee compensation

Under the amendments, an entity must disclose amounts related to employee compensation within the tabular disaggregation of the relevant expense caption. The amendments in ASU 2024-03 create a definition of “employee compensation” in the Master Glossary to capture the major types of employee expenses that would require disclosure under the employee compensation relevant expense category. The new definition of employee compensation is intentionally broad, encompassing all forms of cash and noncash consideration provided by an entity in exchange for services rendered by employees or for the termination of employment. This new definition incorporates the term “employee,” which is based on the existing definition used to account for stock compensation in ASC 718 only slightly modified to extend its application to the amendments. The new Master Glossary definition of employee compensation is shown below.

Employee Compensation

All forms of cash consideration (including deferred cash compensation), share-based payment arrangements, medical care benefits, pension benefits, postretirement benefits, and nonretirement postemployment benefits (including special or contractual termination benefits) given by an entity in exchange for service rendered by employees or for the termination of employment. This includes compensation cost arising from wages, salaries, profit-sharing, bonuses, onetime employee termination

benefits, other postemployment benefits, employee stock ownership plans, employee share purchase plans, defined contribution plans, multiemployer plans, and any other compensation cost recognized in accordance with the guidance in Topic 710 on compensation, Topic 712 on nonretirement postemployment benefits, Topic 715 on retirement benefits, and Topic 718 on stock compensation. This also includes compulsory payments paid to the general government that confer entitlement to receive a (contingent) future social benefit, such as unemployment insurance benefits and supplements; accident, injury, and sickness benefits; old-age, disability, and survivors' pensions; and family allowances, reimbursements for medical and hospital expenses, or provision of hospital or medical services. For defined benefit plans within the scope of Topic 715, employee compensation includes only the service cost component of net periodic pension cost and the service cost component of net periodic postretirement benefit cost.

Entities may be required to further disaggregate and disclose certain employee compensation expenses, including any one-time employee termination benefits associated with an exit or disposal activity if applicable. The requirements for further disaggregation are discussed in "Disaggregation of specified expenses, gains, and losses," below.

Entities may voluntarily elect to include in employee compensation amounts that are attributable to transactions entered into for the benefit of employees, such as subsidized goods or services provided to employees. An entity that elects to include such amounts in employee compensation must disclose this fact as well as provide a description of such transactions. Additionally, entities may voluntarily disclose compensation to nonemployees, such as board members or service providers, separately from the required employee compensation disclosure either within the tabular disclosure or elsewhere in the notes to the financial statements.

Employee compensation practical expedient for certain banking entities

The consolidated financial statements filed for bank holding companies and for savings and loan holding companies, as well as the financial statements filed by banks and savings and loan associations, often present an expense caption for salaries and employee benefits on the face of the income statement to comply with the requirements in S-X Rule 210.9-04. As a practical expedient under the amendments, entities that present salaries and employee benefits on the income statement to comply with these requirements may use the SEC definition of *salaries and benefits* rather than applying the new definition of *employee compensation* when presenting disaggregated employee compensation expenses.

Depreciation

An entity is required to disclose amounts related to depreciation that are included in the relevant expense captions within the tabular disaggregated disclosure required under the amendments. Depreciation amounts disclosed should be classified consistently with how the entity classifies depreciation for the purposes of other disclosure requirements. For instance, the new guidance does not amend the existing requirement to separately disclose total depreciation for property, plant, and equipment under ASC 360. However, the total depreciation disclosed in the disaggregated table may not match the total depreciation disclosed under ASC 360, as depreciation may be capitalized into an asset or assets and would therefore not appear as an expense on the income statement during the period.

Intangible asset amortization

Under the new guidance, an entity is required to disclose intangible-asset amortization within a relevant expense caption in the disaggregated expense disclosure. The amendments do not revise existing requirements to disclose total intangible-asset amortization expense under ASC 350; therefore, the amounts disclosed under the new guidance must be consistent with the classification of those amounts under ASC 350. However, the total intangible-asset amortization disclosed in the new disaggregated table may not match the total amount disclosed under ASC 350, as the latter amortization may be capitalized into an asset or assets and therefore would not appear as an expense on the income statement during the period.

Certain expenses are described as amortization under current GAAP, and the amendments do not provide additional guidance on determining the category in which to disclose these items, apart from exceptions for the amortization of right-of-use assets and leasehold improvements. Entities are expected to be able to determine this categorization based on their current practices. For instance, an example in BC98 involves the costs of software to be sold, leased, or marketed that have been capitalized under ASC 985-20. Because that guidance requires entities to disclose the amortization of those capitalized costs under ASC 350-30, the Board expects those amortized costs to be included in the intangible asset amortization in the new tabular disclosure.



Grant Thornton insight: Right-of-use asset and leasehold improvement amortization

The existing guidance on leases in ASC 842 does not explicitly state whether the amortization of a right-of-use asset in a finance lease or of leasehold improvements should be included as part of the current disclosure requirements for either depreciation or intangible-asset amortization. Due to the lack of prescriptive guidance, diversity in practice currently exists.

Because of this lack of guidance, the amendments in ASU 2024-03 explicitly require entities to include those amounts consistently with how the entity presents the depreciation or amortization of similar assets. Those amounts should now be presented as either depreciation or intangible-asset amortization for purposes of the new disaggregated disclosure. Therefore, entities must disclose the amount of amortization of right-of-use assets for finance leases and the amount of amortization of leasehold improvements under ASC 842 within either depreciation or intangible-asset amortization in their new disaggregated disclosures. Additionally, an income statement line item that contains either of these types of expenses should be considered a relevant expense caption and is therefore subject to disaggregation, since those amounts are considered a subset of either depreciation or intangible-asset amortization.

Depreciation, depletion, and amortization for oil- and gas-producing activities

In addition to the tabular disclosure of depreciation within the scope of ASC 360, the amendments require entities with extractive activities, such as oil- and gas-producing activities, to disclose depreciation, depletion, and amortization expense amounts within relevant expense captions. These amounts are considered potentially significant noncash expenses, similar to depreciation and amortization expenses for entities outside the oil and gas industry, and are not limited to amounts resulting from capitalized acquisition, exploration, and development costs recognized under ASC 932-360. Entities also must

include amounts for depletion expenses resulting from other extractive activities accounted for under other topics, such as the guidance on mining in ASC 930.

Disaggregation exceptions for all expense categories

The amendments in ASU 2024-03 provide exceptions to disaggregation for certain asset-related and liability-related expenses.

Specifically, entities are not required to disaggregate costs capitalized as assets, except for purchases of inventory disclosed under the cost-incurred basis. For example, entities are not required to separately disaggregate the employee compensation costs capitalized as contract costs under ASC 340-40 when these costs are amortized.

In addition, certain liability-related expenses are *not* required to be disaggregated in the tabular disclosure. The FASB provided this exception so that entities would not need to disaggregate estimates of future expenditures that may include some element of a relevant expense, such as employee compensation. For example, an expense recognized for the estimate of an asset retirement obligation liability may include some element of employee expenses, but the amount of those expenses included in the estimate are uncertain and subject to change. An expense qualifies for this exception if it meets all of the following criteria:

- The expense relates to an obligation that will be settled in the future and there is uncertainty about the timing of settlement;
- The expense relates to an estimate of the amount of a future expenditure; and
- The expense is not entirely made up of one required expense category.

Entities should exercise judgment in evaluating whether these criteria are met to determine whether they should disaggregate liability-related expenses. The ASU states that expenses that would generally meet the criteria include provisions for losses on contracts, insurance claims and claims adjustment expenses, and asset retirement obligations. Conversely, the ASU states that expense for the accrual of employee-related expenses, such as accrued vacation, bonus, or pension, do not meet the criteria to qualify for the exemption from disaggregation because they are entirely made up of one expense category (employee compensation expense) and should therefore be disaggregated.

D.2 Disaggregation of specified expenses, gains, and losses

After entities identify relevant expense captions and disaggregate the relevant expense categories, the new guidance requires further disaggregation of these line items if they contain certain other specified expenses, gains, and losses. U.S. GAAP already contains many required expense disclosures in the notes to the financial statements. For some of those expenses, such as the provision for credit losses or loss contingencies recognized, an entity is only required to disclose the total amount of the expense. For others, such as an impairment loss recognized related to an intangible asset, an entity must disclose the total of the expense as well as which income statement line items include that expense. The amendments now incorporate these existing disclosure requirements into the new tabular disclosure requirements for relevant expense captions. The new guidance contains a full listing of these disclosures, as illustrated below.

The new guidance requires entities to use the tabular disclosure to disaggregate any expenses if (1) the amount and line item are already being disclosed under existing GAAP and (2) the relevant expense line item contains any amount of that expense. The expenses included in the relevant expense caption are

required to be disaggregated in the table irrespective of whether that same relevant expense category also appears in other line items on the income statement. This publication will refer to these expenses as being “partially” included in the line item. The partially included expenses, gains, and losses that must be separately disclosed are listed in ASC 220-40-50-21, which codifies the amendments. These items always need to be disclosed in the new tabular reconciliation if they are part of a relevant expense caption.

In contrast, expenses for which the total, but not the location, are already being disclosed on the income statement should be disaggregated in the tabular reconciliation under the amendments only if the entire amount of the expense incurred by the entity is contained in that relevant expense caption. If the amount of the expense is only partially included, disaggregation is not required. This publication refers to these items as “entirely included” in the line item. The entirely included expenses, gains, and losses, which must be separately disclosed, are listed in ASC 220-40-50-22 codifying the amendments.

Regardless of whether amounts are partially or entirely included within income statement line items that are relevant expense captions, the amendments require entities to disaggregate and disclose such amounts within the notes on the same annual or interim basis, as stipulated in the corresponding Topics. For example, ASC 270 requires entities to disclose the components of net periodic benefit cost recognized in the interim financial statements, so these amounts should be disaggregated within the note disclosures in both interim and annual periods.

The following diagram summarizes the approach to disclosing specified expenses, gains, and losses under the new guidance in ASC 220-40-50-21 and 50-22.

Figure 2: Specified expense, gains, and losses partially or entirely included in a line item

Specified expenses, gains, and losses partially included in relevant expense captions (ASC 220-40-50-21)

- Existing U.S. GAAP includes requirements to disclose where such amounts are mapped within the income statement
- An entity incorporates the amount in the tabular disclosure for each relevant expense caption **irrespective** of whether the total amount is recorded entirely in that caption
- Examples:
 - (1) Impairment loss of intangible assets and long-lived assets
 - (2) Each major type of cost associated with an exit or disposal activity

Specified expenses, gains, and losses entirely included in relevant expense captions (ASC 220-40-50-22)

- No existing U.S. GAAP requirements to disclose where such amounts are mapped within the income statement
- An entity incorporates the amounts in the tabular disclosure **only** when the amount is **entirely** included in the relevant expense caption
- Examples:
 - (1) Warranty expense
 - (2) Amortization of costs to fulfill a contract with a customer

Specified expenses, gains, and losses partially included in relevant expense categories

Because U.S. GAAP already requires entities to disclose where partially included expenses, gains, and losses are mapped within the income statement, the new amendments require tabular disaggregation of these items, regardless of the amount included within the relevant expense caption. These partially included specified expenses, gains, and losses include amounts related to certain R&D asset write-offs, impairment amounts, gains and losses on assets disposed of or held for sale, exit and disposal activities, net benefit costs, bargain purchase gains, gains and losses on derivatives, certain types of license agreements, and certain film costs. ASC 220-40-50-21 describes the specific expenses that must be disaggregated.



ASC 220-40-50-21

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

- a. The amount of research and development assets acquired in a transaction other than a business combination and written off (see paragraph 350-30-50-1(c))
- b. Impairment loss recognized related to an intangible asset (see paragraph 350-30-50-3)
- c. Impairment loss of long-lived assets classified as held and used (see paragraph 360-10-50-2)
- d. Gain or loss recognized in accordance with paragraphs 360-10-35-37 through 35-45 and 360-10-40-5 for long-lived assets classified as held for sale or disposed of (see paragraph 360-10-50-3)
- e. Each major type of cost associated with an exit or disposal activity (for example, one-time employee termination benefits, contract termination costs, and other associated costs) (see paragraph 420-10-50-1)
- f. Components of net benefit cost recognized (other than service cost amounts included within employee compensation (see paragraph 715-20-50-1(h))
- g. Bargain purchase gain recognized in a business combination (see paragraph 805-30-50-1(f))
- h. Any gain or loss recognized upon the deconsolidation of a subsidiary or the derecognition of a group of assets in accordance with paragraph 810-10-40-3A (see paragraph 810-10-50-1B)
- i. Gains and losses on derivative instruments (and nonderivative instruments that are designated and qualify as hedging instruments in accordance with paragraphs 815-20-25-58 and 815-20-25-66) and related hedged items (see paragraph 815-10-50-4A)
- j. Amortization of license agreements for program material (see paragraph 920-350-50-4)
- k. Impairment of license agreements for program material (see paragraph 920-350-50-2)
- l. Amortization of film costs (see paragraph 926-20-50-4A)
- m. Impairment of film costs (see paragraph 926-20-50-4C)

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

Specified expenses, gains, and losses entirely included in relevant expense categories

Because existing U.S. GAAP does not require entities to disclose where entirely included expenses, gains, and losses are mapped within the income statement, the new amendments require tabular disaggregation of these items if the entire amount of the specified expense, gain, or loss is included in a relevant expense category. ASC 220-40-50-22, which codifies the new guidance, details the specific expenses, gains, and losses entirely included in relevant expense categories that must be disaggregated, as illustrated below.

To illustrate this concept, expenses related to the amortization of costs to fulfill a contract with a customer, as well as warranty accrual expenses, must be disclosed under current U.S. GAAP, but the new amendments do not require entities to disclose the income statement caption where these expenses are recorded. Therefore, an entity is required to include these amounts in the tabular disaggregation of the cost of goods sold if (1) expenses related to the amortization of costs to fulfill a contract with a customer, as well as warranty expenses, are classified entirely within the relevant expense caption titled “cost of goods sold,” and (2) cost of goods sold is determined to be a relevant expense caption requiring disaggregation.



ASC 220-40-50-22

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

- a. Provisions for expected credit losses (see paragraphs 326-20-50-13 and 326-30-50-9)
- b. Losses on firm purchase commitments (see paragraph 330-10-50-5)
- c. Amortization expense attributable to the expiration of an insurance or reinsurance coverage provided under a contract that transfers only significant underwriting risk (see paragraph 340-30-50-2)
- d. Amortization of costs to fulfill a contract with a customer (see paragraph 340-40-50-3)
- e. Impairment of costs to fulfill a contract with a customer (see paragraph 340-40-50-3)
- f. Amortization of costs to obtain a contract with a customer (see paragraph 340-40-50-3)
- g. Impairment of costs to obtain a contract with a customer (see paragraph 340-40-50-3)
- h. Amortization of capitalized implementation costs of hosting arrangements that are service contracts (see paragraph 350-40-50-3)
- i. Asset retirement obligation accretion expense (see paragraph 410-20-50-1)

- j. Loss contingencies recognized (see paragraph 450-20-50-1)
- k. Warranty expense (the total of expenses recognized related to aggregate changes in the liability for accruals related to product warranties issued during the reporting period and the aggregate changes in the liability for accruals related to preexisting warranties, including adjustments related to changes in estimates) (see paragraph 450-20-50-2C)
- l. Expense related to counterparty default in own-share lending arrangements issued in contemplation of convertible debt issuance (see paragraph 470-20-50-2C)
- m. Aggregate gain on restructuring of payables by a debtor with troubled debt restructuring (see paragraph 470-60-50-1)
- n. Gains or losses upon consolidation of a variable interest entity that is not a business (see paragraph 810-10-50-3)
- o. Foreign currency transaction gains or losses (see paragraph 830-20-50-1)
- p. Operating lease cost (see paragraph 842-20-50-4)
- q. Short-term lease cost (see paragraph 842-20-50-4)
- r. Variable lease cost (see paragraph 842-20-50-4)
- s. Net gain or loss recognized from sale and leaseback transactions (see paragraph 842-20-50-4)
- t. Gains and losses from nonmonetary transactions (see paragraph 845-10-50-1)
- u. Amortization of capitalized acquisition costs (see paragraph 944-30-50-1(c)).

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

D.3 Disaggregation of expense reimbursements

An entity may receive or be owed reimbursements of its expenses (which would reduce expenses) or may pay or owe expense reimbursements to others (which would increase expenses) through a cost-sharing or cost-reimbursement agreement with another entity. If a relevant expense category includes expense reimbursements, the amendments require entities to disclose these amounts, depending on whether they reduce or increase expenses.

An entity that receives or is owed expense reimbursements may either:

- Separately disclose the amount of the expense reimbursement in the disaggregated tabular disclosure as a separate line item; or
- Disclose the amounts of the expense categories required by ASC 220-40-50-6, as well as the specified expenses, gains, and losses listed in ASC 220-40-50-21 through 50-22, in the tabular reconciliation, net of any reimbursement effects. In other words, the expense reimbursement is not broken out separately in the reconciliation, but is instead included, thereby reducing, the disaggregated amounts already included in the reconciliation.

Regardless of which option is selected, an entity is required to disclose how expense reimbursements related to a cost-sharing or cost-reimbursement arrangement are included in the disaggregated table.

On the other hand, an entity that pays or owes expense reimbursements to another entity must separately disclose the amount of the expense reimbursement paid in the disaggregated table.

For all types of expense reimbursements, an entity is also required to disclose qualitative descriptions of the expense categories, based on the natural expense classification related to each expense reimbursement.

The following excerpt of Example 2 of ASC 220-40-55 provides an illustration of disaggregated and qualitative disclosure for expense reimbursements.



Example 2: Disaggregation of Income Statement Expenses by an Entity with Service Operations (excerpt)

ASC 220-50-55-17

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

ASC 220-40-55-18 (excerpt)

	20X4	20X3	20X2
Research and development expense			
<i>Research and development expenses (R&D)</i>			
Employee compensation (exclusive of one time termination benefits)	\$ 46,242	\$41,379	\$40,764
One-time employee termination benefits	1,454	1,855	-
Other R&D ^(a)	17,836	16,845	15,890
Cost reimbursements ^(b)	(8,297)	(7,905)	(7,756)
Total R&D	\$57,235	\$52,174	\$48,898

(a) Other R&D consists primarily of payments to third parties for professional services and licenses of intellectual property for the years ended December 31, 20X4, 20X3, and 20X2.

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

D.4 Disclosure of other items

Income statement line items may include amounts that do not meet the requirements for disaggregation under any of the guidance previously discussed above. These residual items are disclosed within the tabular disclosure as a single line item titled “other items.” The amount of this line item reconciles the total of the tabular disclosure to the total for the income statement line item on the face of the income statement.

While disaggregation of amounts in the “other items” line is not required, the amendments do require an entity to provide a qualitative disclosure describing the nature of expenses that are included in the “other items” line. The detail provided in these qualitative disclosures should be commensurate with the significance of the amounts comprising the line item.

The new guidance notes that an entity is not precluded from providing additional voluntary quantitative disclosures beyond those required by the amendments, either inside or outside the tabular disclosure, provided that these voluntary disclosures are not combined with amounts that already require disaggregation.

E. Disclosure of selling expenses

Rather than create a new definition of “selling expenses” for all entities, the amendments require an entity to disclose how it defines “selling expenses” as well as the total amount of selling expenses recognized in continuing operations during the reporting period. The selling expense disclosure is intended to provide investors with an understanding of costs that may vary based on changes in revenue. Amounts included in selling expenses should include only items presented as expenses on the income statement.

Entities that currently present selling expenses as a separate financial statement line item on the face of the income statement are required to apply the new disaggregation guidance to that line item if selling expense is considered to be a relevant expense caption.



Grant Thornton insight: Definition of ‘selling expenses’

The amendments within ASU 2024-03 do not provide prescriptive guidance on how entities should define “selling expenses.” Rather, the amendments permit entities to tailor their definition based on the particular facts and circumstances surrounding their operations.

In BC119 of ASU 2024-03, the FASB notes that the lack of a definition for selling expenses provides broad latitude to management in determining what to include in that category, such as whether to include “fulfillment costs, costs associated with physical sales locations, websites, [and] allocation of management expenses.” The Board intentionally did not provide examples of expenses that might be considered selling expenses. Further, the Board acknowledges in BC120 that it did not specify whether advertising expenses should be included in selling expenses.

Example 2 in ASC 220-40-55 of the new guidance provides an illustration of an entity’s disclosure of selling expenses and how it defines them.



Example 2: Disaggregation of Income Statement Expenses by an Entity with Service Operations (excerpt)

ASC 220-40-55-19

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

Selling Expenses

During the years ended December 31, 20X4, 20X3, and 20X2, selling expenses were \$224,536, \$223,493, and \$231,892, respectively. The entity's selling expenses include those expenses related to advertising and certain customer acquisition-related costs.

F. Other disclosure considerations

Interim and annual required disclosures

The disclosure requirements under the amendments to ASU 2024-03 apply both to interim and annual reporting periods. The tabular disclosure of disaggregated expenses within the notes to the financial statements and of the amount of selling expenses is required in both annual and interim periods. There are limited differences between the new disclosure requirements for interim and annual filings, including the following:

- Entities are only required to include their definition of "selling expenses" in their annual filings. However, if the definition has changed since the most recent annual filing, entities are also required to disclose the updated definition within their interim filings.
- If an entity presents condensed interim financial statements, the income statement line items that must be disaggregated may differ between the annual and interim periods. The tabular disclosures for condensed interim financial statements, however, are subject to the same requirements under the amendments.

Changes in election of an alternative or change in definition

Entities should consistently apply the requirements under the amendments for all periods presented within the financial statements. If an entity changes its presentation of any of the disclosure requirements as a result of either the election of an alternative or a change in the definition of a disclosure, it must recast all prior periods presented in the period when the change occurs.

Entities that change their presentation are subject to the following requirements:

- Disclose the reason for the change in the period when it occurs and in the interim and annual reporting periods impacted by the change.
- Recast prior periods presented for comparative purposes unless it is impracticable to do so, excluding the requirements in ASC 220-40-50-22 through 50-23. If an entity determines it is impracticable to recast prior periods, it is required to disclose the fact that prior periods have not been recast as well as the reason why it is impracticable to recast them.

These changes may result from an entity's decision to elect another alternative within the scope of these amendments. An example would be a change from using the cost-incurred basis to the expense-incurred basis of inventory.

Entities may also be required to change a disclosure due to a change in management's definition of selling expenses. For example, as discussed in BC121, entities are required to recast the amount of selling expenses for prior periods presented if the definition of selling expenses changes in the current period.

The new guidance specifies that these types of changes are not considered changes in accounting principle under ASC 250. Therefore, entities that recast disclosures within the scope of these amendments due to changes in accounting elections or definitions are not required to evaluate such changes under the scope of ASC 250 or to assess preferability under SEC rules when such a change is made.

Changes affecting the comparability of disclosures

If an expense meets the new disaggregation requirements in one year (for instance, the expense amount is entirely included in a relevant expense category) but, due to changes, no longer meets those requirements in a subsequent year, an entity must provide information that explains this change in accordance with the guidance on comparability disclosures in ASC 205. In this scenario, the entity would be required to disclose information to explain the change pursuant to ASC 205-10-50-1.

G. Effective date and transition guidance

The amendments in ASU 2024-03 are effective for public business entities for annual reporting periods beginning after December 15, 2026 and for interim reporting periods within annual reporting periods beginning after December 15, 2027. Early adoption is permitted.

The amendments may be applied prospectively or retrospectively. Prospective application applies to financial statements issued for reporting periods beginning after the guidance becomes effective. A prospective application of the standard means that the new disclosures are not required to be included for comparative financial reporting periods prior to the effective date.

An entity may also elect to apply the amendments retrospectively to any or all prior periods presented in the financial statements. The FASB decided to allow an entity to apply the disclosures to some, but not all, comparative periods to allow entities to provide some retrospective information, even if that information is only partially available. Any disclosures made for periods prior to the effective date of the new guidance should be made in accordance with the amendments.

As entities begin their activities for implementing the amendments in ASU 2024-03, they should consider the transition disclosure requirements of SEC Staff Accounting Bulletin 74 Topic 11.M. This rule requires public entities to provide disclosures of new authoritative guidance that has been issued but will not be adopted until some future date. Consideration of these disclosures is expected for both interim and annual financial statements.

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Appendix A

The following table contains the titles of guidance cited in this publication from either the FASB Codification or FASB Accounting Standard Updates (ASU), as well as from SEC Regulation S-X.

Quick reference	Title
ASC 205	<i>Presentation of Financial Statements</i>
ASC 220	<i>Income Statement – Reporting Comprehensive Income</i>
ASC 220-40	<i>Income Statement – Reporting Comprehensive Income: Expense Disaggregation Disclosures</i>
ASC 250	<i>Accounting Changes and Error Corrections</i>
ASC 323	<i>Investments – Equity Method and Joint Venture</i>
ASC 330	<i>Inventory</i>
ASC 340-40	<i>Other Assets and Deferred Costs: Contracts with Customers</i>
ASC 350	<i>Intangibles – Goodwill and Other</i>
ASC 360	<i>Property, Plant and Equipment</i>
ASC 606	<i>Revenue from Contracts with Customer</i>
ASC 718	<i>Compensation – Stock Compensation</i>
ASC 805-10	<i>Business Combinations: Overall</i>
ASC 805-50	<i>Business Combinations: Related Issues</i>
ASC 805-60	<i>Business Combinations: Joint Venture Formations</i>
ASC 810-10	<i>Consolidation: Overall</i>
ASC 842	<i>Leases</i>
ASC 930	<i>Extractive Activities – Mining</i>

Quick reference	Title
ASC 932-360	<i>Extractive Activities – Oil and Gas: Property, Plant, and Equipment</i>
ASC 985-20	<i>Software: Costs of Software to Be Sold, Leased, or Marketed</i>
ASU 2024-03	<i>Income Statement – Reporting Comprehensive Income – Expense Disaggregation Disclosures</i>
SEC Staff Accounting Bulletin 74, Topic 11.M	<i>Disclosure of the Impact that Recently Issued Accounting Standards Will Have on the Financial Statements of the Registrant when Adopted in a Future Period</i>
SEC S-X Rule 210	<i>Form and Content of and Requirements for Financial Statements</i>
S-X Rule 210.9-04	<i>Statements of Comprehensive Income</i>

Contacts



Sandy Heuer
Partner, Grant Thornton LLP
Principal, Grant Thornton Advisors
LLC
T +1 612 677 5122
E sandy.heuer@us.gt.com



Carolyn Warger
Partner, Grant Thornton LLP
Principal, Grant Thornton Advisors LLC
T +1 617 848 4838
E Carolyn.Warger@us.gt.com



Kristian Rowden
Director
Grant Thornton LLP
T: +1 404 475 0191
E: kristian.rowden@us.gt.com