Grant Thornton

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Viewpoint

Segment disclosures

The content in this publication is based on information available as of December 2024. We may update this publication for evolving views and as we continue to monitor the standard-setting process and implementation of any ASC amendment. For the latest version, please visit grantthornton.com.

Contents

Introduction

Entities are typically organized into multiple components, or operating segments, that are used to monitor performance and effectively manage resources. ASC 280 requires public entities to disclose certain disaggregated information about their operating segments that are reportable in their financial statements.

In 2023, the FASB issued ASU 2023-07, *Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures*, to expand the disclosures for reportable segments made by public entities in response to stakeholders' requests for more detailed information about expenses within each reportable segment. The amendments retain the existing disclosure requirements in ASC 280 but expand upon them to require public entities to disclose significant expenses for reportable segments in both interim and annual reporting periods. The amendments also require public entities to now disclose on an interim basis items that were previously disclosed only annually, including disclosures related to a reportable segment's profit or loss. In addition, public entities with a single reportable segment must now provide all segment disclosures required in ASC 280, including the new disclosures for reportable segments under the amendments in ASU 2023-07. Finally, the amendments also allow an entity to voluntarily provide additional measures of segment profit or loss under certain circumstances. The amendments do not change the existing guidance on how a public entity identifies and determines its reportable segments.

The amendments in ASU 2023-07 are effective for annual periods for all public entities in fiscal years beginning after December 15, 2023 and in interim periods within fiscal years beginning after December 15, 2024. Early adoption is permitted.

The amendments should be applied retrospectively for all prior periods presented unless retrospective presentation is impracticable. Prior-period disclosures should be based on the significant segment expense categories identified by a public entity in the current year of adoption. If recasting the segment expense categories in prior periods based on the current-year expense classification is impracticable, public entities may present significant expense categories for prior years based on prior-year classifications.

Public entities' segment disclosures continue to be an area of frequent comments by the SEC staff. Almost every year, the SEC staff discusses their current views on some aspect of segment reporting during the annual AICPA & CIMA Conference on Current SEC and PCAOB Developments. This Viewpoint includes the SEC's position on certain segment disclosure matters and also summarizes recent views expressed by the SEC staff at the 2023 AICPA & CIMA annual conference, as well as additional views about the amendments in ASU 2023-07 expressed by the staff in subsequent discussions.

This Viewpoint has been designed to help preparers navigate the recurring disclosure requirements of ASC 280 as updated for the amendments in ASU 2023-07. Additional disclosures that are required by the amendments in ASU 2023-07 have been highlighted in "ASU 2023-07 update" boxes in each applicable section throughout this Viewpoint. This Viewpoint does not contain guidance on determining reportable segments in ASC 280. For this guidance and more, see *Segment reporting: More than just disclosure*.

1. Disclosures

1.1 Segment disclosures

The disclosure requirements in ASC 280 are designed to help financial statement users understand a public entity's performance, assess its expected future cash flows, and make more informed judgments about the entity as a whole. To that end, the guidance requires a public entity to disclose segment information in each interim and annual period for which an income statement is presented, as well as reconciliations of balance-sheet amounts for reportable segments to consolidated balance-sheet amounts for each year a balance sheet is presented. A *public entity* is defined as follows in the ASC's Master Glossary.

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

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

The amendments in ASU 2023-07 retain the existing disclosure requirements in ASC 280 but expand upon them in several significant ways. First, the amendments require public entities to disclose significant segment expenses (SSEs) for reportable segments in both interim and annual reporting periods. The amendments also require public entities to disclose, on an interim basis, those items that were previously disclosed only annually, including disclosures related to a reportable segment's profit or loss and assets. In addition, entities that report a single reportable segment must also provide all segment disclosures required in ASC 280, including the new disclosures for reportable segments under the amendments in ASU 2023-07. Finally, the amendments allow an entity to voluntarily disclose additional measures of segment profit or loss under certain circumstances. These disclosures, along with others, are discussed in greater detail in this Viewpoint. Changes in disclosure requirements as a result of ASU 2023-07 are highlighted within "ASU 2023-07 update" shaded boxes in each applicable section of this Viewpoint.

1.2 General information

Public entities are required to disclose certain qualitative information about how they identify reportable segments, along with the types of products or services that generate revenue for each segment in addition to the title and position of the individual, group, or committee that has been identified as the chief operating decision maker (CODM). The CODM identifies an individual or group of individuals whose function is to allocate resources to, and assess the performance of, the segments of an enterprise. As part of these disclosures, public entities are also required to disclose whether any of their reportable segments consist of operating segments that have been aggregated.

ASC 280-10-50-21

A public entity shall disclose the following general information (see Example 3, Case A [paragraph 280-10-55-47]):

a. Factors used to identify the public entity's reportable segments, including the basis of organization (for example, whether management has chosen to organize the public entity around differences in products and services, geographic areas, regulatory environments, or a combination of factors and whether operating segments have been aggregated)

b. Types of products and services from which each reportable segment derives its revenues

c. The title and position of the individual or the name of the group or committee identified as the chief operating decision maker.

ASU 2023-07 update: General information disclosure

Previously, public entities subject to segment disclosure requirements were not required to disclose the title and position of the CODM. The amendments in ASU 2023-07 updated the segment disclosure requirements in ASU 280-10-50-21(c) to require public entities to disclose either the title and position of the individual, or the name of the group or committee identified as the CODM.

The nature of the disclosures in ASC 280-10-50-21, as amended, will differ across industries and among public entities, since the information disclosed is specific to the individual public entity. However, the FASB did provide guidance on the kind of analysis it expects to see in the following example.

Example 3: Illustrative Disclosures

Case A: Disclosure of Descriptive Information about Reportable Segments

ASC 280-10-55-47(a)

The following is an example of the disclosure of descriptive information about a public entity's reportable segments.

d. Description of the types of products and services from which each reportable segment derives its revenues (see paragraph 280-10-50-21(b)).

> Diversified Company has five reportable segments: auto parts, motor vessels, software, electronics, and finance. The auto parts segment produces replacement parts for sale to auto parts retailers. The motor vessels segment produces small motor vessels to serve the offshore oil industry and similar businesses. The software segment produces application software for sale to computer manufacturers and retailers. The electronics segment produces integrated circuits and related products for sale to computer manufacturers. The finance segment is responsible for portions of the company's financial operations including financing customer

purchases of products from other segments and real estate lending operations in several states.

ASC 280-10-55-47(d)

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

Diversified Company's reportable segments are strategic business units that offer different products and services. They are managed separately because each business requires different technology and marketing strategies. Most of the businesses were acquired as a unit, and the management at the time of the acquisition was retained.

ASC 280-10-55-47(e)

e. The title and position of the individual or the group identified as the chief operating decision maker (see paragraph 280-10-50-20-21(c)).

Diversified Company's chief operating decision maker is the chief executive officer.

1.3 Information about segment profit or loss and assets

In determining the information to be disclosed about each reportable operating segment, the FASB sought to balance the needs of financial statement users and the costs to preparers. To meet this goal, the Board decided that a public entity is required to disclose a measure of profit or loss for each reportable segment along with other financial information, but only if this information is regularly reviewed by the CODM.

ASC 280-10-50-22

A public entity shall report a measure of profit or loss and total assets for each reportable segment. A public entity also shall disclose all of the following about each reportable segment if the specified amounts are included in the measure of segment profit or loss reviewed by the chief operating decision maker or are otherwise regularly provided to the chief operating decision maker, even if not included in that measure of segment profit or loss (see Example 3, Case B [paragraph 280-10-55-48]):

a. Revenues from external customers

b. Revenues from transactions with other operating segments of the same public entity

c. Interest revenue

d. Interest expense

e. Depreciation, depletion, and amortization expense

f. Unusual items as described in paragraph 225-20-45-16

g. Equity in the net income of investees accounted for by the equity method

h. Income tax expense or benefit

i. Subparagraph superseded by Accounting Standards Update No. 2015-01

j. Significant noncash items other than depreciation, depletion, and amortization expense.

A public entity shall report interest revenue separately from interest expense for each reportable segment unless a majority of the segment's revenues are from interest and the chief operating decision maker relies primarily on net interest revenue to assess the performance of the segment and make decisions about resources to be allocated to the segment. In that situation, a public entity may report that segment's interest revenue net of its interest expense and disclose that it has done so. Nonetheless, a public entity shall separately disclose interest expense if it is a significant segment expense in accordance with paragraph 280-10-50-26A.

ASC 280-10-50-23

Disclosure of interest revenue and interest expense included in reported segment profit or loss is intended to provide information about the financing activities of a segment.

ASC 280-10-50-24

If a segment is primarily a financial operation, interest revenue probably constitutes most of segment revenues and interest expense will constitute most of the difference between reported segment revenues and reported segment profit or loss. If the segment has no financial operations or only immaterial financial operations, no information about interest is required unless interest expense is a significant segment expense to be disclosed in accordance with paragraph 280-10-50-26A.

Additionally, ASC 606 requires public entities to disaggregate and disclose revenue information so that financial statement users can understand the relationship between the disclosure of disaggregated revenue in ASC 606 and the revenue information that is disclosed for each reportable segment under ASC 280.

Within the segment asset disclosures in ASC 280, public entities should separately report certain amounts if these amounts are either (1) included in the determination of segment assets or (2) otherwise regularly provided to the CODM. If the disclosures for a reportable segment do not include asset information, the public entity must disclose the reason for this omission in lieu of the information required under ASC 280-10-50-25.

If a public entity does not allocate assets to a reportable segment, it would not report asset information for that segment but would be required to disclose this fact along with the reason for not allocating any assets.

ASC 280-10-50-25

A public entity shall disclose both of the following about each reportable segment if the specified amounts are included in the determination of segment assets reviewed by the chief operating decision maker or are otherwise regularly provided to the chief operating decision maker, even if not included in the determination of segment assets:

a. The amount of investment in equity method investees

b. Total expenditures for additions to long-lived assets other than any of the following (see Example 3, Case B [paragraph 280-10-55-48]):

    1. Financial instruments

2. Long-term customer relationships of a financial institution
3. Mortgage and other servicing rights
4. Deferred policy acquisition costs
5. Deferred tax assets.

ASC 280-10-50-26

If no asset information is provided for a reportable segment, that fact and the reason therefore shall be disclosed.

1.3.1 Measurement of disclosed amounts

In determining the amounts to report for each of the items outlined in ASC 280-10-50-25 through 50-26C, a public entity should use the same measure that was used when reporting this information to the CODM. Any adjustments, eliminations, or allocations made in preparing the financial statements and in reporting segment profit or loss should be included only if they are included in the measure of the segment's profit or loss that is used by the CODM to allocate resources and assess performance.

ASC 280-10-50-27

The amount of each segment item reported shall be the measure reported to the chief operating decision maker for purposes of making decisions about allocating resources to the segment and assessing its performance. Adjustments and eliminations made in preparing a public entity's general-purpose financial statements and allocations of revenues, expenses, and gains or losses shall be included in determining reported segment profit or loss only if they are included in the measure of the segment's profit or loss that is used by the chief operating decision maker. Similarly, only those assets that are included in the measure of the segment's assets that is used by the chief operating decision maker shall be reported for that segment. If amounts are allocated to reported segment profit or loss or assets, those amounts shall be allocated on a reasonable basis.

1.3.2 Measures of segment profit or loss

If the CODM uses multiple measures of a segment's profit or loss, the measure that is most consistent with the measurement principles under U.S. GAAP must be disclosed. ASC 280 explicitly permits, though it does not require, the disclosure of additional measures of profit or loss if utilized by the CODM but precludes the disclosure of a measure of profit or loss that is not utilized by the CODM. If more than one measure is disclosed, all disclosure requirements, including SSEs and reconciliations to consolidated U.S. GAAP income amounts, are required for each measure.

If more than one measure of profit or loss for a segment is disclosed in the current period, the additional measure must be disclosed for prior periods if it was provided to the CODM in prior periods. If the additional measure was not provided to the CODM in prior periods, the prior-period disclosure is optional.

ASC 280-10-50-28

If the chief operating decision maker uses only one measure of a segment's assets in assessing segment performance and deciding how to allocate resources, segment assets shall be reported at that measure. If the chief operating decision maker uses more than one measure of a segment's assets, the reported measure shall be that which management believes is determined in accordance with the measurement principles most consistent with those used in measuring the corresponding amounts in the public entity's consolidated financial statements.

ASC 280-10-50-28A

If the chief operating decision maker uses only one measure of a segment's profit or loss in assessing segment performance and deciding how to allocate resources, segment profit or loss shall be reported at that measure. If the chief operating decision maker uses more than one measure of a segment's profit or loss in assessing segment performance and deciding how to allocate resources, a public entity may report one or more of those additional measures of segment profit. However, at least one of the reported segment profit or loss measures (or the single reported measure, if only one is disclosed) shall be that which management believes is determined in accordance with the measurement principles most consistent with those used in measuring the corresponding amounts in a public entity's consolidated financial statements.

ASC 280-10-50-28B

If a public entity discloses more than one measure of a segment's profit or loss in the current period, it shall report the additional measure or measures for the prior periods in which the measure or measures were provided to the chief operating decision maker. For example, if a public entity reports an additional measure in the current period for gross profit for a reportable segment, it should disclose gross profit for the reportable segment in the prior comparative periods if gross profit was provided to the chief operating decision maker in those periods. A public entity is not precluded from reporting the additional measure or measures for the prior periods in which the measure or measures were not provided to the chief operating decision maker.

ASU 2023-07 update: Additional measure of profit or loss and non-GAAP disclosure

The amendments in ASU 2023-07 did not modify the requirement under ASC 280 for public entities to disclose a measure of segment profit or loss that is most consistent with U.S. GAAP.

Prior to the issuance of ASU 2023-07, public entities were only allowed to disclose a single measure of segment profit or loss used by the CODM that was most consistent with U.S. GAAP. The amendments in ASU 2023-07 now explicitly allow public entities to disclose more than one measure of segment profit or loss used by the CODM. These additional measures of profit or loss, if non-GAAP measures, must comply with all SEC non-GAAP rules and regulations, as outlined in this section.

The CODM may regularly review non-GAAP measures of profit or loss as part of their review of segment performance. These additional non-GAAP measures may be disclosed in the financial statements based on the guidance in ASC 280, although the SEC staff has cautioned public companies that any non-GAAP measures of segment profit or loss voluntarily disclosed must fully comply with the SEC's non-GAAP rules.

As an example, if a CODM uses both earnings before interest taxes, depreciation and amortization (EBITDA) and adjusted EBITDA (which excludes additional nonrecurring expenses from EBITDA) to allocate resources and assess performance, EBITDA would be the measure most consistent with U.S. GAAP and would therefore be required to be disclosed by ASC 280, and the non-GAAP rules would not apply in this scenario. However, if the public entity elects to report adjusted EBITDA as an additional measure of segment profit or loss, adjusted EBITDA would be considered a non-GAAP measure, and the public entity would be required to include all non-GAAP disclosures under pertinent SEC regulations.

Grant Thornton insight: Disclosure of multiple measures of segment profit or loss

Applying the SEC's non-GAAP rules to disclosure of additional measures of segment profit or loss

At the 2023 AICPA & CIMA Conference, Lindsay McCord, who was then Chief Accountant of the SEC's Division of Corporation Finance (CorpFin), emphasized that under the amendments in ASU 2023-07, entities are allowed, but are not required, to disclose additional measures of segment profitability and that, pursuant to Item 10(e)(5) of SEC Regulation S-K, these voluntarily disclosed additional measurements are considered to be non-GAAP financial measures if they are not computed in accordance with U.S. GAAP. Ms. McCord reminded entities to ensure that such measures comply with the requirements of SEC Regulation G and are not misleading. Further, entities are expected to provide additional disclosures for non-GAAP financial measures as required by S-K Item 10(e) in their filings.

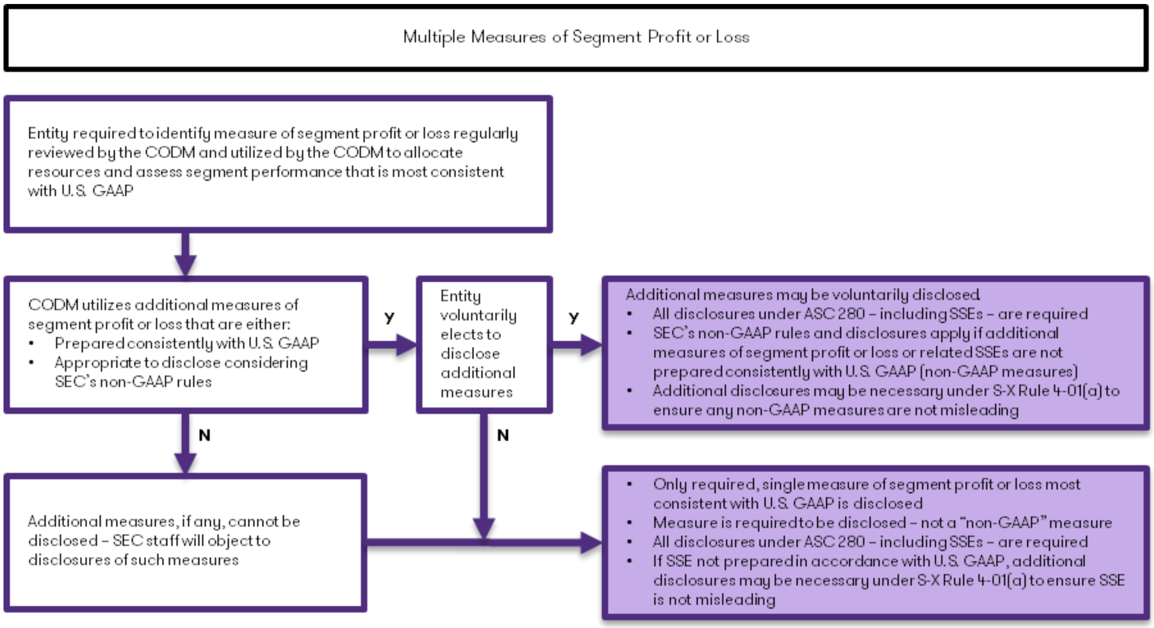
The measure of segment profit or loss regularly reviewed by the CODM that is most consistent with the measurement principles in U.S. GAAP, however, is *not* considered to be a non-GAAP financial measure because it is required to be disclosed by U.S. GAAP.

For additional considerations related to the disclosure of non-GAAP measures, refer to Section 1.3.6, "Interaction of segment disclosures and the SEC's non-GAAP rules."

Are entities permitted to use different measures of segment profitability for different reportable segments?

Based on discussions with the SEC staff, we understand that entities are permitted to use different measures of segment profitability for each reportable segment.

The following flowchart summarizes matters that entities should consider when electing to disclose multiple measures of segment profit or loss and associated SSEs based on the amendments in ASU 2023-07 and on views expressed by the SEC staff.



1.3.3 Significant segment expenses

Public entities are required to disclose significant segment expenses (SSEs) under the "significant expense principle," which requires an entity to evaluate each disclosed measure of segment profit or loss presented for SSEs and to disclose any SSEs identified. SSEs are expense categories and amounts, including allocated amounts for corporate overhead expenses, that are included in each reported measure of a segment profit or loss and are both (1) regularly provided to the CODM, and (2) determined to be significant.

ASC 280-10-50-26A

A public entity shall disclose for each reportable segment the significant expense categories and amounts that are regularly provided to the chief operating decision maker and included in reported segment profit or loss. When determining the segment expense categories and amounts that shall be disclosed, a public entity shall first identify the expenses from the segment level information that is regularly provided to the chief operating decision maker and then disclose those segment expense categories and amounts that are significant. A public entity shall consider relevant qualitative and quantitative factors when determining whether segment expense categories and amounts are significant. When applying this guidance, a public entity shall evaluate for disclosure a segment expense that is regularly provided to the chief operating decision maker as well as a segment expense that is easily computable from information that is regularly provided to the chief operating decision maker. Paragraphs 280-10-55-15A through 55-15B provide additional guidance on determining whether segment expense amounts can be easily computed for purposes of applying the guidance in this paragraph.

ASU 2023-07 update: Significant segment expense (SSE)

The new disclosure amendments in ASU 2023-07 require public entities subject to the segment reporting requirements to disclose SSEs. Under the previous segment disclosure guidance, public entities had to disclose certain segment expenses, such as interest expense as well as depreciation, depletion, or amortization expense, but there was no requirement to disclose disaggregated SSEs. The amendments in ASU 2023-07 also require disclosure of “other” segment items, which is the amount that reconciles segment revenue, less SSEs, to the segment profit metric. A qualitative description of the types of expenses included in other segment items must also be disclosed.

Regularly provided expense categories and amounts

All expense categories included in a disclosed measure of segment profit or loss that are “regularly provided” to the CODM are required to be evaluated for separate disclosure under the significant expense principle. Expense categories that are regularly provided to the CODM include any expense information that is “easily computable” from the information regularly provided to the CODM.

For example, if the information provided to the CODM includes revenues and gross margins, a public entity can easily compute the cost of goods sold from the information provided and should disclose this information as an expense category if it is considered significant. This practice also applies to certain metrics (for example, a ratio or an expense as a percentage of revenue) provided to the CODM. If revenues and warranty expense expressed as a percentage of revenues are reviewed by the CODM, then warranty expense could be easily computed based on the percentage of revenue and should be disclosed as a significant expense category if it is considered significant.

ASC 280 provides the following examples related to significant expense amounts that can be easily computed based on information provided to the CODM.

Significant Expense Amounts That Can be Easily Computed from Information That is Regularly Provided to the Chief Operating Decision Maker

ASC 280-10-55-15A

The information that is regularly provided to the chief operating decision maker may include segment expense information that is expressed in a form other than the actual amounts, for example, as a ratio or an expense as a percentage of revenue. The requirements in paragraph 280-10-50-26A apply to expense amounts that can be easily computed from the information that is regularly provided to the chief operating decision maker.

ASC 280-10-55-15B

For example, if the information that is regularly provided to the chief operating decision maker includes a segment revenue amount and a segment gross margin amount, segment cost of sales can be easily computed from this information. Therefore, if cost of sales is significant, an entity should disclose the category and amount in accordance with paragraph 280-10-50-26A. As another example, the information that is regularly provided to the chief operating decision maker may include segment revenue amount and segment warranty expense expressed as a percentage of segment revenue. In this example, segment warranty expense can be easily computed from this information. Therefore, if warranty expense is significant, the entity should disclose the category and amount in accordance with paragraph 280-10-50-26A.

‘Significant’ expense categories

The concept of “significance” is not defined in ASC 280. However, applying this concept to determine whether expenses regularly provided to the CODM (or amounts easily computable thereof) require disclosure as SSEs should be consistent with how entities use judgment to apply the concept of significance elsewhere in ASC 280. For example, an entity must evaluate significance when considering whether additional significant noncash items and certain reconciling segment information used to arrive at consolidated amounts require separate disclosure.

Grant Thornton insight: Identifying ‘significant’ segment expenses

When is a segment expense regularly reviewed by the CODM considered ‘significant’?

Public entities need to use judgment in applying the term “significant” when making their segment disclosures.

Although the term “significant” is not explicitly defined in ASC 280 or by the amendments in ASU 2023-07, entities are expected to apply the significance threshold in a similar manner to how the threshold is currently applied elsewhere in ASC 280, such as when a public entity considers additional significant noncash items to disclose for a reportable segment and items to disclose when reconciling certain segment information to arrive at consolidated amounts. The amendments require a public entity to consider both quantitative and qualitative factors when assessing significance, and entities need to apply consistent judgments, policies, processes, and controls when determining which expenses are considered significant.

Factors that may be considered in evaluating significance include, but are not limited to, the following:

- Whether an expense impacts trends within the segment;
- Whether management believes an expense is important to current or future segment profitability;
- Whether the expense is regularly discussed in communications with investors or analysts;
- Whether the omission of the expense would change an investor’s understanding of segment results, causing a change in an investment decision;
- Whether the expense is regularly provided to the CODM on a disaggregated basis in the measure of segment profit or loss;
- The type of industry and the importance of the expense to the industry;
- The size of the segment compared to other segments;
- The volatility of the expense category; and
- Growth of the segment or the expense.

Additionally, the significance of an expense is considered in relation to *each reportable segment*, not in relation to the reporting entity as a whole. The FASB noted in the Basis for Conclusions of ASU 2023-

07 that investors will likely find expense information regularly provided to the CODM to be useful. As such, public entities should carefully evaluate conclusions that expense categories regularly provided to the CODM are not significant and document the basis for their conclusion.

Significant expenses may also vary between segments, and public entities should be consistent in using the same judgments, policies, processes, and controls across segments when evaluating significance.

Significant expense categories and corporate overhead

The significant expense principle also applies to corporate overhead allocated by segment. For example, a public entity should disclose an expense category and the amount of corporate overhead allocated to a reportable segment that is significant if the corporate overhead category and allocations are part of the segment information regularly provided to the CODM and are included within the measure of segment profit or loss.

The implementation guidance in ASC 280-10-55-15C provides additional clarification on how entities should assess the amounts for corporate overhead when included in segment results.

Disclosure of Corporate Overhead Expense as a Significant Expense Amount When It Is Regularly Provided to the Chief Operating Decision Maker and Included within the Measure of Segment Profit or Loss

ASC 280-10-55-15C

If the information regularly provided to the chief operating decision maker contains a category and amount for allocated corporate overhead expenses by segment that is included in reported segment profit or loss, a public entity should assess that category and amount for disclosure in accordance with paragraph 280-10-50-26A. For example, an entity would disclose allocated corporate overhead if it is a significant segment expense in accordance with paragraph 280-10-50-26A.

Grant Thornton insight: Are entities permitted to disclose an expense that is not calculated in accordance with U.S. GAAP as a significant segment expense under ASC 280?

Yes. The amendments in ASU 2023-07 do not require SSEs to be computed in accordance with U.S. GAAP. In discussions, the SEC staff has indicated that they will not object to the disclosure of significant expenses that are not calculated in accordance with U.S. GAAP, provided such measures are not misleading and comply with the requirements in Rule 4-01(a) of Regulation S-X.

For additional consideration related to the disclosure of non-GAAP measures, refer to Section 1.3.6, “Interaction of segment disclosures and the SEC’s non-GAAP rules.”

Other segment items

A public entity must also disclose *other segment items*, which is the amount needed to reconcile segment revenues, less categories of significant expenses disclosed, to the segment profit or loss measures. A qualitative description of the expense items that comprise the other segment items must also be disclosed. This disclosure is required for all reportable segments, including those for which no SSEs are disclosed because no expenses meet the threshold for disclosure (for instance, if no expenses within the reportable segment met the significance criteria).

ASC 280-10-50-26B

A public entity shall disclose for each reportable segment an amount for other segment items. The amount for other segment items is the difference between reported segment revenues less the segment expenses disclosed in accordance with paragraph 280-10-50-26A and reported segment profit or loss. A qualitative description of the composition of other segment items also shall be disclosed. Other segment items may include:

a. The total of a reportable segment's expenses that are included in the reported measure(s) of a segment's profit or loss but are not regularly provided to the chief operating decision maker.

b. The total of a reportable segment's expenses that are included in the reported measure(s) of a segment's profit or loss but are not disclosed in accordance with paragraph 280-10-50-26A. A public entity is not precluded from separately disclosing an expense that is not significant for one reportable segment but is significant for another of its segments. However, if a segment expense that is not significant is not separately disclosed, it shall be included as part of other segment items.

c. The total of a reportable segment's gains, losses, or other amounts that also are included in each reported measure of a segment's profit or loss.

d. The items and amounts required by paragraph 280-10-50-22 when those specified items and amounts are included within the reported measure of segment profit or loss but are not disclosed in accordance with paragraph 280-10-50-26A. For example, a public entity may report net income as the measure of a segment's profit or loss. In that case, if income tax expense by segment is not regularly provided to the chief operating decision maker, it may be included within other segment items. However, income tax expense is still required to be disclosed in accordance with paragraph 280-10-50-22.

ASC 280-10-50-26C

An amount and qualitative description of the composition of other segment items shall be disclosed for each reportable segment even when a public entity does not separately report significant segment expense categories and amounts in accordance with paragraph 280-10-50-26A for one or more of its reportable segments. Additionally, if a public entity does not disclose significant expense categories and amounts for one or more of its reportable segments, it shall explain the nature of the expense information the chief operating decision maker uses to manage operations (see paragraph 280-10-55-15G).

See Section 1.3.5 for an example of the disclosure of SSEs and other significant expense from ASC 280-10-55-48.

1.3.4 Disclosures related to equity method investments

For an equity method investment that is considered a reportable segment, ASC 280 requires disclosures of financial information. The financial information disclosed should be consistent with the format utilized by the CODM, whether it is on a proportionate consolidation basis or uses the full financial information of the investee, such as total revenue and total profit or loss. If the profit or loss disclosed for an equity method investment is different from the equity in earnings (loss), a public entity should disclose its accounting policy for segment reporting and eliminate the full or proportionate amounts in order to reconcile these amounts to those presented in the consolidated financial statements. Additional disclosures should be considered to provide any other details that would help so that the information about the investee is not misleading.

1.3.5 Example disclosures: Measures of segment profit or loss, SSEs, and segment assets

To assist public entities in the development of these disclosures, the FASB provided the following example in ASC 280-10-55-48 showing how the requirements in ASC 280 may be met. The format presented below is a suggested format, but it is not the only acceptable format. A public entity should present the required information in whatever format would be most useful to the users of its financial statements.

Quantitative disclosures

As discussed in the preceding sections, ASC 280 requires a number of quantitative disclosures related to measures of segment profit or loss and segment assets for each of an entity's reportable segments. These disclosures were expanded by the amendments in ASU 2023-07.

Example 3: Illustrative Disclosures

Case B: Information about Reported Segment Revenue, Measures of a Segment's Profit or Loss, SSEs, Measure of a Segment's Assets, and Required Reconciliations

ASC 280-10-55-48

The following tables illustrate a format for presenting information about reported segment revenue, measures of a segment's profit or loss, SSEs, and measure of a segment's assets (see paragraphs 280-10-50-22, 280-10-50-25, and 280-10-50-26A through 50-26C) for the current reporting period. The tables do not illustrate comparative period disclosures. Diversified Company does not allocate income taxes or unusual items to segments. In addition, not all segments have significant noncash items other than depreciation and amortization in reported profit or loss. The amounts in this Example are assumed to be the amounts in management's reports that are regularly provided to the chief operating decision maker, including interest revenue and interest expense. The following tables also illustrate a format for presenting the reconciliations of reportable segment revenues and measures of profit or loss to Diversified Company's consolidated totals (see paragraph 280-10-50-30(a) through (b)).

	Auto Parts	Motor Vessels	Software	Electronics	Finance	Totals
Revenues from external customers	$ 3,000	$ 5,000	$ 9,500	$ 12,000	$5,000[(a)]	$ 34,500
Intersegment revenues	-	-	3,000	1,500	-	4,500
	3,000	5,000	12,500	13,500	5,000	39,000

Reconciliation of revenue						
Other revenues						1,000[b]
Elimination of intersegment revenues						(4,500)
Total consolidated revenues						$ 35,500
Less: [c]						
Cost of revenue	1,700	3,100	2,000	6,800	-	
Segment gross profit	1,300	1,900	10,500	6,700	-[d]	$ 20,400
Less: [c]						
Research and development expense	-	-	3,300	-	-	
Nonmanufacturing payroll expense [e]	500	900	2,600	2,700	750	
Professional services expense	-	-	1,700	500	800	
Interest expense (finance segment)	-	-	-	-	3,000	
Other segment items [f]	700	1,130	2,300	1,600	(50)	
Segment profit/(loss)	100	(130)	600	1,900	500	$ 2,970
Reconciliation of profit or loss (segment profit/(loss))						
Other profit or loss						100[b]
Interest income/(expense), net (excluding finance segment)						1,125[g]
Elimination of intersegment profits						(500)
Unallocated amounts:						
Litigation settlement received						500
Other corporate expenses						(750)
Adjustment to pension expense in consolidation						(250)
Income before income taxes						$ 3,195
Reconciliation of profit or loss (segment gross profit)						
Total segment gross profit						$ 20,400
Segment operating expenses, net (excluding finance segment)						(17,930)[h]
Segment profit (finance segment)						500
Other profit or loss						100[b]
Interest income/expense, net (excluding finance segment)						1,125[g]
Elimination of intersegment profits						(500)

Unallocated amounts:	
Litigation settlement received	500
Other corporate expenses	(750)
Adjustment to pension expense in consolidation	(250)
Income before taxes	$ 3,195

(a) The revenue from external customers for the finance segment relates to interest and noninterest income.

(b) Revenue and profit or loss from segments below the quantitative thresholds are attributable to four operating segments of Diversified Company. Those segments include a small real estate business, an electronics equipment rental business, a software consulting practice, and a warehouse leasing operation. None of those segments has ever met any of the quantitative thresholds for determining reportable segments.

(c) The significant expense categories and amounts align with the segment-level information that is regularly provided to the chief operating decision maker. Intersegment expenses are included within the amounts shown.

(d) For the finance segment, the chief operating decision maker uses only pretax profit or loss as the measure to allocate resources and assess segment performance. As a result, segment gross profit is not reported for the finance segment.

(e) The nonmanufacturing payroll expense does not include amounts capitalized on the balance sheet or included within other expense categories.

(f) Other segment items for each reportable segment includes:

Auto parts—maintenance, professional services expense, and repairs expense and certain overhead expenses.

Motor vessels—marketing expense, professional services expense, occupancy expense, and certain overhead expenses.

Software—depreciation and amortization expense, travel expense, office supplies expense, and certain overhead expenses.

Electronics—depreciation and amortization expense, marketing expense, occupancy expense, and certain overhead expenses.

Finance—depreciation and amortization expense, property tax expense, certain overhead expenses, and other gains or losses.

(g) Interest income/(expense), net (excluding finance segment) of $1,125 comprises (i) consolidated total interest revenue (excluding finance segment) of $3,825 and (ii) consolidated total interest expense (excluding finance segment) of $2,700.

(h) Segment operating expenses, net (excluding finance segment) of $17,930 includes research and development expense, nonmanufacturing payroll expense, professional services expense, and other segment items for the auto parts, motor vessels, software, and electronics segments.

Other segment disclosures (see paragraphs 280-10-50-22 and 280-10-50-25)	**Auto Parts**	**Motor Vessels**	**Software**	**Electronics**	**Finance**	**Totals**
Interest revenue	$450	$800	$1,000	$1,500	$4,000	$7,750
Interest expense	350	600	700	1,100	3,000	5,750
Depreciation and amortization[a]	200	100	50	1,500	150	2,000
Other significant noncash items:						
Cost in excess of billings on long-term contracts	-	200	-	-	-	200

Segment assets	2,000	5,000	3,000	12,000	57,000	79,000
Expenditures for segment assets	300	700	500	800	600	2,900

(a) The amounts of depreciation and amortization disclosed by reportable segment are included within the other segment expense captions, such as cost of revenue or other segment items

Qualitative disclosures

In addition to the quantitative disclosures discussed above, public entities are also required to provide certain qualitative disclosures explaining how the public entity measures profit or loss and assets for each reportable segment.

ASC 280-10-50-29

A public entity shall provide an explanation of the measurements of segment profit or loss and segment assets for each reportable segment. A public entity shall disclose all of the following (see Example 3, Cases A through C [paragraphs 280-10-55-47 through 55-50 and Example 4, Cases A through B [paragraphs 280-10-55-53 through 55-55]):

a. The basis of accounting for any transactions between reportable segments.

b. The nature of any differences between the measurements of the reportable segments’ profits or losses and the public entity’s consolidated income before income taxes and discontinued operations (if not apparent from the reconciliations described in paragraphs 280-10-50-30 through 50-31). Those differences could include accounting policies and policies for allocation of centrally incurred costs that are necessary for an understanding of the reported segment information.

c. The nature of any differences between the measurements of the reportable segments’ assets and the public entity’s consolidated assets (if not apparent from the reconciliations described in paragraphs 280-10-50-30 through 50-31). Those differences could include accounting policies and policies for allocation of jointly used assets that are necessary for an understanding of the reported segment information.

d. The nature of any changes from prior periods in the measurement methods used to determine reported segment profit or loss, including significant changes from prior periods to the measurement methods of expenses, the method for allocating expenses to a segment, or changes in the method for allocating centrally incurred expenses, and the effect, if any, of those changes on the measure of segment profit or loss.

e. The nature and effect of any asymmetrical allocations to segments. For example, a public entity might allocate depreciation expense to a segment without allocating the related depreciable assets to that segment.

f. How the chief operating decision maker uses the reported measure(s) of segment profit or loss in assessing segment performance and deciding how to allocate resources.

ASU 2023-07 update: Other required disclosures

The amendments in ASU 2023-07 expand upon the existing disclosures in ASC 280 to include information about how the CODM assesses segment performance and allocates resources using the reported measures of segment profit or loss, as well as significant changes in the methods used for allocating or measuring expenses in determining segment profit or loss. These expanded disclosures aim to provide financial statement users with additional information and context about the suitability and use of measures of segment profit or loss by the CODM.

ASC 280 includes the following example of how a public entity might disclose some of the information now required by ASC 280-10-50-29.

Example 3: Illustrative Disclosures

Case A: Disclosure of Descriptive Information About Reportable Segments

ASC 280-10-55-47(b)

b. Measures of segment profit or loss and segment assets (see paragraph 280-10-50-29).

> The accounting policies of the segments are the same as those described in the summary of significant accounting policies except that pension expense for each segment is recognized and measured on the basis of cash payments to the pension plan. Diversified Company evaluates performance for all of its reportable segments except the finance segment based on both segment gross profit and profit or loss from operations before interest and income taxes. The finance segment's performance is evaluated based on pretax profit or loss.

bb. How the chief operating decision maker uses the reported measures of the segment's profit or loss (see paragraph 280-10-50-29(f)).

> For the auto parts, motor vessels, software, and electronics segments, the chief operating decision maker uses both segment gross profit and segment profit or loss from operations before interest and income taxes to allocate resources (including employees, property, and financial or capital resources) for each segment predominantly in the annual budget and forecasting process. The chief operating decision maker considers budget-to-actual variances on a monthly basis for both profit measures when making decisions about allocating capital and personnel to the segments. The chief operating decision maker also uses segment gross profit for evaluating product pricing and segment profit or loss from operations before interest and income taxes to assess the performance for each segment by comparing the results and return on assets of each segment with one another in the compensation of certain employees.

> For the finance segment, the chief operating decision maker uses segment pretax profit or loss to allocate resources (including employees, financial, or capital resources) to that segment in the annual budget and forecasting process and uses that measure as a basis for evaluating lending terms for customer loans. The chief operating decision maker also uses segment pretax profit or loss to assess the performance of the finance segment by monitoring the margin between interest revenue and interest expense.

c. Diversified Company accounts for intersegment sales and transfers as if the sales or transfers were to third parties, that is, at current market prices.

1.3.6 Interaction of segment disclosures and the SEC's non-GAAP rules

The segment disclosure requirements under ASC 280 are premised on a "management view" approach, requiring disclosure of certain amounts regularly reviewed by an entity's CODM. However, a CODM may review amounts that are not determined in accordance with U.S. GAAP, which may be considered "non-GAAP financial measures."

Regulation G and Item 10(e) of Regulation S-K define a "non-GAAP financial measure" as a numerical measure of historical or future performance, financial position, or cash flow, which either excludes items that are included in the most directly comparable U.S. GAAP measure or includes items that are excluded from the most directly comparable GAAP measure. Further, S-K Item 10(e)(5) states that non-GAAP financial measures "exclude financial measures required to be disclosed by GAAP, Commission rules, or a system of regulation of a government or governmental authority or self-regulatory organization" that applies to the entity. However, as S-K Item 10(e)(5) continues, the financial measure "should be presented outside of the financial statements unless the financial measure is required or expressly permitted by the standard-setter that is responsible for establishing the GAAP used in such financial statements."

As a result of this SEC guidance, entities are permitted to disclose non-GAAP financial measures in SEC filings and in other materials presented to investors, as long as all of the following conditions are met:

- Such measures are not misleading;
- The most directly comparable GAAP measure is presented with equal or greater prominence;
- A reconciliation of the non-GAAP financial measure to the comparable GAAP measure is presented; and
- Management discloses the reasons why it believes that presenting a non-GAAP financial measure provides useful information to investors about the entity's financial condition and results of operations.

Based on our discussions with the SEC staff, we understand that the staff would not object to the inclusion of additional measures of segment profit or loss that are not prepared in accordance with GAAP in the financial statements, provided that such measures comply with the preparation and disclosure requirements in ASC 280 and with the SEC's non-GAAP rules. Further, when including non-GAAP measures in the financial statements under the amendments in ASU 2023-07, entities must consider the guidance in Rule 4-01(a) of Regulation S-X, which states that "The information required with respect to any statement shall be furnished as a minimum requirement to which shall be added such further material information as is necessary to make the required statements, in light of the circumstances under which they are made, not misleading."

Section 100 of CorpFin's Compliance and Disclosure Interpretations (C&DIs), *Non-GAAP Financial Measures,* contains additional guidance and examples of cases where non-GAAP measures could be considered misleading to investors. The C&DIs clarify that the SEC staff will ordinarily object to or seek information about the appropriateness of the use of non-GAAP financial measures that exhibit, among other things, any one of the following characteristics:

- Reflect individually tailored accounting principles;

- Remove from a performance measure normal, recurring, cash operating expenses necessary to operate the business;
- Exclude from the performance measure nonrecurring charges but not nonrecurring gains;
- Do not present the performance measure consistently from one reporting period to another;
- Do not present the tax effects of the related adjustments if applicable; or
- Are labeled inappropriately or are not clearly described.

The SEC staff has previously noted that a non-GAAP measure could be misleading even if accompanied by extensive and detailed disclosures about the nature and impact of each adjustment.

Grant Thornton insight: Location of the disclosures required by the SEC's non-GAAP rules: Are entities required to duplicate within the financial statements any disclosures related to non-GAAP financial measures that are presented outside the financial statements?

Based on discussions with the SEC staff, we understand that there is no requirement to include additional disclosures pursuant to the SEC's non-GAAP rules in the financial statements. Such disclosures could be presented outside the financial statements, such as in Management's Discussion and Analysis (MD&A). If such disclosures are included outside the financial statements, entities are not required to duplicate them within the financial statements. As a reminder, entities should not cross-reference within the financial statements any information that is presented outside the financial statements, as this is expressly prohibited under SEC regulations. Similarly, ASC 280 and its amendments do not require entities to repeat non-GAAP disclosures outside the financial statements.

1.4 Reconciliations

Because the guidance in ASC 280 does not require a public entity to prepare segment information on the same basis as the consolidated financial statements, there may be differences between amounts reported in the segment disclosures and the totals reported in the consolidated statements. For example, the amounts reviewed by the CODM when evaluating segment performance and asset allocation may be pre-elimination amounts that are presented as segment revenue in the segment disclosures. To assist in understanding these differences, the FASB requires public entities to provide information that will help financial statement users reconcile the segment disclosure information to the corresponding amounts in the consolidated financial statements.

ASC 280-10-50-30

A public entity shall provide reconciliations of all of the following (see Example 3, Cases B and C [paragraphs 280-10-55-48 through 55-50] and Example 4, Case B [paragraph 280-10-55-55]):

a. The total of the reportable segments' revenues to the public entity's consolidated revenues.

b. The total of the reportable segments' amount for each measure of profit or loss to the public entity's consolidated income before income taxes and discontinued operations. However, if a public entity allocates items such as income taxes to segments, the public entity may choose to reconcile the total of the segments' measures of profit or loss to consolidated income after those items.

c. The total of the reportable segments' assets to the public entity's consolidated assets.

d. The total of the reportable segments' amounts for every other significant item of information disclosed to the corresponding consolidated amount (except for the segment disclosures required by paragraphs 280-10-50-26A through 50-26B). For example, a public entity may choose to disclose liabilities for its reportable segments, in which case the public entity would reconcile the total of reportable segments' liabilities for each segment to the public entity's consolidated liabilities if the segment liabilities are significant.

ASC 280-10-50-31

All significant reconciling items shall be separately identified and described. For example, the amount of each significant adjustment to reconcile accounting methods used in determining segment profit or loss to the public entity's consolidated amounts shall be separately identified and described.

Grant Thornton insight: Reconciling items not included in 'all other' category

The purpose of the reconciliations required under ASC 280 is to demonstrate how the segment disclosure information ties into the corresponding amounts in the consolidated financial statements, if applicable. For example, if segment revenue includes intersegment sales, a public entity would provide a reconciliation of segment revenue to total consolidated revenue, with the amount of intersegment revenue presented as the reconciling item. Reconciliations may also be provided for segment profit or loss, segment assets, and other significant segment amounts.

The example in ASC 280-10-55-48 shows how a public entity might present certain segment information under an "all other" category. As discussed in ASC 280-10-55-15, the "all other" category is used to capture information about other business activities and operating segments that are not reportable. Public entities should note that the reconciliations described in ASC 280-10-50-30 represent a separate disclosure, and, as a result, it would not be appropriate to include these reconciling items in the "all other" category instead of presenting a reconciliation.

The presentation and format of the reconciliation is not prescribed by the guidance in ASC 280, but the following example illustrates one form that the reconciliation might take.

Example 3: Illustrative Disclosures

Case C: Reconciliations of Reportable Segment Assets and Other Significant Items to the Consolidated Totals

ASC 280-10-55-49

The following is an example of reconciliations of reportable segment assets and other significant items to the entity's consolidated totals (see paragraph 280-10-50-30(c) through (d)). The public entity's financial statements are assumed not to include discontinued operations.

Assets

Total assets for reportable segments	$ 79,000
Other assets	2,000[(a)]
Elimination of receivables from corporate headquarters	(1,000)
Goodwill not allocated to segments	4,000
Other unallocated amounts	1,000
Consolidated total	$ 85,000

(a) Assets from segments below the quantitative thresholds are attributable to four operating segments of Diversified Company.

Other Significant Items

	Segment Totals	Adjustments	Consolidated Totals
Interest revenue	$ 7,750	$ 75	$ 7,825
Interest expense	5,750	(50)	5,700
Expenditures for assets	2,900	1,000	3,900
Depreciation and amortization	2,000	-	2,000
Cost in excess of billing on long-term contracts	200	-	200

ASC 280-10-55-50

The reconciling item to adjust expenditures for assets is the amount of expenses incurred for the corporate headquarters building, which is not included in segment information. None of the other adjustments are significant.

1.5 Single segment disclosure requirements

Public entities with a single reportable segment must provide the required disclosures in ASC 280 on both an interim and annual basis. A public entity that has one reportable segment should not rely upon its entity-wide financial statements and disclosures to satisfy the segment disclosure requirements, because the disclosures in ASC 280 will generally be incremental to the information provided by an entity's other financial statement disclosures. For example, the measure of segment profit or loss utilized by the CODM to assess performance—and the related SSEs—may not be otherwise disclosed in the public entity's financial statements.

ASU 2023-07 update: Single reportable segment update

Previously, the disclosure requirements in ASC 280 were unclear as to whether separate segment disclosures were required for a public entity with a single reportable segment. Upon the adoption of the amendments in ASU 2023-07, public entities with a single reportable segment are now explicitly subject to the same segment disclosure requirements as public entities that have multiple reportable segments.

For public entities with a single reportable segment, these disclosures may require more information than what is disclosed in a public entity's consolidated financial statements. SSEs provided to the CODM, for example, may not be limited to those categories disclosed in the results of operations in the public entity’s financial statements. The public entity may determine that an expense is significant to the segment and must be disaggregated in the disclosures as required under ASC 280. The CODM may use a profit or loss measure for the single reportable segment that is not presented in the public entity’s consolidated income statement and may consider disclosing that additional measure.

ASC 280-10-55-15D

All public entities, including those public entities that have a single reportable segment, are subject to the requirements of this Topic in its entirety. Paragraph 280-10-50-1(b) states that a characteristic of an operating segment is that it is a component of an entity whose operating results are regularly reviewed by the public entity’s chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance. Paragraph 280-10-50-4 states that not every part of a public entity is necessarily an operating segment or part of an operating segment; for example, corporate headquarters or certain functional departments may not be part of an operating segment. The entity should evaluate the guidance in paragraph 280-10-50-4 and the definition of an operating segment when identifying its operating segment (or segments) and determining whether that operating segment (or segments) constitutes all or part of the consolidated entity. For example, when a public entity has a single operating segment that constitutes part, but not all, of the consolidated entity, the chief operating decision maker may regularly review the operating results and performance of the operating segment differently than how management assesses the performance of the consolidated entity. Alternatively, when the single operating segment constitutes all of the consolidated entity, the chief operating decision maker may regularly review the entity-wide operating results and performance.

ASC 280-10-55-15E

A public entity that discloses a single reportable segment should identify the measure or measures (in accordance with paragraph 280-10-50-28A) of a segment’s profit or loss that the chief operating decision maker uses in assessing segment performance and deciding how to allocate resources, which may include a profit or loss measure that is not presented on the public entity’s consolidated income statement. For example, the chief operating decision maker of a single reportable segment entity may use both net income and earnings before interest, taxes, depreciation, and amortization as the measures of profit or loss for purposes of assessing segment performance and deciding how to allocate resources. However, earnings before interest, taxes, depreciation, and amortization is not presented on the public entity’s consolidated income statement.

ASC 280-10-55-15F

When the chief operating decision maker of a single reportable segment entity uses more than one measure of a segment’s profit or loss in assessing segment performance and deciding how to allocate resources, at least one of the reported segment profit or loss measures should be that which management believes is determined in accordance with the measurement principles most consistent with those used in measuring the corresponding amounts in a public entity’s consolidated financial statements and reconciled in accordance with paragraphs 280-10-50-30(b) and 280-10-50-32(f). A single reportable segment entity also may report additional performance measures that are used by the chief operating decision maker in assessing segment performance and deciding how to allocate resources in accordance with paragraphs 280-10-50-28A through 50-28B.

For a public entity with one reportable segment, the CODM may use a profit or loss measure other than consolidated net income. Whether this measure constitutes the measure of segment profit or loss that is required to be presented under ASC 280-10-50-28 will often depend upon whether the single segment entity is managed on a consolidated basis. As discussed in Section 1.3.2, an entity, including a single segment entity measured on a consolidated basis, may elect to provide additional measures of segment profit or loss.

Grant Thornton insight: Single segment entities

The guidance in ASC 280-10-55-15D notes that a public entity's single operating segment may constitute less than all of the total consolidated entity if, for example, the public entity has a corporate headquarters or functional departments that are neither part of the operating segment nor regularly reviewed by the CODM. Alternatively, an operating segment may constitute the entirety of the consolidated public entity.

Can an entity with a single operating segment be managed by the CODM on a basis other than consolidated?

Yes. However, the determination depends on a careful consideration of all pertinent facts and circumstances. An entity should first consider the guidance in ASC 208-10-55-15D, which addresses situations in which a single reportable segment constitutes part, but not all, of the consolidated entity. An entity may have a single reportable segment that excludes certain assets and operations if they are not regularly reviewed by the CODM. However, based on discussions with the SEC staff, we understand that the mere exclusion of a corporate headquarters or a certain functional department from a measure of profit or loss reviewed by the CODM would not be determinative as to whether an entity is managed on a consolidated basis.

When evaluating whether a single segment entity whose single segment excludes certain assets or operations is nonetheless managed on a consolidated basis, the entity should consider the guidance in ASC 280-10-50-4 in addition to other factors, such as how the CODM prepares budgets, allocates resources, and assesses performance.

May an entity managed on a consolidated basis present a measure of segment profit or loss other than consolidated net income or loss?

Yes. While ASC 280 continues to require entities to disclose the segment performance measure closest to U.S. GAAP, the amendments under ASU 2023-07 allow for additional measurements of segment profit or loss to be voluntarily disclosed, provided the measures are reviewed by the CODM to allocate resources and assess segment performance. At the 2023 AICPA & CIMA Conference, the SEC staff noted that it expects entities managed on a consolidated basis to disclose net income determined in accordance with U.S. GAAP as the required measure of segment profit or loss, as this is considered the measure closest to U.S. GAAP, as required by ASC 280.

Must an entity with a single segment managed on a consolidated basis use net income as its required measure of segment profit or loss?

Yes. At the 2023 AICPA & CIMA Conference, the staff of the SEC's Office of the Chief Accountant (OCA) stated that for a public entity with a single operating segment that constitutes the entirety of the consolidated entity, the measure of segment profit or loss that is regularly reviewed by the CODM and prepared in accordance with U.S. GAAP is expected to be net income, as the CODM would be expected to also review the quarterly consolidated GAAP financial statements.

Would the SEC staff's views on measures other than net income change if the CODM is not the Chief Executive Officer or Chief Financial Officer certifying Forms 10-K or 10-Q?

Not necessarily. While the certification of Forms 10-K or 10-Q supports the idea that the certifying officer receives and reviews consolidated net income, identifying a non-certifying officer as the CODM does not necessarily support the use of a measure other than net income. Based on recent discussions, the SEC staff is not aware of any instances in which a CODM manages an entity with a single reportable segment on a consolidated basis and has not reviewed a consolidated U.S. GAAP measure of profit or loss, such as consolidated net income.

The single reportable segment example in ASC 280-10-55-54 through 55-55 includes the illustrative disclosures of descriptive information about the single reportable segment, as well as illustrative disclosure Information about reported segment revenue, segment profit or loss, and SSEs for a single reportable segment.

Example 4: Illustrative Disclosures – Single Reportable Segment Entity

Case A: Disclosure of Descriptive Information about the Reportable Segment

ASC 280-10-55-54

The following is an example of the required disclosures about a public entity's reportable segment.

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

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

b. Measure of segment profit or loss and assets (see paragraph 280-10-50-29).

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

    The chief operating decision maker assesses performance for the software segment and decides how to allocate resources based on net income that also is reported on the income statement as consolidated net income.

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

c. How the chief operating decision maker uses the reported measure of segment profit or loss (see paragraph 280-10-50-29(f)).

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

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

d. ABC Company does not have intra-entity sales or transfers.

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

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

f. The title and position of the individual or the group identified as the chief operating decision maker (see paragraph 280-10-50-21(c)).

ABC Company's chief operating decision maker is the senior executive committee that includes the chief operating officer, chief financial officer, and the chief executive officer.

Case B: Information about Reported Segment Revenue, Segment Profit or Loss, and Significant Segment Expenses

ASC 280-10-55-55

The following table illustrates a format for presenting information about reported segment revenue, segment profit or loss, and SSEs. The Example does not separately illustrate all of the information required by paragraphs 280-10-50-22 and 280-10-50-25.

	Software Segment
Revenue	$81,800
Less:	
Employee expense	41,000
Contractor expense	15,000
Occupancy and equipment expense	8,400
Hosting and data center expense	1,500
Other professional services expense	750
Customer acquisition expense	800
Other segment items[(a)]	2,500
Depreciation and amortization expense	3,200
Interest expense	600
Income tax expense	2,000
Segment net income	6,050

Reconciliation of profit or loss	
Adjustments and reconciling items	-
Consolidated net income	$6,050

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

1.6 Segment disclosures in condensed interim financial statements

The disclosures requirements in ASC 280 are primarily the same for both annual periods and interim periods with condensed interim financial statement reporting requirements, with a few exceptions. For example, the following information is required only on an annual basis:

- Explanations of the measurements of segment profit or loss and segment assets for each reportable segment in ASC 280-20-50-29;
- Reconciliations of assets, revenue, and other significant items of information to consolidated amounts as discussed in ASC 280-20-50-30(a) and (c) and (d); and
- Entity-wide disclosure information in 280-10-50-39, as discussed in Section 1.4.

The interim financial statement disclosure requirements include the disclosure requirements for SSEs as discussed in Section 1.3.3 as well as the reconciliation of the reportable segments' measure of profit or loss to consolidated income before income taxes as discussed in Section 1.3.

ASU 2023-07 update: Interim financial statements

Previously, ASC 280 permitted abbreviated segment disclosure requirements for interim periods. One of the main changes to segment disclosures under the amendments in ASU 2023-07 is that ASC 280 will no longer permit abbreviated disclosures for segment reporting for interim periods. The amendments update the disclosure requirements for segment reporting so that the same disclosures required for annual periods are also primarily required for interim periods when reporting condensed interim financial statements, with a few exceptions as outlined in this section.

Interim disclosures will now also include the expanded ASU 2023-07 disclosures along with the existing disclosures required by ASC 280-10-50-22 through 50-25.

Under ASC 280, a public entity is required to present certain segment information in interim financial statements for both the current quarter and year-to-date periods, together with comparable segment information for the interim periods of the prior year. For example, an entity with a calendar year-end filing its quarterly report for the interim period ended September 30, 20X2 would present segment information for the quarterly and year-to-date periods ended September 30, 20X2 and 20X1.

ASC 280-10-50-20

All public entities, including those public entities that have a single reportable segment, shall disclose all of the following for each period for which an income statement is presented. However, reconciliations of balance sheet amounts for reportable segments to consolidated balance sheet amounts are required only for each year for which a balance sheet is presented.

ASC 280-10-50-32

A public entity shall disclose all of the following about each reportable segment in condensed financial statements of interim periods:

a. A description of differences from the last annual report in the basis of segmentation or in the basis of measurement of segment profit or loss

ee. The segment information required by paragraphs 280-10-50-22 through 50-26C and 280-10-50-28A through 50-28B

f. A reconciliation of the total of the reportable segments' amount for each measure of profit or loss, including the total of the reportable segments' amount for any additional measure of profit or loss disclosed in accordance with paragraph 280-10-50-28A, to the public entity's consolidated income before income taxes and discontinued operations. However, if a public entity allocates items such as income taxes to segments, the public entity may choose to reconcile the total of the segments' measures of profit or loss to consolidated income after those items. Significant reconciling items shall be separately identified and described in that reconciliation.

ASC 280-10-50-33

Interim disclosures are required for the current quarter and year-to-date amounts. The information in paragraph 280-10-50-32 with respect to the current quarter and the current year-to-date or the last 12 months to date should be furnished together with comparable data for the preceding year.

When preparing interim information, public entities should use the same composition of reportable segments identified in their most recent annual financial statements, unless a change in facts and circumstances indicates that applying the quantitative tests would result in a previously unreported segment that both meets the quantitative tests and will continue to be significant in future periods.

As a result, a public entity should periodically review the composition of its segments, even during interim periods, to determine whether its segment reporting continues to provide financial statement users with timely information that can be used to evaluate the public entity's performance. A public entity needs to exercise judgment both when it determines the extent of the periodic review that it should perform and when it determines whether the results of this periodic review indicate there has been a change in its structure during an interim period that would cause the composition of its reportable segments to change.

ASC 280-10-55-16

Interim information is intended to be an update of the information that was presented in the most recent annual financial statements. Therefore, in the absence of a change in the structure of a public entity's internal organization during an interim period that would cause the composition of its reportable segments to change, generally, a public entity need not apply the quantitative tests in each interim period. However, if facts and circumstances change that would suggest that application of the quantitative tests in an interim period would reveal a reportable segment that was previously not reportable, and management expects that the segment will continue to be of significance, the segment should be disclosed as a new, separate reportable segment. This conclusion is consistent with the basic principle of interim financial reporting in paragraph 270-10-45-2.

1.7 Entity-wide disclosures

ASC 280 requires certain additional entity-wide disclosures of information about the public entity's products and services, geographic areas, and major customers if the information is not already included in the disclosures about segments on an annual basis. These disclosures are necessary because some reportable segments may report revenue from a number of different products and services, or, alternatively, multiple reportable segments might provide the same products and services. Because reportable segments are not often organized by geographic area, ASC 280 requires both product and service disclosures as well as geographical disclosures for all public entities within its scope.

Instead of taking a management approach, a public entity should present these disclosures to financial statement users based on amounts taken from information that was used in creating the financial statements. In other words, these amounts are the same as the amounts included in the financial statements, and the reconciliations discussed in Section 1.4 are not required.

If the entity-wide information is already presented as part of an individual reportable segment, a public entity is not required to present the information as part of the entity-wide disclosures.

Entity-wide disclosures do not apply to interim reporting, although public entities may choose to disclose this information in the interim financial statements.

ASC 280-10-50-38

Paragraphs 280-10-50-40 through 50-42 apply to all public entities subject to this Subtopic including those public entities that have a single reportable segment. Some public entities' business activities are not organized on the basis of differences in related products and services or differences in geographic areas of operations. That is, a public entity's segments may report revenues from a broad range of essentially different products and services, or more than one of its reportable segments may provide essentially the same products and services. Similarly, a public entity's segments may hold assets in different geographic areas and report revenues from customers in different geographic areas, or more than one of its segments may operate in the same geographic area. Information required by paragraphs 280-10-50-40 through 50-42 need be provided only if it is not provided as part of the reportable operating segment information required by this Subtopic.

ASC 280-10-50-39

Entity-wide disclosures are required only for annual reporting.

1.7.1 Information about products and services

The annual disclosures about products and services are required in order to provide financial statement users with information that can be helpful in assessing a public entity's past performance and prospects of future growth. By providing information about specific products that is not already provided as part of the reportable segment, analysts can examine trends and compare them to industry benchmarks and competitive information.

Information about products and services is a required disclosure for all public entities that provide multiple products and services to external customers, even if the public entity does not have multiple segments. These disclosures should be prepared under U.S. GAAP, not based on how information was presented for segment reporting.

ASC 280-10-50-40

A public entity shall report the revenues from external customers for each product and service or each group of similar products and services unless it is impracticable to do so. The amounts of revenues reported shall be based on the financial information used to produce the public entity's general-purpose financial statements. If providing the information is impracticable, that fact shall be disclosed.

Grant Thornton insight: Evaluating whether multiple products are 'similar'

Under ASC 280-10-50-40, public entities are required to report revenue for "each group of similar products and services," but the guidance does not define what is considered "similar." As a result, judgment is required when evaluating whether two or more products are similar and can be combined for the purpose of preparing these disclosures. The answer may differ significantly based on the facts and circumstances of a particular public entity. For example, a public entity that only manufactures cars and trucks may consider those two products to be different product lines, whereas a public entity that manufactures cars and trucks, sells used vehicles, and offers extended service contracts may determine that new cars and trucks are similar products.

1.7.2 Information about geographic areas

In order to help financial statement users understand possible concentrations of risk or areas of potential growth due to economic changes in different geographies, the FASB requires entities to disclose in their annual reports certain information about the geographic areas where they operate.

Public entities are required to include in their annual disclosures how revenue is attributed to each country or other geographic area. For example, a public entity might attribute revenue from external customers to a geographic area based on where the customer is located or where the product is shipped from.

A public entity is also required to present entity-wide disclosures of long-lived assets, except for certain long-lived assets specifically mentioned in ASC 280-10-50-41. Based on the implementation guidance in ASC 280-10-55-23, intangible assets, including goodwill, should not be included in the entity-wide disclosures of long-lived assets. However, a lessee's right-of-use assets recognized under ASC 842 should generally be included in long-lived assets in entity-wide geographic disclosures, because these assets are within the scope of ASC 360 and are akin to a tangible asset.

ASC 280-10-50-41

A public entity shall report the following geographic information unless it is impracticable to do so (see Example 3, Case D [paragraph 280-10-55-51]):

a. Revenues from external customers attributed to the public entity's country of domicile and attributed to all foreign countries in total from which the public entity derives revenues. If revenues from external customers attributed to an individual foreign country are material, those revenues shall be disclosed separately. A public entity shall disclose the basis for attributing revenues from external customers to individual countries.

b. Long-lived assets other than financial instruments, long-term customer relationships of a financial institution, mortgage and other servicing rights, deferred policy acquisition costs, and deferred tax assets located in the public entity's country of domicile and located in all foreign countries in total in which the public entity holds assets. If assets in an individual foreign country are material, those assets shall be disclosed separately.

The amounts reported shall be based on the financial information that is used to produce the general-purpose financial statements. If providing the geographic information is impracticable, that fact shall be disclosed. A public entity may wish to provide, in addition to the information required by the preceding paragraph, subtotals of geographic information about groups of countries.

The FASB provided the following illustrative example of the format these disclosures might take.

Example 3: Illustrative Disclosures

Case D: Geographic Information

ASC 280-10-55-51

The following illustrates the geographic information required by paragraph 280-10-50-41. Because Diversified Company's segments are based on differences in products and services, no additional disclosures of revenue information about products and services are required (see paragraph 280-10-50-40).

Geographic Information

	Revenue [(a)]	Long-Lived Assets
United States	$ 19,000	$ 11,000
Canada	4,200	-
Taiwan	3,400	6,500
Japan	2,900	3,500
Other foreign countries	6,000	3,000
Total	$ 31,000	$ 24,000

(a) Revenues are attributed to countries based on location of customer.

Grant Thornton insight: Improper geographical disclosures

Some public entities that report segments on a geographic basis may have improperly disclosed geographical information. In addition to the geographical area disclosure (including all foreign countries) required by segment reporting, ASC 280 requires the disclosure of additional information for each material country. If a public entity reports segments by geographic area (for example, by continent), it still must provide information for any individual country within the segment if it is material. Public entities will need to apply judgment when determining which, if any, individual country is material.

1.7.3 Information about major customers

Similar to the information about geographic areas, annual reporting period disclosures of major customers are designed to assist financial statement users in assessing where there may be a significant concentration of risk. The FASB established a 10 percent threshold of total annual revenue for identifying and disclosing major customers. The guidance in ASC 280-10-50-42 also discusses circumstances that require a public entity to consider a group of separate entities as a single customer. For example, a group of entities known to be under common control should be considered a single customer.

Public entities should also review the disclosures that are required in the applicable SEC form(s) and the related SEC regulations to determine if additional information about significant customers should be disclosed outside the financial statements. Among other things, S-K Item 101 requires disclosure of the dependence of the segment upon either a single customer or a few customers. Disclosures of the public entity's current vulnerability to risk of loss due to certain concentrations in the volume of business from a particular customer may also be required in the notes to the financial statements under ASC 275-10-50-16 through 50-22.

ASC 280-10-50-42

A public entity shall provide information about the extent of its reliance on its major customers. If revenues from transactions with a single external customer amount to 10 percent or more of a public entity's revenues, the public entity shall disclose that fact, the total amount of revenues from each such customer, and the identity of the segment or segments reporting the revenues. The public entity need not disclose the identity of a major customer or the amount of revenues that each segment reports from that customer. For purposes of this Subtopic, a group of entities known to a reporting public entity to be under common control shall be considered as a single customer, and the federal government, a state government, a local government (for example, a county or municipality), or a foreign government each shall be considered as a single customer (see Example 3, Case E [paragraph 280-10-55-52]).

The disclosure can take a more general format, as seen in the example below.

Example 3: Illustrative Disclosures

Case E: Information About Major Customers

ASC 280-10-55-52

The following is an example of the information about major customers required by paragraph 280-10-50-42. Neither the identity of the customer nor the amount of revenues for each operating segment is required.

> Revenues from one customer of Diversified Company's software and electronics segments represents approximately $5,000 of the company's consolidated revenues.

1.7.4 Omission of entity-wide disclosures

Entity-wide disclosures do not need to be separately included in the financial statements when they are disclosed as part of the reportable segment information required by ASC 280. Additionally, a public entity is exempt from this disclosure requirement if it is impracticable to provide this information. Such situations, however, are expected to be rare. Furthermore, with the addition of disaggregated revenue disclosure requirements under ASC 606, the impracticability exception will likely be more difficult to meet.

Grant Thornton insight: Improper omission of entity-wide disclosures

The entity-wide disclosures in ASC 280 require public entities to identify each product and service from which reportable segments derive revenue from external customers. The total reported revenue for each product or service (or group of substantially similar products and services) must be disclosed under this guidance. The SEC staff has questioned certain cases where entity-wide product and service disclosures have been omitted. The staff has also objected to broad views of what constitutes similar products and services, especially when the number of revenue categories used for segment reporting are fewer than the number of revenue categories reported in the consolidated statement of operations.

Appendix A: Abbreviations

FASB abbreviations

ASC 275	ASC 275, *Risks and Uncertainties*
ASC 280	ASC 280, *Segment Reporting*
ASC 360	ASC 360, *Property, Plant, and Equipment*
ASC 606	ASC 606, *Revenue from Contracts with Customers*
ASC 842	ASC 842, *Leases*
ASU 2023-07	ASU 2023-07, *Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures*

SEC abbreviations

S-K Item 101	Item 101, *Description of Business,* of Regulation S-K
Regulation G	Regulation G, *General rules regarding disclosure of non-GAAP financial measures*
Regulation S-K	SEC Regulation S-K, *Standard instructions for filing forms under Securities Act of 1933, Securities Act of 1934 and Energy Policy and Conservation Act of 1975*

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