Segment Reporting

Improvements to Reportable Segment Disclosures

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Main Provisions

1. Significant Expense Principle
2. Other Segment Items
3. Single Reportable Segment Entities
4. Multiple Measures of a Segment’s Profit or Loss
5. Interim Reporting

Key Dates

Exposure Draft: October 2022
Comments Closed: December 2022
Final Update (Expected): Q4 2023
The Board decided to pursue a significant expense disclosure principle illustrated below:

- Regularly provided to the Chief Operating Decision Maker (CODM)
- Included in the segment measure of profit or loss
- Subject to disclosure if significant
### 1. Significant Expense Principle

<table>
<thead>
<tr>
<th></th>
<th>Auto Parts</th>
<th>Motor Vessels</th>
<th>Software</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues from external customers</td>
<td>$ 3,000</td>
<td>$5,000</td>
<td>$26,500</td>
<td>$34,500</td>
</tr>
<tr>
<td>Intersegment revenues</td>
<td>-</td>
<td>-</td>
<td>4,500</td>
<td>4,500</td>
</tr>
<tr>
<td></td>
<td>3,000</td>
<td>5,000</td>
<td>31,000</td>
<td>39,000</td>
</tr>
</tbody>
</table>

#### Reconciliation of revenue

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Other revenues</td>
<td></td>
</tr>
<tr>
<td>Elimination of intersegment revenues</td>
<td>(4,500)</td>
</tr>
<tr>
<td>Total consolidated revenues</td>
<td>$35,500</td>
</tr>
</tbody>
</table>

Less:

| Cost of revenue          | 1,700       | 3,100       | 8,800    |
| Research and development expense | -          | -           | 3,300    |
| Nonmanufacturing payroll expense (a) | 500        | 900         | 6,050    |
| Professional services expense | -          | -           | 3,000    |
| Interest expense         | -           | -           | 3,000    |
| Other segment items (b)  | 700         | 1,130       | 3,850    |

**Segment profit or (loss)**

|                        | 100         | (130)       | 3,000    | 2,970  |

(a) The nonmanufacturing payroll expense does not include amounts capitalized on the balance sheet or included within other expense categories.
(b) See next slide for additional information

☐ - New Disclosure: Significant segment expenses
## 2. Other Segment Items

Other segment items is the difference between segment revenue less the segment expenses disclosed under the significant expense principle and each reported measure of segment profit or loss.

<table>
<thead>
<tr>
<th>[Abridged from previous slide]</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total consolidated revenues</strong></td>
</tr>
<tr>
<td>Less:</td>
</tr>
<tr>
<td>Cost of revenue</td>
</tr>
<tr>
<td>Research and development expense</td>
</tr>
<tr>
<td>Nonmanufacturing payroll expense</td>
</tr>
<tr>
<td>Professional services expense</td>
</tr>
<tr>
<td>Interest expense</td>
</tr>
<tr>
<td>Other segment items (b)</td>
</tr>
<tr>
<td><strong>Segment profit/(loss)</strong></td>
</tr>
</tbody>
</table>

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

☐ - New Disclosure: Amount of other segment items and description of its composition
3. Single Reportable Segment Entities

There is currently no explicit requirement for single reportable segment entities to provide segment disclosures.

Key Takeaway: The segment disclosure requirements apply to all public entities, regardless of the number of segments. The segment information is based on the amounts provided to the CODM, which may provide additional information for investors.
4. Multiple Measures of a Segment’s Profit or Loss

If the CODM uses(1) more than one measure of a segment’s profitability, the entity is allowed to disclose those additional measures(2) (e.g., EBITDA and Operating Income by segment).

Reconciliation to the public entity’s consolidated income before income taxes and discontinued operations required for each segment profit or loss measure disclosed.

Significant expense principle and other segment items required for each measure disclosed.

(1) A measure the CODM “uses” in assessing segment performance and deciding how to allocate resources.
(2) Required to disclose the measure of a segment’s profit or loss that is most consistent with GAAP measurement methods.
5. Interim Reporting

Disclosures Required On An Interim Basis

**Current Interim Requirements**
- Revenue
- Segment profit or loss
- Reconciliation of segment profit to consolidated income
- Segment assets

**Current Annual Disclosures**
- Interest revenue and expense*
- Depreciation and amortization*
- Unusual items*
- Equity in the income of equity method investees*
- Income tax expense or benefit*
- Other significant noncash items*
- Investment in equity method investees*
- Expenditures for long-lived assets

**Significant Expense Principle and Other items**
- Significant expense categories and amounts
- Other segment items

* To the extent such information would be required for the company on an annual basis
Other Segment Disclosures

Disclosure of the title and position of CODM

If an entity does not disclose significant expenses for one or more segments, disclose the nature of the expense information that the CODM uses to manage operations (e.g., explanation that the CODM only reviews consolidated expenses)

Narrative explanation of how the CODM uses the reported measure(s) of a segment’s profit or loss in assessing segment performance and deciding how to allocate resources
Transition and Effective Date

Transition

• Require retrospective adoption
• Segment expense categories and amounts disclosed in prior periods shall be based on the significant expense categories identified in the period of adoption.

Effective Date

• Fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 2024.
• Early adoption is permitted.