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**ACC 406**

**SEGMENT REPORTING**

As companies diversify internationally or in the lines of business in which they operate, the usefulness of consolidated financial statements diminishes. There are different risks and opportunities associated with different lines of business. The aggregation of all of a company’s revenues, expenses, assets, and liabilities into consolidated totals masks these differences.

To facilitate the analysis and evaluation of financial statements, in the 1960s several groups began to request that consolidated amounts be disaggregated and disclosed on a segment basis. The European Union’s Fourth Directive on accounting, issued in 1978, requires both line-of-business and geographic disclosures, as does IAS 14, Segment Reporting, which was originally issued in 1981. In 2002, segment reporting was added to the agenda of the short-term convergence project of the IASB and the FASB. In November 2006, the IASB issued IFRS 8- Operating Segments. With the issuance of IFRS 8, the IASB adopted the so-called management approach to segment reporting introduced by the FASB in 1996.

**Operating Segments—The Management Approach**

The management approach to determining segments is based on the way that management disaggregates the enterprise for making operating decisions. These disaggregated components are referred to as Operating Segments.

The components of an operating segment in an enterprise includes:

* The enterprise engages in business activities from which it earns revenues and incurs expenses.
* Its operating results are regularly reviewed by the chief operating decision maker to assess performance and make resource allocation decisions.
* Discrete financial information is available for it.

Even if all of an organizational unit’s revenue and expense are derived from transactions with other segments it still can be an operating segment.

Revenue test, Profit or loss test, Asset test and Overall size test must be met for an operating segment to be considered significant.

**What has to be reported?**

The purpose of disclosing segmental information is to provide additional information to the users of the financial statements so that they will be able to evaluate the nature and financial effects of an entity’s business activities as well as the economic environment in which it operates.

IFRS 8 requires the disclosure of general information, such as the type of products and services from which each segment generates its revenue. IFRS 8 requires the disclosure of general information, such as the type of products and services