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SEGMENT REPORTING.

The efficacy of consolidated financial statements decreases as companies expand internationally or in the lines of business which they operate. When a company consolidates its revenues, expenses and assets, it conceals the different risks and opportunities that come with different lines of business. In the 1960s several groups requested that consolidated amounts be separated and disclosed on a segment basis to aid the analysis and evaluation of financial statements. A required line of business disclosures was introduced to the UK and US respectively in 1965 and 1969. The European Union’s Fourth directive on accounting requires both line of business disclosures and geographic disclosures, as does IAS 14, Segment reporting, which was issued in 1981. Therefore, Segment reporting has been in international accounting for years.

The management approach to determining segments is based on how management separates the enterprise for making operation decisions. The separated components refer to operating segments and make up the components of an enterprise if; it 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; and if discrete financial information is available for it. An organisations unit revenue and expense can still be an operating segment even if they were derived from transactions with other statement, but not all parts of a company are included in an operating segment.

After management has decided if segments are to be aggregated, they then decide which operating segments is material enough to justify separate disclosure. This can be decided through a revenue test, profit or loss test, asset test or overall size test. All segments that are not reported or combined separately are to be reported as unallocated reconciliation or “all other” category in the segment reporting disclosures.

Segmental information is disclosed to provide additional information to users of financial statements to enable them determine the nature and financial effects of an entity’s business activities as well as the economic environment in which it operates. IFRS 8 requires that general information such as the type of goods and services from which each reportable segment derives its revenue as well as factors that management has used to identify reportable segments should be disclosed. Each segment should disclose a measure of profit or loss and total assets, liabilities are only disclosed if the information is regularly provided for internal reporting purposes.