**Nimfa Josiah**

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**Segment reporting**

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.

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**: This approach to determining segments is based on the way that management disaggregates the enterprise for making operating decisions. An operating segment is a component of an enterprise if:

• It engages in business activities from which it earns revenues and incurs expenses.

• If 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.

After determining whether any segments are to be aggregated, management next must determine which of its operating segments are significant enough to justify separate disclosure. An operating segment is considered significant if it meets any one of the following tests:

1. **Revenue test:** Segment revenues, both external and intersegment, are 10% or more of the combined revenue, internal and external, of all reported operating segments.
2. **Profit or loss test:** Segment profit or loss is 10% or more of the higher of the combined reported profit of all profitable segments or the combined reported loss of all segments incurring a loss.
3. **Asset test:** Segment assets are 10% or more of the combined assets of all operating segments.
4. **Overall size test:** If the combined sales to external customers of segments determined to be significant are less than 75% of total company sales made to outsiders, additional segments must be disclosed separately until the 75% mark is reached.

**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.

* A measure of profit or loss and total assets should be disclosed for each reportable segment.
* A number of reconciliations should be provided in relation to the total of segment revenues, reported segment profit or loss, segment assets and liabilities and other material items, to corresponding items in the entity’s financial statements.