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 **SEGMENT REPORTING**

As companies diversify internationally or in the lines of business in which they operate, the usefulness of consolidated financial statements diminishes.

In 2002, segment reporting was added to the agenda of the short-term convergence project of the IASB and the FASB. After several years of study, the IASB issued IFRS 8, Operating Segments, in November 2006, which substantially converged IFRS with U.S. GAAP on the issue of segment reporting. 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. An operating segment is a component of an enterprise if:

1. It engages in business activities from which it earns revenues and incurs expenses.
2. If it’s operating results are regularly reviewed by the chief operating decision maker to assess performance and make resource allocation decisions.
3. 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 meet various tests (Revenue, Profit or loss, Asset, Overall size test)

**What has to be reported?**

IFRS 8 requires the disclosure of general information, such as the type of products and services from which each reportable segment generates its revenue along with factors that have been used by management to identify its reportable segments.

A measure of profit or loss and total assets should be disclosed for each reportable segment. Segment liabilities are only required to be disclosed if this information is regularly provided for internal reporting purposes.

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. Generally, information must be reported separately for each operating segment that meets one or more quantitative thresholds. 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.