NAME: BELLO AISHAT OPEOLUWA

MATRIC NO: 16/SMS02/017

COURSE: INTERNATIONAL ACCOUNTING

COURSE CODE: ACC 406

**SEGMENT REPORTING**

The need for segment reporting arose in the 1960s when several groups requested that consolidated amounts be disaggregated to ensure proper facilitation of the analysis and evaluation of financial statements. After several years of research, the IASB added IFRS 8, Operating segments to the list of accounting standards. With the issuance of IFRS 8, the IASB adopted the management approach to segment reporting introduced by the FASB.

The management approach to defining segments is based on the method management takes to disaggregates the entity for making operating decisions. These disaggregated parts are called operating segments which should reflect the entity’s organisation structure. An operating segment is a component of an entity if it can satisfy that it is a profit centre i.e. earns revenue and incur expenses, its operating results are reviewed regularly by the chief operating decision make to assess performance and make resource allocation decisions and distinct financial information is available for it. After the operation segment has been identified, management must decide which of the operating segments will be reported separately.

After determination, the next thing for management is to determine which of the segments are essential enough to justify separate disclosure. Four tests will be performed on each segment for which all the tests must be passed before a segment is deemed significant. The tests to be performed are revenue test, profit or loss test, asset test and overall size test. For the revenue test, the segment revenue must be 10% or more of the combined revenue of all reported operating segments. For the profit or loss test, the segment profit or loss must be 10% or more of the higher of the combined reported profit/loss of all profitable segments or segments incurring a loss. For the asset test, segment assets must be 10% or more of the combined assets of all operating segments. And finally, for the overall size test, if the combined sales to unaffiliated customers of the segment determined to be significant are less than 75% of the total company sales made to outsiders, then additional segments must be disclosed separately.

IFRS 8 does not set an upper limit as to the number of operating segments that should be separately reported. However, the standard sets out that if the number of separately reported segments exceeds ten then it is likely that the information may become too detailed and consequently lose its usefulness.