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Summarise, in not more than 400 words, the note on Segment Reporting.

Summary

Large companies which engage in international operations and diversification aggregate their company’ revenue, expenses, assets and liabilities into consolidated totals. Users of financial statements and financial analyst became curios as to how much is generated in different part of the world and what line of business generate the revenue. The European Union fourth directive on accounting required line of business and geographic disclosures because groups began to request that consolidated amounts be disaggregated and disclosed on a segment basis in other to facilitate analysis and evaluation of financial statements. The IASB adopted the management approach to segment reporting introduced by the FASB in 1996.

The management approach explains that management should disaggregate the enterprise for making operating decision. The disaggregated components are referred to as operating segments. Operating segments is a part of the organization which generates revenue for the company, its activities are supervised by the chief operating decision maker and discrete information is available for it. Not all part of the organization can be referred to as an operating segment i.e. if a part only incurs expenses and doesn’t generate revenue it is not an operating segment. It is the decision of management to decide which operating segment can report separately. The operating segment that can report separately should 10% or more of the combined revenue, profit or loss, assets of all operating segments. 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