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**Summary on Segment Reporting**

Segment reporting is the recording of the operating segments of a company in the disclosures accompanying its financial statements. It is required for publicly-held entities, and is not required for privately held ones. It is also carried out with the intention of giving information to investors and creditors regarding the financial results and position of the most important operating units of a company, which they can use as the basis for decisions related to the company.

Under Generally Accepted Accounting Principles, an operating segment engages in business activities from which it may earn revenue and incur expenses, has discrete financial information available, and whose results are regularly reviewed by the entity's chief operating decision maker for performance assessment and resource allocation decisions.

The information that should be included in segment reporting includes: The factors used to identify reportable segments; The types of products and services sold by each segment; The basis of organization (such as product line); Revenues; Interest expense; Depreciation and amortization; Equity method interests in other entities; Income tax expense or income; Other material non-cash items etc.

In 2002, segment reporting was added to the agenda of the short-term convergence project of the IASB and the FASB.

**Operating Segments—The Management Approach**

Operating Segments requires particular classes of entities to disclose information about their operating segments, products and services, the geographical areas in which they operate, and their major customers. Information is based on internal management reports, both in the identification of operating segments and measurement of disclosed segment information.

An operating segment is considered significant if it meets any one of the following tests:

**1. Revenue test:** Segment revenues, both external and inter-segment, 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 unaffiliated customers of segments determined to be significant are less than 75% of total company sales made to outsiders, additional segments must be disclosed separately even though they fail to meet one of the quantitative thresholds, until the 75% mark is reached.