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ASSIGNMENT

SEGMENT REPORTING

As companies diversify internationally or in the lines of business in which they operate, the usefulness of consolidated financial statements diminishes. There are different risks and growth potential associated with different parts of the world, just as there are different risks and opportunities associated with different lines of business. The aggregation of all of a company’s revenues, expenses, assets, and liabilities into consolidated totals masks these differe 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. Required line-of business disclosures were introduced in the United Kingdom in 1965, and in the United States in 1969. The European Union’s Fourth Directive on accounting, issued in 1978, requires both line-of-business and geographic disclosures, as does IAS 14, Segment Reporting, which was originally issued in 1981. Thus, segment reporting has been a part of the international accounting landscape for many years. 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. These disaggregated components are referred to as operating segments, which should be evident from the enterprise’s organization structure. An operating segment is a component of an enterprise if:

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

· If it’s 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 per centor more of the combined revenue, internal and external, of all reported operating segments.

2***.*** Profit or loss test: Segment profit or loss is 10 per centor more of the higher (in absolute terms) of the combined reported profit of all profitable segments or the combined reported loss of all segment incurring a loss.

3. Asset test:Segment assets are 10 per centor more of the combined assets of all operating segments.

4. Overall size test:If the combined sales to unaffiliated (external) customers of segments determined to be significant are less than 75 per centof 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. This overall size testis to ensure that all entities present a sufficient level of information regarding their individual activities to ensure that users of the financial statements can make informed economic decisions. All segments that are neither separately reported nor combined should be included in the segment reporting disclosures as an unallocated reconciliation item or in an “all other” category. Where a segment was separately reported in the previous period, it should continue to be reported even if the thresholds are not met in the current period, where the segment has been identified as being of continuing significance. Equally, where a segment meets the 10% threshold in the current period it should be separately reported for both the current and the previous period even if it was not separately reported in the previous period, assuming that it is practicable to do so. 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 loses its usefulness.