Name: Grace L. Uche-Ewule

Matric No: 17/sms02/070

Course Title and Code: International Accounting- Acc 406

**Summary of Segment Reporting**

There is a decline in the usefulness of consolidated financial statements this is because companies are diversifying leading to increase in risks, growth and opportunities associated with different parts of the world and line of business. Essentially, financial analysts and other financial statements users of a parent company might want to know how much of this revenue was generated by their subsidiaries or branches.

Furthermore, several groups began to request that consolidated amounts be disaggregated and disclosed on a segment basis which became Required line - of -business disclosures which was introduced in the 1960s. However, 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. With the issuance of IFRS 8, Operating Segments the IASB adopted the so-called management approach in 1996.

Operating Segment- The Management Approach

This approach is based on the way the management disaggregate the enterprise for making decisions which are called operating segments however not all parts of a company are included in an operating segment.

Components of operating segments include:

* It engages in business activities which earns revenues and incurs expenses
* Discrete financial information is available for it.
* Its operating results are regularly reviewed by the chief operating decision maker to assess performance and make resource allocation decisions

Determining 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:

* Revenue test
* Profit or loss test
* Asset test
* Overall size test

An unallocated reconciliation item or in an “all other” category is a segment that is neither separately reported nor combined. If a segment is separately reported in the previous period it should remain as so even if it meets the current period.

IFRS 8 sets out that if the number of separately reported segments exceeds ten then it is likely that the information may become too detailed losing its usefulness.

What has to be reported?

**Type of product and services (IFRS 8)** i.e. from which each reportable segment generates its revenue and factors that used by management to identify its reportable segments.

**Measure of profit or loss and total assets** i.e. if it is regularly provided to the chief operating decision maker however, segment liabilities are only required to be disclosed if this information is regularly provided