**NAME: AKEREDOLU OSHOKOSIORINAMI**

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**SUMMARY ON THE TOPIC 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 differences.

**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:

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

After determining whether any segments are to be aggregated, management next step must determine which of it’s 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 cent*** or more of the combined revenue, internal and external, of all reported operating segments.

1. **Profit or Loss Test:**

Segment profit or loss is 10 per centor more of the higher of the combined reported profit of all profitable segments or the combined reported loss of all segments incurring a loss.

1. **Asset Test:**

Segment assets are 10 per centor more of the combined assets of all operating segments.

1. **Overall Size Test:**

If the combined sales to 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 per cent mark is reached. This testis to ensure that all entities presents 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.