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MATRIC NO: 16/SMS02/033

COURSE CODE: ACC406

COURSE NAME: INTERNATIONAL ACCOUNTING

 SUMMARY ON SEGMENT REPORTING

As companies diversify in the line of business in which they operate, the usefulness of consolidated financial statement decreases. There are different risks and growth potential associated with different parts of the world, just as there are different risk and opportunities associated with different lines of business. The aggregation of all of a company’s revenue, expenses, assets and liabilities into consolidated totals covers these differences. 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 Segment Reporting, which was originally issued in 1981. Thus, segment reporting has been a part of the international accounting landscape for many years. 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**

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. An operating segment is a component of an enterprise if:

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

• Discrete financial information is available for it. 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 % or more

of the combined revenue, internal and external, of all reported operating segments.

1. Asset test: Segment assets are 10 % or more of the combined assets of all operating

segments.

3. Profit or loss test: Segment profit or loss is 10 % or more of the higher (in absolute terms) of the combined reported profit of all profitable segments or the combined reported loss of all segments incurring a loss.

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.

A measure of profit or loss and total assets should be disclosed for each reportable segment. Segment liabilities are only required to be disclosed if this information is regularly provided for internal reporting purposes