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**SEGMENT REPORTING**

Segment reporting is the reporting of the operating segments of a company in the disclosures accompanying its financial statements.

In 2002, segment reporting was added to the agenda of the short-term convergence project of the IASB and the FASB. After several years of study, the IASB issued IFRS 8, Operating Segments, in November 2006, which substantially converges IFRS with U.S. GAAP on the issue of segment reporting. 5 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 its 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 cent*** 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 per cent*** 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.
3. ***Asset test:*** Segment assets are ***10 per cent*** or 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 cent*** 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.