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**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.

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.

**Operating Segments—The Management Approach**

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.

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.