



# IAS 14 Segment Reporting

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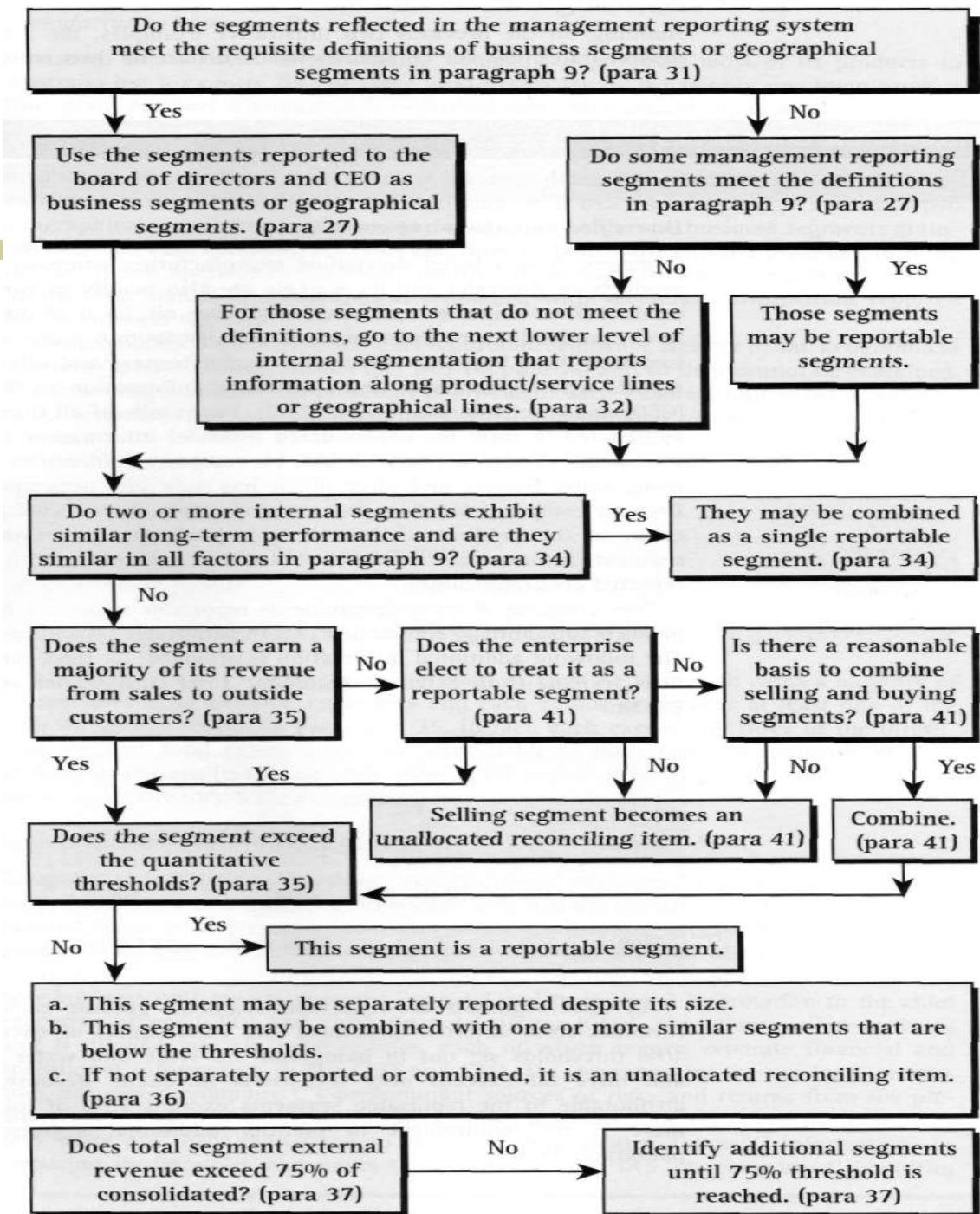
# [ Overall Introduction ]

- This Training Course is being provided by funding made available by PHARE from the European Union



# Appendix A

## Segment definition decision tree



# [ Objective of IAS 14 ]

- The objective of IAS 14 (Revised 1997) is to establish principles for reporting financial information by line of business and by geographical area. It applies to enterprises whose equity or debt securities are publicly traded and to enterprises in the process of issuing securities to the public. In addition, any enterprise voluntarily providing segment information should comply with the requirements of the Standard.

# [ Applicability 1 ]

- IAS 14 must be applied by enterprises whose debt or equity securities are publicly traded and those in the process of issuing such securities in public securities markets. [IAS 14.3]

# [ Applicability 2 ]

- If an enterprise that is not publicly traded chooses to report segment information and claims that its financial statements conform to IAS, then it must follow IAS 14 in full. [IAS 14.5]

# [ Applicability 3 ]

- Segment information need not be presented in the separate financial statements of a (a) parent, (b) subsidiary, (c) equity method associate, or (d) equity method joint venture that are presented in the same report as the consolidated statements. [IAS 14.6-7]

# [ Key Definitions 1 ]

- Business segment:

# [ Key Definitions 2 ]

- Geographical segment:

# [ Key Definitions 3 ]

- Reportable segment:

# [ Key Definitions 4 ]

- Segment revenue:

# [ Key Definitions 5 ]

- Segment expenses:

# [ Key Definitions 6 ]

- Segment result:

# [ Key Definitions 7 ]

- Segment assets and segment liabilities:

# Identifying Business and Geographical Segments 1

- An enterprise must look to its organisational structure and internal reporting system to identify reportable segments ... reports prepared for the board of directors and CEO should normally determine segments for external financial reporting purposes. Only if internal segments aren't along either product/service or geographical lines is further disaggregation appropriate ... [IAS 14.26]

# Identifying Business and Geographical Segments 2

- Geographical segments may be based either on where the enterprise's assets are located or on where its customers are located. [IAS 14.13]
- Whichever basis is used, several items of data must be presented on the other basis if significantly different. [IAS 14.71-72]

# Primary and Secondary Segments

- For most enterprises one basis of segmentation is primary and the other is secondary, with considerably less disclosure required for secondary segments. The enterprise should determine whether business or geographical segments are to be used for its primary segment reporting format based on whether the enterprise's risks and returns are affected predominantly by the products and services it produces or by the fact that it operates in different geographical areas. The basis for identification of the predominant source and nature of risks and differing rates of return facing the enterprise will usually be the enterprise's internal organisational and management structure and its system of internal financial reporting to senior management. [IAS 14.26-27]

# [ Which Segments Are Reportable? 1 ]

- The enterprise's reportable segments are its business and geographical segments for which a majority of their revenue is earned from sales to external customers and for which: [IAS 14.35]

# Which Segments Are Reportable? 2

- revenue from sales ... is 10% or more of the total revenue, external and internal, of all segments; or
- segment result, whether profit or loss, is 10% or more the combined result of all segments in profit ... or
- assets are 10% or more of the total assets of all segments.

# Which Segments Are Reportable? 3

- Segments deemed too small for separate reporting may be combined with each other, if related, but they may not be combined with other significant segments for which information is reported internally. Alternatively, they may be separately reported. If neither combined nor separately reported, they must be included as an unallocated reconciling item. [IAS 14.36]

# Which Segments Are Reportable? 4

- If total external revenue attributable to reportable segments identified using the 10% thresholds outlined above is less than 75% of the total consolidated or enterprise revenue, additional segments should be identified as reportable segments until at least 75% of total consolidated or enterprise revenue is included in reportable segments. [IAS 14.37]

# Which Segments Are Reportable? 5

- Vertically integrated segments (those that earn a majority of their revenue from inter segment transactions) may be, but need not be, reportable segments. [IAS 14.39]
- If not separately reported, the selling segment is combined with the buying segment. [IAS 14.41]
- IAS 14.42-43 contain special rules for identifying reportable segments in the years in which a segment reaches or loses 10% significance: continue to report or restate as appropriate.

# What Accounting Policies Should a Segment Follow?

- Segment accounting policies must be the same as those used in the consolidated financial statements. [IAS 14.44]
- If assets used jointly by two or more segments are allocated to segments, the related revenue and expenses must also be allocated. [IAS 14.47]

# [ What Must be Disclosed? 1 ]

- IAS 14 has detailed guidance as to which items of revenue and expense are included in segment revenue and segment expense. All companies will report a standardised measure of segment result: basically operating profit before interest, taxes, and head office expenses. For an enterprise's primary segments, revised IAS 14 requires disclosure of: [IAS 14.51-67]

# [ What Must be Disclosed? 2 ]

sales revenue;

result;

assets;

the basis of inter segment pricing;

liabilities;

capital additions;

depreciation;

equity method income ;

non cash expenses other than depreciation;

# [ What Must be Disclosed? 3 ]

- Segment revenue includes "sales" from one segment to another. Under IAS 14, these inter segment transfers must be measured on the basis that the enterprise actually used to price the transfers. [IAS 14.75]
  
- For secondary segments, disclose: [IAS 14.69-72]
  - revenue;
  - assets; and
  - capital additions

# [ What Must be Disclosed? 4 ]

- Other disclosure matters addressed in IAS 14:
  - Disclosure is required of external revenue for a segment that is not deemed a reportable segment because a majority of its sales are inter segment sales but nonetheless its external sales are 10% or more of consolidated revenue. [IAS 14.74]
  - Special disclosures are required for changes in segment accounting policies. [IAS 14.76]

# [ What Must be Disclosed? 5 ]

- Where there has been a change in the identification of segments, prior year information should be restated. If this is not practicable, segment data should be reported for both the old and new bases of segmentation in the year of change. [IAS 14.76]

# [ What Must be Disclosed? 6 ]

- Disclosure is required of the types of products and services included in each reported business segment and of the composition of each reported geographical segment, both primary and secondary. [IAS 14.81]

# [ What Must be Disclosed? 7 ]

- An enterprise must present a reconciliation between information reported for segments and consolidated information. At a minimum:  
[IAS 14.67]

# [ What Must be Disclosed? 8 ]

- segment revenue ...
- segment result ...
- operating profit or loss ...
- segment assets ...
- segment liabilities ...