IAS 14 — Segment Reporting (Superseded)

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Overview

IAS 14 *Segment Reporting* requires reporting of financial information by business or geographical area. It requires disclosures for 'primary' and 'secondary' segment reporting formats, with the primary format based on whether the entity'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.

IAS 14 was issued in August 1997, was applicable to annual periods beginning on or after 1 July 1998, and was superseded by IFRS 8 *Operating Segments* with effect from annual periods beginning on or after 1 January 2009.

History of IAS 14

March 1980	Exposure Draft E15 *Reporting Financial Information by Segment*
August 1981	IAS 14 *Reporting Financial Information by Segment*
1 January 1983	Effective date of IAS 14 (1981)
1994	IAS 14 (1981) was reformatted
December 1995	Exposure Draft E51 *Reporting Financial Information by Segment*
August 1997	IAS 14 *Segment Reporting*
1 July 1998	Effective date of IAS 14 (1997)
30 November 2006	**IAS 14 is superseded by IFRS 8 *Operating Segments* effective for annual periods beginning 1 January 2009**

Related Interpretations

- None

Summary of IAS 14

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 entities whose equity or debt securities are publicly traded and to entities in the process of issuing securities to the public. In addition, any entity voluntarily providing segment information should comply with the requirements of the Standard.

Applicability

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

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

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

Business segment: a component of an entity that (a) provides a single product or service or a group of related products and services and (b) that is subject to risks and returns that are different from those of other business segments. [IAS 14.9]

Geographical segment: a component of an entity that (a) provides products and services within a particular economic environment and (b) that is subject to risks and returns that are different from those of components operating in other economic environments. [IAS 14.9]

Reportable segment: a business segment or geographical segment for which IAS 14 requires segment information to be reported. [IAS 14.9]

Segment revenue: revenue, including intersegment revenue, that is directly attributable or reasonably allocable to a segment. Includes interest and dividend income and related securities gains only if the segment is a financial segment (bank, insurance company, etc.). [IAS 14.16]

Segment expenses: expenses, including expenses relating to intersegment transactions, that (a) result from operating activities and (b) are directly attributable or reasonably allocable to a segment. Includes interest expense and related securities losses only if the segment is a financial segment (bank, insurance company, etc.). Segment expenses do not include:

- interest
- losses on sales of investments or debt extinguishments
- losses on investments accounted for by the equity method
- income taxes
- general corporate administrative and head-office expenses that relate to the entity as a whole [IAS 14.16]

Segment result: segment revenue minus segment expenses, before deducting minority interest. [IAS 14.16]

Segment assets and segment liabilities: those operating assets (liabilities) that are directly attributable or reasonably allocable to a segment. [IAS 14.16]

Identifying business and geographical segments

An entity must look to its organisational structure and internal reporting system to identify reportable segments. In particular, IAS 14 presumes that segmentation in internal financial reports prepared for the board of directors and chief executive officer should normally determine segments for external financial reporting purposes. Only if internal segments are not along either product/service or geographical lines is further disaggregation appropriate. [IAS 14.26]

Geographical segments may be based either on where the entity's assets are located or on where its customers are located. [IAS 14.14] 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 entities one basis of segmentation is primary and the other is secondary, with considerably less disclosure required for secondary segments. The entity should determine whether business or geographical segments are to be used for its primary segment reporting format based on whether the entity'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 entity will usually be the entity's internal organisational and management structure and its system of internal financial reporting to senior management. [IAS 14.26-27]

Which segments are reportable?

The entity'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]

- revenue from sales to external customers and from transactions with other segments 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 the combined result of all segments in loss, whichever is greater in absolute amount; or
- assets are 10% or more of the total assets of all segments.

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]

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

Vertically integrated segments (those that earn a majority of their revenue from intersegment 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.

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?

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 entity's primary segments, revised IAS 14 requires disclosure of: [IAS 14.51-67]

- sales revenue (distinguishing between external and intersegment)
- result
- assets
- the basis of intersegment pricing
- liabilities
- capital additions
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- depreciation and amortisation
- significant unusual items
- non-cash expenses other than depreciation
- equity method income

Segment revenue includes "sales" from one segment to another. Under IAS 14, these intersegment transfers must be measured on the basis that the entity actually used to price the transfers. [IAS 14.75]

For secondary segments, disclose: [IAS 14.69-72]

- revenue
- assets
- capital additions

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 intersegment 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]
- 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]
- 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]

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

- segment revenue should be reconciled to consolidated revenue
- segment result should be reconciled to a comparable measure of consolidated operating profit or loss and consolidated net profit or loss
- segment assets should be reconciled to entity assets
- segment liabilities should be reconciled to entity liabilities.

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