Segment Reporting: A Descriptive Study with Reference to Stakeholders

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Abstract:- Stakeholders are now more aware of the value of a thorough analysis of company reports as a result of globalization and fierce competition. Numerous companies are also segmenting their business operations. The data from different business segments is not divided into categories in a consolidated financial statement. Major accounting organizations like the Institute of Chartered Accountants of India and the International Accounting Standard Committee have developed accounting standards that mandate the disclosure of such segment-related accounting information.

The Statement of Financial Accounting Standards (SFAS) 14 that the Financial Accounting Standard Board (FASB) of the United States released in 1974 introduced the idea of segment reporting. IAS 14 reporting financial information by segment was then published in 1981 by the International Accounting Standards Committee. To enhance segment reporting, SFAS 14 and IAS 14 were both updated. While IAS 14 underwent revision in 1998, SFAS 14 underwent revision in 1997 with the publication of SFAS 131 (Management Approach). By adopting standards set forth by their respective national institutions, several nations have now made segment reporting necessary. Since April 1, 2001, listed and unlisted companies in India have been required to report financial data by segment under Accounting Standard 17. The research study focuses on the conceptual understanding of segment reporting, its usefulness and implementation requirements, and various accounting standards related to segment reporting, and evaluates them in a contest of business performance.

Keywords:- *Segment Reporting, Business, Stakeholders, Financial Statements, Accounting Institutions.*

I. INTRODUCTION

Segments are recognizable areas of a business that are exposed to risk and reward. Based on the risk and return associated with each business segment, the following categories can be created:

A. Business Segment

A business segment is a separate part of an organization that offers a single product or service or a group of connected products or services and is subject to returns that are different from those of other business segments.

The following are some of the factors that affect the business segment:

- Characteristics of the product or service, such as the nature of cement, steel, paper, etc.
- The nature of the manufacturing process
- Customer Types or Classes for the Goods and Services
- Distribution techniques for the goods or services
- The type of regulatory environment such as that found in the banking, insurance, and public utility industries, etc.

B. Geographical Segment-

A geographic segment is a unique part of an enterprise that provides products or services in a specific economic environment and is subject to rewards and risks that are different from those that are experienced by parts of the company operating in other economic environments.

When determining the geographic segment, the following elements are taken into consideration:

- Similarities in the political and economic environments, such as between military rule and democracy.
- Relationships between activities in various geographic areas
- Close proximity to operations,
- special risks related to those operations in a particular region,
- exchange control laws, and
- underlying currency risks, such as the Euro-Dollar exchange rate

❖ *Segment Reporting*

Segment reporting is the term used to describe how publicly traded companies must disclose financial data about significant units or segments in autoplay with regulations. The stakeholders in the company benefit from such segment-based reporting by better understanding revenue, expenses, and other ratios for each business unit so they can make wise investment decisions.

❖ *Criteria for Segment Reporting*

No matter which of the following criteria is met for that segment to be reported separately, all income, expenses, assets, and liabilities must be shown separately as required by law:

- The segment must either have assets that are greater than or equal to 10% of the total assets of the organization, or
- The segment's profit must be greater than or equal to 10% of the organization's profit.

- The revenue for the segment must be at least 10% of the organization's overall revenue.

❖ *Objectives of Segment Reporting-*

- To better comprehend the performance of the organization and assess its outcomes.
- To inform stakeholders about the key components of the organization so they can assess them and decide where to place their money.
- To improve the readability and transparency of the financial statements.
- To enhance the organization's risk and return analysis
- To make better decisions by considering the business from various angles.
- Determining the divisions with the highest profits and lowest losses.

❖ *Significance of Segment Reporting-*

- The company's strong and weak segments can be identified with the help of segment reporting.
- By identifying non-contribution areas of the business, assists in the identification of legal loopholes.
- It offers details on the company and various geographic areas.
- It helps companies report their financial data more accurately.
- Segment reporting that includes aggregated data is very advantageous to users of financial statements.
- Segment reporting helps track a business's sales growth and locate potential future growth areas.
- It helps businesses more effectively manage risk.
- It lowers the price of essential information disclosure for agencies and helps to stop insider trading.

❖ *Incorporation of Segment Reporting*

➢ *Segment Reporting Under Sfas No. 14*

The FASB published SFAS No. 14 in 1976, which for the first time mandated public corporations to disclose how their segments were performing and how capital was distributed among them. Under SFAS No. 14, businesses were required to disclose financial data by industry sector and region. According to SFAS No. 14, an enterprise component is considered to be in an industry segment if it is "engaged in providing a product or service or a group of related products and services, primarily to unaffiliated customers for profit."

SFAS No. 14 mandated that an organization's industry segments disclose separate revenue, profit, and identifiable assets as well as reconcile these figures to the consolidated amounts in the financial statements. Each segment was also required to provide information on the effects of accounting changes on operating profit as well as depreciation, depletion, amortization, capital expenditures, equity-method investments, and other topics (loss). Reportable industry segments are components of the entity that meet the criteria for an industry segment and contribute at least 10% of its assets, profit or loss, and/or revenue, respectively.

➢ *Segment Reporting Under The Sfas No. 131(Management Approach)*

The management strategy was established by SFAS No. 131, which replaced SFAS No. 14 and detailed the segment information disclosure and information selection requirements for public companies. The management approach states that companies must select the segments they will report on based on how management, the entity's top operating decision-maker, has organized the business. Therefore, a company's organizational structure will indicate which operating segments to disclose.

SFAS No. 131 states that an operating segment is a component of a business:

- That engages in activities with the potential to bring in money and cost money (including revenues and expenses relating to transactions with other components of the same business).
- Whose operating results are routinely reviewed by the chief operating decision maker of the enterprise to allocate resources to the segment and assess its performance, and
- Whose discrete financial information is accessible.

There are two main disclosures for segment reporting under SFAS No. 131:

➢ *Disclosure of Operating Segments-*

In addition to providing general and quantitative details about each reportable operating segment, the disclosures also include a reconciliation of the quantitative amounts to the consolidated totals. General information includes, if any operating segments were aggregated, a description of the products and services offered by each reportable operating segment as well as information on the methodology used to identify reportable operating segments. Each reportable operating segment's quantitative disclosures include the total assets as well as a measure of profit or loss. Separate data should be provided if management intends to use them to evaluate each segment's performance. External Customer Revenues, Revenues from Other Operating Segments, Interest Income, Interest Expense, Depreciation, Depletion and Amortization, Unusual Items, Income from Equity Method Investments, Income Taxes, Unusual Items, and Significance Non-Cash Items Other than Depreciation, Depletion and Amortization are some of these items. The total expenditures for new long-lived assets and equity-method investments made by each segment must also be disclosed if those sums are factored into the calculation of segment assets. All quantitative disclosures must be reconciled to the corresponding enterprise amounts.

➢ *Enterprise-Wide Disclosures*

Enterprise-Wide Disclosures provide information on key customers, geographical areas, and product and service offerings. In the information about products and services, it is stated how much money comes from external clients for each category of comparable goods or services. Generally Accepted Accounting Principles should be used to determine the amount(s) disclosed, not the management strategy.

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Information that has already been disclosed for operating segments doesn't need to be restarted.

- *Segment Reporting Under IAS 14*

Operating Segments begin with annual periods starting on or after January 1, 2009. With effect from annual periods beginning on or after 1 July 1998, IFRS 8 took the place of IAS 14, which was published in August 1997. IAS 14 A company or region must comply with the segment reporting requirements when reporting financial data. It requires disclosures for "primary" and "secondary" segment reporting formats, with the primary format based on whether an entity's risks and returns are primarily influenced by the products and services it produces or by the fact that it operates in different geographic locations.

- *The objective of IAS 14*

The objective of IAS 14 is to establish standards for disclosing financial information by area and line of business (Revised 1997). Both entities that already have publicly traded equity or debt securities and those in the process of doing so are covered by this rule. Any entity that voluntarily contributes segment information must also adhere to the Standard's requirements.

- *Applicability*

- IAS 14 must be used by entities that have issued or are in the process of issuing debt or equity securities on public securities markets.
- An organization that is not publicly traded is required to strictly follow IAS 14 if it chooses to report segment information and claims that its financial statements comply with IFRSs.
- Segment information is not required to be disclosed in the separate financial statements of a parent, subsidiary, equity method associate, or joint venture that is anticipated in the same report as the consolidated statements.

- *Reporting Under IFRS 8 (Operating Segment)*-

IAS 14R was replaced with IFRS 8 by the IASB in November 2006. It became effective on the first day of 2009 Segmental disclosures in IAS 14R and SFAS 131 are brought into alignment by the requirement. Due to the SFAS 131's numerous advantages, the IASB adopted nearly all of its requirements as well as its management strategy (PWC, 2008). (Nichols, et al., 2012) Because it represents the IASB's audacious effort to ensure that businesses disclose information "through the eyes of management," IFRS 8 is a ground-breaking standard.

IFRS 8 generated controversy due to two significant problems. The companies' inability to locate the CODM or CODMs was the first issue, and the use of non-IFRS measures to report segment performance for the first time was the second. A management approach, similar to SFAS 131, is used in IFRS 8 to identify and evaluate the financial performance of an entity's operating segments. Contrasting this is the risk and reward approach of IAS14R.

II. SCOPE

Combined financial statements of a group with a parent and standalone financial statements of an entity are both subject to IFRS 8. with a securities commission or another regulatory body for the issues of instruments in a public market, or whose debt or equity instruments are traded in a public market, that files, or is in the process of filing, its financial statements.

However, when both the separate and the consolidated financial statements for the parent are presented in a single financial report, segment information must be based on those statements. [IFRS 8.4] .4]

- *Operational Segments*-

IFRS 8 provides the following description of an operating segment. One of the parts of an entity is its operating segment. [IFRS 8.2] that carries out business activities from which it may generate revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity) whose operating results are routinely reviewed by the entity's chief operating decision-maker to determine what resources should be allocated to the segment, how well it is performing, and for which discrete financial information is available.

- *Reportable segments*-

An entity must disclose information about each of its reportable segments that is both financial and descriptive under IFRS 8. Reportable segments are operating segments or groups of operating segments that comply with certain criteria: [IFRS 8.13] .13] Its reported revenue from both internal and external customers, as well as from intersegment sales or transfers, is 10% or more of the total revenue from all operating segments, both internal and external, or the absolute measure of its reported profit or loss is a percentage or more of the greater of the following: (1) the combined reported profit of all operating segments that did not report a loss and (ii) the combined reported loss of all operating segments that did, or its assets are a percentage or more of the sum of the assets of all operating segments.

Two or more operating segments may be combined into one operating segment if the aggregation complies with the fundamental principles of the standard, the segments exhibit comparable economic characteristics, and they are comparable in the ways specified. [IFRS 8.12] .12]

If the total external revenue reported by the operating segments represents less than one percent of the entity's revenue, additional operating segments must be designated as reportable segments (even if they do not meet the quantitative thresholds outlined above) until at least a percentage of the entity's revenue is included in reportable segments. [IFRS 8.15] .15]

❖ *Segment Reporting Under Accounting Standard 17*

Segment reporting is covered by accounting standard 17 in order to assist businesses in better understanding their performance risk and returns. It talks about providing segment information reporting to meet the demands of users of financial statements.

➢ *Relevance of AS 17*

The following business categories for a specific fiscal period are subject to Accounting Standard 17:

- Businesses with shares of equity or debt listed both inside and outside of India
- Businesses that the board of directors has acknowledged are in the process of listing their debt or equity securities
- Businesses with pre-accounting period sales of more than Rs. 50 crores include: banks, including cooperative banks; financial institutions; insurance industry businesses; and banks. Other sources of income are excluded from turnover.
- Enterprises with borrowings, such as public deposits and s, that total at least 10 crores in a given accounting period.
- Holding and subsidiary businesses of any of the aforementioned during a given accounting period

III. OBJECTIVE

- To explain the conceptual basis for segment reporting
- To look into the value and effects of segment disclosure requirements
- Research various accounting guidelines for segment reporting.
- To assess the various segments reporting on business performance standards.
- To provide data that will aid in the assessment of risks and opportunities associated with both recognized and unrecognized items by creditors and investors.

IV. RESEARCH METHODOLOGY

The study is descriptive and is based on secondary data that was gathered from a variety of sources, including journals, articles, and reliable websites like ICAI, FASB, etc.

Because the study only covered the fundamental idea of segment reporting and its primary standard, no statistical tool was necessary.

V. CONCLUSION

The purpose and effects of various segment reporting standards released by influential standard-setters like the IASB and FASB are examined in this paper. Segment information is provided in the notes to the accounts to inform users about the various business and geographic segments of a diversified entity's operations to aid investors and other users in making informed decisions about the entity. To assist stakeholders in making wise economic decisions, the main goal of accounting standards is to harmonize the various accounting policies and practices. Businesses must report segments by the management that oversees how the business is internally organized under SFAS No. 131. A consistent definition of the accounting items that are disclosed for each segment as internal segment data that is used to assess segment performance is provided. For many businesses, this is a significant departure from the SFAS No. 14 segment reporting methodology. Under SFAS No. 14, companies were required to disclose segment information by line of business as well as by geographic area, without any particular connection to the internal organizational structure of the company or the metrics that were employed for internal decision-making. The disclosures that were created as a result were heavily aggregated and widely criticized for being useless for decision-making. We find that the segment information disclosure has been significantly impacted by the modification to SFAS No. 131's segment reporting requirements. The new International Accounting Standard IFRS 8 Operating Segments adopts the concept of "through the eyes of management of US GAAP," which insists on disclosing the information in the segment reporting statement that is provided to the CODM (Chief Operating Decision Maker), who in turn makes decisions based on such information. The ability to analyze, interpret, and make more informed decisions would be made possible for investors and other information users.

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