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EFFECTIVE DATE

89. **This International Accounting Standard becomes operative for financial statements covering periods beginning on or after 1 January, 1998, except as specified in paragraph 91. If an enterprise applies this Standard for financial statements covering periods beginning before 1 January 1998, the enterprise should disclose the fact it has applied this Standard instead of IAS 12, accounting for taxes on income, approved in 1979.**

90. This Standard supersedes IAS 12, accounting for taxes on income, approved in 1979.

91. **Paragraphs 52A, 52B, 65A, 81(i), 82A, 87A, 87B, 87C and the deletion of paragraphs 3 and 50 become operative for annual financial statements** [1] **covering periods beginning on or after 1 January 2001. Earlier adoption is encouraged. If earlier adoption affects the financial statements, an enterprise should disclose that fact.**

INTERNATIONAL ACCOUNTING STANDARD IAS 14

(REVISED 1997)

Segment reporting

This revised International Accounting Standard supersedes IAS 14, reporting financial information by segment, which was approved by the Board in a reformatted version in 1994. The revised Standard became operative for financial statements covering periods beginning on or after 1 July 1998.

Paragraphs 116 and 117 of IAS 36, impairment of assets, set out certain disclosure requirements for reporting impairment losses by segment.

INTRODUCTION

This Standard ('IAS 14 (revised)') replaces IAS 14, reporting financial information by segment ('the original IAS 14'). IAS 14 (revised) is effective for accounting periods beginning on or after 1 July 1998. The major changes from the original IAS 14 are as follows:

1. The original IAS 14 applied to enterprises whose securities are publicly traded and other economically significant entities. IAS 14 (revised) applies to enterprises whose equity or debt securities are publicly traded, including enterprises in the process of issuing equity or debt securities in a public securities market, but not to other economically significant entities.

2. The original IAS 14 required that information be reported for industry segments and geographical segments. It provided only general guidance for identifying industry segments and geographical segments. It suggested that internal organisational groupings may provide a basis for determining reportable segments, or segment reporting may require reclassification of data. IAS 14 (revised) requires that information be reported for business segments and geographical segments. It provides more detailed guidance than the original IAS 14 for identifying business segments and geographical segments. It requires that an enterprise look to its internal organisational structure and internal reporting system for the purpose of identifying those segments. If internal segments are based neither on groups of related products and services nor on geography, IAS 14 (revised) requires that an enterprise should look to the next lower level of internal segmentation to identify its reportable segments.

3. The original IAS 14 required that the same quantity of information be reported for both industry segments and geographical segments. IAS 14 (revised) provides that one basis of segmentation is primary and the other is secondary, with considerably less information required to be disclosed for secondary segments.

4. The original IAS 14 was silent on whether segment information must be prepared using the accounting policies adopted for the consolidated or enterprise financial statements. IAS 14 (revised) requires that the same accounting policies be followed.

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[1] Paragraph 91 refers to 'annual financial statements' in line with more explicit language for writing effective dates adopted in 1998. Paragraph 89 refers to 'financial statements'.

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5. The original IAS 14 had allowed differences in the definition of segment result among enterprises. IAS 14 (revised) provides more detailed guidance than the original IAS 14 as to specific items of revenue and expense that should be included in or excluded from segment revenue and segment expense. Accordingly, IAS 14 (revised) provides for a standardised measure of segment result, but only to the extent that items of revenue and operating expense can be directly attributed or reasonably allocated to segments.

6. IAS 14 (revised) requires 'symmetry' in the inclusion of items in segment result and in segment assets. If, for example, segment result reflects depreciation expense, the depreciable asset must be included in segment assets. The original IAS 14 was silent on this matter.

7. The original IAS 14 was silent on whether segments deemed too small for separate reporting could be combined with other segments or excluded from all reportable segments. IAS 14 (revised) provides that small internally reported segments that are not required to be separately reported may be combined with each other if they share a substantial number of the factors that define a business segment or geographical segment, or they may be combined with a similar significant segment for which information is reported internally if certain conditions are met.

8. The original IAS 14 was silent on whether geographical segments should be based on where the enterprise's assets are located (the origin of its sales) or on where its customers are located (the destination of its sales). IAS 14 (revised) requires that, whichever is the basis of an enterprise's geographical segments, several items of data must be presented on the other basis if significantly different.

9. The original IAS 14 required four principal items of information for both industry segments and geographical segments:

(a) sales or other operating revenues, distinguishing between revenue derived from customers outside the enterprise and revenue derived from other segments;

(b) segment result;

(c) segment assets employed; and

(d) the basis of inter-segment pricing.

For an enterprise's primary basis of segment reporting (business segments or geographical segments), IAS 14 (revised) requires those same four items of information plus:

(a) segment liabilities;

(b) cost of property, plant, equipment, and intangible assets acquired during the period;

(c) depreciation and amortisation expense;

(d) non-cash expenses other than depreciation and amortisation; and

(e) the enterprise's share of the net profit or loss of an associate, joint venture, or other investment accounted for under the equity method if substantially all of the associate's operations are within only that segment, and the amount of the related investment.

For an enterprise's secondary basis of segment reporting, IAS 14 (revised) drops the original IAS 14 requirement for segment result and replaces it with the cost of property, plant, equipment, and intangible assets acquired during the period.

10. The original IAS 14 was silent on whether prior period segment information presented for comparative purposes should be restated for a material change in segment accounting policies. IAS 14 (revised) requires restatement unless it is impracticable to do so.

11. IAS 14 (revised) requires that if total revenue from external customers for all reportable segments combined is less than 75 % of total enterprise revenue, then additional reportable segments should be identified until the 75 % level is reached.

12. The original IAS 14 allowed a different method of pricing inter-segment transfers to be used in segment data than was actually used to price the transfers. IAS 14 (revised) requires that inter-segment transfers be measured on the basis that the enterprise actually used to price the transfers.

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13. IAS 14 (revised) requires disclosure of revenue for any segment not deemed reportable because it earns a majority of its revenue from sales to other segments if that segment's revenue from sales to external customers is 10 % or more of total enterprise revenue. The original IAS 14 had no comparable requirement.

CONTENTS

The standards, which have been set in bold italic type, should be read in the context of the background material and implementation guidance in this Standard, and in the context of the 'Preface to International Accounting Standards'. International Accounting Standards are not intended to apply to immaterial items (see paragraph 12 of the Preface).

OBJECTIVE

The objective of this Standard is to establish principles for reporting financial information by segment — information about the different types of products and services an enterprise produces and the different geographical areas in which it operates — to help users of financial statements:

(a) better understand the enterprise's past performance;

(b) better assess the enterprise's risks and returns; and

(c) make more informed judgements about the enterprise as a whole.

Many enterprises provide groups of products and services or operate in geographical areas that are subject to differing rates of profitability, opportunities for growth, future prospects, and risks. Information about an enterprise's different types of products and services and its operations in different geographical areas — often called segment information — is relevant to assessing the risks and returns of a diversified or multinational enterprise but may not be determinable from the aggregated data. Therefore, segment information is widely regarded as necessary to meeting the needs of users of financial statements.

SCOPE

1. **This Standard should be applied in complete sets of published financial statements that comply with International Accounting Standards.**

2. A complete set of financial statements includes a balance sheet, income statement, cash flow statement, a statement showing changes in equity, and notes, as provided in IAS 1, presentation of financial statements.

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3. **This Standard should be applied by enterprises whose equity or debt securities are publicly traded and by enterprises that are in the process of issuing equity or debt securities in public securities markets.**

4. If an enterprise whose securities are not publicly traded prepares financial statements that comply with International Accounting Standards, that enterprise is encouraged to disclose financial information by segment voluntarily.

5. **If an enterprise whose securities are not publicly traded chooses to disclose segment information voluntarily in financial statements that comply with International Accounting Standards, that enterprise should comply fully with the requirements of this Standard.**

6. **If a single financial report contains both consolidated financial statements of an enterprise whose securities are publicly traded and the separate financial statements of the parent or one or more subsidiaries, segment information need be presented only on the basis of the consolidated financial statements. If a subsidiary is itself an enterprise whose securities are publicly traded, it will present segment information in its own separate financial report.**

7. **Similarly, if a single financial report contains both the financial statements of an enterprise whose securities are publicly traded and the separate financial statements of an equity method associate or joint venture in which the enterprise has a financial interest, segment information need be presented only on the basis of the enterprise's financial statements. If the equity method associate or joint venture is itself an enterprise whose securities are publicly traded, it will present segment information in its own separate financial report.**

DEFINITIONS

Definitions from other international accounting standards

8. **The following terms are used in this Standard with the meanings specified in IAS 7, cash flow statements; IAS 8, net profit or loss for the period, fundamental errors and changes in accounting policies; and IAS 18, revenue:**

Operating activities are the principal revenue-producing activities of an enterprise and other activities that are not investing or financing activities.

Accounting policies are the specific principles, bases, conventions, rules and practices adopted by an enterprise in preparing and presenting financial statements.

Revenue is the gross inflow of economic benefits during the period arising in the course of the ordinary activities of an enterprise when those inflows result in increases in equity, other than increases relating to contributions from equity participants.

Definitions of business segment and geographical segment

9. **The terms business segment and geographical segment are used in this Standard with the following meanings:**

A business segment is a distinguishable component of an enterprise that is engaged in providing an individual product or service or a group of related products or services and that is subject to risks and returns that are different from those of other business segments. Factors that should be considered in determining whether products and services are related include:

(a) **the nature of the products or services;**

(b) **the nature of the production processes;**

(c) **the type or class of customer for the products or services;**

(d) **the methods used to distribute the products or provide the services; and**

(e) **if applicable, the nature of the regulatory environment, for example, banking, insurance, or public utilities.**

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A geographical segment is a distinguishable component of an enterprise that is engaged in providing products or services within a particular economic environment and that is subject to risks and returns that are different from those of components operating in other economic environments. Factors that should be considered in identifying geographical segments include:

(a) **similarity of economic and political conditions;**

(b) **relationships between operations in different geographical areas;**

(c) **proximity of operations;**

(d) **special risks associated with operations in a particular area;**

(e) **exchange control regulations; and**

(f) **the underlying currency risks.**

A reportable segment is a business segment or a geographical segment identified based on the foregoing definitions for which segment information is required to be disclosed by this Standard.

10. The factors in paragraph 9 for identifying business segments and geographical segments are not listed in any particular order.

11. A single business segment does not include products and services with significantly differing risks and returns. While there may be dissimilarities with respect to one or several of the factors in the definition of a business segment, the products and services included in a single business segment are expected to be similar with respect to a majority of the factors.

12. Similarly, a geographical segment does not include operations in economic environments with significantly differing risks and returns. A geographical segment may be a single country, a group of two or more countries, or a region within a country.

13. The predominant sources of risks affect how most enterprises are organised and managed. Therefore, paragraph 27 of this Standard provides that an enterprise's organisational structure and its internal financial reporting system is the basis for identifying its segments. The risks and returns of an enterprise are influenced both by the geographical location of its operations (where its products are produced or where its service delivery activities are based) and also by the location of its markets (where its products are sold or services are rendered). The definition allows geographical segments to be based on either:

(a) the location of an enterprise's production or service facilities and other assets; or

(b) the location of its markets and customers.

14. An enterprise's organisational and internal reporting structure will normally provide evidence of whether its dominant source of geographical risks results from the location of its assets (the origin of its sales) or the location of its customers (the destination of its sales). Accordingly, an enterprise looks to this structure to determine whether its geographical segments should be based on the location of its assets or on the location of its customers.

15. Determining the composition of a business or geographical segment involves a certain amount of judgement. In making that judgement, enterprise management takes into account the objective of reporting financial information by segment as set forth in this Standard and the qualitative characteristics of financial statements as identified in the IASC framework for the preparation and presentation of financial statements. Those qualitative characteristics include the relevance, reliability, and comparability over time of financial information that is reported about an enterprise's different groups of products and services and about its operations in particular geographical areas, and the usefulness of that information for assessing the risks and returns of the enterprise as a whole.

Definitions of segment revenue, expense, result, assets, and liabilities

16. **The following additional terms are used in this Standard with the meanings specified:**

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Segment revenue is revenue reported in the enterprise's income statement that is directly attributable to a segment and the relevant portion of enterprise revenue that can be allocated on a reasonable basis to a segment, whether from sales to external customers or from transactions with other segments of the same enterprise. Segment revenue does not include:

(a) **extraordinary items;**

(b) **interest or dividend income, including interest earned on advances or loans to other segments, unless the segment's operations are primarily of a financial nature; or**

(c) **gains on sales of investments or gains on extinguishment of debt unless the segment's operations are primarily of a financial nature.**

Segment revenue includes an enterprise's share of profits or losses of associates, joint ventures, or other investments accounted for under the equity method only if those items are included in consolidated or total enterprise revenue.

Segment revenue includes a joint venturer's share of the revenue of a jointly controlled entity that is accounted for by proportionate consolidation in accordance with IAS 31, financial reporting of interests in joint ventures.

Segment expense is expense resulting from the operating activities of a segment that is directly attributable to the segment and the relevant portion of an expense that can be allocated on a reasonable basis to the segment, including expenses relating to sales to external customers and expenses relating to transactions with other segments of the same enterprise. Segment expense does not include:

(a) **extraordinary items;**

(b) **interest, including interest incurred on advances or loans from other segments, unless the segment's operations are primarily of a financial nature;**

(c) **losses on sales of investments or losses on extinguishment of debt unless the segment's operations are primarily of a financial nature;**

(d) **an enterprise's share of losses of associates, joint ventures, or other investments accounted for under the equity method;**

(e) **income tax expense; or**

(f) **general administrative expenses, head-office expenses, and other expenses that arise at the enterprise level and relate to the enterprise as a whole. However, costs are sometimes incurred at the enterprise level on behalf of a segment. Such costs are segment expenses if they relate to the segment's operating activities and they can be directly attributed or allocated to the segment on a reasonable basis.**

Segment expense includes a joint venturer's share of the expenses of a jointly controlled entity that is accounted for by proportionate consolidation in accordance with IAS 31.

For a segment's operations that are primarily of a financial nature, interest income and interest expense may be reported as a single net amount for segment reporting purposes only if those items are netted in the consolidated or enterprise financial statements.

Segment result is segment revenue less segment expense. Segment result is determined before any adjustments for minority interest.

Segment assets are those operating assets that are employed by a segment in its operating activities and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis.

If a segment's segment result includes interest or dividend income, its segment assets include the related receivables, loans, investments, or other income-producing assets.

Segment assets do not include income tax assets.

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Segment assets include investments accounted for under the equity method only if the profit or loss from such investments is included in segment revenue. Segment assets include a joint venturer's share of the operating assets of a jointly controlled entity that is accounted for by proportionate consolidation in accordance with IAS 31.

Segment assets are determined after deducting related allowances that are reported as direct offsets in the enterprise's balance sheet.

Segment liabilities are those operating liabilities that result from the operating activities of a segment and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis.

If a segment's segment result includes interest expense, its segment liabilities include the related interest-bearing liabilities.

Segment liabilities include a joint venturer's share of the liabilities of a jointly controlled entity that is accounted for by proportionate consolidation in accordance with IAS 31.

Segment liabilities do not include income tax liabilities.

Segment accounting policies are the accounting policies adopted for preparing and presenting the financial statements of the consolidated group or enterprise as well as those accounting policies that relate specifically to segment reporting.

17. The definitions of segment revenue, segment expense, segment assets, and segment liabilities include amounts of such items that are directly attributable to a segment and amounts of such items that can be allocated to a segment on a reasonable basis. An enterprise looks to its internal financial reporting system as the starting point for identifying those items that can be directly attributed, or reasonably allocated, to segments. That is, there is a presumption that amounts that have been identified with segments for internal financial reporting purposes are directly attributable or reasonably allocable to segments for the purpose of measuring the segment revenue, segment expense, segment assets, and segment liabilities of reportable segments.

18. In some cases, however, a revenue, expense, asset, or liability may have been allocated to segments for internal financial reporting purposes on a basis that is understood by enterprise management but that could be deemed subjective, arbitrary, or difficult to understand by external users of financial statements. Such an allocation would not constitute a reasonable basis under the definitions of segment revenue, segment expense, segment assets, and segment liabilities in this Standard. Conversely, an enterprise may choose not to allocate some item of revenue, expense, asset, or liability for internal financial reporting purposes, even though a reasonable basis for doing so exists. Such an item is allocated pursuant to the definitions of segment revenue, segment expense, segment assets, and segment liabilities in this Standard.

19. Examples of segment assets include current assets that are used in the operating activities of the segment, property, plant, and equipment, assets that are the subject of finance leases (IAS 17, leases), and intangible assets. If a particular item of depreciation or amortisation is included in segment expense, the related asset is also included in segment assets. Segment assets do not include assets used for general enterprise or head-office purposes. Segment assets include operating assets shared by two or more segments if a reasonable basis for allocation exists. Segment assets include goodwill that is directly attributable to a segment or that can be allocated to a segment on a reasonable basis, and segment expense includes related amortisation of goodwill.

20. Examples of segment liabilities include trade and other payables, accrued liabilities, customer advances, product warranty provisions, and other claims relating to the provision of goods and services. Segment liabilities do not include borrowings, liabilities related to assets that are the subject of finance leases (IAS 17), and other liabilities that are incurred for financing rather than operating purposes. If interest expense is included in segment result, the related interest-bearing liability is included in segment liabilities. The liabilities of segments whose operations are not primarily of a financial nature do not include borrowings and similar liabilities because segment result represents an operating, rather than a net-of-financing, profit or loss. Further, because debt is often issued at the head-office level on an enterprise-wide basis, it is often not possible to directly attribute, or reasonably allocate, the interest-bearing liability to the segment.

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21. Measurements of segment assets and liabilities include adjustments to the prior carrying amounts of the identifiable segment assets and segment liabilities of a company acquired in a business combination accounted for as a purchase, even if those adjustments are made only for the purpose of preparing consolidated financial statements and are not recorded in either the parent's or the subsidiary's separate financial statements. Similarly, if property, plant, and equipment has been revalued subsequent to acquisition in accordance with the alternative accounting treatment allowed by IAS 16, then measurements of segment assets reflect those revaluations.

22. Some guidance for cost allocation can be found in other International Accounting Standards. For example, paragraphs 8 to 16 of IAS 2, inventories, provide guidance for attributing and allocating costs to inventories, and paragraphs 16 to 21 of IAS 11, construction contracts, provide guidance for attributing and allocating costs to contracts. That guidance may be useful in attributing or allocating costs to segments.

23. IAS 7, cash flow statements, provides guidance as to whether bank overdrafts should be included as a component of cash or should be reported as borrowings.

24. Segment revenue, segment expense, segment assets, and segment liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment.

25. While the accounting policies used in preparing and presenting the financial statements of the enterprise as a whole are also the fundamental segment accounting policies, segment accounting policies include, in addition, policies that relate specifically to segment reporting, such as identification of segments, method of pricing inter-segment transfers, and basis for allocating revenues and expenses to segments.

IDENTIFYING REPORTABLE SEGMENTS

Primary and secondary segment reporting formats

26. **The dominant source and nature of an enterprise's risks and returns should govern whether its primary segment reporting format will be business segments or geographical segments. If the enterprise's risks and rates of return are affected predominantly by differences in the products and services it produces, its primary format for reporting segment information should be business segments, with secondary information reported geographically. Similarly, if the enterprise's risks and rates of return are affected predominantly by the fact that it operates in different countries or other geographical areas, its primary format for reporting segment information should be geographical segments, with secondary information reported for groups of related products and services.**

27. **An enterprise's internal organisational and management structure and its system of internal financial reporting to the board of directors and the chief executive officer should normally be the basis for identifying the predominant source and nature of risks and differing rates of return facing the enterprise and, therefore, for determining which reporting format is primary and which is secondary, except as provided in subparagraphs (a) and (b) below:**

(a) **if an enterprise's risks and rates of return are strongly affected both by differences in the products and services it produces and by differences in the geographical areas in which it operates, as evidenced by a 'matrix approach' to managing the company and to reporting internally to the board of directors and the chief executive officer, then the enterprise should use business segments as its primary segment reporting format and geographical segments as its secondary reporting format; and**

(b) **if an enterprise's internal organisational and management structure and its system of internal financial reporting to the board of directors and the chief executive officer are based neither on individual products or services or on groups of related products/services nor on geography, the directors and management of the enterprise should determine whether the enterprise's risks and returns are related more to the products and services it produces or more to the geographical areas in**

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which it operates and, as a consequence, should choose either business segments or geographical segments as the enterprise's primary segment reporting format, with the other as its secondary reporting format.

28. For most enterprises, the predominant source of risks and returns determines how the enterprise is organised and managed. An enterprise's organisational and management structure and its internal financial reporting system normally provide the best evidence of the enterprise's predominant source of risks and returns for purpose of its segment reporting. Therefore, except in rare circumstances, an enterprise will report segment information in its financial statements on the same basis as it reports internally to top management. Its predominant source of risks and returns becomes its primary segment reporting format. Its secondary source of risks and returns becomes its secondary segment reporting format.

29. A 'matrix presentation' — both business segments and geographical segments as primary segment reporting formats with full segment disclosures on each basis — often will provide useful information if an enterprise's risks and rates of return are strongly affected both by differences in the products and services it produces and by differences in the geographical areas in which it operates. This Standard does not require, but does not prohibit, a 'matrix presentation'.

30. In some cases, an enterprise's organisation and internal reporting may have developed along lines unrelated either to differences in the types of products and services they produce or to the geographical areas in which they operate. For instance, internal reporting may be organised solely by legal entity, resulting in internal segments composed of groups of unrelated products and services. In those unusual cases, the internally reported segment data will not meet the objective of this Standard. Accordingly, paragraph 27(b) requires the directors and management of the enterprise to determine whether the enterprise's risks and returns are more product/service driven or geographically driven and to choose either business segments or geographical segments as the enterprise's primary basis of segment reporting. The objective is to achieve a reasonable degree of comparability with other enterprises, enhance understandability of the resulting information, and meet the expressed needs of investors, creditors, and others for information about product/service-related and geographically-related risks and returns.

Business and geographical segments

31. **An enterprise's business and geographical segments for external reporting purposes should be those organisational units for which information is reported to the board of directors and to the chief executive officer for the purpose of evaluating the unit's past performance and for making decisions about future allocations of resources, except as provided in paragraph 32.**

32. **If an enterprise's internal organisational and management structure and its system of internal financial reporting to the board of directors and the chief executive officer are based neither on individual products or services or on groups of related products/services nor on geography, paragraph 27(b) requires that the directors and management of the enterprise should choose either business segments or geographical segments as the enterprise's primary segment reporting format based on their assessment of which reflects the primary source of the enterprise's risks and returns, with the other its secondary reporting format. In that case, the directors and management of the enterprise must determine its business segments and geographical segments for external reporting purposes based on the factors in the definitions in paragraph 9 of this Standard, rather than on the basis of its system of internal financial reporting to the board of directors and chief executive officer, consistent with the following:**

(a) **if one or more of the segments reported internally to the directors and management is a business segment or a geographical segment based on the factors in the definitions in paragraph 9 but others are not, subparagraph (b) should be applied only to those internal segments that do not meet the definitions in paragraph 9 (that is, an internally reported segment that meets the definition should not be further segmented);**

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(b) **for those segments reported internally to the directors and management that do not satisfy the definitions in paragraph 9, management of the enterprise should look to the next lower level of internal segmentation that reports information along product and service lines or geographical lines, as appropriate under the definitions in paragraph 9; and**

(c) **if such an internally reported lower-level segment meets the definition of business segment or geographical segment based on the factors in paragraph 9, the criteria in paragraphs 34 and 35 for identifying reportable segments should be applied to that segment.**

33. Under this Standard, most enterprises will identify their business and geographical segments as the organisational units for which information is reported to the board of directors (particularly the supervisory non-management directors, if any) and to the chief executive officer (the senior operating decision maker, which in some cases may be a group of several people) for the purpose of evaluating each unit's past performance and for making decisions about future allocations of resources. And even if an enterprise must apply paragraph 32 because its internal segments are not along product/service or geographical lines, it will look to the next lower level of internal segmentation that reports information along product and service lines or geographical lines rather than construct segments solely for external reporting purposes. This approach of looking to an enterprise's organisational and management structure and its internal financial reporting system to identify the enterprise's business and geographical segments for external reporting purposes is sometimes called the 'management approach', and the organisational components for which information is reported internally are sometimes called 'operating segments'.

Reportable segments

34. **Two or more internally reported business segments or geographical segments that are substantially similar may be combined as a single business segment or geographical segment. Two or more business segments or geographical segments are substantially similar only if:**

(a) **they exhibit similar long-term financial performance; and**

(b) **they are similar in all of the factors in the appropriate definition in paragraph 9.**

35. **A business segment or geographical segment should be identified as a reportable segment if a majority of its revenue is earned from sales to external customers and:**

(a) **its 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**

(b) **its segment result, whether profit or loss, is 10 % or more of the combined result of all segments in profit or the combined result of all segments in loss, whichever is the greater in absolute amount; or**

(c) **its assets are 10 % or more of the total assets of all segments.**

36. **If an internally reported segment is below all of the thresholds of significance in paragraph 35:**

(a) **that segment may be designated as a reportable segment despite its size;**

(b) **if not designated as a reportable segment despite its size, that segment may be combined into a separately reportable segment with one or more other similar internally reported segment(s) that are also below all of the thresholds of significance in paragraph 35 (two or more business segments or geographical segments are similar if they share a majority of the factors in the appropriate definition in paragraph 9); and**

(c) **if that segment is not separately reported or combined, it should be included as an unallocated reconciling item.**

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37. **If total external revenue attributable to reportable segments constitutes less than 75 % of the total consolidated or enterprise revenue, additional segments should be identified as reportable segments, even if they do not meet the 10 % thresholds in paragraph 35, until at least 75 % of total consolidated or enterprise revenue is included in reportable segments.**

38. The 10 % thresholds in this Standard are not intended to be a guide for determining materiality for any aspect of financial reporting other than identifying reportable business and geographical segments.

39. By limiting reportable segments to those that earn a majority of their revenue from sales to external customers, this Standard does not require that the different stages of vertically integrated operations be identified as separate business segments. However, in some industries, current practice is to report certain vertically integrated activities as separate business segments even if they do not generate significant external sales revenue. For instance, many international oil companies report their upstream activities (exploration and production) and their downstream activities (refining and marketing) as separate business segments even if most or all of the upstream product (crude petroleum) is transferred internally to the enterprise's refining operation.

40. This Standard encourages, but does not require, the voluntary reporting of vertically integrated activities as separate segments, with appropriate description including disclosure of the basis of pricing inter-segment transfers as required by paragraph 75.

41. **If an enterprise's internal reporting system treats vertically integrated activities as separate segments and the enterprise does not choose to report them externally as business segments, the selling segment should be combined into the buying segment(s) in identifying externally reportable business segments unless there is no reasonable basis for doing so, in which case the selling segment would be included as an unallocated reconciling item.**

42. **A segment identified as a reportable segment in the immediately preceding period because it satisfied the relevant 10 % thresholds should continue to be a reportable segment for the current period notwithstanding that its revenue, result, and assets all no longer exceed the 10 % thresholds, if the management of the enterprise judges the segment to be of continuing significance.**

43. **If a segment is identified as a reportable segment in the current period because it satisfies the relevant 10 % thresholds, prior period segment data that is presented for comparative purposes should be restated to reflect the newly reportable segment as a separate segment, even if that segment did not satisfy the 10 % thresholds in the prior period, unless it is impracticable to do so.**

SEGMENT ACCOUNTING POLICIES

44. **Segment information should be prepared in conformity with the accounting policies adopted for preparing and presenting the financial statements of the consolidated group or enterprise.**

45. There is a presumption that the accounting policies that the directors and management of an enterprise have chosen to use, in preparing its consolidated or enterprise-wide financial statements, are those that the directors and management believe are the most appropriate for external reporting purposes. Since the purpose of segment information is to help users of financial statements better understand and make more informed judgements about the enterprise as a whole, this Standard requires the use, in preparing segment information, of the accounting policies that the directors and management have chosen. That does not mean, however, that the consolidated or enterprise accounting policies are to be applied to reportable segments as if the segments were separate stand-alone reporting entities. A detailed calculation done in applying a particular accounting policy at the enterprise-wide level may be allocated to segments if there is a reasonable basis for doing so. Pension calculations, for example, often are done for an enterprise as a whole, but the enterprise-wide figures may be allocated to segments based on salary and demographic data for the segments.

46. This Standard does not prohibit the disclosure of additional segment information that is prepared on a basis other than the accounting

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policies adopted for the consolidated or enterprise financial statements provided that (a) the information is reported internally to the board of directors and the chief executive officer for purposes of making decisions about allocating resources to the segment and assessing its performance and (b) the basis of measurement for this additional information is clearly described.

47. **Assets that are jointly used by two or more segments should be allocated to segments if, and only if, their related revenues and expenses also are allocated to those segments.**

48. The way in which asset, liability, revenue, and expense items are allocated to segments depends on such factors as the nature of those items, the activities conducted by the segment, and the relative autonomy of that segment. It is not possible or appropriate to specify a single basis of allocation that should be adopted by all enterprises. Nor is it appropriate to force allocation of enterprise asset, liability, revenue, and expense items that relate jointly to two or more segments, if the only basis for making those allocations is arbitrary or difficult to understand. At the same time, the definitions of segment revenue, segment expense, segment assets, and segment liabilities are interrelated, and the resulting allocations should be consistent. Therefore, jointly used assets are allocated to segments if, and only if, their related revenues and expenses also are allocated to those segments. For example, an asset is included in segment assets if, and only if, the related depreciation or amortisation is deducted in measuring segment result.

DISCLOSURE

49. Paragraphs 50 to 67 specify the disclosures required for reportable segments for an enterprise's primary segment reporting format. Paragraphs 68 to 72 identify the disclosures required for an enterprise's secondary reporting format. Enterprises are encouraged to present all of the primary-segment disclosures identified in paragraphs 50 to 67 for each reportable secondary segment, although paragraphs 68 to 72 require considerably less disclosure on the secondary basis. Paragraphs 74 to 83 address several other segment disclosure matters. Appendix B to this Standard illustrates application of these disclosure standards.

Primary reporting format

50. **The disclosure requirements in paragraphs 51 to 67 should be applied to each reportable segment based on an enterprise's primary reporting format.**

51. **An enterprise should disclose segment revenue for each reportable segment. Segment revenue from sales to external customers and segment revenue from transactions with other segments should be separately reported.**

52. **An enterprise should disclose segment result for each reportable segment.**

53. If an enterprise can compute segment net profit or loss or some other measure of segment profitability other than segment result without arbitrary allocations, reporting of such amount(s) is encouraged in addition to segment result, appropriately described. If that measure is prepared on a basis other than the accounting policies adopted for the consolidated or enterprise financial statements, the enterprise will include in its financial statements a clear description of the basis of measurement.

54. An example of a measure of segment performance above segment result on the income statement is gross margin on sales. Examples of measures of segment performance below segment result on the income statement are profit or loss from ordinary activities (either before or after income taxes) and net profit or loss.

55. **An enterprise should disclose the total carrying amount of segment assets for each reportable segment.**

56. **An enterprise should disclose segment liabilities for each reportable segment.**

57. **An enterprise should disclose the total cost incurred during the period to acquire segment assets that are expected to be used during more than one period (property, plant, equipment, and**

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intangible assets) for each reportable segment. While this sometimes is referred to as capital additions or capital expenditure, the measurement required by this principle should be on an accrual basis, not a cash basis.

58. **An enterprise should disclose the total amount of expense included in segment result for depreciation and amortisation of segment assets for the period for each reportable segment.**

59. **An enterprise is encouraged, but not required to disclose the nature and amount of any items of segment revenue and segment expense that are of such size, nature, or incidence that their disclosure is relevant to explain the performance of each reportable segment for the period.**

60. IAS 8 requires that 'when items of income or expense within profit or loss from ordinary activities are of such size, nature, or incidence that their disclosure is relevant to explain the performance of the enterprise for the period, the nature and amount of such items should be disclosed separately'. IAS 8 offers a number of examples, including write-downs of inventories and property, plant, and equipment, provisions for restructurings, disposals of property, plant, and equipment and long-term investments, discontinued operations, litigation settlements, and reversals of provisions. Paragraph 59 is not intended to change the classification of any such items of revenue or expense from ordinary to extraordinary (as defined in IAS 8) or to change the measurement of such items. The disclosure encouraged by that paragraph, however, does change the level at which the significance of such items is evaluated for disclosure purposes from the enterprise level to the segment level.

61. **An enterprise should disclose, for each reportable segment, the total amount of significant non-cash expenses, other than depreciation and amortisation for which separate disclosure is required by paragraph 58, that were included in segment expense and, therefore, deducted in measuring segment result.**

62. IAS 7 requires that an enterprise present a cash flow statement that separately reports cash flows from operating, investing, and financing activities. IAS 7 notes that disclosing cash flow information for each reportable industry and geographical segment is relevant to understanding the enterprise's overall financial position, liquidity, and cash flows. IAS 7 encourages the disclosure of such information. This Standard also encourages the segment cash flow disclosures that are encouraged by IAS 7. Additionally, it encourages disclosure of significant non-cash revenues that were included in segment revenue and, therefore, added in measuring segment result.

63. **An enterprise that provides the segment cash flow disclosures that are encouraged by IAS 7 need not also disclose depreciation and amortisation expense pursuant to paragraph 58 or non-cash expenses pursuant to paragraph 61.**

64. **An enterprise should disclose, for each reportable segment, the aggregate of the enterprise's share of the net profit or loss of associates, joint ventures, or other investments accounted for under the equity method if substantially all of those associates' operations are within that single segment.**

65. While a single aggregate amount is disclosed pursuant to the preceding paragraph, each associate, joint venture, or other equity method investment is assessed individually to determine whether its operations are substantially all within a segment.

66. **If an enterprise's aggregate share of the net profit or loss of associates, joint ventures, or other investments accounted for under the equity method is disclosed by reportable segment, the aggregate investments in those associates and joint ventures should also be disclosed by reportable segment.**

67. **An enterprise should present a reconciliation between the information disclosed for reportable segments and the aggregated information in the consolidated or enterprise financial statements. In presenting the reconciliation, segment revenue should be reconciled to enterprise revenue from external customers (including disclosure of the amount of enterprise revenue from external customers not included in any segment's revenue); segment results should be**

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reconciled to a comparable measure of enterprise operating profit or loss as well as to enterprise net profit or loss; segment assets should be reconciled to enterprise assets; and segment liabilities should be reconciled to enterprise liabilities.

Secondary segment information

68. Paragraphs 50 to 67 identify the disclosure requirements to be applied to each reportable segment based on an enterprise's primary reporting format. Paragraphs 69 to 72 identify the disclosure requirements to be applied to each reportable segment based on an enterprise's secondary reporting format, as follows:

(a) if an enterprise's primary format is business segments, the required secondary-format disclosures are identified in paragraph 69;

(b) if an enterprise's primary format is geographical segments based on location of assets (where the enterprise's products are produced or where its service delivery operations are based), the required secondary-format disclosures are identified in paragraphs 70 and 71;

(c) if an enterprise's primary format is geographical segments based on the location of its customers (where its products are sold or services are rendered), the required secondary-format disclosures are identified in paragraphs 70 and 72.

69. **If an enterprise's primary format for reporting segment information is business segments, it should also report the following information:**

(a) **segment revenue from external customers by geographical area based on the geographical location of its customers, for each geographical segment whose revenue from sales to external customers is 10 % or more of total enterprise revenue from sales to all external customers;**

(b) **the total carrying amount of segment assets by geographical location of assets, for each geographical segment whose segment assets are 10 % or more of the total assets of all geographical segments; and**

(c) **the total cost incurred during the period to acquire segment assets that are expected to be used during more than one period (property, plant, equipment, and intangible assets) by geographical location of assets, for each geographical segment whose segment assets are 10 % or more of the total assets of all geographical segments.**

70. **If an enterprise's primary format for reporting segment information is geographical segments (whether based on location of assets or location of customers), it should also report the following segment information for each business segment whose revenue from sales to external customers is 10 % or more of total enterprise revenue from sales to all external customers or whose segment assets are 10 % or more of the total assets of all business segments:**

(a) **segment revenue from external customers;**

(b) **the total carrying amount of segment assets; and**

(c) **the total cost incurred during the period to acquire segment assets that are expected to be used during more than one period (property, plant, equipment, and intangible assets).**

71. **If an enterprise's primary format for reporting segment information is geographical segments that are based on location of assets, and if the location of its customers is different from the location of its assets, then the enterprise should also report revenue from sales to external customers for each customer-based geographical segment whose revenue from sales to external customers is 10 % or more of total enterprise revenue from sales to all external customers.**

72. **If an enterprise's primary format for reporting segment information is geographical segments that are based on location of customers, and if the enterprise's assets are located in different geographical areas from its customers, then the enterprise should also report the following segment information for each asset-based geographical segment whose revenue from sales to external customers or segment assets are 10 % or more of related consolidated or total enterprise amounts:**

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(a) **the total carrying amount of segment assets by geographical location of the assets; and**

(b) **the total cost incurred during the period to acquire segment assets that are expected to be used during more than one period (property, plant, equipment, and intangible assets) by location of the assets.**

Illustrative segment disclosures

73. Appendix B to this Standard presents an illustration of the disclosures for primary and secondary reporting formats that are required by this Standard.

Other disclosure matters

74. **If a business segment or geographical segment for which information is reported to the board of directors and chief executive officer is not a reportable segment because it earns a majority of its revenue from sales to other segments, but none the less its revenue from sales to external customers is 10 % or more of total enterprise revenue from sales to all external customers, the enterprise should disclose that fact and the amounts of revenue from (a) sales to external customers and (b) internal sales to other segments.**

75. **In measuring and reporting segment revenue from transactions with other segments, inter-segment transfers should be measured on the basis that the enterprise actually used to price those transfers. The basis of pricing inter-segment transfers and any change therein should be disclosed in the financial statements.**

76. **Changes in accounting policies adopted for segment reporting that have a material effect on segment information should be disclosed, and prior period segment information presented for comparative purposes should be restated unless it is impracticable to do so. Such disclosure should include a description of the nature of the change, the reasons for the change, the fact that comparative information has been restated or that it is impracticable to do so, and the financial effect of the change, if it is reasonably determinable. If an enterprise changes the identification of its segments and it does not restate prior period segment information on the new basis because it is impracticable to do so, then for the purpose of comparison the enterprise should report segment data for both the old and the new bases of segmentation in the year in which it changes the identification of its segments.**

77. Changes in accounting policies adopted by the enterprise are dealt with in IAS 8. IAS 8 requires that changes in accounting policy should be made only if required by statute, or by an accounting standard-setting body, or if the change will result in a more appropriate presentation of events or transactions in the financial statements of the enterprise.

78. Changes in accounting policies adopted at the enterprise level that affect segment information are dealt with in accordance with IAS 8. Unless a new International Accounting Standard specifies otherwise, IAS 8 requires that a change in accounting policy should be applied retrospectively and that prior period information be restated unless it is impracticable to do so (benchmark treatment) or that the cumulative adjustment resulting from the change be included in determining the enterprise's net profit or loss for the current period (allowed alternative treatment). If the benchmark treatment is followed, prior period segment information will be restated. If the allowed alternative is followed, the cumulative adjustment that is included in determining the enterprise's net profit or loss is included in segment result if it is an operating item that can be attributed or reasonably allocated to segments. In the latter case, IAS 8 may require separate disclosure if its size, nature, or incidence is such that the disclosure is relevant to explain the performance of the enterprise for the period.

79. Some changes in accounting policies relate specifically to segment reporting. Examples include changes in identification of segments and changes in the basis for allocating revenues and expenses to segments. Such changes can have a significant impact on the segment information reported but will not change aggregate financial information reported for the enterprise. To enable users to understand the changes and to assess trends, prior period segment information that is included in the financial statements for comparative purposes is restated, if practicable, to reflect the new accounting policy.

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80. Paragraph 75 requires that, for segment reporting purposes, inter-segment transfers should be measured on the basis that the enterprise actually used to price those transfers. If an enterprise changes the method that it actually uses to price inter-segment transfers, that is not a change in accounting policy for which prior period segment data should be restated pursuant to paragraph 76. However, paragraph 75 requires disclosure of the change.

81. **An enterprise should indicate the types of products and services included in each reported business segment and indicate the composition of each reported geographical segment, both primary and secondary, if not otherwise disclosed in the financial statements or elsewhere in the financial report.**

82. To assess the impact of such matters as shifts in demand, changes in the price of inputs or other factors of production, and the development of alternative products and processes on a business segment, it is necessary to know the activities encompassed by that segment. Similarly, to assess the impact of changes in the economic and political environment on the risks and rates of returns of a geographical segment, it is important to know the composition of that geographical segment.

83. Previously reported segments that no longer satisfy the quantitative thresholds are not reported separately. They may no longer satisfy those thresholds, for example, because of a decline in demand or a change in management strategy or because a part of the operations of the segment has been sold or combined with other segments. An explanation of the reasons why a previously reported segment is no longer reported may also be useful in confirming expectations regarding declining markets and changes in enterprise strategies.

EFFECTIVE DATE

84. **This International Accounting Standard becomes operative for financial statements covering periods beginning on or after 1 July 1998. Earlier application is encouraged. If an enterprise applies this Standard for financial statements covering periods beginning before 1 July 1998 instead of the original IAS 14, the enterprise should disclose that fact. If financial statements include comparative information for periods prior to the effective date or earlier voluntary adoption of this Standard, restatement of segment data included therein to conform to the provisions of this Standard is required unless it is not practicable to do so, in which case the enterprise should disclose that fact.**

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INTERNATIONAL ACCOUNTING STANDARD 16

Property, Plant and Equipment

SUMMARY