



# IFRS 8 OPERATING SEGMENTS

## FACT SHEET

This fact sheet is based on existing requirements as at 31 December 2015 and does not take into account recent standards and interpretations that have been issued but are not yet effective.

### **IMPORTANT NOTE**

**This fact sheet is based on the requirements of the International Financial Reporting Standards (IFRSs). In some jurisdictions, the IFRSs are adopted in their entirety; in other jurisdictions the individual IFRSs are amended. In some jurisdictions the requirements of a particular IFRS may not have been adopted. Consequently, users of the fact sheet in various jurisdictions should ascertain for themselves the relevance of the fact sheet to their particular jurisdiction. The application date included below is the effective date of the initial version of the standard.**

## IASB APPLICATION DATE (NON-JURISDICTION SPECIFIC)

IFRS 8 is applicable for annual reporting periods commencing on or after 1 January 2009.

## CORE PRINCIPLE

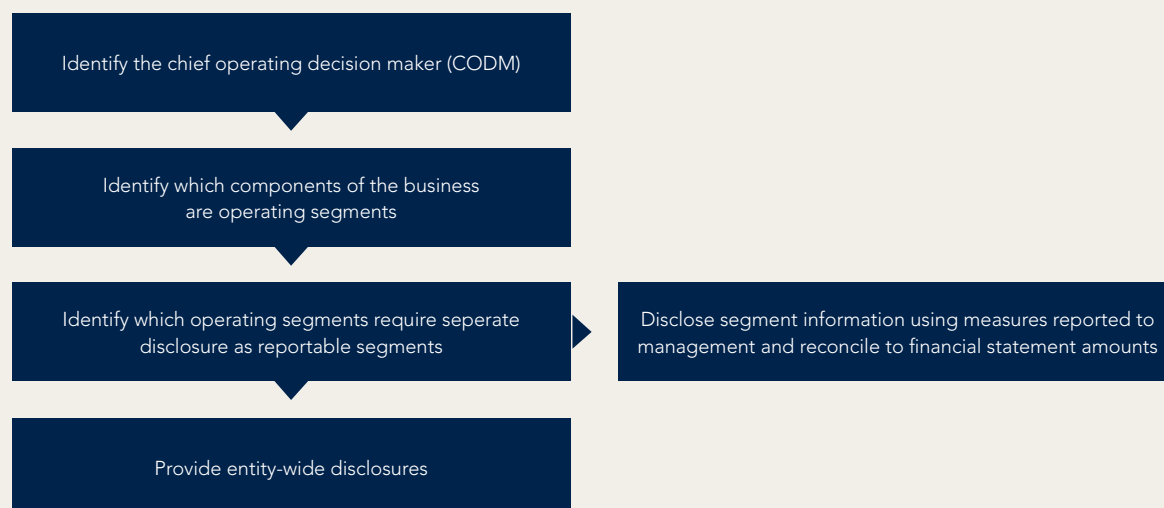
The core principle of IFRS 8 is that an entity is to disclose information to enable users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environment in which it operates.

IFRS 8 specifies the use of a 'through the eyes of management' approach to an entity's reporting of information relating to its operating segments in annual financial statements.

## SCOPE

IFRS 8 applies to entities whose debt or equity instruments are traded in a public market or files (or in the process of filing) its consolidated or separate financial statements with a securities commission or equivalent regulator.

An overall summary of the approach required by IFRS 8 is shown below:



An entity may comprise of one or more operating segments. Individual operating segments may separately be reportable segments or they may be aggregated to form either a single or multiple reportable segments.

The size and extent of a reportable segment is determined by the aggregation criteria and quantitative thresholds.

## OPERATING SEGMENTS

An 'operating segment' is a component of an entity:

- that engages in business activities from which it may earn revenues and incur expenses
- whose operating results are regularly reviewed by the entity's chief operating decision maker for resource allocation decision making purposes and performance assessment, and
- for which discrete financial information is available

An operating segment may sell primarily or exclusively to other operating segments of the business, or it may engage in business activities for which it has yet to earn revenues; e.g. start-up operations.

**(Note:** Not every part or function of an entity is an operating segment or forms part of an operating segment; e.g. corporate headquarters, functional departments, post-employment benefit plans. Some of the corporate functions are not revenue earning or on an incidental basis, hence they are not operating segments.)

### Chief Operating Decision Maker

The term 'chief operating decision maker' (CODM) identifies a function, not necessarily a manager with a specific title. That function is to allocate resources to and assess the performance of the operating segments of an entity.

Often the CODM of an entity is its chief executive officer or chief operation officer but, for example, it may be a group of executive directors or others.

## REPORTABLE SEGMENTS

### **Aggregation criteria**

Operating segments often exhibit similar long-term financial performance if they have similar economic characteristics.

Two or more operating segments may be aggregated into a single reportable segment where they are similar in the following respects:

- the nature of the products and services
- the nature of the production process
- the type or class of customer for the products / services
- the distribution methods relating to the products / services
- the nature of regulatory environment

### **Quantitative thresholds**

An entity shall report as a separate reportable segment information about an operating segment that has either:

- reported revenue, including both external and inter segment sales or transfers, is 10 per cent or more of combined revenue of all operating segments
- reported profit or loss is 10 per cent or more of the greater, in absolute amount, of
  - i. 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 reported a loss.,
- assets are 10 per cent or more of the combined assets of all operating segments

An entity may combine information about operating segments that do not meet the quantitative thresholds with information about other operating segments that do not meet the quantitative thresholds to produce a reportable segment only if the reporting segments have similar economic characteristics and share a majority of the aggregation criteria listed above.

If the total external revenue reported by operating segments constitutes less than 75 per cent of the entity's revenue, additional operating segments are identified as reportable segments (even if they do not meet the criteria above) until at least 75% of the entity's revenue is included in reportable segments.

Information about other business activities and operating segments that are not reportable shall be combined and disclosed in an "all other segments" category separately from other reconciling items in the reconciliations required by paragraph 28. The sources of revenue included in the "all other segments" category shall be disclosed.

### **Measurement**

The amount of each segment item reported shall be the measure reported to the CODM for the purposes of making decisions about allocating resources to the segment and assessing its performance.

### **Restatement of previously reported information**

If an entity changes the structure of its internal organisation in a manner that causes the composition of its reportable segments to change, the corresponding information for earlier periods, including interim periods, shall be restated unless the information is not available and the cost to develop it would be excessive.

## DISCLOSURES

Refer to Appendix 1 for a checklist to assist with IFRS 8 disclosure requirements.

## DEFINITIONS

### Operating segment

An operating segment is a component of an entity:

- a. that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity)
- b. whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and
- c. for which discrete financial information is available

## AUSTRALIAN SPECIFIC REQUIREMENTS

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The Australian equivalent standard is AASB 8 *Operating Segments* and is applicable to for-profit entities only (other than for-profit government departments) for annual reporting periods commencing on or after 1 January 2009.

### REDUCED DISCLOSURE REQUIREMENTS (RDR)

On 30 June 2010, the Australian Accounting Standards Board published AASB 1053 *Application of Tiers of Australian Accounting Standards* (and AASB 2010-2 *Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements*) which established a differential reporting framework, consisting of two Tiers of reporting requirements for preparing general purpose financial statements:

- a. Tier 1: Australian Accounting Standards; and
- b. Tier 2: Australian Accounting Standards  
– Reduced Disclosure Requirements.

Tier 2 comprises the recognition, measurement and presentation requirements of Tier 1 and substantially reduced disclosures corresponding to those requirements.

A Tier 2 entity is a 'reporting entity' as defined in SAC 1 *Definition of the Reporting Entity* that does not have 'public accountability' as defined in AASB 1053 and is not otherwise deemed to be a Tier 1 entity by AASB 1053.

RDR is applicable to annual periods beginning on or after 1 July 2013.

The requirements that do not apply to RDR entities are identified in Appendix 1 by shading of the relevant text.

None of the disclosure requirements in this standard apply to RDR entities as this standard only applies to for-profit Tier 1 entities (other than for-profit government departments) preparing general purpose financial statements in accordance with Australian Accounting Standards.

## APPENDIX 1 – DISCLOSURE CHECKLIST

This checklist can be used to review your financial statements. You should complete the “Yes / No / N/A” column about whether the requirement is included. To ensure the completeness of disclosures, provide an explanation for “No” answers.

CODE		YES / NO / N/A	EXPLANATION (If required)
IFRS 8.20	Has information been disclosed to enable users of the financial statements to evaluate the nature and financial effects of the business activities in which the entity engages and the economic environments in which it operates?		
IFRS 8.21	To give effect to the required disclosure at IFRS 8.20, has the entity prepared a reconciliation of amounts in the Statement of Financial Position for reportable segments to the amounts in entity's Statement of Financial Position for each date at which a Statement of Financial Position is presented?		
<b>GENERAL INFORMATION</b>			
IFRS 8.22	<p>Has the entity disclosed the following general information:</p> <p>a. factors used to identify the entity's reportable segments, including the basis of organisation (for example, whether management has chosen to organise the entity around differences in products and services, geographical areas, regulatory environments, or a combination of factors and whether operating segments have been aggregated); and</p> <p>aa. the judgements made by management in applying the aggregation criteria in paragraph 12. This includes a brief description of the operating segments that have been aggregated in this way and the economic indicators that have been assessed in determining that the aggregated operating segments share similar economic characteristics; and</p> <p>b. types of products and services from which each reportable segment derives its revenues?</p>		

CODE		YES / NO / N/A	EXPLANATION (If required)
<b>INFORMATION ABOUT PROFIT OR LOSS, ASSETS AND LIABILITIES</b>			
IFRS 8.23	<p>Has the entity reported a measure of profit or loss for each reportable segment?</p> <p>A report of total assets and/or liabilities for each reportable segment is only required if it is regularly provided to the chief operating decision maker.</p> <p>Has the entity also disclosed the following about each reportable segment if the specified amounts are included in the measure of segment profit or loss reviewed by the chief operating decision maker, or are otherwise regularly provided to the chief operating decision maker, even if not included in that measure of segment profit or loss:</p> <ul style="list-style-type: none"> <li>a. revenues from external customers;</li> <li>b. revenues from transactions with other operating segments of the same entity;</li> <li>c. interest revenue;</li> <li>d. interest expense;</li> <li>e. depreciation and amortisation;</li> <li>f. material items of income and expense disclosed in accordance with paragraph 97 of IAS 1 Presentation of Financial Statements (as revised in 2007);</li> <li>g. the entity's interest in the profit or loss of associates and joint ventures accounted for by the equity method;</li> <li>h. income tax expense or income; and</li> <li>i. material non-cash items other than depreciation and amortisation?</li> </ul> <p>An entity shall report interest revenue separately from interest expense for each reportable segment unless a majority of the segment's revenues are from interest and the chief operating decision maker relies primarily on net interest revenue to assess the performance of the segment and make decisions about resources to be allocated to the segment. In that situation, an entity may report that segment's interest revenue net of its interest expense and disclose that it has done so.</p>		
IFRS 8.24	<p>Has the entity disclosed the following about each reportable segment if the specified amounts are included in the measure of segment assets reviewed by the chief operating decision maker or are otherwise regularly provided to the chief operating decision maker, even if not included in the measure of segment assets:</p> <ul style="list-style-type: none"> <li>a. the amount of investment in associates and joint ventures accounted for by the equity method; and</li> <li>b. the amounts of additions to non-current assets other than financial instruments, deferred tax assets, post-employment benefit assets (see IAS 19 Employee Benefits paragraphs 55–60) and rights arising under insurance contracts?</li> </ul>		



CODE		YES / NO / N/A	EXPLANATION (If required)
IFRS 8.27	<p>Has the entity provided an explanation of the measurement of segment profit or loss, segment assets and segment liabilities for each reportable segment? At a minimum, the following is disclosed:</p> <ul style="list-style-type: none"> <li>a. the basis of accounting for any transactions between reportable segments;</li> <li>b. the nature of any differences between the measurements of the reportable segments' profit or losses and the entity's profit or loss before income tax expense or income and discontinued operations;</li> <li>c. The nature of any differences between the measurements of the reportable segments' assets and the entity's assets;</li> <li>d. The nature of any differences between the measurements of the reportable segments' liabilities and the entity's liabilities;</li> <li>e. The nature of any changes from prior periods in the measurement methods used to determine reported segment profit or loss and the effect, if any, of those changes on the measure of segment profit or loss; and</li> <li>f. The nature and effect of any asymmetrical allocations to reportable segments.</li> </ul>		
IFRS 8.28	<p>Has the entity provided reconciliations of the following:</p> <ul style="list-style-type: none"> <li>a. The total of the reportable segments' revenues to the entity's revenue;</li> <li>b. The total of the reportable segments' measures of profit or loss to the entity's profit or loss before tax expense (tax income) and discontinued operations;</li> <li>c. The total of the reportable segments' assets to the entity's assets if the segment assets are reported in accordance with paragraph 23;</li> <li>d. The total of the reportable segments' liabilities to the entity's liabilities if segment liabilities are reported in accordance with paragraph 23; and</li> <li>e. The total of the reportable segments' amounts for every other material item of information disclosed to the corresponding amount for the entity?</li> </ul> <p>All material reconciling items shall be separately disclosed and described.</p>		

CODE		YES / NO / N/A	EXPLANATION (If required)
IFRS 8.32	<p>Has the entity reported the revenues from external customers for each product and service, or each group of similar products and services, unless the necessary information is not available and the cost to develop it would be excessive?</p> <p>The amounts of revenues reported are based on the financial information used to produce the entity's financial statements.</p>		
IFRS 8.33	<p>Has the entity reported the following geographical information, unless the necessary information is not available and the cost to develop it would be excessive:</p> <p>a. Revenues from external customers:</p> <ul style="list-style-type: none"> <li>i. Attributed to the entity's country of domicile; and</li> <li>ii. Attributed to all foreign countries in total from which the entity derives revenues?</li> </ul> <p>b. Non-current assets other than financial instruments, deferred tax assets, post-employment benefit assets, and rights arising under insurance contracts:</p> <ul style="list-style-type: none"> <li>i. Located in the entity's county of domicile; and</li> <li>ii. Located in all foreign countries in total in which the entity holds assets?</li> </ul> <p>If assets or revenues in an individual foreign country are material, those assets or revenues shall be disclosed separately.</p>		
IFRS 8.34	<p>Has the entity disclosed information about the extent of its reliance on its major customers?</p> <p>If revenues from transactions with a single external customer amount to 10% or more of an entity's revenues, has the entity disclosed that fact, the total amount of revenues from each such customer and the identity of the segment or segments reporting the revenues?</p>		

## OTHER MATTERS

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