

Technical Accounting Alert

AASB 8 *Operating Segments*

Background

AASB 8 *Operating Segments* is the Australian equivalent to IFRS 8 Operating Segments which was issued by the IASB in November 2006. The IASB issued IFRS 8 to align the segment disclosure requirements with US GAAP.

AASB 8 is applicable for financial reporting periods beginning on or after 1 January 2009, however there is significant benefit for some entities to early adopt, as highlighted below.

What is the impact?

AASB 8 will have different impacts for different entities as described below:

Not for Profit entities

Not for profit entities continue to be exempt from the requirements of the segment reporting accounting standard and therefore there is no impact following the release of AASB 8.

Unlisted entities

The scope of AASB 8 has been narrowed to apply only to listed entities and those in the process of listing. This means that unlisted entities are now exempt from the segment reporting requirements under AASB 8.

It is likely that unlisted entities will receive significant benefit from early adopting AASB 8 since the segment disclosures are able to be removed from the financial statements.

See the action required section for the disclosure to be included in the financial statements for the early adoption of AASB 8.

Listed entities and those in the process of listing

These entities are within the scope of AASB 8 and therefore are subject to the changed requirements as described below.

What are the requirements of AASB 8?

AASB 8 requires entities to provide segment information based on the 'management approach', i.e. the method that management use to identify and measure segments. The

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standard setters believe that this approach will provide users with information about the way that the decision makers at the entity run their business.

This may result in different segments being identified from those currently disclosed under AASB 114 *Segment Reporting*.

Note: where consolidated financial statements are prepared, AASB 8 disclosures are required for the consolidated entity only and the parent entity is exempt from the disclosures.

Reportable Segments

Segment information is required for each operating segment that meets any of the following quantitative thresholds:

- a Its reported revenue, from both sales to external customers and inter-segment sales or transfers, is 10% or more of the combined revenue, internal and external of all operating segments
- b The absolute amount of its reported profit or loss is 10% 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
- c Its assets are 10% or more of the combined assets of all operating segments.

Note: if the total external revenue reporting by operating segments comprises less than 75% of the entity's total revenue then additional operating segments shall be identified as reportable segments until at least 75% of the entity's revenue is included in reportable segments.

Example:

Hiddleston Ltd manufactures electrical equipment and all sales are to external customers.

Management accounts which are used to monitor the performance of the entity are summarised below for the year ended 30 June 2010:

	Turnover (\$'000)	Operating Result (\$'000)	Assets (\$'000)
Televisions	8,000	1,750	1,950
Stereo systems	2,300	100	830
DVD recorders	1,900	250	300
Accessories e.g. speakers	700	(250)	100
Computer equipment	300	50	360
Kitchen electrical	400	100	50
TOTAL	13,600	2,000	3,590

The reportable segments for Hiddleston Ltd would be:

- Televisions, stereo systems and DVD recorders – due to turnover being greater than 10% of total turnover
- Accessories – due to the operating loss being greater than 10% of the profit making segments
- Computer equipment – due to assets being greater than 10% of the total assets

Note that kitchen electrical does not meet the requirements for disclosure as a reporting segment since it does not meet the quantitative requirements and the other segments combined comprise more than 75% of the total revenue.

Detailed guidance is included within AASB 8 regarding the aggregation of information to create a reportable operating segment.

Measurement

The amount of each segment item reported is the amount reported to the chief operating decision maker for the purpose of making decisions about allocating resources to the segment and assessing performance.

Disclosure

The overall theme of AASB 8 is that information should be disclosed 'to enable users to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates.'

The specific disclosures are:

- Factors used to identify the entity's reportable segments
- Types of products and services from which each reportable segment derives its revenue
- Information about reported segment profit or loss, including specified revenues and expenses included in reported segment profit or loss, segment assets, segment liabilities and the basis of measurement
- Reconciliations of the totals of segment revenues, reported segment profit or loss, segment liabilities and other material segment items to the corresponding amount in the financial statements. The reconciliations for the balance sheet amounts are required for each date at which a balance sheet is presented.

Additional disclosures are specified within AASB 8 regarding:

- products and services for each segment even if the entity has only one reportable segment – paragraph 32
- geographical information unless the necessary information is not available and the cost to develop it would be excessive – paragraph 33
- the extent of its reliance on its major customers – paragraph 34.

A detailed disclosure checklist is available from your Grant Thornton Australia contact or the National Audit Support team on NAS@grantthornton.com.au

What are the disclosures for early adoption?

If an entity chooses to early adopt AASB 8 then they are required to also early adopt omnibus standard 2007-3 which includes some consequential changes to AASB 5, AASB 6, AASB 102, AASB 107, AASB 119, AASB 127, AASB 134, AASB 136, AASB 1023 & AASB 1038.

An example disclosure to be included in Note 1 to the financial statements is shown below:

"Entity X has early adopted the following accounting standards for the year ended 30 June 200X:

- AASB 8
- AASB 2007-3

Action required by management

Not for Profit entities

No action required.

Unlisted entities

- Determine whether AASB 8 and AASB 2007-3 are to be early adopted and
 - if so, obtain a Director's minute confirming this decision

An example minute is:

"In accordance with s334(5) of the Corporations Act, the Directors are early adopting the following accounting standards:

- AASB 8
- AASB 2007 -3"
- if not, continue to prepare segment disclosures under AASB 114 until the financial period beginning on or after 1 January 2009 when the segment disclosures will cease and include AASB 8 within the AASB 108 disclosure regarding standards issued not yet effective.
- Include the relevant disclosure in the financial statements.

Listed entities and those in the process of listing

- Determine whether AASB 8 and AASB 2007-3 are to be early adopted and
 - if so, obtain a Director's minute confirming this decision.
 - If not, prepare the AASB 108 disclosure for the financial statements for the next reporting period.
- Identify the Chief Operating Decision Maker ("CODM")
- Determine the relevant segments under AASB 8
 - Consider the communication method for any commercially sensitive information which may be captured by the requirements of AASB 8
- Ensure that information systems are capable of capturing the relevant information
- Prepare the comparative information.

Relevant definitions from AASB 8

Operating segment

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.

Chief operating decision maker

A function, not necessarily a manager with a specific title, which allocates resources to and assesses the performance of the operating segments of an entity.

Further information

For further information on any of the information included in this TA Alert, please contact your local Grant Thornton contact or a member of the National Audit Support team at NAS@grantthornton.com.au

