



# PASSFR.EU

A Digital Learning Platform for Generation Z:  
Passport to IFRS®

## IFRS® Standard 8 Operating Segments



When IFRS Standard 8 is Applied?

# What is Main Definition?

---

## *Operating segment*

an activity of an entity that generates revenue and incurs expenses, the results of this activity are reviewed regularly; based on this information, resource management decisions are made, and separate financial information is available about these activities.

---

---

# What is Main Definition?

---

## *Operating segment*

an activity of an entity that generates revenue and incurs expenses, the results of this activity are reviewed regularly; based on this information, resource management decisions are made, and separate financial information is available about these activities.

---

## *Chief operating decision maker*

it is an employee whose function is to make decisions related to the operating segment on business activities and the allocation of resources and to perform operating segment assessment.

---

# Concept of Operating Segment

- An operating segment is defined as an entity that generates revenue and incurs expenses, and for which separate financial information is available.
- However, it should be noted that the operating segment in some cases does not earn revenue, for example, new business activities that will generate revenue in the future.

# Concept of Operating Segment

- An operating segment can be defined as part of an entity.
- However, in some cases, a separate part of an entity is not always considered as an operating segment.
- For example, a non-revenue-generating or receiving incidental revenue unit of an entity would not be considered as an operating segment.

What are the Functions of the Chief Operating Decision Maker?

# What are the Functions of the Chief Operating Decision Maker?

- In entities, the functions of the *chief operating decision maker* are often performed by the head of the entity, the chief operating officer or a group of executive directors, and other persons.
- In the majority of entities, the operating segments have three of the characteristics mentioned above (the activity generating revenue; the activity is reviewed on a regular basis; separate financial information is available), but such an entity may report and present its business in different ways.



What are the Functions of Operating Segment Manager?

# What are the Functions of Operating Segment Manager?

- The *operating segment manager* prepares plans or forecasts of the segment, its financial results and discusses them with the chief operating decision maker. It should be noted that the chief operating decision maker may also be the head of the operating segment, and the head of the operating segment may be the manager of several segments.
- In some entities, managers are responsible for different products or services; in others, managers are responsible for geographical areas.

# Examples of the Operating Segments

<b>Type of an operating segment</b>	<b>Examples</b>
<b>Geographical areas</b>	Entity Z has identified its operating segments based on the nature and location of its customers – Europe, Asia, and America.

# Examples of the Operating Segments

<b>Type of an operating segment</b>	<b>Examples</b>
Geographical areas	Entity Z has identified its operating segments based on the nature and location of its customers – Europe, Asia, and America.
<b>Business divisions</b>	Entity X has three divisions; the first division sells equipment to people, the second one to entities, and the third one to public institutions. Entity X has determined operating segments by these divisions.

# Examples of the Operating Segments

<b>Type of an operating segment</b>	<b>Examples</b>
Geographical areas	Entity Z has identified its operating segments based on the nature and location of its customers – Europe, Asia, and America.
Business divisions	Entity X has three divisions; the first division sells equipment to persons, the second one to entities, and the third one to public institutions. Entity X has determined operating segments by these divisions.
<b>Services</b>	Entity Y provides the rental of servers, online consulting and IT equipment repairing services. These three services are identified as operating segments.

# Examples of the Operating Segments

<b>Type of an operating segment</b>	<b>Examples</b>
Geographical areas	Entity Z has identified its operating segments based on the nature and location of its customers – Europe, Asia, and America.
Business divisions	Entity X has three divisions; the first division sells equipment to persons, the second one to entities, and the third one to public institutions. Entity X has determined operating segments by these divisions.
Services	Entity Y provides the rental of servers, online consulting and IT equipment repairing services. These three services are identified as operating segments.
<b>Products</b>	Entity D produces fresh dairy products (milk, sour cream, and yogurt), cheese and other dairy products. These three product groups are considered as operating segments in the entity.

# Measurement of Operating Segments

- An entity shall disclose information about operating segments to users of financial statements, provided those operating segments meet the criteria set in the IFRS 8.
- In order to determine it, information must be provided about the operating segment to users of the financial statements, the operating segment's revenue, while profit (loss) and assets are measured by against the thresholds set.

# Quantitative Thresholds of Operating Segments

The revenue of an operating segment  $\geq$  10% of all operating segments revenue



# Quantitative Thresholds of Operating Segments

## Revenue test

The revenue of an operating segment  $\geq$  10% of all operating segments revenue

The profit of an operating segment  $\geq$  10% of all profitable operating segments profit

The loss of a operating segment  $\geq$  10% of all unprofitable operating segments loss

# Quantitative Thresholds of Operating Segments

## Revenue test

The revenue of an operating segment  $\geq$  10% of all operating segments revenue

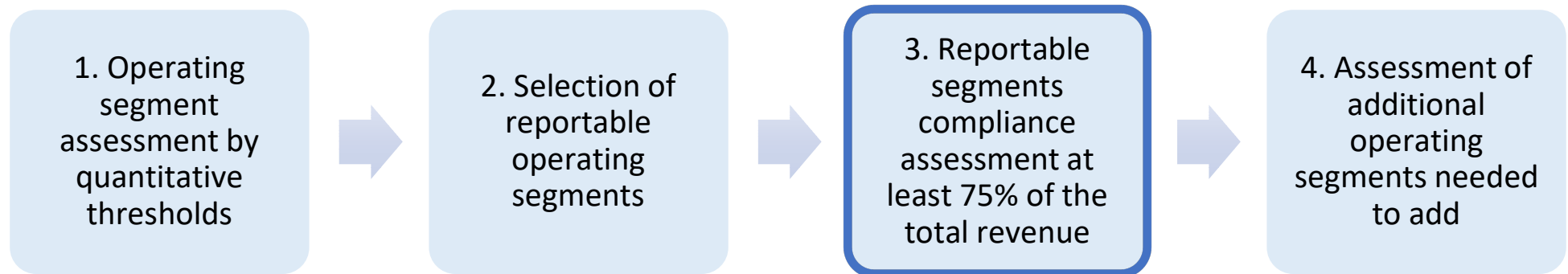
## Profit (loss) test

The profit of an operating segment  $\geq$  10% of all profitable operating segments profit

The loss of a operating segment  $\geq$  10% of all unprofitable operating segments loss

The assets of an operating segment  $\geq$  10% of combined assets of all operating segments

# Steps of Reportable Segments Selection



# Example of 75% Test for Reportable Segment Selection

## Selection of reportable segments

Revenue from the segments selected:

- A - CU10,000;
- C - CU15,000.

Revenue from other segments:

- B - CU4,200;
- D - CU4,000;
- E - CU4,400;
- F - CU4,200;
- G - CU3,200.

# Example of 75% Test for Reportable Segment Selection

## Selection of reportable segments

Revenue from the segments selected:

- A - CU10,000;
- C - CU15,000.

Revenue from other segments:

- B - CU4,200;
- D - CU4,000;
- E - CU4,400;
- F - CU4,200;
- G - CU3,200.

## Tests of 75% revenue

The total revenue of all segments is CU45,000.

75% of revenue is CU33,750 (CU45,000 x 75%).

Revenue from selected segments is ~56% (CU25,000 / CU45,000) of total income.

**Additional segments must be assigned to meet the 75% test.**

# Example of 75% Test for Reportable Segment Selection

## Selection of reportable segments

Revenue from the segments selected:

- A - CU10,000;
- C - CU15,000.

Revenue from other segments:

- B - CU4,200;
- D - CU4,000;
- E - CU4,400;
- F - CU4,200;
- G - CU3,200.

## Tests of 75% revenue

The total revenue of all segments is CU45,000.

75% of revenue is CU33,750 (CU45,000 x 75%).

Revenue from selected segments is ~56% (CU25,000 / CU45,000) of total income.

**Additional segments must be assigned to meet the 75% test.**

## Assignment of additional segments

Management determined that:

- segment E is significant and its revenue threshold is close to 10% (i.e. ~ 9.8%)
- the nature of segments D and G is similar and the segments must be merged into one segment. Then the new segment DG revenue is 16% of the total revenue.

**As a result, the reportable segments are A, C, E, DG and their revenue is CU36,600 (~81.3%).**

# Procedures for Preparing the Financial Statement

- Before preparing the financial statement information about reportable segments, the information should be calculated based on the financial data.
- This information consists of different accounting elements (revenue, expenses, liabilities, assets, etc.) about the reportable segment.

# Examples of Liability and Asset Identification by Segments

Elements	Segments					
	A		B		C	
	20x1, CU	20x0, CU	20x1, CU	20x0, CU	20x1, CU	20x0, CU
Buildings	180,000	150,000	450,000	430,000	340,000	300,000
Equipment	25,000	30,000	90,000	100,000	70,000	60,000
Inventories	2,000	1,000	22,000	22,000	12,000	15,000
Receivable amounts	12,000	14,000	33,000	42,000	10,000	8,000
Long-term liabilities	80,000	65,000	250,000	160,000	130,000	133,000
Short-term liabilities	260,000	240,000	240,000	247,000	199,000	191,000



What are the Disclosure Requirements?

# What are the Disclosure Requirements?

- Segment information is disclosed to users of financial statements.
- When presenting information in the financial statements, the amounts reported must be based on the financial information.
- Moreover, it shall disclose other significant amounts of reportable segments.
- Quantity of information depends on type of operating segments.

# Disclosure requirements

Disclosure of Products

Disclosure of Services

Disclosure of Geographical Areas

Disclosure of Major Customer

# Disclosure of Products or Services

The entity must report about its revenue for each product/service (or a group of similar products/services) from external customers.

*Exemptions apply, if the costs for preparing such information are very high.*

# Disclosure of Geographical Areas

The entity must report the revenue from its external customers:

- Attributed to the entity country.
- Attributed to foreign countries. If an individual foreign country is significant, such revenue must be disclosed separately.

# Disclosure of Geographical Areas

The entity must report fixed assets (without financial instruments, deferred tax assets, post-employment benefits, right and insurance):

- Located in the entity country.
- Located in foreign countries. If an individual foreign country is significant, those assets must be disclosed separately.

*Exemptions apply, if the costs for preparing such information are very high.*

# Disclosure of Major Customer

The entity must report information about the dependency on the major customers. If the revenue from one external customer is 10 percent or higher, that fact shall be disclosed:

- The total amount of the revenue from such a customer is provided.
- Identification of a segment or segments that present this customer's revenue.

# Practical Example

- Entity Z supplies oil.
- The head of the entity now looks at the operating segments through the geographical activities.

<b>Segments</b>	<b>Eastern Europe</b>	<b>Northern Europe</b>	<b>Western Europe</b>	<b>Asia</b>	<b>Eastern America</b>	<b>Northern America</b>	<b>Total</b>
<b>Revenue, CU</b>	50,000	55,000	120,000	45,000	50,000	280,000	600,000
<b>Profit (loss), CU</b>	-1,000	5,000	40,000	-14,000	-1,500	90,000	118,500
<b>Assets, CU</b>	5,000	10,000	80,000	5,000	8,000	150,000	258,000



# Practical Example

It is known that reportable segments must meet the following criteria:

- Revenue represents 10% or more of the revenue of all the operating segments;

# Practical Example

It is known that reportable segments must meet the following criteria:

- Revenue represents 10% or more of the revenue of all the operating segments;
- Profit or loss is 10% or more:
  - than the total profit of all profitable activities;
  - than the total loss of all unprofitable activities;

# Practical Example

It is known that reportable segments must meet the following criteria:

- Revenue represents 10% or more of the revenue of all the operating segments;
- Profit or loss is 10% or more:
  - than the total profit of all profitable activities;
  - than the total loss of all unprofitable activities;
- Assets account for 10% or more of the total assets of the segment.

# Practical Example

Segments	Revenue test		Profit (loss) test				Assets tests	
	Amount, CU	%	Profitable activities		Unprofitable activities		Amount, CU	%
			Amount, CU	%	Amount, CU	%		
Eastern Europe	50,000	8.33			-1,000	6.06	5,000	1.94
Northern Europe	55,000	9.17	5,000	3.70			10,000	3.88
Western Europe	120,000	<u>20.00</u>	40,000	<u>29.63</u>			80,000	<u>31.00</u>
Asia	45,000	7.50			-14,000	<u>84.85</u>	5,000	1.94
Eastern America	50,000	8.33			-1,500	9.09	8,000	3.10
Northern America	280,000	<u>46.67</u>	90,000	<u>66.67</u>			150,000	<u>58.14</u>
<b>Total</b>	600,000	100.00	135,000	100.00	-16,500	100.00	258,000	100.00

# Practical Example

Segments	Revenue test		Profit (loss) test				Assets tests	
	Amount, CU	%	Profitable activities		Unprofitable activities		Amount, CU	%
			Amount, CU	%	Amount, CU	%		
Eastern Europe	50,000	8.33			-1,000	6.06	5,000	1.94
Northern Europe	55,000	9.17	5,000	3.70			10,000	3.88
Western Europe	120,000	<u>20.00</u>	40,000	<u>29.63</u>			80,000	<u>31.00</u>
Asia	45,000	7.50			-14,000	<u>84.85</u>	5,000	1.94
Eastern America	50,000	8.33			-1,500	9.09	8,000	3.10
Northern America	280,000	<u>46.67</u>	90,000	<u>66.67</u>			150,000	<u>58.14</u>
<b>Total</b>	600,000	100.00	135,000	100.00	-16,500	100.00	258,000	100.00

# Practical Example

Segments	Revenue test		Profit (loss) test				Assets tests	
	Amount, CU	%	Profitable activities		Unprofitable activities		Amount, CU	%
			Amount, CU	%	Amount, CU	%		
Eastern Europe	50,000	8.33			-1,000	6.06	5,000	1.94
Northern Europe	55,000	9.17	5,000	3.70			10,000	3.88
<b>Western Europe</b>	120,000	<u>20.00</u>	40,000	<u>29.63</u>			80,000	<u>31.00</u>
<b>Asia</b>	45,000	7.50			-14,000	<u>84.85</u>	5,000	1.94
Eastern America	50,000	8.33			-1,500	9.09	8,000	3.10
<b>Northern America</b>	280,000	<u>46.67</u>	90,000	<u>66.67</u>			150,000	<u>58.14</u>
<b>Total</b>	600,000	100.00	135,000	100.00	-16,500	100.00	258,000	100.00

# Practical Example

**CU120,000 (Western Europe) + CU45,000 (Asia) + CU280,000 (Northern America) = CU445,000**

**CU445,000 (selected segments revenue) / CU600,000 (total revenue) x 100 = 74.17%**

# Practical Example

## ➤ Alternative 1

Segments	Revenue test		Profit (loss) test				Asset tests	
	Amount, CU	%	Profitable activities		Unprofitable activities		Amount, CU	%
			Amount, CU	%	Amount, CU	%		
Europe	225,000	<u>37.50</u>	44,000	<u>33.21</u>			95,000	<u>36.82</u>
Asia	45,000	7.50			-14,000	<u>100.00</u>	5,000	1.94
America	330,000	<u>55.00</u>	88,500	<u>66.79</u>			158,000	<u>61.24</u>
<b>Total</b>	600,000	100.00	132,500	100.00	-14,000	100.00	258,000	100.00



# Practical Example

## ➤ Alternative 2

**CU120,000 (Western Europe) + CU45,000 (Asia) + CU280,000 (Northern America) + CU55,000 (Northern Europe) = CU500,000**

**CU500,000 (revenue from the segments selected) / CU600,000 (total revenue) x 100 = 83.33%**

# Practical Example

- If the 75 percent revenue criteria is not met, the management must decide on the basis of which additional criteria they are to select the additional segments.
- Finally, after selecting the reportable segments, all financial information related to the segments must be provided to the user of the financial statements.



# PASSFR.EU

A Digital Learning Platform for Generation Z:  
Passport to IFRS®



Co-funded by the  
Erasmus+ Programme  
of the European Union