Segment and Interim Reporting

SFAS 14: requires reporting of four distinct aspects of a company
- Industry segments
  - For each segment report revenues, operating profit or loss, identifiable assets, aggregate amount of depreciation, depletion, and amortization, capital expenditures, equity in net income
- Domestic and foreign operations
  - Revenues, operating profit or loss, identifiable assets
- Export sales: revenue from exports to unaffiliated companies
- Major customers: revenue from sale to each major customer
  - 10% or more of revenues are derived from single customer

Usefulness of segment information
- Improves analyst’s accuracy in predicting consolidated sales
- Consensus among analysts
- Segment revenue more useful than earnings
- Disclosure of geographic data

SFAS 131: performance, future cash flows, entity as a whole
- Management approach for determining segments
  - Operating segment is a component that:
    - Engages in business activities (rev. and expenses)
    - Operating results are regularly reviewed
    - Discrete financial information is available
  - R&D incurs expenses, but no revenue: not a segment
  - Two additional criteria
    - Segment has a manager directly accountable to chief operating decision maker
    - If management overlaps, nature of activity is considered

Determining Reportable Operating Segments
- If two or more operating segments have essentially the same activity and the same economic environment, info for individual segments must be combined
  - Nature of products and services
  - Nature of production process
  - Type or class of customer
  - Distribution methods
  - Nature of regulatory environments
- Quantitative thresholds
  - Segment must satisfy one of three tests: must have 10% of all revenues, 10% of combined profit/loss; 10% of combined assets
  - Others that do not cross threshold may be combined if they share a majority of aggregation criteria
  - Common costs such as pensions are not required to be allocated if not normally done

Other guidelines
- If a segment’s reporting is of continuing significance, no need to test
- If a segment is newly qualified, prepare prior period data and compare
- Sufficient # of segments if sales to unaffiliated companies = 75% of total
- 10 is a practicable number of segments
Information disclosed by operating segment

• General
  o Factors to identify
  o Types of products and services

• Segment profit and loss
  o Revenues from external customers
  o Revenues from transactions with other operating segments
  o Interest revenue and expense
  o Depreciation, amortization, and depletion
  o Non-cash items in profit/loss
  o Unusual items
  o Income tax expense/benefit

• Total segment assets
  o Investment in equity method affiliates
  o Expenditures for additions to long-lived assets

Consolidated totals
  o Combine segments
  o Eliminate inter-segment revenue
  o Adjust for company-wide expenses
    ▪ Pension, goodwill, litigation

Enterprise-wide Disclosures

• Geographic areas
  o Domestic
  o Foreign countries

• SFAS 131 requires disclosure of revenues from transactions with external customers from each product or service if segments have not been determined
  o Not required if impracticable