

Operating Segments

This agenda paper includes:

- Background information about the updates on IAS 14;
- A brief overview of the major changes to IPSAS 18 affected by the updates on IAS 14; and
- Key issues on updating IPSAS 18.

Background Information about the Updates on IAS 14 *Segment Reporting*

In November 2006, the IASB issued IFRS 8 *Operating Segments* that superseded IAS 14 *Segment Reporting* which was issued in substantially its present form by the IASB in 1997. IFRS 8 arose from the IASB's comparison of IAS 14 with US SFAS 131 *Disclosures about Segments of an Enterprise and Related Information*, under the IASB's Short-term Convergence project conducted jointly with FASB.

The main difference between SFAS 131 and IAS 14 is that the requirements of SFAS 131 are based on the way that management regards an entity, focusing on information about the components of the business that management uses to make decisions about operating matters. In contrast, IAS 14 requires the disaggregation of the entity's financial statements into segments based on related products and services, and on geographical areas.

The IASB noted a number of academic research studies had shown that the management approach of SFAS 131:

- increased the number of reported segments and provided more information;
- enabled users to see an entity through the eyes of management;
- enabled an entity to provide timely segment information for external interim reporting with relatively low incremental cost;
- enhanced consistency with the management discussion and analysis or other annual report disclosures; and
- provided various measures of segment performance.

The IASB was also aware that many users of financial statements supported the management approach of SFAS 131 for the reasons mentioned above. In particular, they supported an approach that would enable more segment information to be provided in interim financial reports.

The IASB decided that adopting the management approach in SFAS 131 would result in more useful information and reduce the cost of providing disaggregated information for many entities because it uses segment information that is generated for management's use. Consequently, the board issued IFRS 8 which achieves convergence with the requirements of SFAS 131 except for minor differences and also uses the same wording

as SFAS 131 except for changes necessary to make the terminology consistent with that in other IFRSs.

Main features of IFRS 8

The IFRS:

- specifies how an entity should report information about its operating segments in annual financial statements and, as a consequential amendment to IAS 34 *Interim Financial Reporting*, requires an entity to report selected information about its operating segments in interim financial reports. It also sets out requirements for related disclosures about products and services, geographical areas and major customers.
- requires an entity to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Generally, financial information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments.
- requires an entity to report a measure of operating segment profit or loss and of segment assets. It also requires an entity to report a measure of segment liabilities and particular income and expense items if such measures are regularly provided to the chief operating decision maker. It requires reconciliations of total reportable segment revenues, total profit or loss, total assets, liabilities and other amounts disclosed for reportable segments to corresponding amounts in the entity's financial statements.
- requires an entity to report information about the revenues derived from its products or services (or groups of similar products and services), about the countries in which it earns revenues and holds assets, and about major customers, regardless of whether that information is used by management in making operating decisions. However, the IFRS does not require an entity to report information that is not prepared for internal use if the necessary information is not available and the cost to develop it would be excessive.
- requires an entity to give descriptive information about the way the operating segments were determined, the products and services provided by the segments, differences between the measurements used in reporting segment information and those used in the entity's financial statements, and changes in the measurement of segment amounts from period to period.

Main Changes from IAS 14

The main changes from IAS 14 and the IASB's related considerations are summarized below.

1) Identification of segments

- The requirements of IFRS 8 are based on the information about the components of the entity that management uses to make decisions about operating matters. IFRS 8 requires identification of operating segments on the basis of internal reports that are regularly reviewed by the entity's chief operating decision maker in order to allocate resources to the segment and assess its performance. IAS 14 required identification of two sets of segments—one based on related products and services, and the other on geographical areas. IAS 14 regarded one set as primary segments and the other as secondary segments.
- A component of an entity that sells primarily or exclusively to other operating segments of the entity is included in the IFRS 8's definition of an operating segment if the entity is managed that way. IAS 14 limited reportable segments to those that earn a majority of their revenue from sales to external customers and therefore did not require the different stages of vertically integrated operations to be identified as separate segments.

The IASB's considerations: the management approach for the identification of segments in IFRS 8 is superior to the approach in IAS 14 (see detailed reasons mentioned above)

2) Measurement of segment information

- The IFRS 8 requires the amount reported for each operating segment item to be the measure reported to the chief operating decision maker for the purposes of allocating resources to the segment and assessing its performance. IAS 14 required segment information to be prepared in conformity with the accounting policies adopted for preparing and presenting the financial statements of the consolidated group or entity.
- IAS 14 defined segment revenue, segment expense, segment result, segment assets and segment liabilities. The IFRS 8 does not define these terms, but requires an explanation of how segment profit or loss, segment assets and segment liabilities are measured for each reportable segment.

The IASB's considerations:

- *Although defining measurements for specified items of segments provides comparability of information across entities, it would be a departure from the requirements of SFAS 131 that would involve additional time and cost for entities and would be inconsistent with the management perspective on segment information.*
- *The IFRS 8 requires the entity to explain the measurements of segment profit or loss and segment assets and liabilities and to provide reconciliations of the total segment amounts to the amounts recognised in the entity's financial statements. These will enable users to understand and judge the basis on which the segment amounts were determined.*

- *It was concluded that the advantages of the management approach for the measurements of segment information, in particular the ability of entities to prepare segment information on a sufficiently timely basis for inclusion in interim financial reports, outweighed any disadvantages arising from the potential for segments to be reported in accordance with non-IFRS accounting policies.*

3) Disclosure

- The IFRS 8 requires an entity to disclose the following information:
 - (a) factors used to identify the entity's operating segments, including the basis of organization (for example, whether management organizes the entity around differences in products and services, geographical areas, regulatory environments, or a combination of factors and whether segments have been aggregated), and
 - (b) types of products and services from which each reportable segment derives its revenues.
- IAS 14 required the entity to disclose specified items of information about its primary segments. The IFRS 8 requires an entity to disclose specified amounts about each reportable segment, if the specified amounts are included in the measure of segment profit or loss and are reviewed by or otherwise regularly provided to the chief operating decision maker.
- The IFRS 8 requires an entity to 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 to make decisions about resources to be allocated to the segment. IAS 14 did not require disclosure of interest income and expense.
- The IFRS 8 requires an entity, including an entity with a single reportable segment, to disclose information for the entity as a whole about its products and services, geographical areas, and major customers. This requirement applies, regardless of the entity's organization, if the information is not included as part of the disclosures about segments. IAS 14 required the disclosure of secondary segment information for either industry or geographical segments, to supplement the information given for the primary segments.

The IASB's considerations: the requirements for disclosure of segment information should be consistent with the management approach as well as the requirements in SFAS 131.

Overview of Main Changes in IPSAS 18 affected by the Updates on IAS 14

The information in the table summarizes major changes in IPSAS 18, "Operating Segments" affected by the updates on IAS 14 (IFRS 8) in November 2006. It identifies whether the changes are a new requirement, changes in existing requirements, further

clarification of matters already dealt with (or implied) in the existing IPSAS or other changes. In some cases determining how to classify the change is a matter of judgment.

Changes made in revised IPSAS 18 to converge with IFRS 8	Classification of changes
1) Change the name of the standard from “Segment Reporting” to “Operating Segments”.	Change in name
2) Replace the “objective” section with “core principle” section, number this section as part of the standard and change this section from plain type to bold type.	Change in requirement/structure
3) Define the term “operating segment”, specify that two or more operating segments may be aggregated into a single operating segment as a “reportable segment” if those operating segments meet the aggregation criteria.	Change in requirement/New requirement
4) Replace the term “governing body and senior manager” with “chief operating decision maker”.	Change in term
5) Require an entity to determine which set of components constitute the operating segments by reference to the core principle and by considering other factors when more than one set of components of the entity meet the definition of “operating segment”.	New requirement
6) Remove the terms “service segment” and “geographical segment” as well as the guidance on the identification of service and geographical segments.	Change in requirement
7) Require the amount reported for each segment item to be the measure reported to the chief operating decision maker for the purposes of making decisions about allocating resources to the segment and assessing its performance.	Change in requirement
8) Require an explanation of how segment surplus or deficit, segment assets and segment liabilities are measured for each reportable segment.	Change in requirement
9) Require an entity to disclose factors used to identify the entity’s reportable segments, including the basis of organization (for example, whether management has chosen to organize the entity around differences in goods and services, geographical areas, regulatory environments, or a combination of factors and whether operating segments have been aggregated).	New requirement
10) Require an entity to report a measure of surplus or deficit and	Change in

total assets for each reportable segment, to report a measure of liabilities for each reportable segment if such an amount is regularly provided to the chief operating decision maker, and to disclose the specified items about each reportable segment if such amounts are included in the measure of segment surplus or deficit 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 surplus or deficit.	requirement
11) Require an entity to disclose 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: (a) the amount of investment in associates and joint ventures accounted for by the equity method, and (b) the amounts of additions to non-current assets other than financial instruments, deferred tax assets, post-employment benefit assets and rights arising under insurance contracts.	Change in requirement
12) Require an entity to 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 to make decisions about resources to be allocated to the segment.	Change in requirement
13) Require an entity, including an entity with a single reportable segment, to disclose information for the entity as a whole about its goods and services, and geographical areas. This requirement applies, regardless of the entity's organization, if the information is not included as part of the disclosures about segments.	Change in requirement
14) Include additional transition provision that segment information for prior years that is reported as comparative information for the initial year of application shall be restated to conform to the requirements of this IPSAS, unless the necessary information is not available and the cost to develop it would be excessive.	New requirement

ISSUES ON UPDATING IPSAS 18

Identification of changes to IPSAS 18 arising from IFRS 8

IPSAS 18 is based on former IAS 14. IAS 14 has recently been withdrawn and replaced by IFRS 8, “Operating Segments”.

To identify whether to update IPSAS 18 to be converged with IFRS 8, it is necessary to review and analyze the differences between IPSAS 18 and former IAS 14. In addition, the differences between IAS 14 and IFRS 8 need to be considered in order to assess whether it is appropriate that similar changes be made to IPSAS 18.

Addressing the issues in updating IPSAS 18 is more complicated than for IPSAS 4 and IPSAS 5. This is because the changes to IAS 14 that resulted in issuing IFRS 8 are quite different in nature.

There are 3 broad areas to consider:

- Identification of segments – IPSAS 18 departed from IAS 14 to reflect public sector specific reasons. The new IFRS 8 material is closer in substance to IPSAS 18. Should IPSAS 18 therefore be amended to be consistent with new IFRS 8?
- Measurement of segment information– IPSAS 18 was consistent with IAS 14 with respect to measurement of segments despite the difference in identification of segments. New IFRS 8 has now modified the measurement of segments. Should IPSAS 18 be modified to keep consistency with IFRS 8?
- Disclosures – the disclosures in IPSAS 18 departed to some degree from those in IAS 14 though many disclosures were consistent. The revised disclosures in IFRS 8 need to be assessed to determine whether they are appropriate for the public sector. Also, any differences between IPSAS 18 and IAS 14 need to be assessed to determine if they carry through to IFRS 8. In addition, to some extent, disclosures will vary as the identification and measurement principles change.

These issues are discussed in greater detail below.

IPSAS 18 and IAS 14

The major departures of IPSAS 18 from IAS 14 are as follows:

- With regard to identification of segments, IPSAS 18 defines segments differently from IAS 14. IPSAS 18 requires entities to report segments on a basis appropriate for assessing past performance and making decisions about the allocation of resources. In addition, IPSAS 18 does not specify a quantitative threshold that must be applied in identifying reportable segments.
- With regard to disclosure, IPSAS 18 does not require the disclosure of segment results. In addition, certain disclosures required in IAS 14 are not required, though they are encouraged in IPSAS 18.

With respect to measurement of segment information, IPSAS 18 is consistent with IAS 14. Though the definition and some disclosures were modified for public sector specific

reasons, it was determined that in principle measurement of segment information in IPSAS 18 should be the same as that in IAS 14.

IAS 14 and IFRS 8

The new IFRS 8 varies significantly from IAS 14. Major changes have been made in respect of identification of segments, measurement of segment information, and disclosure. As noted, IPSAS 18 departed from IAS 14 in identification of segments and disclosures but not in measurement.

In terms of identification of segments, IFRS 8 adopts the management approach of US SFAS 131 and requires identification of “operating segments” on the basis of internal reports that are regularly reviewed by the entity’s chief operating decision maker in order to allocate resources to the segment and assess its performance. It also specifies that a “reportable segment” is an operating segment (an operating segment or an aggregated operating segment) which exceeds the specified quantitative threshold.

In reality this change in the identification of segments is more consistent with IPSAS 18 than as previously set out in IAS 14. There are therefore two options for addressing this issue. The first is to leave the identification of segments material in IPSAS 18 unchanged since it is broadly consistent with IFRS 8. This would minimize changes for constituents in applying the Standard while converging broadly with the related IFRS. The second option is to change IPSAS 18 (such as defining operating segment and specifying reportable segment as well as the aggregation criteria) to be converged with IFRS 8. In substance this change should not have a large effect on constituents, and converging IPSAS 18 with IFRS 8 would be consistent with the IPSASB’s stated objectives. For this reason, staff prefers the second option.

With respect to quantitative thresholds for identifying reportable segments in IAS 14/IFRS 8, it was assessed previously that this is not appropriate for public sector entities’ non-for-profit nature. This departure should be reassessed but staff believes that it should be retained since it is a public sector specific reason for departure which is consistent with the convergence policy.

In terms of measurement of segment information, IFRS 8 requires the amount reported for each segment item to be the measure reported to the chief operating decision maker for the purposes of allocating resources to the segment and assessing its performance. The measurement approach in IFRS 8 is consistent with the management perspective on segment information. As noted, the previous measurement principle in IAS 14 was adopted in IPSAS 18 as there was no public sector reason for departure. It is therefore reasonable to conclude that IPSAS 18 should be changed to converge with the measurement approach of IFRS 8.

In terms of disclosure, there are a number of changes in IFRS 8 to be consistent with changes in requirements for identification of segments and measurement of segment information. Staff is of the view that IPSAS 18 should be changed to reflect these changes except for:

- the requirement in IFRS 8 for the disclosure of major customers for the entity as a whole. This requirement would be inappropriate for the public sector and should therefore not be contained in the revised IPSAS 18. It would be a new departure arising from the IASB's changes to former IAS 14; and
- the requirement in IFRS 8 for the specified items to be disclosed. The disclosure of segment expenses would need to be added to the relevant requirements in the revised IPSAS 18, as information about segment expenses might be more important for the public sector than for the private sector to assess the entity's past performance and decide the resources allocated to support the major activities of the entity (these additions have been made in the marked-up IFRS 8). The addition of disclosure of segment expenses would also be a new departure arising from the IASB's changes to former IAS 14.

Approach on updating IPSAS 18

Based on the above analysis, staff preliminarily concludes that the requirements in IPSAS 18 would be able to be converged with those in IFRS 8 to a higher extent than was possible with those in former IAS 14. This means extensive changes would need to be made to IPSAS 18 in terms of identification of segments, measurement of segment information and disclosure. In addition, in reviewing IFRS 8, its wording, along with its structure is more concise and easier to understand which would improve the related IPSAS 18. As such, if the usual approach of marking up IPSAS 18 was to be used, a marked-up version in which most text was replaced with new text would be presented, which would not make sense for review. Therefore, staff proposes to develop a revised IPSAS 18 by marking up IFRS 8. This would ease review and also help to better present the extent to which the revised IPSAS 18 reflects IFRS 8.

To illustrate, staff has done a marked-up IFRS 8 in agenda paper 7.3a. Staff has not yet changed the Guidance on Implementing of IFRS 8 in the marked-up version, with a view to making it done when the IPSASB completes its deliberations on the proposed changes to IPSAS 18.

New issues on structure and style arising from IFRS 8

The structure and style of IFRS 8 is somewhat unique compared to current IASs used to prepare related IPSASs. The following changes in the style and structure of IFRS 8 exist:

- "Shall" used in paragraphs in both bold type and plain type; and
- Inclusion of a "Defined terms" as an appendix of the standard.

These changes have also been made in other new IFRSs and will impact the revision to IPSAS 18 as well as other IPSASs that will be updated or developed in the future to be converged with IFRSs. Staff is of the view that these new changes in style and structure should be followed when updating or developing IPSASs to reflect IPSASs/IFRSs convergence policy

Attached as Item 7.3a is a revised IPSAS 18 (a marked-up version based on IFRS 8), including a Summary of Main Changes that outlines the proposed major changes made to IPSAS 18. Staff's considerations when changing the requirements and wording of IFRS 8 have been summarized in the text boxes to assist the IPSASB in understanding the rationale for staff's recommendations.

SUMMARY OF MAIN CHANGES IPSAS 18 OPERATING SEGMENTS

The main changes proposed are:

Name of Standard

- To change to “Operating Segments”.

Equal Authority Rubric

- To replace the previous introductory paragraph with a boxed equal authority rubric similar to those contained in IPSASs issued in January 2007.

Core Principle

- To replace the previous “objective” section with “core principle” section (see paragraph 1), number this section as part of the standard and change this section from plain type to bold type.

Scope

- To remove the previous requirement for this standard to be applied in complete sets of published financial statements that comply with IPSASs.

Definitions

- To remove the previous unnecessary definitions: “accounting policies”, “financing activities”, “investing activities”, “operating activities” and “revenue”.

Identification of Segments

- To define in paragraph 6 the term “operating segment”, to specify in paragraphs 12 that two or more operating segments may be aggregated into a single operating segment as a “reportable segment” if those operating segments meet the aggregation criteria, and to specify in paragraph 13 the aggregation criteria. Previously, IPSAS 18 only defined the term “segment” of which the meaning is, in substance, referred to as “reportable segment”.
- To replace the previous term “governing body and senior manager” with “chief operating decision maker”.
- To include in paragraphs 7 and 8 guidance on the interpretation of definition of “operating segment”.
- To require in paragraphs 9-11 an entity to determine which set of components constitutes the operating segments by reference to the core principle and by considering other factors when more than one set of components of the entity meet the definition in paragraph 6. Previously, IPSAS 18 defined terms “service segment” and “geographical segment” and specified that when an entity reports to governing body and senior manager on the basis of both service and geographical segments the entity may adopt a primary and secondary segment reporting structure with only limited disclosures encouraged to be made about secondary segments.

- To remove the terms “service segment” and “geographical segment” as well as the relevant commentary paragraphs.
- To remove previous commentary paragraphs for identifying segments which are no longer necessary.

Measurement of Segment Information

- To require in paragraph 21 the amount reported for each segment item to be the measure reported to the chief operating decision maker for the purposes of making decisions about allocating resources to the segment and assessing its performance. Previously, IPSAS 18 required segment information to be prepared in conformity with the accounting policies adopted for preparing and presenting the financial statements of the consolidated group or entity.
- To require in paragraph 23 an explanation of how segment surplus or deficit, segment assets and segment liabilities are measured for each reportable segment. Previously, IPSAS 18 defined segment revenue, segment expense, segment assets and segment liabilities, and provided guidance on how to attribute items to segments.

Disclosure

- To require in paragraph 17 an entity to disclose factors used to identify the entity’s reportable segments, including the basis of organization (for example, whether management has chosen to organize the entity around differences in goods and services, geographical areas, regulatory environments, or a combination of factors and whether operating segments have been aggregated). Previously, IPSAS 18 did not require such disclosure.
- To require in paragraph 19 an entity to report a measure of surplus or deficit and total assets for each reportable segment, to report a measure of liabilities for each reportable segment if such an amount is regularly provided to the chief operating decision maker, and to disclose the specified items about each reportable segment if such amounts are included in the measure of segment surplus or deficit 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 surplus or deficit.
Previously, IPSAS 18 did not require the disclosure of segment surplus or deficit, but required the disclosure of segment revenue, segment expense, segment assets and segment liabilities for each segment. In addition, the previous IPSAS 18 encouraged, but did not require, the disclosure of significant non-cash revenues included in segment revenue, segment depreciation and amortization, and other non-cash expenses.
- To require in paragraph 20 an entity to disclose 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: (a) the amount of investment in associates and joint ventures accounted for by the equity method, and (b) the amounts of additions to non-current assets other than

financial instruments, deferred tax assets, post-employment benefit assets and rights arising under insurance contracts.

Previously, IPSAS 18 required the disclosure of similar items for each segment.

- To require in paragraph 19 an entity to 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 to make decisions about resources to be allocated to the segment. Previously, IPSAS 18 did not require the disclosure of interest income and expense.
- To require an entity, including an entity with a single reportable segment, to disclose information for the entity as a whole about its goods and services, and geographical areas. This requirement applies, regardless of the entity's organization, if the information is not included as part of the disclosures about segments (see paragraphs 27-29). Previously, IPSAS 18 encouraged, but did not require, certain minimum disclosures of secondary segment information for either service or geographical segments, to supplement the information given for the primary segments.

Transitional Provisions

- To include in paragraph 31 additional transition provision that segment information for prior years that is reported as comparative information for the initial year of application shall be restated to conform to the requirements of this IPSAS, unless the necessary information is not available and the cost to develop it would be excessive. Previously, IPSAS 18 did not contain such transitional provision.

Defined term

- To include an appendix of defined term as an integral part of this IPSAS.

Amendments to Other IPSASs

- To include an authoritative appendix of amendments to other IPSASs that will be impacted as a result of the proposals in this IPSAS.

Introduction section will be prepared for review when the IPSASB completes its deliberations on the proposed changes to IPSAS 18.

International ~~Public Sector Accounting~~ **Financial Reporting** Standard
18—Operating Segments

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Basis for
Conclusions will
be prepared for
review
accompanying the
draft ED of the
proposed revision
to this Standard

~~APPROVAL OF IFRS 8 BY THE BOARD~~

~~BASIS FOR CONCLUSIONS~~ *see separate booklet*

IMPLEMENTATION GUIDANCE *see separate booklet*

International ~~Public Sector Accounting~~~~Financial—Reporting~~ Standard ~~18~~, “Operating Segments” (~~IFRS-IPSAS 18~~) is set out in paragraphs 1–~~37-33~~ and Appendices A and B. All the paragraphs have equal authority. Paragraphs in **bold type** state the main principles. Definitions of terms are given in the Glossary ~~for International Financial Reporting Standards~~~~of Defined Terms in IPSASs~~. ~~IFRS-IPSAS 18~~ should be read in the context of its core principle and the Basis for Conclusions, the “Preface to International ~~Financial Reporting~~~~Public Sector Accounting~~ Standards”-~~and the Framework for the Preparation and Presentation of Financial Statements~~. ~~IAS-IPSAS 83~~, “Accounting Policies, Changes in Accounting Estimates and Errors” provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

This boxed rubric is slightly different from those in other IPSASs-----sentences “Paragraphs in **bold type** state the main principles. Definitions of terms are given in the Glossary of Defined Terms in IPSASs” are newly added.

International Financial Reporting Standard 8
Operating Segments

Change the core principle in the context of the public sector by reference to the objective section and Para 74 in existing IPSAS 18.

Core principle

- 1** An entity shall disclose information to enable users of its financial statements to evaluate the nature and financial effects of the **business service** activities in which it engages and the **economic environments in which it operates** extent to which its service delivery objectives are achieved.

Scope

- ~~2~~ This IFRS shall apply to:

~~(a) the separate or individual financial statements of an entity:~~

~~(i) whose debt or equity instruments are traded in a public market (a domestic or foreign stock exchange or an over the counter market, including local and regional markets), or~~

~~(ii) that files, or is in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market; and~~

~~(b) the consolidated financial statements of a group with a parent:~~

~~(i) whose debt or equity instruments are traded in a public market (a domestic or foreign stock exchange or an over the counter market, including local and regional markets), or~~

~~(ii) that files, or is in the process of filing, the consolidated financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market.~~

Delete the scope requirements that are inappropriate for the public sector

Paras 2-4 are drawn from Para 1-3 of IPSAS 18 and also consistent with other IPSASs.

- 2** An entity that prepares and presents financial statements under the accrual basis of accounting shall apply the Standard in the disclosure of segment information.

- 3** This Standard applies to all public sector entities other than Government Business Enterprises.

Delete the
unnecessary Para

4 The “Preface to International Public Sector Accounting Standards” issued by the International Public Sector Accounting Standards Board (IPSASB) explains that Government Business Enterprises (GBEs) apply International Financial Reporting Standards (IFRSs) which are issued by the International Accounting Standards Board (IASB). GBEs are defined in IPSAS 1, “Presentation of Financial Statements.”

~~3~~ If an entity that is not required to apply this IFRS chooses to disclose information about segments that does not comply with this IFRS, it shall not describe the information as segment information.

45 If a financial report contains both the consolidated financial statements of a parent controlling entity that is within the scope of this IFRS as well as the parent’s controlling entity’s separate financial statements, segment information is required only in the consolidated financial statements.

Operating segments

56 An operating segment is a component of an entity:

- (a) that engages in service 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) for achieving particular operating objectives consistent with the overall mission of the entity,~~

Staff’s considerations:

- Public Sector entities are not profit-oriented. Not all segments of public sector entities “earn” external revenues.
- Segments of a public sector entity are usually required to efficiently and effectively use public resources the entity controls to achieve particular service delivery objective.

- (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.

~~An operating segment may engage in business activities for which it has yet to earn revenues, for example, start-up operations may be operating segments before earning revenues.~~

Change the Para in the
context of the public
sector to be consistent
with Para 6(a)

67 Not every part of an entity is necessarily an operating segment or part of an operating segment. For example, ~~a corporate headquarters or some functional departments~~ a government head office or some functional units such as policy development unit may not ~~earn revenues or may earn revenues that are only~~

~~incidental to the activities of the entity~~engage in particular service delivery activities –and would not be operating segments. For the purposes of this ~~IFRS~~IPSAS, an entity's post-employment benefit plans are not operating segments.

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In most cases, the major classification of activities identified in budget documentation may reflect the segments for which information is reported to the entity's chief operating decision maker for decisions making and performance assessing purposes. The term 'chief operating decision maker' 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 chief operating decision maker of an entity is its ~~chief executive officer or chief operating officer~~most senior manager but, for example, it may be a group of ~~executive directors~~senior managers or others, such as the governing body of an entity.

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For many entities, the three characteristics of operating segments described in paragraph ~~5-6~~ clearly identify its operating segments. However, an entity may produce reports in which its ~~business service~~ activities are presented in a variety of ways. If the chief operating decision maker uses more than one set of segment information, other factors may identify a single set of components as constituting an entity's operating segments, including the nature of the ~~business service~~ activities of each component, the existence of managers responsible for them, and information presented to the ~~board of directors~~governing body of the entity.

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Generally, an operating segment has a segment manager who is directly accountable to and maintains regular contact with the chief operating decision maker to discuss operating activities, financial results, forecasts, or plans for the segment. The term 'segment manager' identifies a function, not necessarily a manager with a specific title. The chief operating decision maker also may be the segment manager for some operating segments. A single manager may be the segment manager for more than one operating segment. If the characteristics in paragraph ~~5-6~~ apply to more than one set of components of an organisation but there is only one set for which segment managers are held responsible, that set of components constitutes the operating segments.

~~1011~~

The characteristics in paragraph ~~5-6~~ may apply to two or more overlapping sets of components for which managers are held responsible. That structure is sometimes referred to as a matrix form of organisation. For example, in some entities, some managers are responsible for different ~~product good~~ and service lines ~~worldwide~~across national, state, local or other jurisdictional boundaries, whereas other managers are responsible for specific geographical areas. The chief operating decision maker regularly reviews the operating results of both sets of components, and financial information is available for both. In that situation, the entity shall determine which set of components constitutes the operating segments by reference to the core principle.

- Include additional commentary by reference to Para 14 in existing IPSAS 18.
- Similar term used in existing IPSAS 18 is "the governing body and the (most) senior manager"

Reportable segments

Existing IPSAS 18 does not specify quantitative thresholds that must be applied in identifying reportable segments---this is a departure from IAS 14 which staff recommends to retain in revised IPSAS 18.

~~11~~12 -An entity shall report separately information about each operating segment that:

- ~~(a)~~ (a) has been identified in accordance with paragraphs ~~56-10-11~~ or results from aggregating two or more of those segments in accordance with paragraph ~~1213, and~~
- ~~(b)~~ (b) exceeds the quantitative thresholds in paragraph 13.

~~Paragraphs 14-19 specify other situations in which separate information about an operating segment shall be reported.~~

Aggregation criteria

~~12~~13 Operating segments often exhibit similar long-term financial performance if they have similar economic characteristics. ~~For example, similar long-term average gross margins for two operating segments would be expected if their economic characteristics were similar.~~ Two or more operating segments may be aggregated into a single operating segment if aggregation is consistent with the core principle of this IFRS, the segments have similar economic characteristics, and the segments are similar in each of the following respects:

- (a) the nature of the ~~products-goods~~ and services;
- (b) the nature of the production processes ~~or service delivery~~;
- (c) the type or class of customer for their ~~products-goods~~ and services;
- (d) the methods used to distribute their ~~products-goods~~ or provide their services; and
- (e) if applicable, the nature of the regulatory environment, ~~(for example, department or statutory authority) or sector of government (for example finance sector, public utilities, or general government).~~

~~banking, insurance or public utilities.~~

Quantitative thresholds

~~13~~ -An entity shall report separately information about an operating segment that meets any of the following quantitative thresholds:

Change the Para in the context of the public sector by reference to Para 19 of existing IPSAS 18.

- ~~(a) — Its reported revenue, including both sales to external customers and intersegment sales or transfers, is 10 per cent 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 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.~~
- ~~(c) — Its assets are 10 per cent or more of the combined assets of all operating segments.~~

~~Operating segments that do not meet any of the quantitative thresholds may be considered reportable, and separately disclosed, if management believes that information about the segment would be useful to users of the financial statements.~~

- ~~14 — 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 operating segments have similar economic characteristics and share a majority of the aggregation criteria listed in paragraph 12.~~
- ~~15 — If the total external revenue reported by operating segments constitutes less than 75 per cent of the entity's revenue, additional operating segments shall be identified as reportable segments (even if they do not meet the criteria in paragraph 13) until at least 75 per cent of the entity's revenue is included in reportable segments.~~
- ~~16 — 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 the revenue included in the 'all other segments' category shall be described.~~
- ~~17 — If management judges that an operating segment identified as a reportable segment in the immediately preceding period is of continuing significance, information about that segment shall continue to be reported separately in the current period even if it no longer meets the criteria for reportability in paragraph 13.~~
- ~~18 — If an operating segment is identified as a reportable segment in the current period in accordance with the quantitative thresholds, segment data for a prior period presented for comparative purposes shall be restated to reflect the newly reportable segment as a separate segment, even if that segment did not satisfy the criteria for reportability in paragraph 13 in the prior period, unless the necessary information is not available and the cost to develop it would be excessive.~~

~~19 — There may be a practical limit to the number of reportable segments that an entity separately discloses beyond which segment information may become too detailed. Although no precise limit has been determined, as the number of segments that are reportable in accordance with paragraphs 13–18 increases above ten, the entity should consider whether a practical limit has been reached.~~

Disclosure

2014 An entity shall disclose information to enable users of its financial statements to evaluate the nature and financial effects of the **business service** activities in which it engages and the **economic environments in which it operates** extent to which its service delivery objectives are achieved.

~~215~~ To give effect to the principle in paragraph **2014**, an entity shall disclose the following for each period for which an ~~income~~ statement of financial performance is presented:

- (a) general information as described in paragraph **2217**;
- (b) information about reported segment ~~profit or loss~~ surplus or deficit, including specified revenues and expenses included in reported segment surplus or deficit ~~profit or loss~~, segment assets, segment liabilities and the basis of measurement, as described in paragraphs ~~2319–2723~~; and
- (c) reconciliations of the totals of segment revenues, segment expenses, reported segment surplus or deficit ~~profit or loss~~, segment assets, segment liabilities and other material segment items to corresponding entity amounts as described in paragraph **2824**.

Add “segment expenses” to (c) to be consistent with the proposed revision to Para 19

Reconciliations of ~~balance sheet~~ the amounts of statement of financial position for reportable segments to the entity’s ~~balance sheet~~ amounts of statement of financial position are required for each date at which a statement of financial position ~~balance sheet~~ is presented. Information for prior periods shall be restated as described in paragraphs ~~2925~~ and ~~3026~~.

~~16~~ An entity is encouraged but not required to disclose cash flow information about each reportable segment consistent with the requirements of IPSAS 2, “Cash Flow Statements”. IPSAS 2 requires that an entity present a cash flow statement that separately reports cash flows from operating, investing, and financing activities. It also requires the disclosure of information about certain cash flows. The disclosure of cash flow information about each reportable segment may be relevant to understanding the entity’s overall financial position, liquidity and cash flows.

This paragraph is drawn from paragraph 59 in existing IPSAS 18 and is slightly changed. Staff is of the view that this paragraph should be retained in revised IPSAS 18, as the similar paragraph is, although, removed from IFRS 8 (previously included in IAS 14) but IAS 7 *Cash Flow Statements* contains a paragraph (50) encouraging an entity to disclose cash flow information for each reportable segment (whereas there is not such a requirement/encouragement in IPSAS 2).

General information

2217 An entity shall disclose the following general information:

- (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-goods~~ and services, geographical areas, regulatory environments, or a combination of factors and whether operating segments have been aggregated), and
- (b) types of ~~products-goods~~ and services ~~from~~ which each reportable segment ~~derives its revenues~~provides.

18 If not otherwise disclosed in the financial statements or elsewhere in the annual report, the entity is encouraged to disclose the broad operating objectives established for each segment at the commencement of the reporting period and to comment on the extent to which those objectives were achieved.

This Para is drawn from Para 74 in existing IPSAS 18. In staff's view, this encouragement Para should be retained in the revised IPSAS 18. This information would enable users to better assess public sector entities' past performance and the extent to which the entity discharged its public accountability obligations.

Information about surplus or deficit~~profit or loss~~, assets and liabilities

2319 An entity shall report a measure of surplus or deficit~~profit or loss~~ and total assets for each reportable segment. An entity shall report a measure of liabilities for each reportable segment if such an amount is regularly provided to the chief operating decision maker. An entity shall also disclose the following about each reportable segment if the specified amounts are included in the measure of segment surplus or deficit~~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 surplus or deficit~~profit or loss~~:

- (a) revenues from budget appropriation or similar allocation;
- (~~ab~~) revenues from other external ~~customers~~sources;

Changes are made to (a) and (b) by reference to Para 52 in existing IPSAS 18

- (~~bc~~) revenues from transactions with other operating segments of the same entity;
- (~~ed~~) interest revenue;
- (~~de~~) interest total expenses;
- (~~ef~~) interest expensedepreciation and amortisation;

Staff's consideration on including additional "total expenses" as a disclosure item:
Public sector entities are usually required to efficiently and effectively use public resources they control to achieve their objectives. Expense information would be more important for the public sector than for the private sector to assess the entity's past performance and decide the resources allocated to support the major activities of the entity.

- (~~fg~~) material items of ~~income revenue~~ and expense disclosed in accordance with paragraph 8106 of IAPSAS 1, "Presentation of Financial Statements";
- (~~gh~~) the entity's interest in the surplus or deficit ~~profit or loss~~ of associates and joint ventures accounted for by the equity method;
- (~~hi~~) income tax expense or income that is recognized in accordance with the relevant international or national accounting standards dealing with obligations to pay income tax or income tax equivalents; and

- Clarify (i) by reference to Para 27 "segment expense" (d) in IPSAS 18.
- Both IPSAS 18 and former IAS 14 defined the definition of "segment expense" which does not include income tax expense and did not require segment income tax expense or income to be disclosed separately. However, IFRS 8 requires segment income tax expense or income to be disclosed separately if such amount is reviewed by or regularly provided to the chief operating decision maker.

- (~~ij~~) depreciation and amortisation, and other material non-cash items ~~other than depreciation and amortisation~~.

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.

- 2420 An entity shall disclose 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:

Final IPSAS on
Employee Benefits is
scheduled to be issued in
November 2007

- (a) the amount of investment in associates and joint ventures accounted for by the equity method, and
- (b) the amounts of additions to non-current assets¹ other than financial instruments, deferred tax assets, post-employment benefit assets (see ~~IAS 19~~IPSAS X X, “Employee Benefits” paragraphs X X 54 – X X 58) and rights arising under insurance contracts.

Measurement

~~25~~21 The amount of each segment item reported shall be the measure reported to the chief operating decision maker for the purposes of making decisions about allocating resources to the segment and assessing its performance. Adjustments and eliminations made in preparing an entity’s financial statements and allocations of revenues, expenses, and gains or losses shall be included in determining reported segment ~~profit or loss~~surplus or deficit only if they are included in the measure of the segment’s ~~surplus or deficit~~profit or loss that is used by the chief operating decision maker. Similarly, only those assets and liabilities that are included in the measures of the segment’s assets and segment’s liabilities that are used by the chief operating decision maker shall be reported for that segment. If amounts are allocated to reported segment ~~surplus or deficit~~profit or loss, assets or liabilities, those amounts shall be allocated on a reasonable basis.

~~26~~22 If the chief operating decision maker uses only one measure of an operating segment’s ~~surplus or deficit~~profit or loss, the segment’s assets or the segment’s liabilities in assessing segment performance and deciding how to allocate resources, segment ~~surplus or deficit~~profit or loss, assets and liabilities shall be reported at those measures. If the chief operating decision maker uses more than one measure of an operating segment’s ~~surplus or deficit~~profit or loss, the segment’s assets or the segment’s liabilities, the reported measures shall be those that management believes are determined in accordance with the measurement principles most consistent with those used in measuring the corresponding amounts in the entity’s financial statements.

~~27~~23 An entity shall provide an explanation of the measurements of segment ~~surplus or deficit~~profit or loss, segment assets and segment liabilities for each reportable segment. At a minimum, an entity shall disclose the following:

- (a) the basis of accounting for any transactions between reportable segments.
- (b) the nature of any differences between the measurements of the reportable segments’ ~~surpluses or deficits~~profits or losses and the

¹ For assets classified according to a liquidity presentation, non-current assets are assets that include amounts expected to be recovered more than twelve months after the ~~reporting balance sheet~~ date.

entity's ~~surplus or deficit~~~~profit or loss~~ before income tax expense or income and discontinued operations (if not apparent from the reconciliations described in paragraph ~~2824~~). Those differences could include accounting policies and policies for allocation of centrally incurred costs that are necessary for an understanding of the reported segment information.

- (c) the nature of any differences between the measurements of the reportable segments' assets and the entity's assets (if not apparent from the reconciliations described in paragraph ~~2824~~). Those differences could include accounting policies and policies for allocation of jointly used assets that are necessary for an understanding of the reported segment information.
- (d) the nature of any differences between the measurements of the reportable segments' liabilities and the entity's liabilities (if not apparent from the reconciliations described in paragraph ~~2824~~). Those differences could include accounting policies and policies for allocation of jointly utilised liabilities that are necessary for an understanding of the reported segment information.
- (e) the nature of any changes from prior periods in the measurement methods used to determine reported segment ~~surplus or deficit~~~~profit or loss~~ and the effect, if any, of those changes on the measure of segment ~~surplus or deficit~~~~profit or loss~~.
- (f) the nature and effect of any asymmetrical allocations to reportable segments. For example, an entity might allocate depreciation expense to a segment without allocating the related depreciable assets to that segment.

Reconciliations

~~2824~~ An entity shall provide reconciliations of all of the following:

- (a) the total of the reportable segments' revenues to the entity's revenue.
- ~~(b)~~ the total of the reportable segments' expenses to the entity's expense.
- ~~(bc)~~ the total of the reportable segments' measures of ~~surplus or deficit~~~~profit or loss~~ to the entity's ~~surplus or deficit~~~~profit or loss~~ before tax expense (tax income) and discontinued operations. However, if an entity allocates to reportable segments items such as tax expense (tax income), the entity may reconcile the total of the segments' measures of ~~surplus or deficit~~~~profit or loss~~ to the entity's ~~surplus or deficit~~~~profit or loss~~ after those items.
- ~~(ed)~~ the total of the reportable segments' assets to the entity's assets.

Additional item (b) in this Para is consistent with Para 19(e)

- (~~de~~) the total of the reportable segments' liabilities to the entity's liabilities if segment liabilities are reported in accordance with paragraph 2319.
- (~~ef~~) the total of the reportable segments' amounts for every other material item of information disclosed to the corresponding amount for the entity.

All material reconciling items shall be separately identified and described. For example, the amount of each material adjustment needed to reconcile reportable segment ~~surplus or deficit~~profit or loss to the entity's ~~surplus or deficit~~profit or loss arising from different accounting policies shall be separately identified and described.

Restatement of previously reported information

- 2925 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. The determination of whether the information is not available and the cost to develop it would be excessive shall be made for each individual item of disclosure. Following a change in the composition of its reportable segments, an entity shall disclose whether it has restated the corresponding items of segment information for earlier periods.
- 3026 If an entity has changed the structure of its internal organisation in a manner that causes the composition of its reportable segments to change and if segment information for earlier periods, including interim periods, is not restated to reflect the change, the entity shall disclose in the year in which the change occurs segment information for the current period on both the old basis and the new basis of segmentation, unless the necessary information is not available and the cost to develop it would be excessive.

Entity-wide disclosures

- 3427 Paragraphs ~~3228 and 29–34~~ apply to all entities subject to this ~~IFRS~~IPSAS including those entities that have a single reportable segment. Some entities' ~~service~~business activities are not organised on the basis of differences in related ~~product~~goods and services or differences in geographical areas of operations. Such an entity's reportable segments may ~~report revenues from~~provide a broad range of essentially different ~~product~~goods and services, or more than one of its reportable segments may provide essentially the same ~~product~~goods and services. Similarly, an entity's reportable segments may hold assets in different geographical areas and ~~report revenues from customers~~provide goods and services for customers in different geographical areas, or more than one of its reportable segments may operate in the same geographical area. Information

required by paragraphs ~~32–34~~28 and 29 shall be provided only if it is not provided as part of the reportable segment information required by this ~~IFRS~~IPSAS.

Information about ~~product~~goods and services

~~32~~28 An entity shall report the revenues ~~from external customers~~and expenses for each ~~product~~good and service, or each group of similar ~~product~~goods and services, unless the necessary information is not available and the cost to develop it would be excessive, in which case that fact shall be disclosed. The amounts of revenues and expenses reported shall be based on the financial information used to produce the entity's financial statements.

Para 28 and 29 require additional report on relevant expense information for the same reason as addressed in Para 19

Information about geographical areas

~~33~~29 An entity shall report the following geographical information, unless the necessary information is not available and the cost to develop it would be excessive:

- (a) revenues ~~from external customers~~and expenses (i) attributed to the entity's country of domicile and (ii) attributed to all foreign countries in total ~~from~~in which the entity ~~derives revenues~~engages in service activities. If revenues ~~from external customers~~or expenses attributed to an individual foreign country are material, those revenues or expenses shall be disclosed separately. An entity shall disclose the basis for attributing revenues ~~from external customers~~and expenses to individual countries.
- (b) non-current assets² other than financial instruments, deferred tax assets, post-employment benefit assets, and rights arising under insurance contracts (i) located in the entity's country of domicile and (ii) located in all foreign countries in total in which the entity holds assets. If assets in an individual foreign country are material, those assets shall be disclosed separately.

The amounts reported shall be based on the financial information that is used to produce the entity's financial statements. If the necessary information is not available and the cost to develop it would be excessive, that fact shall be disclosed. An entity may provide, in addition to the information required by this paragraph, subtotals of geographical information about groups of countries.

² For assets classified according to a liquidity presentation, non-current assets are assets that include amounts expected to be recovered more than twelve months after the ~~balance sheet~~reporting date.

Information about major customers

Given the public sector's non-for-profit nature this disclosure requirement would be inappropriate.

~~34~~ — An entity shall provide information about the extent of its reliance on its major customers. ~~If revenues from transactions with a single external customer amount to 10 per cent or more of an entity's revenues, the entity shall disclose that fact, the total amount of revenues from each such customer, and the identity of the segment or segments reporting the revenues. The entity need not disclose the identity of a major customer or the amount of revenues that each segment reports from that customer. For the purposes of this IFRS, a group of entities known to a reporting entity to be under common control shall be considered a single customer, and a government (national, state, provincial, territorial, local or foreign) and entities known to the reporting entity to be under the control of that government shall be considered a single customer.~~

Transition and effective date

This Para is drawn from Para 77 of IPSAS 18 and also consistent with other IPSASs.

~~35~~30 An entity shall apply this IFRSIPSAS in its annual financial statements for periods beginning on or after ~~1 January 2009~~MM DD, YYYY. Earlier application is permitted. If an entity applies this IFRSIPSAS in its financial statements for a period before ~~1 January 2009~~MM DD, YYYY, it shall disclose that fact.

~~31~~ When an entity adopts the accrual basis of accounting, as defined by International Public Sector Accounting Standards, for financial reporting purposes, subsequent to this effective date, this IPSAS applies to the entity's annual financial statements covering periods beginning on or after the date of adoption.

~~36~~32 Segment information for prior years that is reported as comparative information for the initial year of application shall be restated to conform to the requirements of this IFRSIPSAS, unless the necessary information is not available and the cost to develop it would be excessive.

Withdrawal of IASPSAS 1418 (2000)

~~37~~33 This IFRSPSAS supersedes IASIPSAS 1418, "Segment Reporting" issued in 2000.

This Appendix is new for existing IPSASs and reflects a new change in style and structure of IFRS 8 (see key issues in agenda paper 7.3)

Appendix A Defined term

This appendix is an integral part of the ~~IFRS~~IPSAS.

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

- (a) that engages in businessservice activities ~~from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity)for achieving particular operating objectives consistent with the overall mission of the 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.

Appendix B Amendments to other IPSASs

The amendments in this appendix shall be applied for annual periods beginning on or after MM DD, YYYY. If an entity applies this IPSAS for an earlier period, these amendments shall be applied for that earlier period. In the amended paragraphs, new text is underlined and deleted text is struck through.

B1 References to IPSAS 18, “Segment Reporting” are amended to IPSAS 18, “Operating Segments” in the following paragraphs:

- Paragraph 27 of IPSAS 6, “Consolidated and Separate Financial Statements”.

B2 In IPSAS 12, “Inventories”, paragraph 36 and 39 are amended to read as follows:

36 For example, inventories used in one operating segment may have a use to the entity different from the same type of inventories used in another operating segment. However, a difference in geographical location of inventories, by itself, is not sufficient to justify the use of different cost formulas.

39 Inventories are usually written down to net realizable value on an item by item basis. In some circumstances, however, it may be appropriate to group similar or related items. This may be the case with items of inventory that have similar purposes or end uses and cannot practicably be evaluated separately from other items in that product line. It is not appropriate to write-down inventories based on a classification of inventory, for example, finished goods, or all the inventories in a particular ~~operation or geographical~~ operating segment. Service provides generally accumulate costs in respect of each service for which a separate selling price is charged. Therefore, each such service is treated as a separate item.

B3 In IPSAS 21, “Impairment of Non-Cash Generating Assets”, paragraph 71 is amended to read as follows:

71 An entity that reports segment information in accordance with IPSAS 18, “~~Segment Reporting~~ Operating Segments” shall disclose the following for each reportable segment ~~reported by the entity~~:

In paragraph 72, subparagraph (d) is amended to read as follows:

72(d) The reportable segment to which the asset belongs, if the entity reports segment information in accordance with IPSAS 18.

The Implementation Guidance on IFRS 8 is presented here for reference purpose. Staff has not changed it in the context of the public sector with a view to doing that when the IPSASB completes its deliberations on the proposed revision to IPSAS 18.

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**Guidance on implementing
IFRS 8 *Operating Segments***

This guidance accompanies, but is not part of, IFRS 8.

Introduction

IG1 This implementation guidance provides examples that illustrate the disclosures required by IFRS 8 and a diagram to assist in identifying reportable segments. The formats in the illustrations are not requirements. The Board encourages a format that provides the information in the most understandable manner in the specific circumstances. The following illustrations are for a single hypothetical entity referred to as Diversified Company.

Descriptive information about an entity's reportable segments

IG2 The following illustrates the disclosure of descriptive information about an entity's reportable segments (the paragraph references are to the relevant requirements in the IFRS).

Description of the types of products and services from which each reportable segment derives its revenues (paragraph 22(b))

Diversified Company has five reportable segments: car parts, motor vessels, software, electronics and finance. The car parts segment produces replacement parts for sale to car parts retailers. The motor vessels segment produces small motor vessels to serve the offshore oil industry and similar businesses. The software segment produces application software for sale to computer manufacturers and retailers. The electronics segment produces integrated circuits and related products for sale to computer manufacturers. The finance segment is responsible for portions of the company's financial operations including financing customer purchases of products from other segments and property lending operations.

Measurement of operating segment profit or loss, assets and liabilities (paragraph 27)

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies except that pension expense for each operating segment is recognised and measured on the basis of cash payments to the pension plan. Diversified Company evaluates performance on the basis of profit or loss from operations before tax expense not including non-recurring gains and losses and foreign exchange gains and losses.

Diversified Company accounts for intersegment sales and transfers as if the sales or transfers were to third parties, ie at current market prices.

**Factors that management used to identify the entity's reportable segments
(paragraph 22(a))**

Diversified Company's reportable segments are strategic business units that offer different products and services. They are managed separately because each business requires different technology and marketing strategies. Most of the businesses were acquired as individual units, and the management at the time of the acquisition was retained.

Information about reportable segment profit or loss, assets and liabilities

IG3 The following table illustrates a suggested format for disclosing information about reportable segment profit or loss, assets and liabilities (paragraphs 23 and 24). The same type of information is required for each year for which an income statement is presented. Diversified Company does not allocate tax expense (tax income) or non-recurring gains and losses to reportable segments. In addition, not all reportable segments have material non-cash items other than depreciation and amortisation in profit or loss. The amounts in this illustration, denominated as 'currency units (CU)', are assumed to be the amounts in reports used by the chief operating decision maker.

	Car parts	Motor vessels	Software	Electronics	Finance	All other	Totals
	CU	CU	CU	CU	CU	CU	CU
Revenues from external customers	3,000	5,000	9,500	12,000	5,000	1,000 ^a	35,500
Intersegment revenues	—	—	3,000	1,500	—	—	4,500
Interest revenue	450	800	1,000	1,500	—	—	3,750
Interest expense	350	600	700	1,100	—	—	2,750
Net interest revenue ^b	—	—	—	—	1,000	—	1,000
Depreciation and	200	100	50	1,500	1,100	—	2,950

amortisation							
Reportable segment profit	200	70	900	2,300	500	100	4,070
Other material non-cash items:							
Impairment of assets	–	200	–	–	–	–	200
Reportable segment assets	2,000	5,000	3,000	12,000	57,000	2,000	81,000
Expenditures for reportable segment non-current assets	300	700	500	800	600	–	2,900
Reportable segment liabilities	1,050	3,000	1,800	8,000	30,000	–	43,850
<p>a Revenues from segments below the quantitative thresholds are attributable to four operating segments of Diversified Company. Those segments include a small property business, an electronics equipment rental business, a software consulting practice and a warehouse leasing operation. None of those segments has ever met any of the quantitative thresholds for determining reportable segments.</p> <p>b The finance segment derives a majority of its revenue from interest. Management primarily relies on net interest revenue, not the gross revenue and expense amounts, in managing that segment. Therefore, as permitted by paragraph 23, only the net amount is disclosed.</p>							

Reconciliations of reportable segment revenues, profit or loss, assets and liabilities

IG4 The following illustrate reconciliations of reportable segment revenues, profit or loss, assets and liabilities to the entity's corresponding amounts (paragraph 28(a)–(d)). Reconciliations also are required to be shown for every other material item of information disclosed (paragraph 28(e)). The entity's financial statements are assumed not to include discontinued operations. As discussed in paragraph IG2, the entity recognises and measures pension expense of its reportable segments on the basis of cash payments to the pension plan, and it does not allocate certain items to its reportable segments.

Revenues

CU

Total revenues for reportable segments	39,000
Other revenues	1,000
Elimination of intersegment revenues	(4,500)
Entity's revenues	35,500

Profit or loss	CU
Total profit or loss for reportable segments	3,970
Other profit or loss	100
Elimination of intersegment profits	(500)
Unallocated amounts:	
Litigation settlement received	500
Other corporate expenses	(750)
Adjustment to pension expense in consolidation	(250)
Income before income tax expense	3,070

Assets	CU
Total assets for reportable segments	79,000
Other assets	2,000
Elimination of receivable from corporate headquarters	(1,000)
Other unallocated amounts	1,500
Entity's assets	81,500

Liabilities	CU
Total liabilities for reportable segments	43,850
Unallocated defined benefit pension liabilities	25,000
Entity's liabilities	68,850

Other material items	Reportable segment totals CU	Adjustments CU	Entity totals CU
Interest revenue	3,750	75	3,825
Interest expense	2,750	(50)	2,700
Net interest revenue (finance segment only)	1,000	—	1,000
Expenditures for assets	2,900	1,000	3,900
Depreciation and amortisation	2,950	—	2,950
Impairment of assets	200	—	200

The reconciling item to adjust expenditures for assets is the amount incurred for the corporate headquarters building, which is not included in segment information. None of the other adjustments are material.

Geographical information

IG5 The following illustrates the geographical information required by paragraph 33. (Because Diversified Company's reportable segments are based on differences in products and services, no additional disclosures of revenue information about products and services are required (paragraph 32).)

Geographical information	Revenues^a	Non-current assets
	CU	CU

United States	19,000	11,000
Canada	4,200	—
China	3,400	6,500
Japan	2,900	3,500
Other countries	6,000	3,000
Total	35,500	24,000

a Revenues are attributed to countries on the basis of the customer's location.

Information about major customers

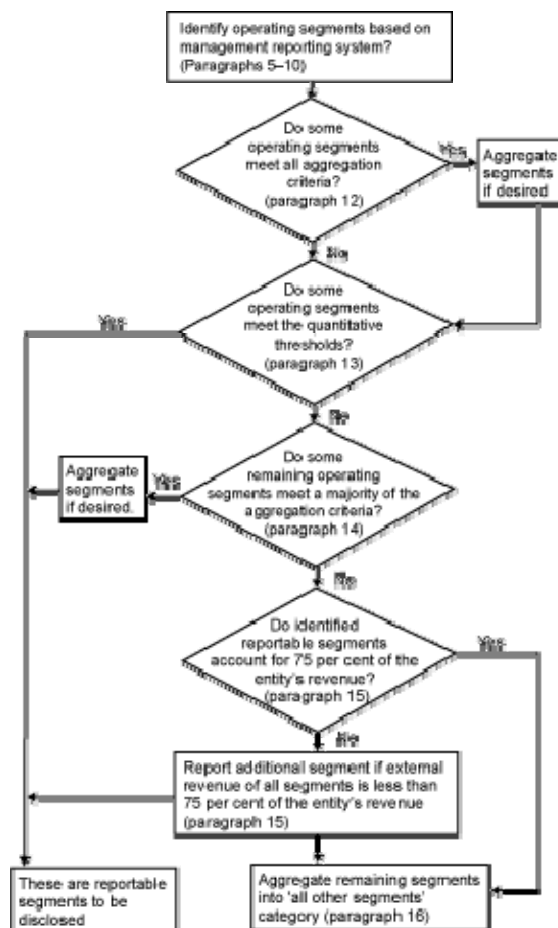
IG6 The following illustrates the information about major customers required by paragraph 34. Neither the identity of the customer nor the amount of revenues for each operating segment is required.

Revenues from one customer of Diversified Company's software and electronics segments represent approximately CU5,000 of the Company's total revenues.

Diagram to assist in identifying reportable segments

IG7 The following diagram illustrates how to apply the main provisions for identifying reportable segments as defined in the IFRS. The diagram is a visual supplement to the IFRS. It should not be interpreted as altering or adding to any requirements of the IFRS nor should it be regarded as a substitute for the requirements.

Diagram for identifying reportable segments



The Comparison below provides the main differences between the version for July meeting of revised IPSAS 18 (marked-up IFRS 8) and IFRS 8 for reference.

Comparison with IFRS 8

International Public Sector Accounting Standard (IPSAS) 18, “Operating Segments” is drawn primarily from International Financial Reporting Standard (IFRS) 8, “Operating Segments” (2006). The main differences between IPSAS 18 and IFRS 8 are as follows:

- Commentary additional to that in IFRS 8 has been included in IPSAS 18 to clarify the applicability of the standards to accounting by public sector entities.
- IPSAS 18 does not specify quantitative thresholds that must be applied in identifying reportable segments.
- IPSAS 18 requires the disclosure of the measure of total expenses for each reportable segment if such amounts are included in the measure of segment 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 surplus or deficit. IFRS 8 does not require this disclosure.
- IPSAS 18 does not require the entity-wide disclosure of information about major customers.
- IPSAS 18 uses different terminology, in certain instances, from IFRS 8. The most significant examples are the use of the terms “statement of financial performance,” “statement of financial position” and “controlling entity.” The equivalent terms in IFRS 8 are “income statement,” “balance sheet” and “parent”.