

DRAFT IMPLEMENTATION GUIDANCE
ED 8 Operating Segments

Comments to be received by 19 May 2006



Draft Implementation Guidance
ED 8 OPERATING SEGMENTS

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This draft Implementation Guidance accompanies the proposed International Financial Reporting Standard (IFRS) set out in ED 8 *Operating Segments* (see separate booklet). Comments on the draft IFRS and its accompanying documents should be submitted in writing so as to be received by **19 May 2006**.

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[DRAFT] Guidance on implementing IFRS X Operating Segments

This [draft] guidance accompanies, but is not part of, [draft] IFRS X.

Introduction

IG1 This implementation guidance provides examples that illustrate the disclosures that are required by the [draft] IFRS and a diagram for 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 is an illustration of the disclosure of descriptive information about an entity's reportable segments (the paragraph references are to the relevant requirements in the [draft] IFRS).

Description of the types of products and services from which each reportable segment derives its revenues (paragraph 21(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 and assets (paragraph 26)

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 income 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 management used to identify the entity's reportable segments (paragraph 21(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 a unit, and the management at the time of the acquisition was retained.

Information about reportable segment profit or loss and assets

IG3 The following table illustrates a suggested format for disclosing information about reportable segment profit or loss and assets (paragraphs 22 and 23). The same type of information is required for each year for which an income statement is presented. Diversified Company does not allocate income tax expense or 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.

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	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 amortisation	200	100	50	1,500	1,100	–	2,950
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
<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. In addition, management primarily relies on net interest revenue, not the gross revenue and expense amounts, in managing that segment. Therefore, as permitted by paragraph 22, only the net amount is disclosed.</p>							

Reconciliations of reportable segment revenues, profit or loss and assets

IG4 The following are illustrations of reconciliations of reportable segment revenues, profit or loss, and assets, to the entity's corresponding amounts (paragraph 27(a), 27(b) and 27(c)). Reconciliations also are required to be shown for every other material item of information disclosed (paragraph 27(d)). For example, if Diversified Company disclosed reportable segment liabilities, the total reportable segment liabilities are required to be reconciled to the entity's liabilities. The entity's financial statements are assumed not to include discontinued operations. As discussed earlier 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

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Assets	CU
Total assets for reportable segments	79,000
Other assets	2,000
Elimination of receivable from corporate headquarters	(1,000)
Goodwill not allocated to reportable segments	4,000
Other unallocated amounts	1,000
Entity's assets	85,000

Other material items	Reportable	Adjustments	Entity totals
	segment totals		
	CU	CU	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 capital 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 32. (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 31).)

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	31,000	24,000

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

Information about major customers

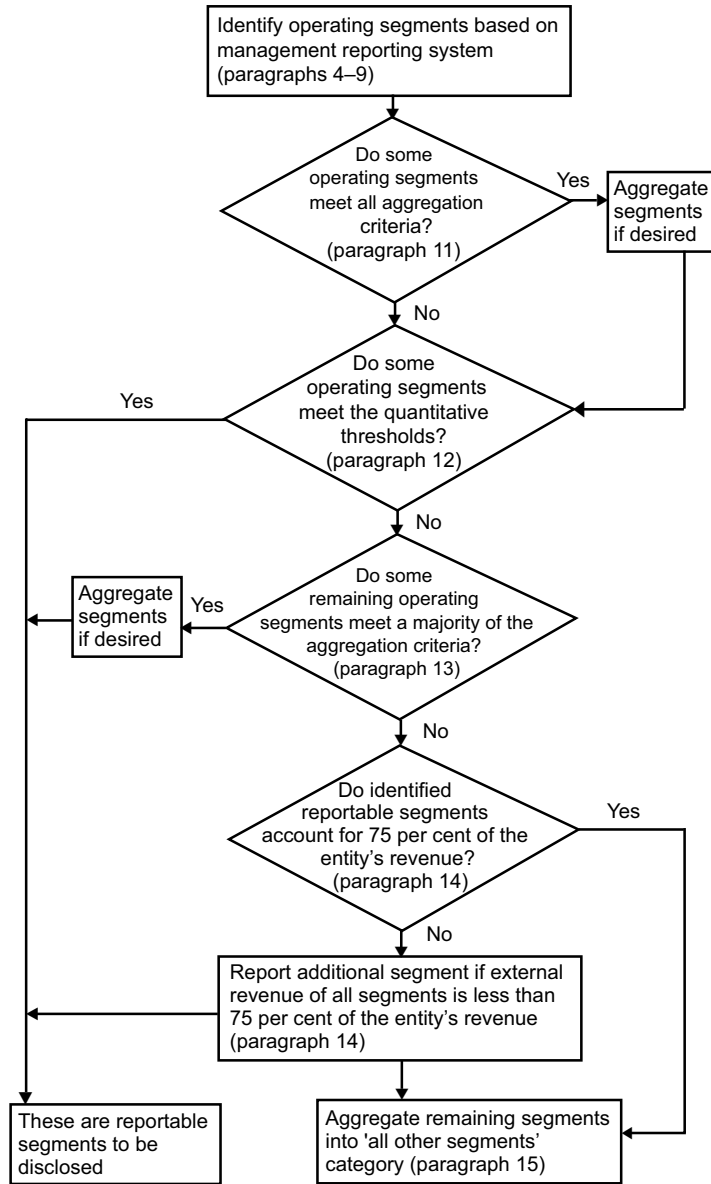
IG6 The following is an illustration of the information about major customers required by paragraph 33. Neither the identity of the customer nor the amount of revenues for each operating segment is required.

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

Diagram for identifying reportable segments

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

Diagram for identifying reportable segments



Appendix Amendments to other Implementation Guidance

This appendix contains amendments to guidance on other IFRSs that are necessary in order to ensure consistency with [draft] IFRS [X]. In the amended paragraphs, new text is underlined and deleted text is struck through.

IGA1 In the Guidance on Implementing IFRS 4 *Insurance Contracts*, paragraph IG43 is amended as follows:

IG43 Under ~~IAS 14 Segment Reporting~~ IFRS [X] *Operating Segments*, the identification of reportable segments reflects ~~differences in the risks and returns of an entity's products and services~~ the way in which management allocates resources and assesses performance. ~~IAS 14 takes the position that the segments identified in an organisational and management structure and internal financial reporting system normally provide an appropriate segmentation for financial reporting.~~ An insurer might adopt a similar approach to identify broad classes of insurance contracts for disclosure purposes, although it might be appropriate to disaggregate disclosures down to the next level. For example, if an insurer identifies life insurance as a reportable segment for ~~IAS 14~~ IFRS X, it might be appropriate to report separate information about, say, life insurance, annuities in the accumulation phase and annuities in the payout phase.

IGA2 In the Illustrative Examples accompanying IAS 36 *Impairment of Assets*, paragraph IE80 is amended as follows:

IE80 Entity M is a multinational manufacturing firm that uses geographical segments ~~as its primary format~~ for reporting segment information. M's three reportable segments ~~based on that format~~ are Europe, North America and Asia. Goodwill has been allocated for impairment testing purposes to three individual cash-generating units—two in Europe (units A and B) and one in North America (unit C)—and to one group of cash-generating units (comprising operation XYZ) in Asia. Units A, B and C and operation XYZ each represent the lowest level within M at which the goodwill is monitored for internal management purposes.