-IFRS8 **– Operating segments**

**1-Overview**

Disclosure of information about the various sectors of the entity is of great importance as this information shows the risks and returns related to the entity's work by presenting the financial position and performance according to the operating sectors,

-presenting information about the entity's products and services and the geographical areas in which it operates and information about the entity's main customers. This information helps users of financial reports to better understand the assessment of the risks associated with the performance of these sectors.

This standard was issued in 2006 to replace the International Accounting Standard No. (14) and is effective as of the beginning of2009.

**2-Objective**

This standard aims to specify the disclosures required from business entities that enable users of their financial statements to evaluate the nature of the entity’s business activities, their financial effects and the economic environments in which it operates**.**

**3-Scope**

This standard should be applied to the following[[1]](#footnote-1):

**a-Separate financial statements**: For the entity that is characterized by the following:

* whose debt or equity instruments are traded in a public market[[2]](#footnote-2), or
* 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;

**b-Consolidated financial statements :** The parent company is characterized by the following:

* whose debt or equity instruments are traded in a public market,
* 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.

4-**Operating segments :** An operating segment is a component of an entity

a-It engages in business activities that generate revenues and incur expenses, including revenues and expenses arising from transactions with other parts of the entity.

-b-Its operating results are reviewed regularly by the entity's chief operating decision maker (C O D M) to make decisions about resources to be allocated to the segment and to assess its performance.

c- Separate information is available for that segment.

5-**Reportable segments :**

5.1-This standard requires reporting separately information about each operating segment of the segments that are characterized by the following two conditions together :

a-**Segments that meet the definition of an operating segment** or segments resulting from the combination of two or more operating segments that generally show similar long-term financial performance if they have similar economic characteristics in terms of:

- The nature of products and services.

- The nature of production operations.

- The type and category of customers.

- Methods of distributing products or providing services.

- The nature of the regulatory environment such as banking, insurance, or

 public utilities .

b-**If the operating segment meets one of the following conditions**:

* If the internal (other segments within the entity) and external (customers) revenues amount to 10% or more of the total consolidated revenues (internal and external revenues) of all operating segments.
* If the operating segment’s result, whether profit or loss, amounts to 10% or more of the combined result of all operating segments from profit or the combined result of all segments from loss, whichever is greater in its absolute amount.
* If the segment’s assets amount to 10% or more of the total assets of all operating segments. The standard allows the entity’s management to disclose and report a specific segment separately even if it does not meet any of the previous three conditions, if management believes that information about that segment will be useful to users of the financial statements.

5.2-f the total external revenue attributable to the reportable operating segments is less than 75% of total consolidated revenue (entity revenue as a whole), additional segments should be identified as reportable segments even if they do not meet the 10% threshold in the standard. Until the reportable segments constitute at least 75% of total consolidated revenue or entity revenue.

5.3- Information about other business activities and operating segments that do not meet the requirements for separate reporting should be consolidated and disclosed under the category “All other segments” and separately from other segments.

**6-Disclosure:** An entity shall disclose**:**

6.1-Descriptive information about the entity's sectors included in the financial reports Information about the Arab Company's sectors can be presented as follows:

The Arab Company has 5 sectors included in the financial reports: Auto Parts,

Ships, Software, Electronics, and Finance.

\*The Auto Parts Sector produces spare parts for sale to retail stores.

\*The Ships Sector produces small ships to serve the offshore oil industry and similar businesses.

\*The Software Sector produces application programs for sale to computer manufacturers and computer retail stores.

\*The Electronics Sector produces integrated circuits and related products for sale to computer manufacturers.

\*While the Finance Sector is responsible for parts of the company's financial operations, including financing customer purchases of products from other sectors and property lending operations.

6.2-Information about the profit or loss, assets and liabilities of the segment covered by the financial reports.

6.3-reconciliations of the totals of segment revenues, reported segment

profit or loss, segment assets, segment liabilities and other material segment items to corresponding entity amounts.

That is, a reconciliation (reconciliation) must be prepared between the amounts of the financial position statement of the sectors included in the financial report and the amounts of the financial position statement of the entity as a whole on the date of presentation of each financial position statement, with a

representation of the data for the previous period.

**Example-Information about the profit or loss, assets and liabilities of the reporting segment[[3]](#footnote-3)**

**Below is a presentation of the results of the operating sectors of the Arab Company for the year 2013.**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Cars** | **Ships** | **Software** | **Electronics** | **Finance** | **All Sectors Other(a)** | **Total** |
| **Revenue from external customers** | **3000** | **5000** | **9500** | **12000** | **5000** | **1000** | **35,500** |
| **Revenue from sectors** | **---** | **----** | **3,000** | **1,500** | **----** | **-----** | **4,500** |
| **Interest income** | **450** | **800** | **1,000** | **1,500** | **----** | **------** | **3,750** |
| **Interest expense** | **650** | **600** | **700** | **1,100** | **---** | **----** | **2,750** |
| **Net interest income** | **---** | **---** | **----** | **----** | **1,000** | **----** | **1,000** |
| **Depreciation and Amortization** | **200** | **100** | **50** | **1,500** | **1,100** | **-----** | **2,950** |
| **Sector Profits** | **200** | **70** | **900** | **2,300** | **500** | **100** | **4,070** |
| **Other significant non-cash items(b)** |  |  |  |  |  |  |  |
| **asset impairment** | **----** | **200** | **-----** | **-----** | **-----** | **-----** | **200** |
| **Sector assets** | **2,000** | **5,000** | **3,000** | **12,000** | **57 ,000** | **2,000** | **81,000** |
| **Capital expenditures related to non-current assets** | **300** | **700** | **500** | **800** | **600** | **---** | **2,900** |
| **Sector liabilities** | **1,050** | **3,000** | **1,800** | **8,000** | **30,000** | **----** | **43,850** |

**(a)** Revenues from segments that do not pass the quantitative test (10%) required in this standard. Four operating segments in the Arab Company, and these segments include limited real estate business, electronics equipment rental, software consulting and warehouse leasing**.**

**(b)** The financing segment derives most of its revenues from interest. Management relies primarily on the net interest income in managing this segment and not on the total amounts of revenues and expenses. Therefore, only the net amount is disclosed as permitted by this standard

1. ) )op.cit, IASB (2017),**IFRS Standards,part A,p308** [↑](#footnote-ref-1)
2. ) a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets [↑](#footnote-ref-2)
3. ) JUMA Hamidat(2019)IFRS EXPERT , www.iascasociety.org,p869 [↑](#footnote-ref-3)