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DISAGGREGATED FINANCIAL-ACCOUNTING INFORMATION FOR USERS (CONCRETE MEASURES OF IMPROVE INTERNATIONAL FINANCIAL REPORTING)

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Abstract *With the increased complexity of business and with the growing popularity of the conglomerates business forms has become clear that enhanced financial reporting can not provide users with enough information to make decisions for high yield. Therefore, segment reporting is presenting disaggregated financial information relating to the operations of reporting entities in different areas of business or in different geographical regions. Because of the perception that domestic and foreign operations involve different risks for the entity, segment disclosures also include information about the entity's operations in the country and the export sales. Segment reporting of various types has become mandatory in many reporting schemes, although in most cases was limited to publicly traded entities.*

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IAS / IFRS, segment reporting, financial statements
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M41

1. HISTORY AND EVOLUTION. GENERAL ISSUES

The american financial reporting standards (US-GAAP) set the tone of these requirements. Securities Commission of the United States began to require disclosure of the scope of the annual reports of entities registered since 1970, but in many cases, these data were not included in annual reports issued to shareholders.

IAS 14 „Segment Reporting activity" was first issued in 1981, closely watching U.S. standard. Therefore, the range of acceptable definitions of business segments under IFRS was, in this case, quite large.

In other cases, are still required data aggregation and disaggregation of the administrative information system by reporting entities to develop the desired presentation of financial statements. Segment information, even if they are recommended for all issuers of financial statements are required only for those who have debt or equity issues that are listed, or are issuing bonds.

The current standard, IAS 14 provides detailed guidance on the identification of business segments or geographical segments. The standard requires to the entities to refer to their organizational structure and internal reporting systems to identify those segments. If internal segments of the entities are not based on geographical boundaries or on products / services, then entities are required to refer to a lower level of internal segmentation to identify segments on which to make reporting.

2. CONCEPTUAL BASIS OF SEGMENT REPORTING

Commercial organizations have become increasingly complex in recent years and conglomerate organizational form (when not related operations or non similar are unified into a single reporting entity) has become increasingly popular and in conclusion, the usefullness of financial statements – showing the full range of activities of an entity – decreased very much.

In the UK, The Companies Act of 1967 mandated for the first time segment limited disclosures; this requirement has been extended by a further review of the law, and became part of official disaggregated information in the notes to financial statements in 1981. As in the U.S., the UK is set a threshold of 10% to determine if a segment is important and therefore if you require the reporting of disaggregated. Information to be presented were also exemplified in the American norm - sales, operating results and identifiable assets (named net assets in the standard of Britain, but not actually defined therein).

3. REVIEWS OF SEGMENTS DEFINITIONS

Over time, an entity may lead to revising the definition of business and geographical segments. The effect of such changes may make the information presented in previous years may not be comparable to that presented in the financial statements currently. In conclusion, at least, should be presented that has made this change, describing it enough, so consumers can assess the overall impact that it could have this change.

For example, the manufacturer of automotive electronic and mechanical parts might conclude, at some point, that previous methods of disclosure for segments as dichotomy between the electronic and mechanical products is no longer correct, given the growing prevalence of electronic components which were previously only mechanical parts.

Thus, it could determine that a classification could be more useful as types of clients, like original equipment manufacturers vs. secondary producers, since the economic forces that affect them are significantly different.

4. PROPOSED CHANGES TO SEGMENT REPORTING REQUIREMENTS AS CONCRETE MEASURES TO IMPROVE FINANCIAL REPORTING

IASB and FASB have jointly developed a draft revision of the reporting requirements of financial information by segment in both sets of standards promoted as part of the convergence approved by these associations. If these measures will be adopted, the standard will significantly change current practices, because:

- will expand the scope of the reporting segment, including entities that hold assets in fiduciary capacity (conventional) for a large group of foreign persons, as as pension funds, which were not included in IAS 14;

- will require a „management approach" to identify segments of activity which will be based on internal reports, which will be reviewed by individual decision makers to allocate resources and to evaluate segment performance. It would be different from IAS 14, which requires identifying a classification scheme of primary and secondary classification, one of these being based on activities, and other on geographical areas. According to the new standard, an activity segment will be a part of an entity:
  - ➢ who engage in activities that may earn income or incur expenditure (including income and expenditure relating to transactions with other components of the same entity),
  - ➢ whose results are revised by the decision maker concerning resources allowed to the segment and who can evaluate the performance and
  - ➢ for which are available financial information.
- will include a component of an entity that sells (primarily or exclusively) to other segments of the entity's activities, as defined by a segment. According to IAS 14, only segments that sell exclusively or primarily to external customers are reporting segments;

- will require that the amount of each element of the segment reported activity (income, assets, etc.) to meet the same assessment that is reported to the decisions maker for resource allocation in the segment and assessing its performance. In contrast, IAS 14 requires segment information to be prepared in accordance with the accounting policies adopted for preparing and presenting financial situations of the consolidated group or entity. This is a controversial change, since the internal assessments are different from those required by IFRS;

- will require reconciliation of total revenue on reportable segment, of total profit or total loss,

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total assets and other amounts presented for the reportable segments to corresponding amounts in the entity's financial statements. This was not an issue under IAS 14, because the amounts were already reported in accordance with external financial reporting;

- will ask to explain how the profit or loss are valued assets for each segment reporting. This is a necessity given that the proposed standard did not define these terms to the top. However IAS 14 defines each of these terms;

- will require to an entity to report information about income derived from products or services (or service groups and the like), about the countries where they have income and assets and about major customers, regardless of the fact that information is used by management when making decisions related to activity in general;

- will require to provide detailed information on how the business segments are determined, products and services offered by segments.

5. REPORTING ON ACTIVITY SEGMENTS. CASE STUDY

Metal Group is a diversified entity that operates in five business segments and four geographic segments. The following information relates to financial accounting year closing on 30 June 2015:

Information on business segments (in thousands Euro)

	Tin plates	Heavy plates	Thin plates	Retail	Packages	Total
Total income from sales	2.249	1.244	4.894	3.815	7.552	19.754
To external customers	809	543	4.029	3.021	5.211	13.613
To other segments	1.440	701	865	794	2.341	6.141
Result on segment	631	(131)	714	(401)	1.510	2.323
Assets	4.977	3.475	5.235	1.072	8.258	23.035

Geographical Segment Data (in thousands Euro)

	Finland	France	Great Britain	Australia	Total
Total income from sales	7.111	1.371	3.451	7.821	19.754
To external customers	6.841	1.000	2.164	3.608	13.613
To other segments	270	371	1.287	4.213	6.141
Result on segment	1.536	(478)	494	771	2.323
Assets	9.231	5.001	3.667	5.136	23.035

The first step in identifying reportable geographic segments of the business activity is to identify those who earn most revenue from sales to external customers.

Segments	% from foreign sales	Is qualified?
On activity		
Tin plates	809 / 2.249 = 36%	No
Heavy plates	543 / 1.244 = 44%	No
Thin plates	4.029 / 4.894 = 82%	Yes
Retail	3.021 / 3.815 = 79%	Yes
Packages	5.211 / 7.552 = 69%	Yes
Geographical		
Finland	6.841 / 7.111 = 96%	Yes
France	1.000 / 1.371 = 73%	Yes
Great Britain	2.164 / 3.451 = 63%	Yes
Australia	3.608 / 7.821 = 46%	No

The second step will guarantee that the thresholds of 10% (for income from sales of assets, or earnings per segment) are met by those segments that were classified on the basis of step 1. The thresholds are calculated as follows:

	Euro
• Sales (10% x 19.754)	1.976
• Result on segment	
• On activity: [10% from maximum between (631 + 714 + 1.510) or (131 + 401)]	286
• Geographical: [10% from maximum between (1.536 + 494 + 771) or 478]	280
• Assets (10% x 23.035)	2.304

Segments	Thresholds that were qualified	Able to be reported?
On activity		
Thin plates	Sales, result, assets	Yes
Retail	Sales, result	Yes
Packages	Sales, result, assets	Yes
Geographical		
Finland	Sales, result, assets	Yes
France	Result, assets	Yes
Great Britain	Sales, result, assets	Yes

The third step would verify if total external revenue attributable to reportable segments constitutes at least 75% of consolidated total income / the company worth 13.613 thousands Euro

- External income reportable business segments is 12.261 thousands Euro (4.029 + 3.021 + 5.211), which represents 90% of the total income from sales.

- External income of reportable geographic segments is 10.005 thousands Euro (6.841 + 1.000 + 2.164), representing 73.5% of total revenue from sales, therefore less than 75%.

In terms of IAS 14, must now more geographic segments identified as reportable even if they do not reach the threshold of 10% in step 2. This would mean that Australia, under this requirement, would qualify as reportable geographical segment.

Reportable segments are as follows:

- Activity: thin plates, retail and packaging
- Geography: Finland, France, Britain and Australia.

6. CONCLUSIONS

Presentations on the segment must be prepared using the same accounting principles for the reporting entity uses for the externally reporting, in accordance with international accounting standards. If changes have made in accounting policies used in the entity's activity, policies that also have an impact on the presentation of segment information, then they should be deal with in accordance with accounting regulations consistent with European Directives. Under the standard, the information from the previous period are reviewed to conform to new principles, except as may be necessary too much cost or effort.

If there were changes in accounting principles used in determining segment, changes that have a significant impact on information provided by users of financial statements information (such as changes in the method of allocating revenues and expenses by segment), the comparative period from the previous period should be recast to conform with the new methods used.

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