Statement of Financial Accounting Standards No. 131

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FAS131 Summary

Disclosures about Segments of an Enterprise and Related Information

June 1997

Financial Accounting Standards Board
of the Financial Accounting Foundation
401 MERRITT 7, P.O. BOX 5116, NORWALK, CONNECTICUT 06856-5116

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Statement of Financial Accounting Standards No. 131

Disclosures about Segments of an Enterprise and Related Information

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FAS 131: Disclosures about Segments of an Enterprise and Related Information

FAS 131 Summary

This Statement establishes standards for the way that public business enterprises report information about operating segments in annual financial statements and requires that those enterprises report selected information about operating segments in interim financial reports issued to shareholders. It also establishes standards for related disclosures about products and services, geographic areas, and major customers. This Statement supersedes FASB Statement No. 14, *Financial Reporting for Segments of a Business Enterprise,* but retains the requirement to report information about major customers. It amends FASB Statement No. 94, *Consolidation of All Majority-Owned Subsidiaries,* to remove the special disclosure requirements for previously unconsolidated subsidiaries. This Statement does not apply to nonpublic business enterprises or to not-for-profit organizations.

This Statement requires that a public business enterprise report financial and descriptive information about its reportable operating segments. Operating segments are components of an enterprise 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 basis that it is used internally for evaluating segment performance and deciding how to allocate resources to segments.

This Statement requires that a public business enterprise report a measure of segment profit or loss, certain specific revenue and expense items, and segment assets. It requires reconciliations of total segment revenues, total segment profit or loss, total segment assets, and other amounts disclosed for segments to corresponding amounts in the enterprise's general-purpose financial statements. It requires that all public business enterprises report information about the revenues derived from the enterprise's products or services (or groups of similar products and services), about the countries in which the enterprise earns revenues and holds assets, and about major customers regardless of whether that information is used in making operating decisions. However, this Statement does not require an enterprise to report information that is not prepared for internal use if reporting it would be impracticable.

This Statement also requires that a public business enterprise report descriptive information about the way that the operating segments were determined, the products and services provided

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by the operating segments, differences between the measurements used in reporting segment information and those used in the enterprise's general-purpose financial statements, and changes in the measurement of segment amounts from period to period.

This Statement is effective for financial statements for periods beginning after December 15, 1997. In the initial year of application, comparative information for earlier years is to be restated. This Statement need not be applied to interim financial statements in the initial year of its application, but comparative information for interim periods in the initial year of application is to be reported in financial statements for interim periods in the second year of application.

INTRODUCTION

1. This Statement requires that public business enterprises [1] report certain information about operating segments in complete sets of financial statements of the enterprise and in condensed financial statements of interim periods issued to shareholders. It also requires that public business enterprises report certain information about their products and services, the geographic areas in which they operate, and their major customers. The Board and the Accounting Standards Board (AcSB) of the Canadian Institute of Chartered Accountants (CICA) cooperated in developing revised standards for reporting information about segments, and the two boards reached the same conclusions.

2. This Statement supersedes FASB Statements No. 14, *Financial Reporting for Segments of a Business Enterprise*, No. 18, *Financial Reporting for Segments of a Business Enterprise—Interim Financial Statements*, No. 24, *Reporting Segment Information in Financial Statements That Are Presented in Another Enterprise's Financial Report*, and No. 30, *Disclosure of Information about Major Customers*. It amends FASB Statement No. 94, *Consolidation of All Majority-Owned Subsidiaries*, to eliminate the requirement to disclose additional information about subsidiaries that were not consolidated prior to the effective date of Statement 94. It also amends APB Opinion No. 28, *Interim Financial Reporting,* to require disclosure of selected information about operating segments in interim financial reports to shareholders. Appendix C includes a list of amendments to existing pronouncements.

Objective and Basic Principles

3. The objective of requiring disclosures about segments of an enterprise and related information is to provide information about the different types of business activities in which an enterprise engages and the different economic environments in which it operates to help users of financial statements:

a. Better understand the enterprise's performance
b. Better assess its prospects for future net cash flows
c. Make more informed judgments about the enterprise as a whole.

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That objective is consistent with the objectives of general-purpose financial reporting.

4. An enterprise might meet that objective by providing complete sets of financial statements that are disaggregated in several different ways, for example, by products and services, by geography, by legal entity, or by type of customer. However, it is not feasible to provide all of that information in every set of financial statements. This Statement requires that general-purpose financial statements include selected information reported on a single basis of segmentation. The method the Board chose for determining what information to report is referred to as the management approach. The management approach is based on the way that management organizes the segments within the enterprise for making operating decisions and assessing performance. Consequently, the segments are evident from the structure of the enterprise's internal organization, and financial statement preparers should be able to provide the required information in a cost-effective and timely manner.

5. The management approach facilitates consistent descriptions of an enterprise in its annual report and various other published information. It focuses on financial information that an enterprise's decision makers use to make decisions about the enterprise's operating matters. The components that management establishes for that purpose are called *operating segments*.

6. This Statement requires that an enterprise report a measure of segment profit or loss and certain items included in determining segment profit or loss, segment assets, and certain related items. It does not require that an enterprise report segment cash flow. However, paragraphs 27 and 28 require that an enterprise report certain items that may provide an indication of the cash-generating ability or cash requirements of an enterprise's operating segments.

7. To provide some comparability between enterprises, this Statement requires that an enterprise report certain information about the revenues that it derives from each of its products and services (or groups of similar products and services) and about the countries in which it earns revenues and holds assets, regardless of how the enterprise is organized. As a consequence, some enterprises are likely to be required to provide limited information that may not be used for making operating decisions and assessing performance.

8. Nothing in this Statement is intended to discourage an enterprise from reporting additional information specific to that enterprise or to a particular line of business that may contribute to an understanding of the enterprise.

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STANDARDS OF FINANCIAL ACCOUNTING AND REPORTING

Scope

9. This Statement applies to public business enterprises. Public business enterprises are those business enterprises that have issued debt or equity securities that are traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local or regional markets), that are required to file financial statements with the Securities and Exchange Commission, or that provide financial statements for the purpose of issuing any class of securities in a public market. This Statement does not apply to parent enterprises, subsidiaries, joint ventures, or investees accounted for by the equity method if those enterprises' "separate company" statements also are consolidated or combined in a complete set of financial statements and both the separate company statements and the consolidated or combined statements are included in the same financial report. However, this Statement does apply to those enterprises if they are public enterprises and their financial statements are issued separately. This Statement also does not apply to not-for-profit organizations or to nonpublic enterprises. Entities other than public business enterprises are encouraged to provide the disclosures described in this Statement.

Operating Segments

Definition

10. An *operating segment* is a component of an enterprise:

a. That engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same enterprise),
b. Whose operating results are regularly reviewed by the enterprise'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.

11. Not every part of an enterprise is necessarily an operating segment or part of an operating segment. For example, a corporate headquarters or certain functional departments may not earn revenues or may earn revenues that are only incidental to the activities of the enterprise and

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would not be operating segments. For purposes of this Statement, an enterprise's pension and other postretirement benefit plans are not considered operating segments.

12. 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 segments of an enterprise. Often the chief operating decision maker of an enterprise is its chief executive officer or chief operating officer, but it may be a group consisting of, for example, the enterprise's president, executive vice presidents, and others.

13. For many enterprises, the three characteristics of operating segments described in paragraph 10 clearly identify a single set of operating segments. However, an enterprise may produce reports in which its business activities are presented in a variety of different 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 enterprise's operating segments, including the nature of the business activities of each component, the existence of managers responsible for them, and information presented to the board of directors.

14. 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 certain operating segments. A single manager may be the segment manager for more than one operating segment. If the characteristics in paragraph 10 apply to more than one set of components of an organization but there is only one set for which segment managers are held responsible, that set of components constitutes the operating segments.

15. The characteristics in paragraph 10 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 organization. For example, in some enterprises, certain managers are responsible for different product and service lines worldwide, while other managers are responsible for specific geographic 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 components based on products and services would constitute the operating segments.

Reportable Segments

16. An enterprise shall report separately information about each operating segment that (a) has been identified in accordance with paragraphs 10-15 or that results from aggregating two or more of those segments in accordance with paragraph 17 and (b) exceeds the quantitative thresholds in paragraph 18. Paragraphs 19-24 specify other situations in which separate information about an operating segment shall be reported. Appendix B includes a diagram that illustrates how to apply the main provisions in this Statement for identifying reportable operating

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segments.

Aggregation Criteria

17. 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 objective and basic principles of this Statement, if the segments have similar economic characteristics, and if the segments are similar in each of the following areas:

a. The nature of the products and services
b. The nature of the production processes
c. The type or class of customer for their products and services
d. The methods used to distribute their products or provide their services
e. If applicable, the nature of the regulatory environment, for example, banking, insurance, or public utilities.

Quantitative Thresholds

18. An enterprise shall report separately information about an operating segment that meets any of the following quantitative thresholds:

a. Its reported revenue, including both sales to external customers and intersegment sales or transfers, is 10 percent or more of the combined revenue, internal and external, of all reported operating segments.
b. The absolute amount of its reported profit or loss is 10 percent or more of the greater, in absolute amount, of (1) the combined reported profit of all operating segments that did not report a loss or (2) the combined reported loss of all operating segments that did report a loss.
c. Its assets are 10 percent or more of the combined assets of all operating segments.

Information about operating segments that do not meet any of the quantitative thresholds may be disclosed separately.

19. An enterprise 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 share a majority of the aggregation criteria listed in paragraph 17.

20. If total of external revenue reported by operating segments constitutes less than 75 percent of total consolidated revenue, additional operating segments shall be identified as reportable segments (even if they do not meet the criteria in paragraph 18) until at least 75 percent of total consolidated revenue is included in reportable segments.

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21. Information about other business activities and operating segments that are not reportable shall be combined and disclosed in an "all other" category separate from other reconciling items in the reconciliations required by paragraph 32. The sources of the revenue included in the "all other" category shall be described.

22. If management judges an operating segment identified as a reportable segment in the immediately preceding period to be 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 18.

23. If an operating segment is identified as a reportable segment in the current period due to the quantitative thresholds, prior-period segment data 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 18 in the prior period unless it is impracticable to do so. For purposes of this Statement, information is impracticable to present if the necessary information is not available and the cost to develop it would be excessive.

24. There may be a practical limit to the number of reportable segments that an enterprise separately discloses beyond which segment information may become overly detailed. Although no precise limit has been determined, as the number of segments that are reportable in accordance with paragraphs 18-23 increases above 10, the enterprise should consider whether a practical limit has been reached.

Disclosures

25. An enterprise shall disclose the following:

a. General information as described in paragraph 26
b. Information about reported segment profit or loss, including certain revenues and expenses included in reported segment profit or loss, segment assets, and the basis of measurement, as described in paragraphs 27-31
c. Reconciliations of the totals of segment revenues, reported profit or loss, assets, and other significant items to corresponding enterprise amounts as described in paragraph 32
d. Interim period information as described in paragraph 33.

If complete sets of financial statements are provided for more than one period, the information required by this Statement shall be reported for each period presented. Previously reported information for prior periods shall be restated as described in paragraphs 34 and 35.

General Information

26. An enterprise shall disclose the following general information:

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a. Factors used to identify the enterprise's reportable segments, including the basis of organization (for example, whether management has chosen to organize the enterprise around differences in products and services, geographic areas, regulatory environments, or a combination of factors and whether operating segments have been aggregated)
b. Types of products and services from which each reportable segment derives its revenues.

Information about Profit or Loss and Assets

27. An enterprise shall report a measure of profit or loss and total assets for each reportable segment. An enterprise also shall disclose the following about each reportable segment if the specified amounts are included in the measure of segment profit or loss reviewed by the chief operating decision maker:

a. Revenues from external customers
b. Revenues from transactions with other operating segments of the same enterprise
c. Interest revenue
d. Interest expense
e. Depreciation, depletion, and amortization expense
f. Unusual items as described in paragraph 26 of APB Opinion No. 30, *Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions*
g. Equity in the net income of investees accounted for by the equity method
h. Income tax expense or benefit
i. Extraordinary items
j. Significant noncash items other than depreciation, depletion, and amortization expense.

An enterprise 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 enterprise may report that segment's interest revenue net of its interest expense and disclose that it has done so.

28. An enterprise shall disclose the following about each reportable segment if the specified amounts are included in the determination of segment assets reviewed by the chief operating decision maker:a. The amount of investment in equity method investees
b. Total expenditures for additions to long-lived assets other than financial instruments, long-term customer relationships of a financial institution, mortgage and other servicing rights, deferred policy acquisition costs, and deferred tax assets.

Measurement

29. The amount of each segment item reported shall be the measure reported to the chief

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operating decision maker for purposes of making decisions about allocating resources to the segment and assessing its performance. Adjustments and eliminations made in preparing an enterprise's general-purpose financial statements and allocations of revenues, expenses, and gains or losses shall be included in determining reported segment profit or loss only if they are included in the measure of the segment's profit or loss that is used by the chief operating decision maker. Similarly, only those assets that are included in the measure of the segment's assets that is used by the chief operating decision maker shall be reported for that segment. If amounts are allocated to reported segment profit or loss or assets, those amounts shall be allocated on a reasonable basis.

30. If the chief operating decision maker uses only one measure of a segment's profit or loss and only one measure of a segment's assets in assessing segment performance and deciding how to allocate resources, segment profit or loss and assets shall be reported at those measures. If the chief operating decision maker uses more than one measure of a segment's profit or loss and more than one measure of a segment's assets, 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 enterprise's consolidated financial statements.

31. An enterprise shall provide an explanation of the measurements of segment profit or loss and segment assets for each reportable segment. At a minimum, an enterprise 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' profits or losses and the enterprise's consolidated income before income taxes, extraordinary items, discontinued operations, and the cumulative effect of changes in accounting principles (if not apparent from the reconciliations described in paragraph 32). 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 enterprise's consolidated assets (if not apparent from the reconciliations described in paragraph 32). 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 changes from prior periods in the measurement methods used to determine reported segment profit or loss and the effect, if any, of those changes on the measure of segment profit or loss.
e. The nature and effect of any asymmetrical allocations to segments. For example, an enterprise might allocate depreciation expense to a segment without allocating the related depreciable assets to that segment.

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Reconciliations

32. An enterprise shall provide reconciliations of all of the following:

a. The total of the reportable segments' revenues to the enterprise's consolidated revenues.
b. The total of the reportable segments' measures of profit or loss to the enterprise's consolidated income before income taxes, extraordinary items, discontinued operations, and the cumulative effect of changes in accounting principles. However, if an enterprise allocates items such as income taxes and extraordinary items to segments, the enterprise may choose to reconcile the total of the segments' measures of profit or loss to consolidated income after those items.
c. The total of the reportable segments' assets to the enterprise's consolidated assets.
d. The total of the reportable segments' amounts for every other significant item of information disclosed to the corresponding consolidated amount. For example, an enterprise may choose to disclose liabilities for its reportable segments, in which case the enterprise would reconcile the total of reportable segments' liabilities for each segment to the enterprise's consolidated liabilities if the segment liabilities are significant.

All significant reconciling items shall be separately identified and described. For example, the amount of each significant adjustment to reconcile accounting methods used in determining segment profit or loss to the enterprise's consolidated amounts shall be separately identified and described.

Interim Period Information

33. An enterprise shall disclose the following about each reportable segment in condensed financial statements of interim periods issued to shareholders:

a. Revenues from external customers
b. Intersegment revenues
c. A measure of segment profit or loss
d. Total assets for which there has been a material change from the amount disclosed in the last annual report
e. A description of differences from the last annual report in the basis of segmentation or in the basis of measurement of segment profit or loss
f. A reconciliation of the total of the reportable segments' measures of profit or loss to the enterprise's consolidated income before income taxes, extraordinary items, discontinued operations, and the cumulative effect of changes in accounting principles. However, if an enterprise allocates items such as income taxes and extraordinary items to segments, the enterprise may choose to reconcile the total of the segments' measures of profit or loss to consolidated income after those items. Significant reconciling items shall be separately identified and described in that reconciliation.

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Restatement of Previously Reported Information

34. If an enterprise changes the structure of its internal organization 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 it is impracticable to do so. Accordingly, an enterprise shall restate those individual items of disclosure that it can practicably restate but need not restate those individual items, if any, that it cannot practicably restate. Following a change in the composition of its reportable segments, an enterprise shall disclose whether it has restated the corresponding items of segment information for earlier periods.

35. If an enterprise has changed the structure of its internal organization 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 enterprise shall disclose in the year in which the change occurs segment information for the current period under both the old basis and the new basis of segmentation unless it is impracticable to do so.

Enterprise-Wide Disclosures

36. Paragraphs 37-39 apply to all enterprises subject to this Statement including those enterprises that have a single reportable segment. Some enterprises' business activities are not organized on the basis of differences in related products and services or differences in geographic areas of operations. That is, an enterprise's segments may report revenues from a broad range of essentially different products and services, or more than one of its reportable segments may provide essentially the same products and services. Similarly, an enterprise's segments may hold assets in different geographic areas and report revenues from customers in different geographic areas, or more than one of its segments may operate in the same geographic area. Information required by paragraphs 37-39 need be provided only if it is not provided as part of the reportable operating segment information required by this Statement.

Information about Products and Services

37. An enterprise shall report the revenues from external customers for each product and service or each group of similar products and services unless it is impracticable to do so. The amounts of revenues reported shall be based on the financial information used to produce the enterprise's general-purpose financial statements. If providing the information is impracticable, that fact shall be disclosed.

Information about Geographic Areas

38. An enterprise shall report the following geographic information unless it is impracticable to do so:

a. Revenues from external customers (1) attributed to the enterprise's country of domicile and

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(2) attributed to all foreign countries in total from which the enterprise derives revenues. If revenues from external customers attributed to an individual foreign country are material, those revenues shall be disclosed separately. An enterprise shall disclose the basis for attributing revenues from external customers to individual countries.

b. Long-lived assets other than financial instruments, long-term customer relationships of a financial institution, mortgage and other servicing rights, deferred policy acquisition costs, and deferred tax assets (1) located in the enterprise's country of domicile and (2) located in all foreign countries in total in which the enterprise 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 general-purpose financial statements. If providing the geographic information is impracticable, that fact shall be disclosed. An enterprise may wish to provide, in addition to the information required by this paragraph, subtotals of geographic information about groups of countries.

Information about Major Customers

39. An enterprise 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 percent or more of an enterprise's revenues, the enterprise 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 enterprise need not disclose the identity of a major customer or the amount of revenues that each segment reports from that customer. For purposes of this Statement, a group of entities known to a reporting enterprise to be under common control shall be considered as a single customer, and the federal government, a state government, a local government (for example, a county or municipality), or a foreign government each shall be considered as a single customer.

Effective Date and Transition

40. This Statement shall be effective for fiscal years beginning after December 15, 1997. Earlier application is encouraged. Segment information for earlier years that is reported with corresponding information for the initial year of application shall be restated to conform to the requirements of this Statement unless it is impracticable to do so. This Statement need not be applied to interim financial statements in the initial year of its application, but comparative information for interim periods in the initial year of application shall be reported in financial statements for interim periods in the second year of application.

The provisions of this Statement need not be applied to immaterial items.

This Statement was adopted by the affirmative votes of six members of the Financial Accounting Standards Board. Mr. Leisenring dissented.

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Mr. Leisenring dissents from the issuance of this Statement because it does not define segment profit or loss and does not require that whatever measure of profit or loss is reported be consistent with the attribution of assets to reportable segments.

By not defining segment profit or loss, this Statement allows any measure of performance to be displayed as segment profit or loss as long as that measure is reviewed by the chief operating decision maker. Items of revenue and expense directly attributable to a given segment need not be included in the reported operating results of that segment, and no allocation of items not directly attributable to a given segment is required. As a consequence, an item that results directly from one segment's activities can be excluded from that segment's profit or loss. Mr. Leisenring believes that, minimally, this Statement should require that amounts directly incurred by or directly attributable to a segment be included in that segment's profit or loss and that assets identified with a particular segment be consistent with the measurement of that segment's profit or loss.

Mr. Leisenring supports trying to assist users as described in paragraph 3 of this Statement but believes it is very unlikely that that will be accomplished, even with the required disclosures and reconciliation to the entity's annual financial statements, because of the failure to define profit or loss and to impose any attribution or allocation requirements for the measure of profit or loss.

Mr. Leisenring supports the management approach for defining reportable segments and supports requiring disclosure of selected segment information in condensed financial statements of interim periods issued to shareholders. Mr. Leisenring believes, however, that the definitions of revenues, operating profit or loss, and identifiable assets in paragraph 10 of Statement 14 should be retained in this Statement and applied to segments identified by the management approach. Without retaining those definitions or some other agreed-to definition of segment profit or loss, Mr. Leisenring believes that the objective of presenting segment information would more likely be met by retaining the requirements of Statement 14 and amending that Statement to define segments and require disclosure of interim segment information consistent with the provisions of this Statement.

Members of the Financial Accounting Standards Board:

Dennis R. Beresford, *Chairman*
Joseph V. Anania
Anthony T. Cope
John M. Foster
Gaylen N. Larson
James J. Leisenring
Gerhard G. Mueller

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Appendix A

BACKGROUND INFORMATION AND BASIS FOR CONCLUSIONS

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Appendix A: BACKGROUND INFORMATION AND BASIS FOR CONCLUSIONS

Introduction

41. This appendix summarizes considerations that were deemed significant by Board members in reaching the conclusions in this Statement. It includes reasons for accepting certain approaches and rejecting others. Individual Board members gave greater weight to some factors than to others.

Background Information

42. FASB Statement No. 14, *Financial Reporting for Segments of a Business Enterprise,* was issued in 1976. That Statement required that business enterprises report segment information on two bases: by industry and by geographic area. It also required disclosure of information about export sales and major customers.

43. The Board concluded at the time it issued Statement 14 that information about components of an enterprise, the products and services that it offers, its foreign operations, and its major customers is useful for understanding and making decisions about the enterprise as a whole. Financial statement users observe that the evaluation of the prospects for future cash flows is the central element of investment and lending decisions. The evaluation of prospects requires assessment of the uncertainty that surrounds both the timing and the amount of the expected cash flows to the enterprise, which in turn affect potential cash flows to the investor or creditor. Users also observe that uncertainty results in part from factors related to the products and services an enterprise offers and the geographic areas in which it operates.

44. In its 1993 position paper, *Financial Reporting in the 1990s and Beyond,* the Association for Investment Management and Research (AIMR) said:

> [Segment data] is vital, essential, fundamental, indispensable, and integral to the investment analysis process. Analysts need to know and understand how the various components of a multifaceted enterprise behave economically. One weak member of the group is analogous to a section of blight on a piece of fruit; it has the potential to spread rot over the entirety. Even in the absence of weakness, different segments will generate dissimilar streams of cash flows to which are attached disparate risks and which bring about unique values. Thus, without disaggregation, there is no sensible way to predict the overall amounts, timing, or risks of a complete enterprise's future cash flows. There is little dispute over the

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analytic usefulness of disaggregated financial data. [pages 59 and 60]

45. Over the years, financial analysts consistently requested that financial statement data be disaggregated to a much greater degree than it is in current practice. Many analysts said that they found Statement 14 helpful but inadequate. In its 1993 position paper, the AIMR emphasized that:

> There is no disagreement among AIMR members that segment information is totally vital to their work. There also is general agreement among them that the current segment reporting standard, Financial Accounting Standard No. 14, is inadequate. Recent work by a subcommittee of the [Financial Accounting Policy Committee] has confirmed that a substantial majority of analysts seek and, when it is available, use quarterly segment data. [page 5]

46. The Canadian Institute of Chartered Accountants (CICA) published a Research Study, *Financial Reporting for Segments,* in August 1992. An FASB Research Report, *Reporting Disaggregated Information,* was published in February 1993. In March 1993, the FASB and the Accounting Standards Board (AcSB) of the CICA agreed to pursue their projects jointly.

47. In May 1993, the FASB and the AcSB jointly issued an Invitation to Comment, *Reporting Disaggregated Information by Business Enterprises*. That Invitation to Comment identified certain issues related to disclosure of information about segments, solicited comments on those issues, and asked readers to identify additional issues. The boards received 129 comment letters from U.S. and Canadian respondents.

48. In late 1993, the FASB and the AcSB formed the Disaggregated Disclosures Advisory Group to advise and otherwise support the two boards in their efforts to improve disaggregated disclosures. The members of the group included financial statement issuers, auditors, financial analysts, and academics from both the United States and Canada. In January 1994, the FASB and the AcSB began discussing changes to Statement 14 and *CICA Handbook* Section 1700, "Segmented Information." The two boards met with and otherwise actively solicited the views of analysts and preparers of financial statements about possible improvements to the current segment reporting requirements. FASB and AcSB members and staff also discussed disaggregated disclosures at meetings of several groups of analysts, including the AIMR's Financial Accounting Policy Committee.

49. In 1991, the AICPA formed the Special Committee on Financial Reporting (the Special Committee) to make recommendations to improve the relevance and usefulness of business reporting. The Special Committee, which comprised financial statement auditors and preparers, established focus groups of credit analysts and equity analysts to assist in formulating its recommendations. The Special Committee issued its report, *Improving Business Reporting—A Customer Focus,* in 1994. That report listed improvements in disclosures of business segment information as its first recommendation and included the following commentary:

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> . . . for users analyzing a company involved in diverse businesses, financial information about business segments often is as important as information about the company as a whole. Users suggest that standard setters assign the highest priority to improving segment reporting because of its importance to their work and the perceived problems with current reporting of segment information. [page 68]

50. The report of the Special Committee listed the following as among the most important improvements needed:

a. Disclosure of segment information in interim financial reports
b. Greater number of segments for some enterprises
c. More information about segments
d. Segmentation that corresponds to internal management reports
e. Consistency of segment information with other parts of an annual report.

Similar recommendations had been made in each of the last 20 years in evaluations of corporate reporting conducted by the AIMR.

51. The two boards reached tentative conclusions about an approach to segment reporting that was substantially different from the approach in Statement 14 and Section 1700. Key characteristics of the new approach were that (a) information would be provided about segments of the enterprise that corresponded to the structure of the enterprise's internal organization, that is, about the divisions, departments, subsidiaries, or other internal units that the chief operating decision maker uses to make operating decisions and to assess an enterprise's performance, (b) specific amounts would be allocated to segments only if they were allocated in reports used by the chief operating decision maker for evaluation of segment performance, and (c) accounting policies used to produce the disaggregated information would be the same as those used in the reports used by the chief operating decision maker in allocating resources and assessing segment performance.

52. In February 1995, the staffs of the FASB and the CICA distributed a paper, "Tentative Conclusions on Financial Reporting for Segments" (Tentative Conclusions), to selected securities analysts, the FASB Task Force on Consolidations and Related Matters, the Disaggregated Disclosures Advisory Group, the FASB's Emerging Issues Task Force, the Financial Accounting Standards Advisory Council, the AcSB's list of Associates, [2] and members of representative organizations that regularly work with the boards. The paper also was announced in FASB and CICA publications and was sent to anyone who requested a copy. Board and staff members discussed the Tentative Conclusions with various analyst and preparer groups. Approximately 80 comment letters were received from U.S. and Canadian respondents.

53. In January 1996, the FASB and the AcSB issued virtually identical Exposure Drafts,

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Reporting Disaggregated Information about a Business Enterprise. The FASB received 221 comment letters and the AcSB received 73 comment letters in response to the Exposure Drafts. A field test of the proposals was conducted in March 1996. A public meeting was held in Toronto in October 1996 to discuss results and concerns with field test participants. Other interested parties attended a public meeting in Norwalk in October 1996 to discuss their concerns about the proposals in the Exposure Drafts. The FASB decided that it could reach an informed decision on the project without holding a public hearing.

54. The FASB and the AcSB exchanged information during the course of redeliberating the proposals in their respective Exposure Drafts. AcSB members and CICA staff attended FASB meetings, and FASB members and staff attended AcSB meetings in late 1996 and in 1997 to discuss the issues raised by respondents. Both boards reached agreement on all of the substantive issues to achieve virtually identical standards for segment reporting in the United States and Canada. Members of the Segment Disclosures Advisory Group (formerly the Disaggregated Disclosures Advisory Group) discussed a draft of the standards section in March 1997.

55. The International Accounting Standards Committee (IASC) issued an Exposure Draft of a proposed International Accounting Standard that would replace International Accounting Standard IAS 14, *Reporting Financial Information by Segment*, in December 1995. Although many of its provisions are similar to those of the FASB and AcSB Exposure Drafts, the IASC's proposal is based on different objectives and is different from those Exposure Drafts. A member of the IASC Segments Steering Committee participated in FASB meetings during the redeliberations of the Exposure Draft, and members of the FASB participated in meetings of the IASC Segments Steering Committee. Many of the respondents to the Exposure Drafts encouraged the FASB and the AcSB to work closely with the IASC to achieve similar standards for segment reporting. The IASC expects to issue a standard on segment reporting later in 1997. Although there likely will be differences between the IASC's requirements for segment reporting and those of this Statement, the boards expect that it will be possible to prepare one set of segment information that complies with both the IASC requirements and those of this Statement.

56. This Statement addresses the following key issues:

a. What is the appropriate basis for defining segments?
b. What accounting principles and allocations should be used?
c. What specific items of information should be reported?
d. Should segment information be reported in condensed financial statements for interim periods?

Defining Operating Segments of an Enterprise

57. The Board concluded that the *industry approach* to segment disclosures in Statement 14 was not providing the information required by financial statement users and that disclosure of

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disaggregated information should be based on operating segments. This Statement defines an operating segment as a component of an enterprise (a) that engages in business activities from which it may earn revenues and incur expenses, (b) whose operating results are regularly reviewed by the enterprise's chief operating decision maker to make decisions about resources to be allocated to the segment and to assess its performance, and (c) for which discrete financial information is available.

58. The AIMR's 1993 position paper and the report of the AICPA Special Committee criticized Statement 14's industry segment approach to reporting segment information. The AIMR's position paper included the following:

> FAS 14 requires disclosure of line-of-business information classified by "industry segment." Its definition of segment is necessarily imprecise, recognizing that there are numerous practical problems in applying that definition to different business entities operating under disparate circumstances. That weakness in FAS 14 has been exploited by many enterprises to suit their own financial reporting purposes. As a result, we have seen one of the ten largest firms in the country report all of its operations as being in a single, very broadly defined industry segment. [page 60]

The report of the Special Committee said that "[financial statement users] believe that many companies define industry segments too broadly for business reporting and thus report on too few industry segments" (page 69).

59. The report of the AICPA Special Committee also said that ". . . the primary means to improving industry segment reporting should be to align business reporting with internal reporting" (page 69), and the AIMR's 1993 position paper recommended that:

> . . . priority should be given to the production and dissemination of financial data that reflects and reports sensibly the operations of specific enterprises. If we could obtain reports showing the details of how an individual business firm is organized and managed, we would assume more responsibility for making meaningful comparisons of those data to the unlike data of other firms that conduct their business differently. [pages 60 and 61]

Almost all of the users and many other constituents who responded to the Exposure Draft or who met with Board and staff members agreed that defining segments based on the structure of an enterprise's internal organization would result in improved information. They said that not only would enterprises be likely to report more detailed information but knowledge of the structure of an enterprise's internal organization is valuable in itself because it highlights the risks and opportunities that management believes are important.

60. Segments based on the structure of an enterprise's internal organization have at least three

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other significant advantages. First, an ability to see an enterprise "through the eyes of management" enhances a user's ability to predict actions or reactions of management that can significantly affect the enterprise's prospects for future cash flows. Second, because information about those segments is generated for management's use, the incremental cost of providing information for external reporting should be relatively low. Third, practice has demonstrated that the term *industry* is subjective. Segments based on an existing internal structure should be less subjective.

61. The AIMR and other users have commented that segment information is more useful if it is consistent with explanatory information provided elsewhere in the annual report. They note that the business review section and the chairman's letter in an annual report frequently discuss the enterprise's operations on a basis different from that of the segment information in the notes to the financial statements and the management's discussion and analysis section, which is required by SEC rules to correspond to the segment information provided to comply with Statement 14. That appears to occur if the enterprise is not managed in a way that corresponds to the way it defines segments under the requirements of Statement 14. Segmentation based on the structure of an enterprise's internal organization should facilitate consistent discussion of segment financial results throughout an enterprise's annual report.

62. Some respondents to the Exposure Draft opposed the Board's approach for several reasons. Segments based on the structure of an enterprise's internal organization may not be comparable between enterprises that engage in similar activities and may not be comparable from year to year for an individual enterprise. In addition, an enterprise may not be organized based on products and services or geographic areas, and thus the enterprise's segments may not be susceptible to analysis using macroeconomic models. Finally, some asserted that because enterprises are organized strategically, the information that would be reported may be competitively harmful to the reporting enterprise.

63. The Board acknowledges that comparability of accounting information is important. The summary of principal conclusions in FASB Concepts Statement No. 2, *Qualitative Characteristics of Accounting Information,* says: "Comparability between enterprises and consistency in the application of methods over time increases the informational value of comparisons of relative economic opportunities or performance. The significance of information, especially quantitative information, depends to a great extent on the user's ability to relate it to some benchmark." However, Concepts Statement 2 also notes a danger:

> Improving comparability may destroy or weaken relevance or reliability if, to secure comparability between two measures, one of them has to be obtained by a method yielding less relevant or less reliable information. Historically, extreme examples of this have been provided in some European countries in which the use of standardized charts of accounts has been made mandatory in the interest of interfirm comparability but at the expense of relevance and often reliability as well. That kind of uniformity may even adversely affect comparability of

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> information if it conceals real differences between enterprises. [paragraph 116]

64. The Board was concerned that segments defined using the approach in Statement 14 may appear to be more comparable between enterprises than they actually are. Statement 14 included the following:

> Information prepared in conformity with [Statement 14] may be of limited usefulness for comparing an industry segment of one enterprise with a similar industry segment of another enterprise (i.e., for interenterprise comparison). Interenterprise comparison of industry segments would require a fairly detailed prescription of the basis or bases of disaggregation to be followed by all enterprises, as well as specification of the basis of accounting for intersegment transfers and methods of allocating costs common to two or more segments. [paragraph 76]

65. Statement 14 explained why the Board chose not to develop a detailed prescription of the bases of disaggregation:

> . . . differences among enterprises in the nature of their operations and in the extent to which components of the enterprise share common facilities, equipment, materials and supplies, or labor force make unworkable the prescription of highly detailed rules and procedures that must be followed by all enterprises. Moreover, . . . differences in the accounting systems of business enterprises are a practical constraint on the degree of specificity with which standards of financial accounting and reporting for disaggregated information can be established. [paragraph 74]

Those same considerations persuaded the Board not to adopt more specific requirements in this Statement. Both relevance and comparability will not be achievable in all cases, and relevance should be the overriding concern.

66. The AICPA Special Committee, some respondents to the Exposure Draft, and other constituents recommended that the Board require that an enterprise use an alternative method of segmentation for external reporting if its internal organization is not based on differences in products and services or geography. Some specifically recommended adoption of the proposal in the IASC Exposure Draft that was commonly referred to as a "safety net." The IASC Exposure Draft approach to identifying primary and secondary operating segments calls for review of management's organization of segments, but both primary and secondary segments are required to be defined either on the basis of related products and services or on the basis of geography. That is, regardless of management's organization, segments must be grouped either by related products and services or by geographic areas, and one set must be presented as primary segments and the other as secondary segments.

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67. The Board recognizes that an enterprise may not be divided into components with similar products and services or geographic areas for internal purposes and that some users of financial statements have expressed a desire for information organized on those bases. However, instead of an alternative method of segmentation, which would call for multiple sets of segment information in many circumstances, the Board chose to require disclosure of additional information about products and services and about geographic areas of operations for the enterprise as a whole if the basic segment disclosures do not provide it.

68. One reason for not prescribing segmentation along bases of only related products and services or geography is that it is difficult to define clearly the circumstances in which an alternative method that differs from the management approach would be applied consistently. An enterprise with a relatively narrow product line may not consider two products to be similar, while an enterprise with a broad product line may consider those same two products to be similar. For example, a highly diversified enterprise may consider all consumer products to be similar if it has other businesses such as financial services and road construction. However, an enterprise that sells only consumer products might consider razor blades to be different from toasters.

69. A second reason for rejecting that approach is that an alternative method of segmentation would increase the cost to some enterprises to prepare the information. A management approach to defining segments allows enterprises to present the information that they use internally and facilitates consistent descriptions of the components of an enterprise from one part of the annual report to another. An enterprise could be organized by its products and services, geography, a mixture of both products and services and geography, or other bases, such as customer type, and the segment information required by this Statement would be consistent with that method of organization. Furthermore, the enterprise-wide disclosures about products and services will provide information about the total revenues from related products and services, and the enterprise-wide disclosures about geography will provide information about the revenues and assets of an enterprise both inside and outside its home country. If material, individual foreign country information also is required.

70. The Board recognizes that some enterprises organize their segments on more than one basis. Other enterprises may produce reports in which their activities are presented in a variety of ways. In those situations, reportable segments are to be determined based on a review of other factors to identify the enterprise's operating segments, including the nature of the activities of each component, the existence of managers responsible for them, and the information provided to the board of directors. In many enterprises, only one set of data is provided to the board of directors. That set of data generally is indicative of how management views the enterprise's activities.

Reportable Segments

71. The Board included a notion of reportable segments, a subset of operating segments, in this

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Statement by defining aggregation criteria and quantitative thresholds for determining which operating segments should be reported separately in the financial statements.

72. A so-called pure management approach to segment reporting might require that an enterprise report all of the information that is reviewed by the chief operating decision maker to make decisions about resource allocations and to assess the performance of the enterprise. However, that level of detail may not be useful to readers of external financial statements, and it also may be cumbersome for an enterprise to present. Therefore, this Statement uses a modified management approach that includes both aggregation criteria and quantitative thresholds for determining reportable operating segments. However, an enterprise need not aggregate similar segments, and it may present segments that fall below the quantitative thresholds.

Aggregation of Similar Operating Segments

73. The Board believes that separate reporting of segment information will not add significantly to an investor's understanding of an enterprise if its operating segments have characteristics so similar that they can be expected to have essentially the same future prospects. The Board concluded that although information about each segment may be available, in those circumstances the benefit would be insufficient to justify its disclosure. For example, a retail chain may have 10 stores that individually meet the definition of an operating segment, but each store may be essentially the same as the others.

74. Most respondents commented on the aggregation criteria in the Exposure Draft. Many said that the criteria were unreasonably strict, to the extent that nearly identical segments might not qualify for aggregation. Some respondents linked their concerns about competitive harm and too many segments directly to the aggregation criteria, indicating that a relaxation of the criteria would significantly reduce those concerns. To better convey its intent, the Board revised the wording of the aggregation criteria and the introduction to them. However, the Board rejected recommendations that the criteria be indicators rather than tests and that the guidance require only the expectation of similar long-term performance of segments to justify aggregation because those changes might result in a level of aggregation that would cause a loss of potentially valuable information. For the same reason, the Board also rejected suggestions that segments need be similar in only a majority of the characteristics in paragraph 17 to justify aggregation. The Board recognizes that determining when two segments are sufficiently similar to justify aggregating them is difficult and subjective. However, the Board notes that one of the reasons that the information provided under Statement 14 did not satisfy financial statement users' needs is that segments with different characteristics in important areas were at times aggregated.

Quantitative Thresholds

75. In developing the Exposure Draft, the Board had concluded that quantitative criteria might interfere with the determination of operating segments and, if anything, might unnecessarily reduce the number of segments disclosed. Respondents to the Exposure Draft and others urged

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the Board to include quantitative criteria for determining which segments to report because they said that some enterprises would be required to report too many segments unless specific quantitative guidelines allowed them to omit small segments. Some respondents said that the Exposure Draft would have required disclosure of as many as 25 operating segments, which was not a result anticipated by the Board in its deliberations preceding the Exposure Draft. Others said that enterprises would report information that was too highly aggregated unless quantitative guidelines prevented it. The Board decided that the addition of quantitative thresholds would be a practical way to address respondents' concerns about competitive harm and proliferation of segments without fundamentally changing the management approach to segment definition.

76. Similar to the requirements in Statement 14, the Board decided to require that any operating segment that constitutes 10 percent or more of reported revenues, assets, or profit or loss be reported separately and that reportable segments account for at least 75 percent of an enterprise's external revenues. The Board decided to retain that guidance for the quantitative thresholds because it can be objectively applied and because preparers and users of financial statements already understand it.

77. Inclusion of quantitative thresholds similar to those in Statement 14 necessitates guidance on how to report operating segments that do not meet the thresholds. The Board concluded that enterprises should be permitted to aggregate information about operating segments that do not meet the thresholds with information about other operating segments that do not meet the thresholds if a majority of the aggregation criteria in paragraph 17 are met. That is a more liberal aggregation provision than that for individually material operating segments, but it prohibits aggregation of segments that are dissimilar.

78. Paragraph 125 of Concepts Statement 2 states that ". . . magnitude by itself, without regard to the nature of the item and the circumstances in which the judgment has to be made, will not generally be a sufficient basis for a materiality judgment." That guidance applies to segment information. An understanding of the material segments of an enterprise is important for understanding the enterprise as a whole, and individual items of segment information are important for understanding the segments. Thus, an item of segment information that, if omitted, would change a user's decision about that segment so significantly that it would change the user's decision about the enterprise as a whole is material even though an item of a similar magnitude might not be considered material if it were omitted from the consolidated financial statements. Therefore, enterprises are encouraged to report information about segments that do not meet the quantitative thresholds if management believes that it is material. Those who are familiar with the particular circumstances of each enterprise must decide what constitutes *material*.

Vertically Integrated Enterprises

79. The Board concluded that the definition of an operating segment should include components of an enterprise that sell primarily or exclusively to other operating segments of the

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enterprise if the enterprise is managed that way. Information about the components engaged in each stage of production is particularly important for understanding vertically integrated enterprises in certain businesses, for example, oil and gas enterprises. Different activities within the enterprise may have significantly different prospects for future cash flows, and users of financial statements have asserted that they need to know results of each operation.

80. Some respondents to the Exposure Draft opposed the requirement to report vertically integrated segments separately. They said that the segment results may not be comparable between enterprises and that transfer prices are not sufficiently reliable for external reporting purposes. The Board considered an approach that would have required separate reporting of vertically integrated segments only if transfer prices were based on quoted market prices and if there was no basis for combining the selling segment and the buying segment. However, that would have been a significant departure from the management approach to defining segments. The Board also was concerned that the criteria would be unworkable. Therefore, the Board decided to retain the Exposure Draft's provisions for vertically integrated segments.

Accounting Principles and Allocations

81. The Board decided that the information to be reported about each segment should be measured on the same basis as the information used by the chief operating decision maker for purposes of allocating resources to segments and assessing segments' performance. That is a management approach to measuring segment information as proposed in the Exposure Draft. The Board does not think that a separate measure of segment profit or loss or assets should have to be developed solely for the purpose of disclosing segment information. For example, an enterprise that accounts for inventory using a specialized valuation method for internal purposes should not be required to restate inventory amounts for each segment, and an enterprise that accounts for pension expense only on a consolidated basis should not be required to allocate pension expense to each operating segment.

82. The report of the AICPA Special Committee said that the Board "should allow companies to report a statistic on the same basis it is reported for internal purposes, if the statistic is reported internally. The usefulness of information prepared only for [external] reporting is questionable. Users want to understand management's perspective on the company and the implications of key statistics." It also said that "key statistics to be reported [should] be limited to statistics a company has available . . ." (page 72).

83. Respondents to the Exposure Draft had mixed reactions to its measurement guidance. Very few suggested that the Board require allocations solely for external reporting purposes. Most agreed that allocations are inherently arbitrary and may not be meaningful if they are not used for management purposes. No respondents suggested that intersegment transfers should be reported on any basis other than that used internally. However, some respondents recommended that information about each segment be provided based on the accounting principles used in the enterprise's general-purpose financial statements. Some observed that unadjusted information

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from internal sources would not necessarily comply with generally accepted accounting principles and, for that reason, might be difficult for users to understand. Other respondents argued that comparability between enterprises would be improved if the segment information were provided on the basis of generally accepted accounting principles. Finally, a few questioned the verifiability of the information.

84. The Board decided not to require that segment information be provided in accordance with the same generally accepted accounting principles used to prepare the consolidated financial statements for several reasons. Preparing segment information in accordance with the generally accepted accounting principles used at the consolidated level would be difficult because some generally accepted accounting principles are not intended to apply at a segment level. Examples include allocation of the cost of an acquisition to individual assets and liabilities of a subsidiary using the purchase method of accounting, accounting for the cost of enterprise-wide employee benefit plans, accounting for income taxes in an enterprise that files a consolidated income tax return, and accounting for inventory on a last-in, first-out basis if the pools include items in more than one segment. In addition, there are no generally accepted accounting principles for allocating joint costs, jointly used assets, or jointly incurred liabilities to segments or for pricing intersegment transfers. As a consequence, it generally is not feasible to present segment profitability in accordance with generally accepted accounting principles.

85. The Board recognizes that segment information is subject to certain limitations and that some of that information may not be susceptible to the same degree of verifiability as some other financial information. However, verifiability is not the only important qualitative characteristic of accounting information. Verifiability is a component of reliability, which is one of two characteristics that contribute to the usefulness of accounting information. The other is relevance, which is equally important. Concepts Statement 2 states:

> Although financial information must be both relevant and reliable to be useful, information may possess both characteristics to varying degrees. It may be possible to trade relevance for reliability or vice versa, though not to the point of dispensing with one of them altogether. . . . trade-offs between characteristics may be necessary or beneficial.
>
> In a particular situation, the importance attached to relevance in relation to the importance of other decision specific qualities of accounting information (for example, reliability) will be different for different information users, and their willingness to trade one quality for another will also differ. [paragraphs 42 and 45]

86. It is apparent that users are willing to trade a degree of reliability in segment information for more relevant information. The AIMR's 1993 position paper states:

> Analysts need financial statements structured so as to be consistent with how the business is organized and managed. That means that two different companies

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> in the same industry may have to report segment data differently because they are structured differently themselves. [page 20]

But, as previously noted, the position paper says that, under those circumstances, analysts "would assume more responsibility for making meaningful comparisons of those data to the unlike data of other firms that conduct their business differently" (page 61).

87. The Board believes that the information required by this Statement meets the objective of reliability of which both representational faithfulness and verifiability are components. An auditor can determine whether the information reported in the notes to the financial statements came from the required source by reviewing management reports or minutes from meetings of the board of directors. The information is not required to be provided on a specified basis, but the enterprise is required to explain the basis on which it is provided and to reconcile the segment information to consolidated enterprise totals. Adequate explanation and an appropriate reconciliation will enable a user to understand the information and its limitations in the context of the enterprise's financial statements. The auditor can test both the explanation of segment amounts and the reconciliations to consolidated totals. Furthermore, because management uses that information in its decision-making processes, that information is likely to be highly reliable. The information provided to comply with Statement 14 was more difficult to verify in many situations and was less reliable. Because it was prepared solely for external reporting purposes, it required allocations that may have been arbitrary, and it was based on accounting principles that may have been difficult to apply at the segment level.

88. Paragraph 29 requires amounts allocated to a segment to be allocated on a reasonable basis. However, the Board believes that the potential increased reliability that might have been achieved by requiring allocation of consolidated amounts is illusory because expenses incurred at the consolidated level could be allocated to segments in a variety of ways that could be considered "reasonable." For example, an enterprise could use either the number of employees in each segment or the segment's total salary expense in relation to the consolidated amounts as a basis for allocating pension expense to segments. Those two approaches to allocation could result in significantly different measures of segment profit or loss. However, both the number of employees and the total salary expense might be reasonable bases on which to allocate total pension expense. In contrast, it would not seem reasonable for an enterprise to allocate pension expense to a segment that had no employees eligible for the pension plan. Because of the potential for misleading information that may result from such allocations, the Board decided that it is appropriate for this Statement to require that amounts allocated to a segment be allocated on a reasonable basis.

89. The Board also considered explicitly requiring that revenues and expenses directly incurred by or directly attributable to an operating segment be reported by that segment. However, it decided that, in some cases, whether an item of revenue or expense is attributable to an operating segment is a matter of judgment. Further, such an explicit requirement would be an additional modification of the management approach to measurement. While the Board decided not to

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include an explicit requirement, it believes that many items of revenue or expense clearly relate to a particular segment and that it would be unlikely that the information used by management would omit those items.

90. To assist users of financial statements in understanding segment disclosures, this Statement requires that enterprises provide sufficient explanation of the basis on which the information was prepared. That disclosure must include any differences in the basis of measurement between the consolidated amounts and the segment amounts. It also must indicate whether allocations of items were made symmetrically. An enterprise may allocate an expense to a segment without allocating the related asset; however, disclosure of that fact is required. Enterprises also are required to reconcile to the consolidated totals in the enterprise's financial statements the totals of reportable segment assets, segment revenues, segment profit or loss, and any other significant segment information that is disclosed.

91. In addition, the advantages of reporting unadjusted management information are significant. That practice is consistent with defining segments based on the structure of the enterprise's internal organization. It imposes little incremental cost on the enterprise and requires little incremental time to prepare. Thus, the enterprise can more easily report segment information in condensed financial statements for interim periods and can report more information about each segment in annual financial statements. Information used by management also highlights for a user of financial statements the risks and opportunities that management considers important.

Information to Be Disclosed about Segments

92. The items of information about each reportable operating segment that must be disclosed as described in paragraphs 25-31 represent a balance between the needs of users of financial statements who may want a complete set of financial statements for each segment and the costs to preparers who may prefer not to disclose any segment information. Statement 14 required disclosure of internal and external revenues; profit or loss; depreciation, depletion, and amortization expense; and unusual items as defined in APB Opinion No. 30, *Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions*, for each segment. Statement 14 also required disclosure of total assets, equity in the net income of investees accounted for by the equity method, the amount of investment in equity method investees, and total expenditures for additions to long-lived assets. Some respondents to the Exposure Draft objected to disclosing any information that was not required by Statement 14, while others recommended disclosure of additional items that are not required by this Statement. This Statement calls for the following additional disclosures only if the items are included in the measure of segment profit or loss that is reviewed by the chief operating decision maker: significant noncash items, interest revenue, interest expense, and income tax expense.

93. Some respondents to the Exposure Draft expressed concern that the proposals would

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increase the sheer volume of information compared to what was required to be reported under Statement 14. The Board considers that concern to be overstated for several reasons. Although this Statement requires disclosure of more information about an individual operating segment than Statement 14 required for an industry segment, this Statement requires disclosure of information about only one type of segment—reportable operating segments—while Statement 14 required information about two types of segments—industry segments and geographic segments. Moreover, Statement 14 required that many enterprises create information solely for external reporting, while almost all of the segment information that this Statement requires is already available in management reports. The Board recognizes, however, that some enterprises may find it necessary to create the enterprise-wide information about products and services, geographic areas, and major customers required by paragraphs 36-39.

94. The Board decided to require disclosure of significant noncash items included in the measure of segment profit or loss and information about total expenditures for additions to long-lived segment assets (other than financial instruments, long-term customer relationships of a financial institution, mortgage and other servicing rights, deferred policy acquisition costs, and deferred tax assets) if that information is reported internally because it improves financial statement users' abilities to estimate cash-generating potential and cash requirements of operating segments. As an alternative, the Board considered requiring disclosure of operating cash flow for each operating segment. However, many respondents said that disclosing operating cash flow in accordance with FASB Statement No. 95, *Statement of Cash Flows,* would require that they gather and process information solely for external reporting purposes. They said that management often evaluates cash generated or required by segments in ways other than by calculating operating cash flow in accordance with Statement 95. For that reason, the Board decided not to require disclosure of cash flow by segment.

95. Disclosure of interest revenue and interest expense included in reported segment profit or loss is intended to provide information about the financing activities of a segment. The Exposure Draft proposed that an enterprise disclose gross interest revenue and gross interest expense for all segments in which reported profit or loss includes those items. Some respondents said that financial services segments generally are managed based on net interest revenue, or the "spread," and that management looks only to that data in its decision-making process. Therefore those segments should be required to disclose only the net amount and not both gross interest revenue and expense. Those respondents noted that requiring disclosure of both gross amounts would be analogous to requiring nonfinancial services segments to disclose both sales and cost of sales. The Board decided that segments that derive a majority of revenue from interest should be permitted to disclose net interest revenue instead of gross interest revenue and gross interest expense if management finds that amount to be more relevant in managing the segment. Information about interest is most important if a single segment comprises a mix of financial and nonfinancial operations. If a segment is primarily a financial operation, interest revenue probably constitutes most of segment revenues and interest expense will constitute most of the difference between reported segment revenues and reported segment profit or loss. If the segment has no financial operations or only immaterial financial operations, no information

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about interest is required.

96. The Board decided not to require the disclosure of segment liabilities. The Exposure Draft proposed that an enterprise disclose segment liabilities because the Board believed that liabilities are an important disclosure for understanding the financing activities of a segment. The Board also noted that the requirement in FASB Statement No. 94, *Consolidation of All Majority-Owned Subsidiaries,* to disclose assets, liabilities, and profit or loss about previously unconsolidated subsidiaries was continued from APB Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock,* pending completion of the project on disaggregated disclosures. However, in commenting on the disclosures that should be required by this Statement, many respondents said that liabilities are incurred centrally and that enterprises often do not allocate those amounts to segments. The Board concluded that the value of information about segment liabilities in assessing the performance of the segments of an enterprise was limited.

97. The Board decided not to require disclosure of research and development expense included in the measure of segment profit or loss. The Exposure Draft would have required that disclosure to provide financial statement users with information about the operating segments in which an enterprise is focusing its product development efforts. Disclosure of research and development expense was requested by a number of financial statement users and was specifically requested in both the report of the AICPA's Special Committee and the AIMR's 1993 position paper. However, respondents said that disclosing research and development expense by segment may result in competitive harm by providing competitors with early insight into the strategic plans of an enterprise. Other respondents observed that research and development is only one of a number of items that indicate where an enterprise is focusing its efforts and that it is much more significant in some enterprises than in others. For example, costs of employee training and advertising were cited as items that often are more important to some enterprises than research and development, calling into question the relevance of disclosing only research and development expense. Additionally, many respondents said that research and development expense often is incurred centrally and not allocated to segments. The Board therefore decided not to require the disclosure of research and development expense by segment.

Interim Period Information

98. This Statement requires disclosure of limited segment information in condensed financial statements that are included in quarterly reports to shareholders, as was proposed in the Exposure Draft. Statement 14 did not apply to those condensed financial statements because of the expense and the time required for producing segment information under Statement 14. A few respondents to the Exposure Draft said that reporting segment information in interim financial statements would be unnecessarily burdensome. However, users contended that, to be timely, segment information is needed more often than annually and that the difficulties of preparing it on an interim basis could be overcome by an approach like the one in this Statement. Managers of many enterprises agree and have voluntarily provided segment information for interim periods.

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99. The Board decided that the condensed financial statements in interim reports issued to shareholders should include disclosure of segment revenues from external customers, intersegment revenues, a measure of segment profit or loss, material changes in segment assets, differences in the basis of segmentation or the way segment profit or loss was measured in the previous annual period, and a reconciliation to the enterprise's total profit or loss. That decision is a compromise between the needs of users who want the same segment information for interim periods as that required in annual financial statements and the costs to preparers who must report the information. Users will have some key information on a timely basis. Enterprises should not incur significant incremental costs to provide the information because it is based on information that is used internally and therefore already available.

Restatement of Previously Reported Information

100. The Board decided to require restatement of previously reported segment information following a change in the composition of an enterprise's segments unless it is impracticable to do so. Changes in the composition of segments interrupt trends, and trend analysis is important to users of financial statements. Some financial statement issuers have said that their policy is to restate one or more prior years for internal trend analysis. Many reorganizations result in discrete profit centers' being reassigned from one segment to another and lead to relatively simple restatements. However, if an enterprise undergoes a fundamental reorganization, restatement may be very difficult and expensive. The Board concluded that in those situations restatement may be impracticable and, therefore, should not be required. However, if an enterprise does not restate its segment information, the enterprise is required to provide current-period segment information on both the old and new bases of segmentation in the year in which the change occurs unless it is impracticable to do so.

Enterprise-Wide Disclosures

101. Paragraphs 36-39 require disclosure of information about an enterprise's products and services, geographic areas, and major customers, regardless of the enterprise's organization. The required disclosures need be provided only if they are not included as part of the disclosures about segments. The Exposure Draft proposed requiring additional disclosures about products and services and geographic areas *by segment*. Many respondents said that that proposal would have resulted in disclosure of excessive amounts of information. Some enterprises providing a variety of products and services throughout many countries, for example, would have been required to present a large quantity of information that would have been time-consuming to prepare and of questionable benefit to most financial statement users. The Board decided that additional disclosures provided on an enterprise-wide basis rather than on a segment basis would be appropriate and not unduly burdensome. The Board also agreed that those enterprise-wide disclosures are appropriate for all enterprises including those that have a single operating segment if the enterprise offers a range of products and services, derives revenues from customers in more than one country, or both.

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102. Based on reviews of published information about public enterprises, discussions with constituents, and a field test of the Exposure Draft, the Board believes that most enterprises are organized by products and services or by geography and will report one or both of those types of information in their reportable operating segment disclosures. However, some enterprises will be required by paragraphs 36-39 to report additional information because the enterprise-wide disclosures are required for all enterprises, even those that have a single reportable segment.

Information about Products and Services

103. This Statement requires that enterprises report revenues from external customers for each product and service or each group of similar products and services for the enterprise as a whole. Analysts said that an analysis of trends in revenues from products and services is important in assessing both past performance and prospects for future growth. Those trends can be compared to benchmarks such as industry statistics or information reported by competitors. Information about the assets that are used to produce specific products and deliver specific services also might be useful. However, in many enterprises, assets are not dedicated to specific products and services and reporting assets by products and services would require arbitrary allocations.

Information about Geographic Areas

104. This Statement requires disclosure of information about both revenues and assets by geographic area. Analysts said that information about revenues from customers in different geographic areas assists them in understanding concentrations of risks due to negative changes in economic conditions and prospects for growth due to positive economic changes. They said that information about assets located in different areas assists them in understanding concentrations of risks (for example, political risks such as expropriation).

105. Statement 14 requires disclosure of geographic information by geographic region, whereas this Statement requires disclosure of individually material countries as well as information for the enterprise's country of domicile and all foreign countries in the aggregate. This Statement's approach has two significant benefits. First, it will reduce the burden on preparers of financial statements because most enterprises are likely to have material operations in only a few countries or perhaps only in their country of domicile. Second, and more important, it will provide information that is more useful in assessing the impact of concentrations of risk. Information disclosed by country is more useful because it is easier to interpret. Countries in contiguous areas often experience different rates of growth and other differences in economic conditions. Under the requirements of Statement 14, enterprises often reported information about broad geographic areas that included groupings such as Europe, Africa, and the Middle East. Analysts and others have questioned the usefulness of that type of broad disclosure.

106. Respondents to the Exposure Draft questioned how revenues should be allocated to individual countries. For example, guidance was requested for situations in which products are shipped to one location but the customer resides in another location. The Board decided to

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provide flexibility concerning the basis on which enterprises attribute revenues to individual countries rather than requiring that revenues be attributed to countries according to the location of customers. The Board also decided to require that enterprises disclose the basis they have adopted for attributing revenues to countries to permit financial statement users to understand the geographic information provided.

107. As a result of its decision to require geographic information on an enterprise-wide basis, the Board decided not to require disclosure of capital expenditures on certain long-lived assets by geographic area. Such information on an enterprise-wide basis is not necessarily helpful in forecasting future cash flows of operating segments.

Information about Major Customers

108. The Board decided to retain the requirement in Statement 14, as amended by FASB Statement No. 30, *Disclosure of Information about Major Customers,* to report information about major customers because major customers of an enterprise represent a significant concentration of risk. The 10 percent threshold is arbitrary; however, it has been accepted practice since Statement 14 was issued, and few have suggested changing it.

Competitive Harm

109. A number of respondents to the Exposure Draft noted the potential for competitive harm as a result of disclosing segment information in accordance with this Statement. The Board considered adopting special provisions to reduce the potential for competitive harm from certain segment information but decided against it. In the Invitation to Comment, the Tentative Conclusions, and the Exposure Draft, the Board asked constituents for specific illustrations of competitive harm that has resulted from disclosing segment information. Some respondents said that public enterprises may be at a disadvantage to nonpublic enterprises or foreign competitors that do not have to disclose segment information. Other respondents suggested that information about narrowly defined segments may put an enterprise at a disadvantage in price negotiations with customers or in competitive bid situations.

110. Some respondents said that if a competitive disadvantage exists, it is a consequence of an obligation that enterprises have accepted to gain greater access to capital markets, which gives them certain advantages over nonpublic enterprises and many foreign enterprises. Other respondents said that enterprises are not likely to suffer competitive harm because most competitors have other sources of more detailed information about an enterprise than that disclosed in the financial statements. In addition, the information that is required to be disclosed about an operating segment is no more detailed or specific than the information typically provided by a smaller enterprise with a single operation.

111. The Board was sympathetic to specific concerns raised by certain constituents; however, it decided that a competitive-harm exemption was inappropriate because it would provide a means

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for broad noncompliance with this Statement. Some form of relief for single-product or single-service segments was explored; however, there are many enterprises that produce a single product or a single service that are required to issue general-purpose financial statements. Those statements would include the same information that would be reported by single-product or single-service segments of an enterprise. The Board concluded that it was not necessary to provide an exemption for single-product or single-service segments because enterprises that produce a single product or service that are required to issue general-purpose financial statements have that same exposure to competitive harm. The Board noted that concerns about competitive harm were addressed to the extent feasible by four changes made during redeliberations: (a) modifying the aggregation criteria, (b) adding quantitative materiality thresholds for identifying reportable segments, (c) eliminating the requirements to disclose research and development expense and liabilities by segment, and (d) changing the second-level disclosure requirements about products and services and geography from a segment basis to an enterprise-wide basis.

Cost-Benefit Considerations

112. One of the precepts of the Board's mission is to promulgate standards only if the expected benefits of the resulting information exceed the perceived costs. The Board strives to determine that a proposed standard will fill a significant need and that the costs incurred to satisfy that need, as compared with other alternatives, are justified in relation to the overall benefits of the resulting information. The Board concluded that the benefits that will result from this Statement will exceed the related costs.

113. The Board believes that the primary benefits of this Statement are that enterprises will report segment information in interim financial reports, some enterprises will report a greater number of segments, most enterprises will report more items of information about each segment, enterprises will report segments that correspond to internal management reports, and enterprises will report segment information that will be more consistent with other parts of their annual reports.

114. This Statement will reduce the cost of providing disaggregated information for many enterprises. Statement 14 required that enterprises define segments by both industry and by geographical area, ways that often did not match the way that information was used internally. Even if the reported segments aligned with the internal organization, the information required was often created solely for external reporting because Statement 14 required certain allocations of costs, prohibited other cost allocations, and required allocations of assets to segments. This Statement requires that information about operating segments be provided on the same basis that it is used internally. The Board believes that most of the enterprise-wide disclosures in this Statement about products and services, geography, and major customers typically are provided in current financial statements or can be prepared with minimal incremental cost.

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Applicability to Nonpublic Enterprises and Not-for-Profit Organizations

115. The Board decided to continue to exempt nonpublic enterprises from the requirement to report segment information. Few users of nonpublic enterprises' financial statements have requested that the Board require that those enterprises provide segment information.

116. At the time the Board began considering improvements to disclosures about segment information, FASB Statement No. 117, *Financial Statements of Not-for-Profit Organizations,* had not been issued and there were no effective standards for consolidated financial statements of not-for-profit organizations. Most not-for-profit organizations provided financial information for each of their funds, which is a form of disaggregated information. The situation in Canada was similar. Thus, when the two boards agreed to pursue a joint project, they decided to limit the scope to public business enterprises.

117. The Board provided for a limited form of disaggregated information in paragraph 26 of Statement 117, which requires disclosure of expense by functional classification. However, the Board acknowledges that the application of that Statement may increase the need for disaggregated information about not-for-profit organizations. A final Statement expected to result from the FASB Exposure Draft, *Consolidated Financial Statements: Policy and Procedures,* also may increase that need by requiring aggregation of information about more entities in the financial statements of not-for-profit organizations.

118. The general approach of providing information based on the structure of an enterprise's internal organization may be appropriate for not-for-profit organizations. However, the Board decided not to add not-for-profit organizations to the scope of this Statement. Users of financial statements of not-for-profit organizations have not urged the Board to include those organizations, perhaps because they have not yet seen the effects of Statement 117 and the Exposure Draft on consolidations. Furthermore, the term *not-for-profit organizations* applies to a wide variety of entities, some of which are similar to business enterprises and some of which are very different. There are likely to be unique characteristics of some of those entities or special user needs that require special provisions, which the Board has not studied. In addition, the AcSB has recently adopted standards for reporting by not-for-profit organizations that are different from Statement 117. In the interest of completing this joint project in a timely manner, the Board decided not to undertake the research and deliberations that would be necessary to adapt the requirements of this Statement to not-for-profit organizations at this time. Few respondents to the Exposure Draft disagreed with the Board's position.

Effective Date and Transition

119. The Board concluded that this Statement should be effective for financial statements issued for fiscal years beginning after December 15, 1997. In developing the Exposure Draft, the Board had decided on an effective date of December 15, 1996. The Board believed that that time frame

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was reasonable because almost all of the information that this Statement requires is generated by systems already in place within an enterprise and a final Statement was expected to be issued before the end of 1996. However, respondents said that some enterprises may need more time to comply with the requirements of this Statement than would have been provided under the Exposure Draft.

120. The Board also decided not to require that segment information be reported in financial statements for interim periods in the initial year of application. Some of the information that is required to be reported for interim periods is based on information that would have been reported in the most recent annual financial statements. Without a full set of segment information to use as a comparison and to provide an understanding of the basis on which it is provided, interim information would not be as meaningful.

Appendix B: ILLUSTRATIVE GUIDANCE

121. This appendix provides specific examples that illustrate the disclosures that are required by this Statement and provides a diagram for identifying reportable operating 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 enterprise referred to as Diversified Company.

122. The following is an illustration of the disclosure of descriptive information about an enterprise's reportable segments. (References to paragraphs in which the relevant requirements appear are given in parentheses.)

> **Description of the types of products and services from which each reportable segment derives its revenues (paragraph 26(b))**
>
> Diversified Company has five reportable segments: auto parts, motor vessels, software, electronics, and finance. The auto parts segment produces replacement parts for sale to auto 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 real estate lending operations in several states.
>
> **Measurement of segment profit or loss and segment assets (paragraph 31)**
>
> The accounting policies of the segments are the same as those described in the summary

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of significant accounting policies except that pension expense for each segment is recognized and measured on the basis of cash payments to the pension plan. Diversified Company evaluates performance based on profit or loss from operations before income taxes not including nonrecurring 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, that is, at current market prices.

Factors management used to identify the enterprise's reportable segments (paragraph 26(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.

123. The following table illustrates a suggested format for presenting information about reported segment profit or loss and segment assets (paragraphs 27 and 28). The same type of information is required for each year for which a complete set of financial statements is presented. Diversified Company does not allocate income taxes or unusual items to segments. In addition, not all segments have significant noncash items other than depreciation and amortization in reported profit or loss. The amounts in this illustration are assumed to be the amounts in reports used by the chief operating decision maker.

	Auto Parts	Motor Vessels	Software	Electronics	Finance	All Other	Totals
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 amortization	200	100	50	1,500	1,100	—	2,950
Segment profit	200	70	900	2,300	500	100	4,070
Other significant noncash items:							
Cost in excess of billings on long-term contracts	—	200	—	—	—	—	200

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Segment assets	2,000	5,000	3,000	12,000	57,000	2,000	81,000
Expenditures for segment assets	300	700	500	800	600	—	2,900

[a]Revenue from segments below the quantitative thresholds are attributable to four operating segments of Diversified Company. Those segments include a small real estate 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.

[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 27, only the net amount is disclosed.

124. The following are illustrations of reconciliations of reportable segment revenues, profit or loss, and assets, to the enterprise's consolidated totals (paragraphs 32(a), 32(b), and 32(c)). Reconciliations also are required to be shown for every other significant item of information disclosed (paragraph 32(d)). For example, if Diversified Company disclosed segment liabilities, they are required to be reconciled to total consolidated liabilities. The enterprise's financial statements are assumed not to include discontinued operations or the cumulative effect of a change in accounting principles. As discussed in the illustration in paragraph 122, the enterprise recognizes and measures pension expense of its segments based on cash payments to the pension plan, and it does not allocate certain items to its segments.

Revenues

Total revenues for reportable segments	$39,000
Other revenues	1,000
Elimination of intersegment revenues	(4,500)
Total consolidated revenues	$35,500

Profit or Loss

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 expense	(750)
Adjustment to pension expense in consolidation	(250)
Income before income taxes and extraordinary items	$ 3,070

Assets

Total assets for reportable segements	$79,000
Other assets	2,000

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Elimination of receivables from corporate headquarters	(1,000)
Goodwill not allocated to segments	4,000
Other unallocated amounts	1,000
Consolidated total	$85,000

Other Significant Items

	Segment Totals	Adjustments	Consolidated Totals
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 amortization	2,950	—	2,950
Cost in excess of billing on long-term contracts	200	—	200

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

125. The following illustrates the geographic information required by paragraph 38. (Because Diversified Company's segments are based on differences in products and services, no additional disclosures of revenue information about products and services are required (paragraph 37)).

Geographic Information

	Revenues [a]	Long-Lived Assets
United States	$19,000	$11,000
Canada	4,200	—
Taiwan	3,400	6,500
Japan	2,900	3,500
Other foreign countries	6,000	3,000
Total	$31,000	$24,000

[a]Revenues are attributed to countries based on location of customer.

126. The following is an illustration of the information about major customers required by paragraph 39. Neither the identity of the customer nor the amount of revenues for each operating segment is required.

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Revenues from one customer of Diversified Company's software and electronics segments represents approximately $5,000 of the company's consolidated revenues.

Diagram for Identifying Reportable Operating Segments

127. The following diagram illustrates how to apply the main provisions for identifying reportable operating segments as defined in this Statement. The diagram is a visual supplement to the written standards section. It should not be interpreted to alter any requirements of this Statement nor should it be considered a substitute for the requirements.

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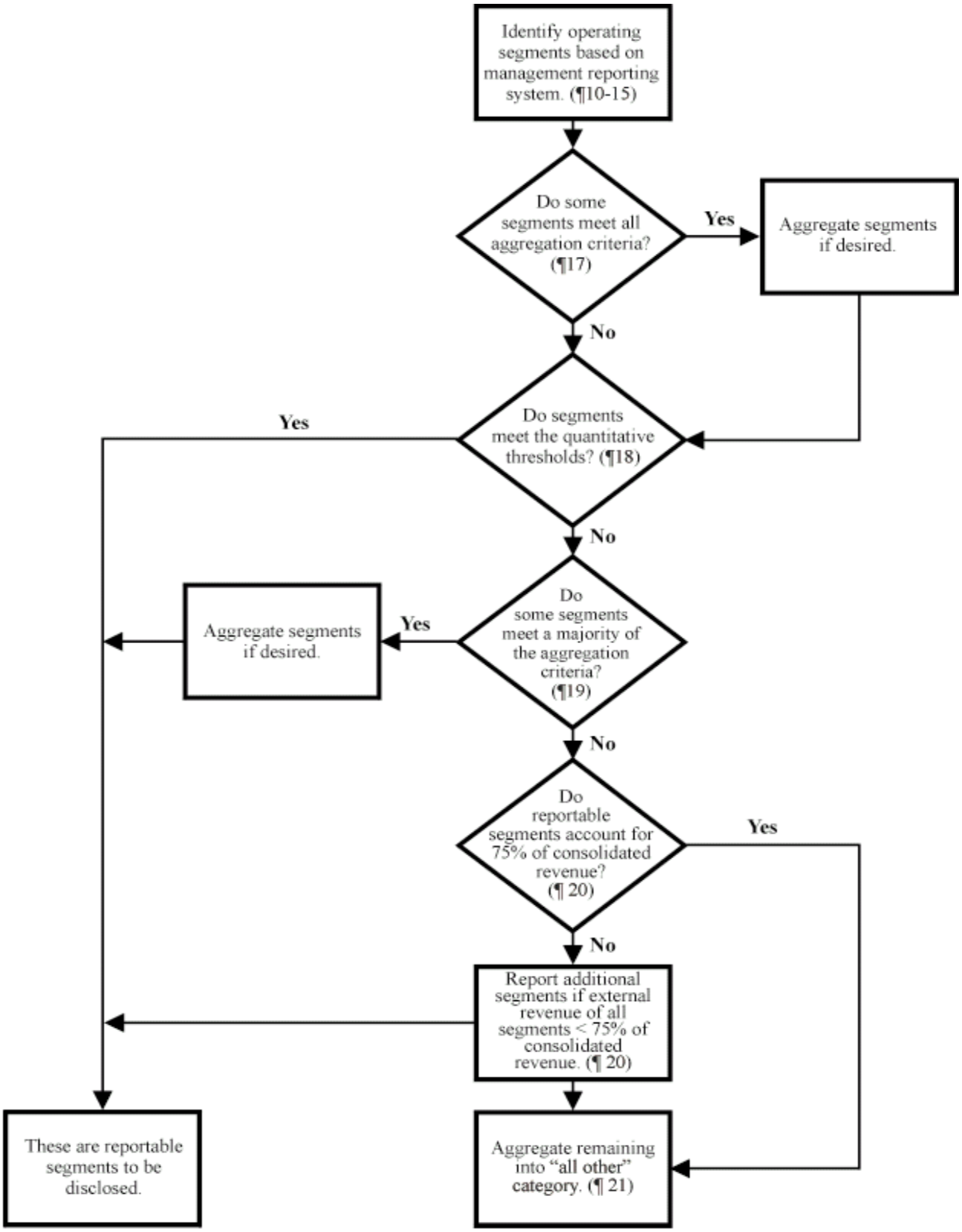

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Appendix C: AMENDMENTS TO EXISTING PRONOUNCEMENTS

128. This Statement supersedes the following pronouncements:

a. FASB Statement No. 14, *Financial Reporting for Segments of a Business Enterprise*
b. FASB Statement No. 18, *Financial Reporting for Segments of a Business Enterprise—Interim Financial Statements*
c. FASB Statement No. 21, *Suspension of the Reporting of Earnings per Share and Segment Information by Nonpublic Enterprises*
d. FASB Statement No. 24, *Reporting Segment Information in Financial Statements That Are Presented in Another Enterprise's Financial Report*
e. FASB Statement No. 30, *Disclosure of Information about Major Customers*
f. FASB Technical Bulletin No. 79-8, *Applicability of FASB Statements 21 and 33 to Certain Brokers and Dealers in Securities.*

129. ARB No. 43, Chapter 12, "Foreign Operations and Foreign Exchange," is amended as follows:

a. The following is added at the end of paragraph 5:

> FASB Statement No. 131, *Disclosures about Segments of an Enterprise and Related Information,* discusses the requirements for reporting revenues from foreign operations.

b. Paragraph 6 is replaced by the following:

> Statement 131 discusses the requirements for reporting assets located outside the United States.

130. Paragraph 19 of ARB No. 51, *Consolidated Financial Statements,* as amended by FASB Statement No. 94, *Consolidation of All Majority-Owned Subsidiaries,* is deleted.

131. The following is added to the listing in paragraph 30 of APB Opinion No. 28, *Interim Financial Reporting:*

i. The following information about reportable operating segments determined according to the provisions of FASB Statement No. 131, *Disclosures about Segments of an Enterprise and Related Information,* including provisions related to restatement of segment information in previously issued financial statements:

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(1) Revenues from external customers
(2) Intersegment revenues
(3) A measure of segment profit or loss
(4) Total assets for which there has been a material change from the amount disclosed in the last annual report
(5) A description of differences from the last annual report in the basis of segmentation or in the measurement of segment profit or loss
(6) A reconciliation of the total of the reportable segments' measures of profit or loss to the enterprise's consolidated income before income taxes, extraordinary items, discontinued operations, and the cumulative effect of changes in accounting principles. However, if, for example, an enterprise allocates items such as income taxes and extraordinary items to segments, the enterprise may choose to reconcile the total of the segments' measures of profit or loss to consolidated income after those items. Significant reconciling items shall be separately identified and described in that reconciliation.

132. In footnote 3 to paragraph 5 of FASB Statement No. 51, *Financial Reporting by Cable Television Companies,* the reference to Statement 14 is replaced by a reference to FASB Statement No. 131, *Disclosures about Segments of an Enterprise and Related Information*.

133. FASB Statement No. 69, *Disclosures about Oil and Gas Producing Activities,* is amended as follows:

a. Footnote 4 to paragraph 8(a) is replaced by the following:

For purposes of this Statement, an industry segment is a component of an enterprise engaged in providing a product or service or a group of related products or services primarily to external customers (that is, customers outside the enterprise) for a profit.

b. Paragraph 8(c) is replaced by the following:

The identifiable assets of oil- and gas-producing activities (tangible and intangible enterprise assets that are used by oil- and gas-producing activities, including an allocated portion of assets used jointly with other operations) are 10 percent or more of the assets of the enterprise, excluding assets used exclusively for general corporate purposes.

c. The second sentence of footnote 7 to paragraph 24 is replaced by the following:

If oil- and gas-producing activities constitute an operating segment, as discussed in paragraphs 10-24 of FASB Statement No. 131, *Disclosures about Segments of an Enterprise and Related Information,* information about the results of operations required by paragraphs 24-29 of this Statement may be included with segment

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information disclosed elsewhere in the financial report.

134. Paragraph 14 of Statement 94 is deleted.

135. FASB Technical Bulletin No. 79-4, *Segment Reporting of Puerto Rican Operations,* is amended as follows:

a. In paragraph 1, *paragraphs 31-38 of Statement 14* is replaced by *paragraph 38 of FASB Statement No. 131, Disclosures about Segments of an Enterprise and Related Information.*

b. Paragraph 2 is replaced by the following:

> Paragraph 38 of Statement 131 requires that certain enterprises disclose information about an enterprise's revenues from customers outside their country of domicile and assets located outside their country of domicile.

c. In paragraph 3, the first sentence and the phrase *Based on those guidelines* in the second sentence are deleted.

136. In FASB Technical Bulletin No. 79-5, *Meaning of the Term "Customer" as It Applies to Health Care Facilities under FASB Statement No. 14,* references to paragraph 39 of Statement 14 are replaced by references to paragraph 39 of FASB Statement No. 131, *Disclosures about Segments of an Enterprise and Related Information*.

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Footnotes

FAS131, Footnote1--For convenience, the term *enterprise* is used throughout this Statement to mean public business enterprise unless otherwise stated.

FAS131, Appendix A, Footnote 2--Associates are individuals and organizations with a particular interest in financial reporting issues that have volunteered to provide an outside reaction to AcSB positions at an early stage in the AcSB's deliberations.

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