



## SLFRS 8 - Operating Segment

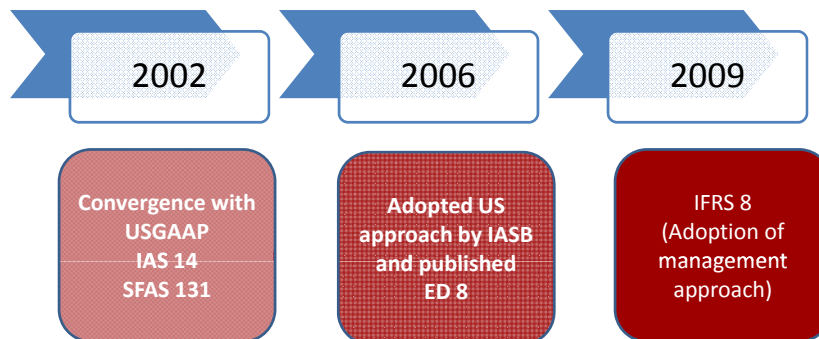
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26<sup>th</sup> July 2012

## Outline

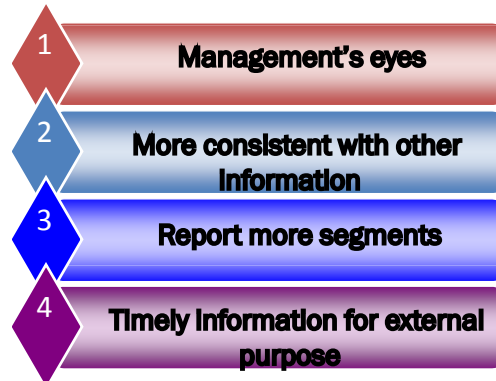
- 1) Evolution of IFRS 8
- 2) Core principle
- ➔ 3) Case for operating segments and clarifying the scope
- 4) Definition of Operating Segment
- 5) Reportable Segment
- 6) Illustration of operating segments in vertically integrated business
- 7) Measurement and Disclosure
- 8) Case Studies-
  - Change in reportable segment
  - GAPP V CODM Accounting Policy
9. Main Changes in SLFRS 8
- 10) Key implementation issues

## Evolution



IASB decided that the simplest and most complete way to achieve convergence is to use the text of SFAS 131 for the IFRS

### Reasons for adopting US Approach

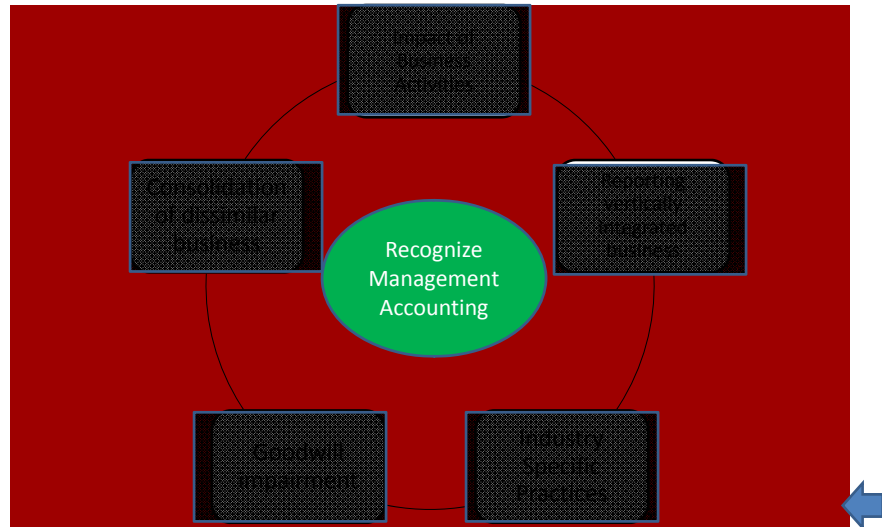


## 2. Core principle

An entity shall disclose information to enable users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates.

## SLFRS 8- Operating Segment

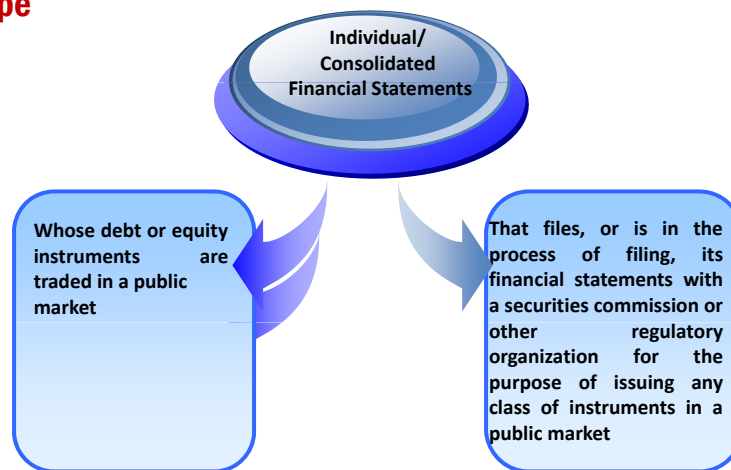
### 3. Case for Operating Segments



## SLFRS 8- Operating Segment

26<sup>th</sup> July 2012

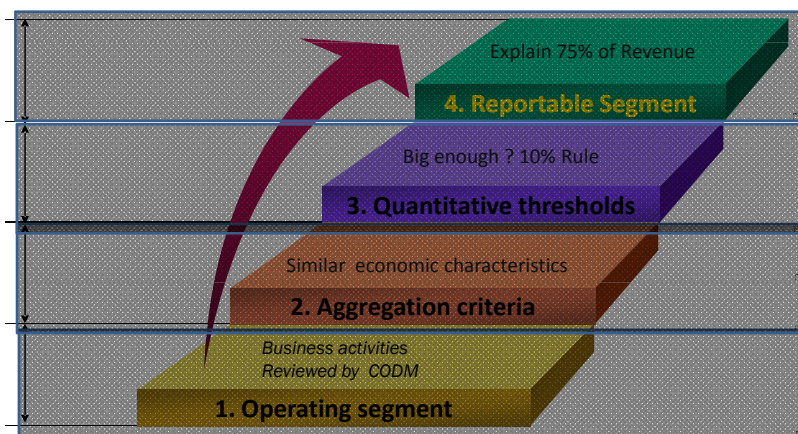
### Scope



### Clarifying the Scope

- Entities that hold assets in a fiduciary capacity for a broad group of outsiders are not covered
- Not applied to a consolidated financial statements of a group whose parent has no listed financial instruments but includes a listed minority interest or a subsidiary with a listed debt

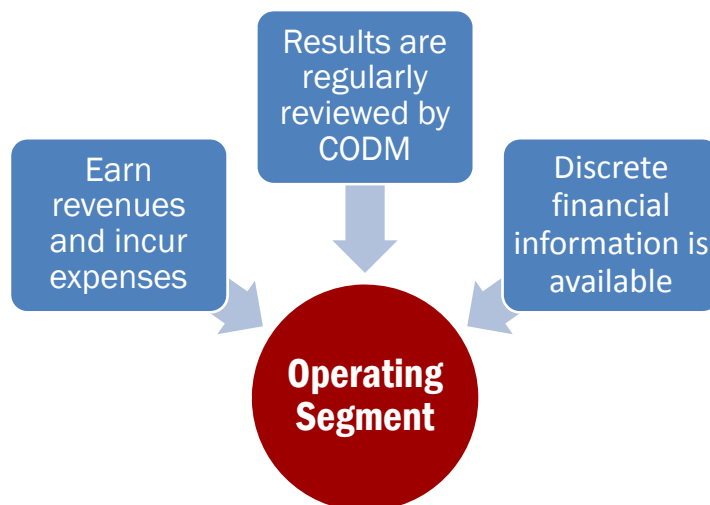
## Reportable Segments at a Glance



#### 4. Operating Segment

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

- 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 entity),
- b) whose operating results are regularly reviewed by the entity's Chief Operating Decision Maker to make decisions about resources to be allocated to the segment and assess its performance, and
- c) for which discrete financial information is available.



### CODM

- ☐ The CODM is a function and not necessarily a person. That function is to allocate resources to, and assess the performance of, the operating segments. It is likely to vary from entity to entity
- ☐ It may be the CEO, the chief operating officer, the senior management team or the board of directors.
- ☐ The title or titles of the person(s) identified as CODM is not relevant, as long as it is the person(s) responsible for making strategic decisions about the entity's segments.

**Operating segment**

**Aggregation criteria**

**Quantitative thresholds**



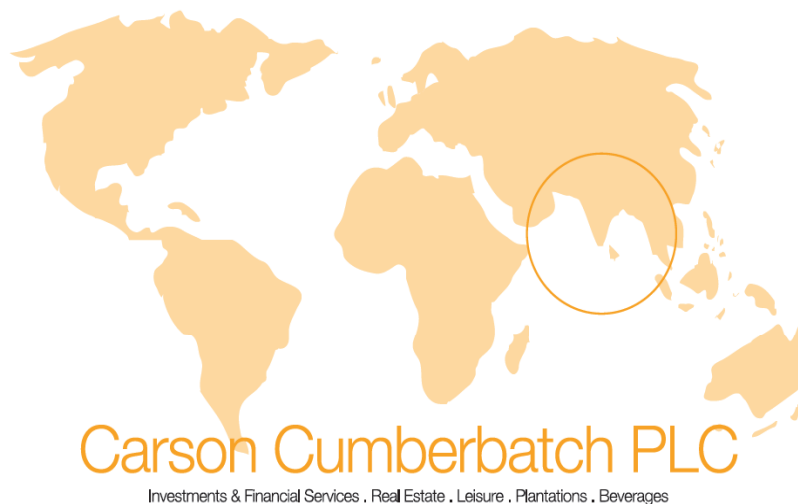
**5. Reportable  
Segment**

## 5. 1 Aggregation Criteria

**Two or more operating segments may be combined as a single reportable segment if:**

1. aggregation provides financial statement users with information that allows them to evaluate the business and the environment in which it operates;
2. they have **similar economic characteristics**; and
3. they are similar in each of the following respects:
  - the nature of the products and services,
  - the nature of the production processes,
  - the type or class of customer for their products and services,
  - the methods used to distribute their products or provide their services, and
  - the nature of the regulatory environment if applicable.

### Example: Carson





## Carson- Operating Segments



Investment Holdings  
& Financial Services  
Holding and  
managing an  
investment portfolio



Plantations



Hotels -  
Owning and  
operating  
hotels



Real Estate - **Letting of  
office and warehouse  
premises on rent for  
commercial purpose and  
Development and  
marketing residential land  
plots**



Beverage



Airlines -  
General Sales  
Agent/Airline  
Ticketing



Management  
Service

## 5.2. Quantitative thresholds



## 5.3 Quantitative thresholds cont.

**Information on an operating segment should be separately reported if:**

1. **reported revenue** (external and inter-segment) is 10% or more of the combined revenue of all operating segments;
2. the **absolute amount** of the segment's reported **profit or loss** is 10% or more of the greater of: the combined reported profit of all operating segments that did not report a loss, and the combined loss of all operating segments that reported a loss;
3. the segment's **assets** are 10% or more of the combined assets of all operating segments.

### Example – Determining reportable segments

Entity A has operating segments A-F (below). The revenues (internal and external), profits and assets are set out below. Entity A needs to determine how many reportable segments it has. The figures are in the same proportions as in the previous year.

Segment	Total revenue	Profit/loss	Total assets
A	11,000	2,000	25,000
B	7,500	1,000	15,500
C	3,000	(1,000)	10,500
D	3,500	(500)	7,000
E	4,000	600	7,000
F	1,500	400	3,500
	30,500	2,500	68,500

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

### 75% Rule

If the total external revenue reported by operating segments constitutes less than 75 per cent of the entity's revenue, additional operating segments shall be identified as reportable segments even if they do not meet the quantitative threshold until at least 75 per cent of the entity's revenue is included in reportable segments.

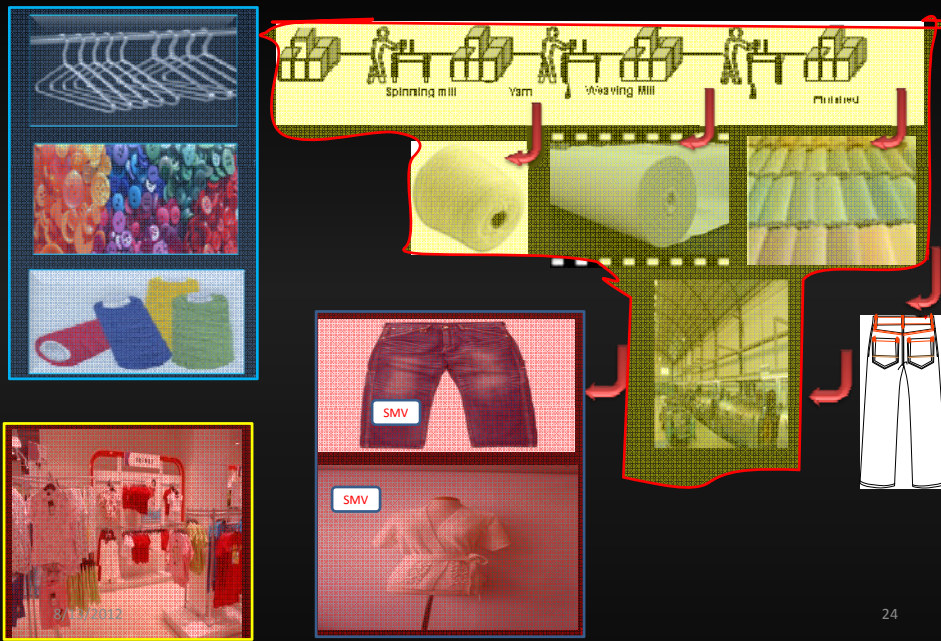
### Identifying additional segments to meet 75% criteria

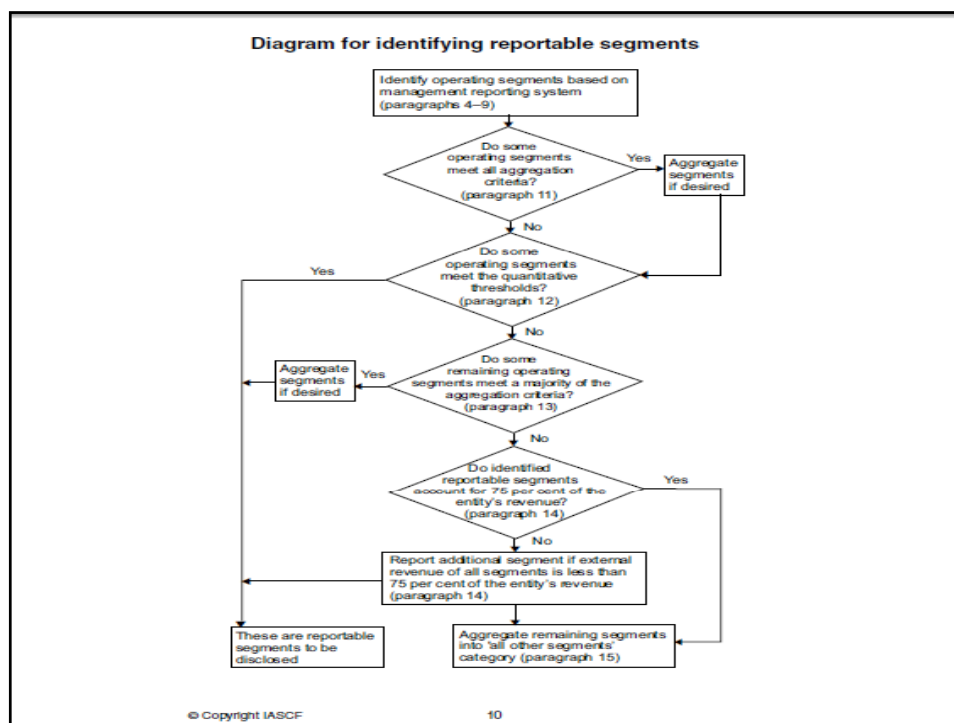
Operating Segment	% of consolidated Revenue	Reportable Segment
Logistics Distribution	55	55%
Parcel	9	→
Van hire	6	→
Home Moving	8	17%
Commercial Moving	9	
Document Management	4	→

## 6. Vertically Integrated Business

Business Activities	Operating Segments	Reportable Segment
1. Yarn	1.Textile	1.Textile
2. Cotton Mill		
3. Finishing Fabric		
4. Fabric Printing		
5. Button Manufacturing	2. Button Manufacturing	2.Accessories
6. Hangers Manufacturing	3. Hangers Manufacturing	
7. Threads Manufacturing	4. Threads Manufacturing	
8. Intimates Apparel	5. Intimates Apparel	3. Intimates Apparel
9. Casualwear	6. Casualwear	4. Casualwear
10 .Retail	7. Retail	5. Retail

## 6. Operating Segments in vertically integrated business





### Change in reportable segment

If management judges that an operating segment identified as a reportable segment in the immediately preceding period is of continuing significance, information about that segment shall **continue to be reported separately** in the current period **even if it no longer meets the quantitative threshold**

If an operating segment is identified as a reportable segment in the current period in accordance with the quantitative thresholds, segment data for a prior period presented for comparative purposes shall be restated to reflect the newly reportable segment as a separate segment, even if that segment did not satisfy the quantitative threshold

### **Restatement of previously reported information**

- If an entity 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 the information is not available and the cost to develop it would be excessive.

## **7.Measurement & Disclosures**

- ☐ The amount of each segment item reported shall be the measure reported to the CODM for the purposes of making decisions about allocating resources to the segment and assessing its performance.
- ☐ Adjustments and eliminations made in preparing an entity's financial statements and allocations of revenues, expenses, and gains or losses shall be included in determining reported segment profit or loss only if they are included in the measure of the segment's profit or loss that is used by the chief operating decision maker.

## Disclosure

1. General information.
2. Information about reported **segment profit or loss**, including specified **revenues and expenses** included in reported segment profit or loss, segment **assets**, segment **liabilities** and the **basis of measurement**, and;
3. **Reconciliations** of the totals of segment revenues, reported segment profit or loss, segment assets, segment liabilities and other material segment items to corresponding entity amounts

## Disclosure

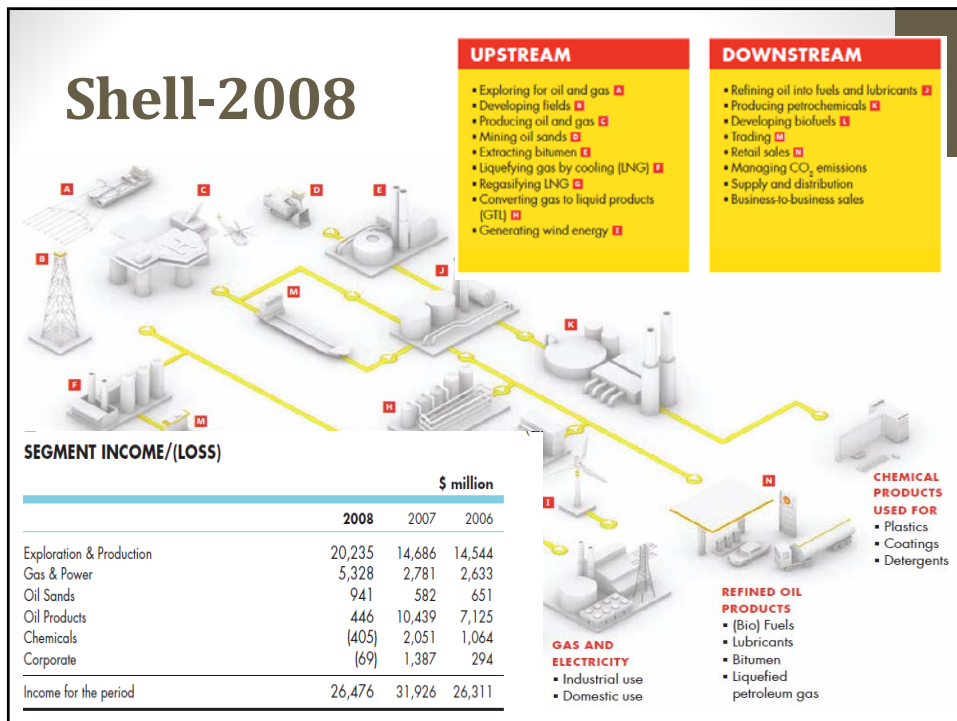
Reference to disclosure requirements	Required disclosures
General information	<ul style="list-style-type: none"> <li>Factors used to identify the reportable segments.</li> <li>Types of product/service from which each reportable segment derives its revenue.</li> </ul>
Information about the reportable segment; profit or loss, revenue, expenses, assets, liabilities and the basis of measurement	<ul style="list-style-type: none"> <li>A measure of profit or loss and total assets.</li> <li>A number of specific disclosures, such as revenues from external customers if they are included in segment profit or loss and presented regularly to the CODM.</li> <li>Explanation of the measurement of the segment disclosures.</li> <li>The basis of accounting for transactions between reportable segments.</li> <li>The nature of differences between the measurements of segment disclosures and comparable items in the entity's financial report (for example, accounting policy differences and asymmetrical allocations).</li> </ul>
Reconciliations	<ul style="list-style-type: none"> <li>Totals of segment revenue, segment profit or loss, segment assets and segment liabilities and any other material segment items to corresponding totals within the financial statements.</li> </ul>
Entity-wide disclosures	<ul style="list-style-type: none"> <li>Revenues from external customers for each product and service, or each group of similar products and services.</li> <li>Revenues from external customers attributed to the entity's country of domicile and attributed to all foreign countries from which the entity derives revenues.</li> <li>Revenues from external customers attributed to an individual foreign country, if material.</li> <li>Non-current assets (other than financial instruments, deferred tax assets, post-employment benefit assets, and rights arising under insurance contracts) located in the entity's country of domicile and in all foreign countries in which the entity holds assets.</li> <li>Non-current assets in an individual foreign country, if material. Extent of reliance on major customers, including details if any customer's revenue is greater than 10% of the entity's revenue.</li> </ul>
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## 8. Case Studies

**8.1 Shell- Changed its operating segments with the adoption of IFRS 8 In 2009**

**8.2 BP- measurement of profit at replacement cost**





## Shell Changed the reportable segment

- ❑ With effect from July 1, 2009, **Upstream** consists of the activities previously reported in the Exploration & Production, Gas & Power (excluding solar) and Oil Sands segments. It combines the operating segments Upstream International and Upstream Americas, which have similar economic characteristics and these operating segments are similar in respect of the nature of products and services, the nature of production processes, type and class of customers and the methods of distribution.
- ❑ **Downstream** consists of the activities previously reported in the Oil Products and Chemicals segments and solar.
- ❑ **Corporate** represents the key support functions comprising holdings and treasury, headquarters, central functions and Shell's insurance activities.
- ❑ **Comparative Information In this Report has been reclassified.**

## Shell Changed the reportable segment cont.

SEGMENT INCOME/(LOSS)		2008		
		\$ million		
	2008	2007	2006	
Exploration & Production	20,235	14,686	14,544	
Gas & Power	5,328	2,781	2,633	
Oil Sands	941	582	651	
Oil Products	446	10,439	7,125	
Chemicals	(405)	2,051	1,064	
Corporate	(69)	1,387	294	
Income for the period	26,476	31,926	26,311	

		2009		
		\$ MILLION		
	2009	2008	2007	
Upstream	8,354	26,506	18,094	
Downstream	3,054	39	12,445	
Corporate	1,310	(69)	1,387	
Income for the period	2,718	26,476	31,926	

## BP- Accounting Policy- GAAP V CODM

- ❑ The group's operating segments are established on the basis of those components of the group that are evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance.
- ❑ The accounting policies of the operating segments are the same as the group's accounting policies described in this note, **except that IFRS requires that the measure of profit or loss disclosed for each operating segment is the measure that is provided regularly to the chief operating decision maker.**
- ❑ **For BP, this measure of profit or loss is replacement cost profit before interest and tax which reflects the replacement cost of supplies by excluding from profit inventory holding gains and losses. Replacement cost profit for the group is not a recognized measure under generally accepted accounting practice (GAAP).**

## BP- Reportable Segments

	\$ million 2009				
By business	Exploration and Production	Refining and Marketing	Other businesses and corporate	Consolidation adjustment and eliminations	Total group
<b>Segment revenues</b>					
Sales and other operating revenues	57,626	213,050	2,843	(34,247)	239,272
Less: sales between businesses	(32,540)	(821)	(886)	34,247	-
Third party sales and other operating revenues	25,086	212,229	1,957	-	239,272
Equity-accounted earnings	3,309	558	34	-	3,901
Interest revenues	98	32	95	-	225
<b>Segment results</b>					
Replacement cost profit (loss) before interest and taxation	24,800	743	(2,322)	(717)	22,504
Inventory holding gains*	142	3,774	6	-	3,922
Profit (loss) before interest and taxation	24,942	4,517	(2,316)	(717)	26,426
Finance costs					(1,110)
Net finance expense relating to pensions and other post-retirement benefits					(192)
Profit before taxation					25,124
<b>Other income statement items</b>					
Depreciation, depletion and amortization	9,557	2,236	313	-	12,106
Impairment losses	118	1,834	189	-	2,141
Impairment reversals	3	-	8	-	11
Fair value (gain) loss on embedded derivatives	(664)	57	-	-	(607)
Charges for provisions, net of write-back of unused provisions, including change in discount rate	307	756	488	-	1,551
<b>Segment assets</b>					
Segment assets	140,149	82,224	17,954	(5,084)	235,243
Current tax receivable					209
Deferred tax assets					516
<b>Total assets</b>					235,968
<b>Includes</b>					
Equity-accounted investments	20,289	6,882	1,088	-	28,259
Additions to non-current assets	15,855	4,083	1,297	-	21,235
Additions to other investments					19
Element of acquisitions not related to non-current assets					(7)
Additions to decommissioning asset					(938)
Capital expenditure and acquisitions	14,896	4,114	1,299	-	20,309

Financial statements

## **BP- Accounting Policy- GAAP V CODM**

- ☐ **Inventory holding gains and losses** represent the difference between the **cost of sales calculated using the average cost to BP of supplies** incurred during the period and the **cost of sales calculated on the first-in first-out (FIFO)** method including any changes in provisions where the net realizable value of the inventory is lower than its cost.
- ☐ Under the FIFO method, which we use for IFRS reporting, the cost of inventory charged to the income statement is based on the historic cost of acquisition or manufacture rather than the current replacement cost.
- ☐ **In volatile energy markets, this can have significant distorting effect on reported income.**

## **BP- Accounting Policy- GAAP V CODM**

- ☐ The amounts disclosed represent the difference between the charge to the income statement on a FIFO basis and the charge that would arise using average cost of supplies incurred during the period.
- ☐ For this purpose, average cost of supplies incurred during the period is calculated by dividing the total cost of inventory purchased in the period by the number of barrels acquired.
- ☐ The amounts disclosed are not separately reflected in the financial statements as a gain or loss.

## 9. Main Changes in SLFRS 8



## 10. Key implementation Issues

1. Identify the CODM
2. More operating (and therefore reportable) segments may be identified – for example, vertically-integrated operations
3. The management accounts reviewed by the CODM may contain commercially sensitive information
4. Review internal control processes for management accounts.
5. Audit trail between the management accounts and the consolidated financial information
6. Revisit goodwill impairment. Goodwill cannot be allocated to a group of cash generating units larger than an operating segment.
7. Restate the comparatives
8. Audit and regulatory considerations

**Thank you.**