



ASC Insights Series: Guide to Accounting Standards

Accounting Standards Codification 280- Segment Reporting

July 2024

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Foreword

Welcome to our “**Uniquus’ ASC Insights Series: Guide to Accounting Standards,**” where we combine our collective wisdom to understand various Accounting Standard Codifications (ASCs) comprehensively and in a crisp manner. This series is an invaluable tool for accounting professionals, offering detailed explanations, illustrative examples, and our expert point of view. Designed to support your professional journey, this guide helps you navigate complex accounting scenarios and deepen your knowledge.

This is the fourth publication in our “Uniquus’ ASC Insights Series: Guide to Accounting Standards”, focusing on “**ASC 280, Segment Reporting**”. In this installment, we delve into the specifics of ASC 280, exploring its implications, key considerations, and practical applications. Through clear illustrations and expert commentary, we aim to make the standard accessible and actionable for practitioners.

ASC 280 provides guidance on Segment Reporting requirements for public entities. With the objective to enable users of financial statements to “see a company’s business performance through the eyes of management”, ASC 280 provides the principles for segment reporting in financial statements.

We hope you enjoy reading this document and find this series valuable!

Thank you.

Yours faithfully

For Uniquus Consultech Inc.



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Purpose

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Entity segment information is critical for investors, lenders, creditors, and others (collectively “investors”) in understanding the entity’s different business activities. The segment information enables investors to better understand an entity’s overall performance, assists in assessing potential future cash flows, and makes judgments about the entity as a whole. Entities usually split their operations into segments by business line or geography and disclose a measure of their profits or losses by operating segment in financial statements.

This publication provides an overview of the key accounting considerations and implementation matters relating to **ASC 280 (Segment Reporting)**. The technical views and accounting positions on the framework keep enhancing.

We sincerely hope you find this quick reference guide informative in identifying and evaluating the issues related to Segment Reporting. We will be happy to participate in any discussions required to clarify our views, which are enclosed in the attached publication. We look forward to hearing from you.



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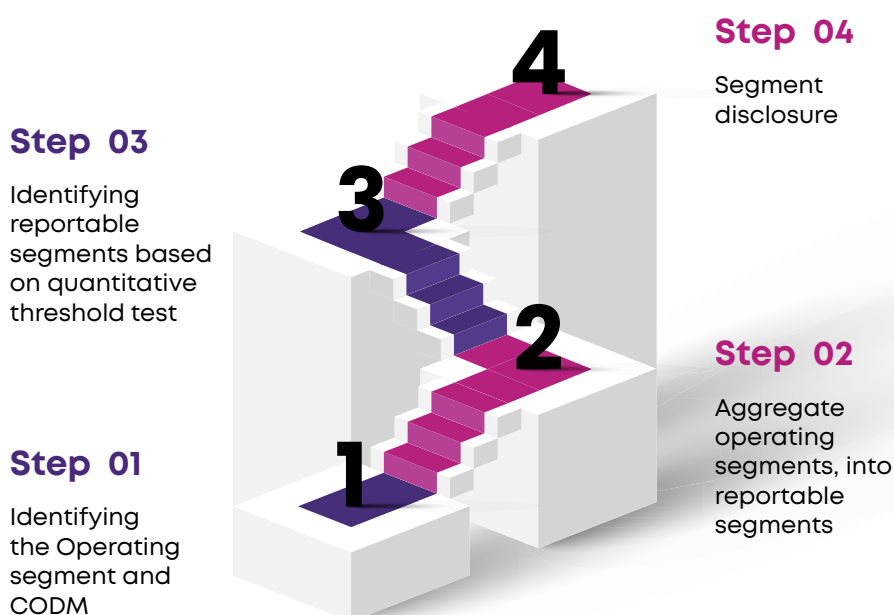
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Segment reporting remains an important element of financial reporting for public entities. The fundamental principle of Topic 280, Segment Reporting, is that a company's segment disclosures should be consistent with management's reporting structure. The primary objective is to enable users of financial statements to see an entity's business performance through the eyes of management.

Segment disclosure made by public entities has also been one of the key focus areas in SEC reviews, which includes determining how entities identify and aggregate operating segments and whether entities have inappropriately included Non-GAAP measures in their segment disclosures. Public entities are encouraged to evaluate their segment reporting practices and maintain consistency in the entity's management reporting structure and segment disclosures.

FASB, in its continuous efforts to improve the disclosure requirements for segment reporting of public entities, issued **ASU 2023-07 to Topic 280** in November 2023. To improve disclosures and to address requests from investors for more detailed information about each reportable segment's expenses, the amendment requires public entities to disclose incremental information about significant segment expenses and other segment items that are regularly provided to the chief operating decision maker and included in reported segment profit or loss. Further, the update requires all segment reporting information to be provided for an interim period.

Despite being a disclosure topic that is dependent upon existing management information, compliance with Topic 280 demands considerable effort. The financial information of the entity is dissected into reportable segments and disclosed, applying the following steps:



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01 Scope and Scope Exceptions

The segment reporting requirements apply only to public entities¹. Entities other than public entities are not required but are encouraged to provide the segment reporting disclosures.

1. Scope exceptions

Segment reporting requirements do not apply to the following entities:

a. Separate financial statements of Parent entity, subsidiaries, joint ventures, or equity method investees:

For entities which present separate financial statements of the parent entity, subsidiaries, joint ventures or equity method investees as an additional information, along with Consolidated financial statements in its annual report, the segment reporting requirements are not applicable to those entities' separate financial statements. However, this exception is not applicable if those entities are public entities, and their financial statements are issued separately.

b. Not-for-profit entities (regardless of whether the entity meets the definition of a public entity as defined above).

c. Nonpublic entities.



1 Public Entity: A business entity or a not-for-profit entity that meets any of the following conditions:

- It has issued debt or equity securities or is a conduit bond obligor for conduit debt 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).
 - It is required to file financial statements with the Securities and Exchange Commission (SEC).
 - It provides financial statements for the purpose of issuing any class of securities in a public market.
- (Glossary ASC 280-10-20)

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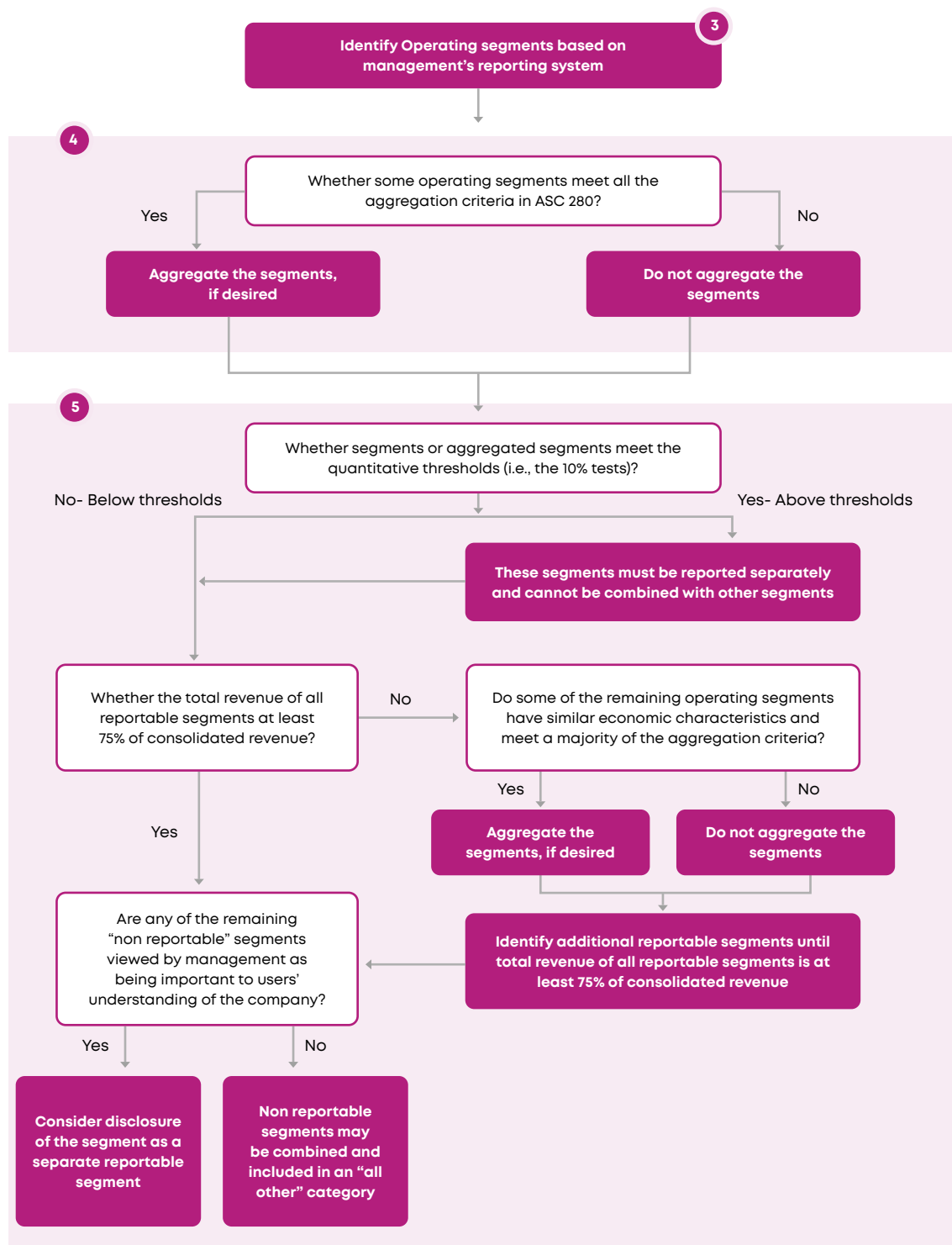
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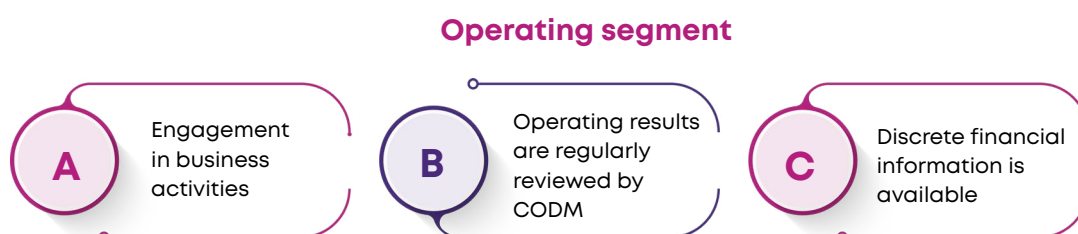
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3. Identification of Operating segment and CODM

Identifying the Operating Segment is the first and foremost step in segment reporting requirements. An individual component of an entity shall be classified as an operating segment if it fulfills the following criteria:



A. Engagement in business activities

Key Consideration

- Component must be engaged in the business activities from which it may recognize revenues and incur expenses.
- Components recognizing revenues and incurring expenses are not required to have assets to be assessed as an operating segment.

Implementation matters

The following Component meets the requirements of engaging in business activities:

- Division earning only intercompany revenues in a vertically integrated operation (i.e., selling primarily, or even exclusively, to other components of the same entity).
- Division that only performs research and development activities.
- Startup operation that has not yet earned revenues may meet the requirement of engaging in business activities.

The following Component does not meet the requirements of engaging in business activities:

- Functional departments do not recognize revenues or recognize revenues incidental to the entity's activities, such as corporate headquarters, corporate shared services and centralized treasury operations.

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B. Operating results are regularly reviewed by CODM

Key Consideration

- For a Component to meet the definition of Operating segment, its **operating results** must be **regularly reviewed** by the **Chief Operating Decision Maker (CODM)**, to assess the performance of the individual segment and make decisions about resources to be allocated to the segment.
- CODM is a function (rather than an individual with a specific title) responsible for the allocation of resources and the operating results of the operating segments of an entity.

Implementation matters

- CODM is generally construed as the highest level of management, like the CEO or COO. However, this is not a rule. The CODM's role is functional and not based on title. Thus, even a group like the management committee can fulfil it. **An entity can only have one CODM.**
- At the 2015 AICPA Conference on Current SEC and PCAOB, it was reiterated that the ultimate decision maker of the entity cannot be assumed to be the CODM, and the same needs to be assessed and concluded based on the following parameters:
 - Authority making decisions about resource allocation and
 - Assessing the operating results of the operating segments of an entity.
- Determination of an entity's CODM may be more difficult for an entity with a complex organizational structure. For identifying CODM, the entity should determine the key operating decisions and who is making those decisions for the entity. Below are some examples of key operating decisions that may be helpful to identify CODM:
 - Approving operations-related budgets and forecasts.
 - Approving significant contracts.
 - Involved in hiring or firing decisions of key management executives.
 - Driving key strategic company-wide initiatives.
 - Initiating decisions around investment of capital.

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C. Discrete financial information is available

Key Consideration

- For a Component to be considered an Operating segment, discrete financial information about the component must be available to enable the CODM to assess performance and make resource allocation decisions.
- Discrete financial information includes revenue and operating expenses and must not include balance sheet information.

Implementation matters

- Gross profit information or other operating measures provided to the CODM and used to assess performance and make resource allocation decisions can be considered discrete financial information.
- Component for which the CODM receives only revenue information may not qualify as an Operating segment. In the absence of operating expense information, it may be concluded that discrete financial information i.e., measure of profit or loss, is not available, which enables CODM to assess the performance or make resource allocation decisions for the component in all situations.



Identification of Operating segments and CODM requires critical evaluation of facts and circumstances, including analysis of the organization structure, decision-making process, and business context.

01

Myth

The Chief Executive Officer (CEO) is always the CODM.

Reality

While CEOs often hold significant power, they may not always be the CODM for the purposes of this Standard. The key lies in operational responsibility, not hierarchy. If someone demonstrably controls resource allocation and performance assessment, they might be the true CODM.

02

Myth

The CODM must be a single, high-ranking individual with a specific title.

Reality

The CODM may wear many hats. Sometimes, a group of individuals or a committee collectively fulfills the CODM's responsibilities. This should be considered as a shared leadership model focused on operational decision-making.

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03

Myth

The Board of Directors can't be the CODM.

Reality

Although rare, if a board of directors does allocate resources and assess the performance of the operating segments, it could be the CODM. For example, the board of directors of a private equity fund investor that owns a particular entity may have both responsibilities.

04

Myth

Start-up operations can't be operating segments unless they generate revenue.

Reality

ASC 280-10-50-3 acknowledges that even pre-revenue entities like start-ups can qualify as operating segments if they:

- Engage in business activities (e.g., developing products, acquiring customers)
- Have incurred significant expenses
- Are expected to generate future revenue

While revenue absence doesn't automatically disqualify them, the entity should scrutinize these pre-revenue segments closely to ensure that they meet the other criteria and truly reflect management's decision-making.



Examples:

I. Identification of operating segments based on a mix of geography and product lines

Unique Corp. comprises six components: A, B, C, D, E, and F. Three components (A, B, and C) operate in the United States, each specializing in manufacturing and selling a distinct product to US customers. The CEO, acting as the CODM, evaluates performance, makes operational decisions, and allocates resources for these components using financial data presented on a product line basis.

Components D, E, and F operate in Germany and are structured similarly to the US operations. However, the CODM evaluates their performance, makes operational decisions, and allocates resources based on financial information presented for Germany as a whole.

What are the operating segments of Unique Corp.?

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Analysis:

Entities, especially multinational ones, often report financial information to their Chief Operating Decision Maker (CODM) in various ways, particularly in matrix organizational structures with multifaceted reporting relationships.

Determining operating segments in such structures requires judgment and consideration of factors like business activities, managerial responsibility, board information, and historical reporting practices like press releases, earnings calls, MD&A, etc. Comparability among entities may be limited due to organizational differences and variations in CODM measures.

As per the facts of the given case, CODM reviews the financial performance of six components of the Company bifurcated into two categories:-

(a) Components operating in the US (A, B, and C): Evaluates performance, makes operational decisions, and allocates resources for these components using financial data presented on a product line basis.

(b) Components operating in Germany (D, E, and F): Evaluates performance, makes operational decisions, and allocates resources for these components based on financial information presented for Germany as a whole.

Unique Corp. determines that it has four operating segments: Segments A, B, and C (defined based on product lines) and Segment Germany (comprising components D, E, and F, defined geographically). If disaggregated information, such as product lines within Germany, is not regularly provided to the CODM, there is no obligation to disaggregate it for segment reporting purposes.

II. Identification of CODM

- (a) A technology company's management committee comprises the President, CEO, and CFO. All three of these individuals make operating decisions related to the company's operating segments, and each has an equal vote in decisions made by the management committee.
- (b) A company's founder, no longer holding an executive position, still heavily influences strategic decisions through informal discussions with the CEO and board.
- (c) A merger between two companies creates a new organizational structure with different reporting lines and decision-making processes. Identifying the CODM for each segment under the new structure becomes necessary.

Who is CODM under each of the above scenarios?

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Analysis:

Identification of the CODM is critical for the application of ASC 280. As per the principles of ASC 280, the CODM is a function (not necessarily an individual) that allocates the resources of the reporting entity and assesses the performance of its segments. Reporting entities should identify an individual acting in this role. Generally, the CODM will be an individual person who is either CEO or COO of the reporting entity. However, there may be circumstances when the decision-making power does rest with a group (such as a committee or Board of directors) and not with any specific individual within the group. In other words, the decisions related to the allocation of resources and assessment of performance are made by a group of people. Under such circumstances, it is important to evaluate how decisions are made, including in circumstances in which not all group members agree.

- a. As per the facts of the given case, the management committee comprising the President, CEO, and CFO, makes operating decisions related to the operating segments of the company, and everyone has an equal vote in decisions made by the management committee. Therefore, it would be appropriate to conclude that no individual executive member is functioning as a CODM; rather, the CODM would be the management committee because the committee, which is evenly controlled by its members, makes the operating decisions rather than any individual executive. Further, the internal financial information provided to the management committee members to make operating decisions and assess performance would constitute the operating segment information.
- b. As per the principles of ASC 280, CODM is a function (and not an individual with a designated title) that allocates the resources of the reporting entity and assesses the performance of its segments. While identifying the CODM one need to consider not only formal titles but also the actual flow of information and influence. If an individual consistently influences key decisions within a segment, even without formal authority, they should be considered for the CODM role. Management should document and disclose such influential relationships for transparency.
- c. An entity needs to regularly review and assess the decision-making structure and identify any changes in authority or influence. Update the CODM designation and segment reporting disclosures to reflect the current organizational reality.



In our view while the CODM may be a committee, it is important to note that the existence of a management committee does not always mean that the management committee is the CODM. It is important to understand the role of management committee in the decision-making process before making a conclusion.

Circumstances under which the role of the management committee is only to provide input to CEO, while the CEO is responsible for assessing performance and making the key operating decisions, the management committee cannot be titled as CODM. On the other hand, if the management committee is the level at which the key operating decisions are made, then the management committee may be the CODM. This requires critical evaluation.

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4. Aggregate operating segments, into reportable segments

Once operating segments have been identified, by the reporting entity, it may consider aggregating two or more operating segments exhibiting:

- Similar economic characteristics (“quantitative aggregation criteria”) and
- Other operating similarities (“qualitative aggregation criteria”).

Quantitative aggregation criteria

Key Consideration

- As per the guidance, for components to be aggregated, they must share similar economic characteristics, which must be evaluated from a historical and expected future performance perspective.
- Entity may consider any of the following economic measures to assess the economic similarity:
 - Gross margin
 - EBITDA
 - Sales metrics
 - Return on investments
 - Operating cashflows
 - Other standard industry measures used by CODM to assess performance and allocate resources to each operating segment

The standard provides that operating segments which exhibit similar long term average gross margins would expect to have similar economic characteristics.

- A reporting entity should consider not only the similarity of financial performance but also the economic conditions, exchange control regulations, and underlying currency risks, if applicable.

Implementation matters

- The similarity of economic characteristics should be assessed based on the consideration that segments are expected to have the **same future prospects**:
 - Operating segments having similar sales trend or gross margins in the current year but not expected to have similar sales trend or gross margins in the future should not be aggregated for the current-year segment disclosures merely because current economic measures happen to be similar.
 - On the other hand, operating segments that do not currently have similar gross margins and sales trends but are expected to have again similar long-term average gross margins and sales trends may be considered for aggregation provided all other criteria are met. This may be relevant under the circumstance when there are abnormal changes in economic characteristics in the current year due to temporary factors.

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- In the absence of a specific threshold for economic similarity, there is no bright line when making this evaluation, and this may require judgment. However, the higher is the percentage difference, the more evidence one should have to support economic similarity between operating segments. For e.g., a variance of more than 10% may indicate that operating segments are not economically similar and would require more evidence to support the existence of economic similarity.
- Basis of management's conclusion on economic similarity should be documented appropriately and, the analysis should be updated on annual basis or more frequently if conditions that affect economic similarity change.

Quantitative aggregation criteria

Key Consideration

- Operating segments must be similar in each (i.e., all) of the following five areas:
 - Nature of the products and services.
 - Nature of the production processes.
 - Type or class of customers for their products and services.
 - Methods used for distribution of their products or provision of their services.
 - If applicable, the nature of the regulatory environment.

Implementation matters

- **Nature of products and services:** The similarity of products or services should be evaluated based on the organization's range of activities. For e.g., for a highly diversified company that manufactures a variety of consumer products, also has a construction business and provides financial services may conclude that all its consumer products are similar. However, an entity that only sells consumer products might determine that not all its consumer products are similar.
- **Nature of production process:** Operating segments using similar production facilities, equipment, labor force, or service groups and similar raw materials can be considered as having similar production processes. Two or more products may have similar production processes even though they do not function similarly. For e.g. Medicare Inc., a pharma company, manufactures various pharmaceutical products for commercial sale. These products include cold and cough medicines and viral fever pills. Each product is manufactured through the same production process, although the products have different applications. The products
 - consists of various chemical compounds mixed in batches to create the end product.
 - use the same manufacturing equipment and labor for parts of the production process.

Thus, for purposes of the segment aggregation criteria, the production processes can be considered as similar, irrespective of differences in the applications of the end products.

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- **Type or Class of customers:** Factors that may be considered for evaluation of similar types or class of customers include:
 - Region or geography in which the products or services are marketed,
 - Methods used to market the products or services,
 - Nature of industry in which the customers exist (such as government, retail, consumer, etc).
- **Nature of regulatory environment:** The regulatory environment criterion applies to those situations wherein a unique regulatory environment relating to each operating segment exists. Following are some examples of dissimilar operating segments; due to the nature of the regulatory environment, they cannot be aggregated-
 - Reporting entity having an operating segment producing goods under government contract and operating segment producing similar goods for retail customers or
 - Reporting entity having a banking operating segment and an insurance operating segment.



Aggregating two or more operating segments is appropriate only when operating segments "economic characteristics" and "operations" are so similar that, if presented separately, they would not significantly add to an investor's understanding of the company's future prospects and its operating segments. Aggregation must be consistent with the objective and basic principles of the Standard i.e., to help financial statements users to understand the entity's performance better and assess its prospects for future net cash flows.

A decision related to aggregating operating segments based on evaluating the quantitative and qualitative criteria is a high hurdle and requires judgment. As per the basic principles of ASC 280, identification of operating segments is based on the management approach; however, the aggregation of operating segments should be viewed from the perspective of investors.

For convenience, some entities aggregate all components into a single reportable segment on the rationale that they meet the criteria of similar economic characteristics and other operational similarities. However, these criteria should be evaluated critically. The SEC staff has stated that, in considering similarity, it is important to consider information such as industry reports and other analyses by users of the financial statements, that may provide evidence of how a reasonable investor would analyze the company.

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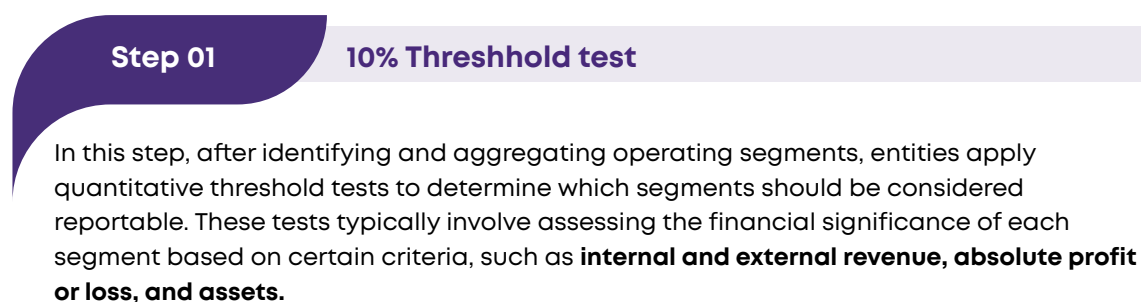
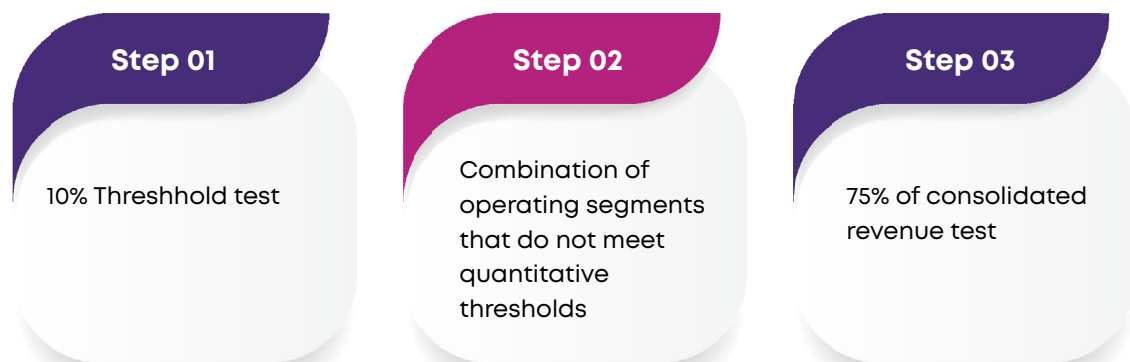
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5. Identifying reportable segments based on quantitative threshold test

The next step in the segment reporting process includes identifying operating segments (or aggregated operating segments), which are required to be presented as **reportable segments** based on the quantitative thresholds. Entities need to perform the following steps for the identification of reportable segment:



The purpose is to ensure that the reportable segments are material enough to warrant separate disclosure and, consequently, provide users of financial statements with meaningful information. If a segment meets or exceeds the specified quantitative thresholds, it is reportable, and its financial information will be disclosed separately in the financial statements. This step helps streamline the reporting process by focusing on segments that significantly impact the entity's overall financial picture.

For the purposes of the threshold test, intersegment revenues are not eliminated unless they are eliminated in the segment measures reviewed by the CODM.

Segment disclosures are based on reportable segments. A reportable segment is a segment (or an aggregated operating segment) that meets quantitative thresholds. Operating segments that meet any of the quantitative threshold tests are identified as reportable segments.

The following flow chart summarizes the steps for quantitative threshold testing:

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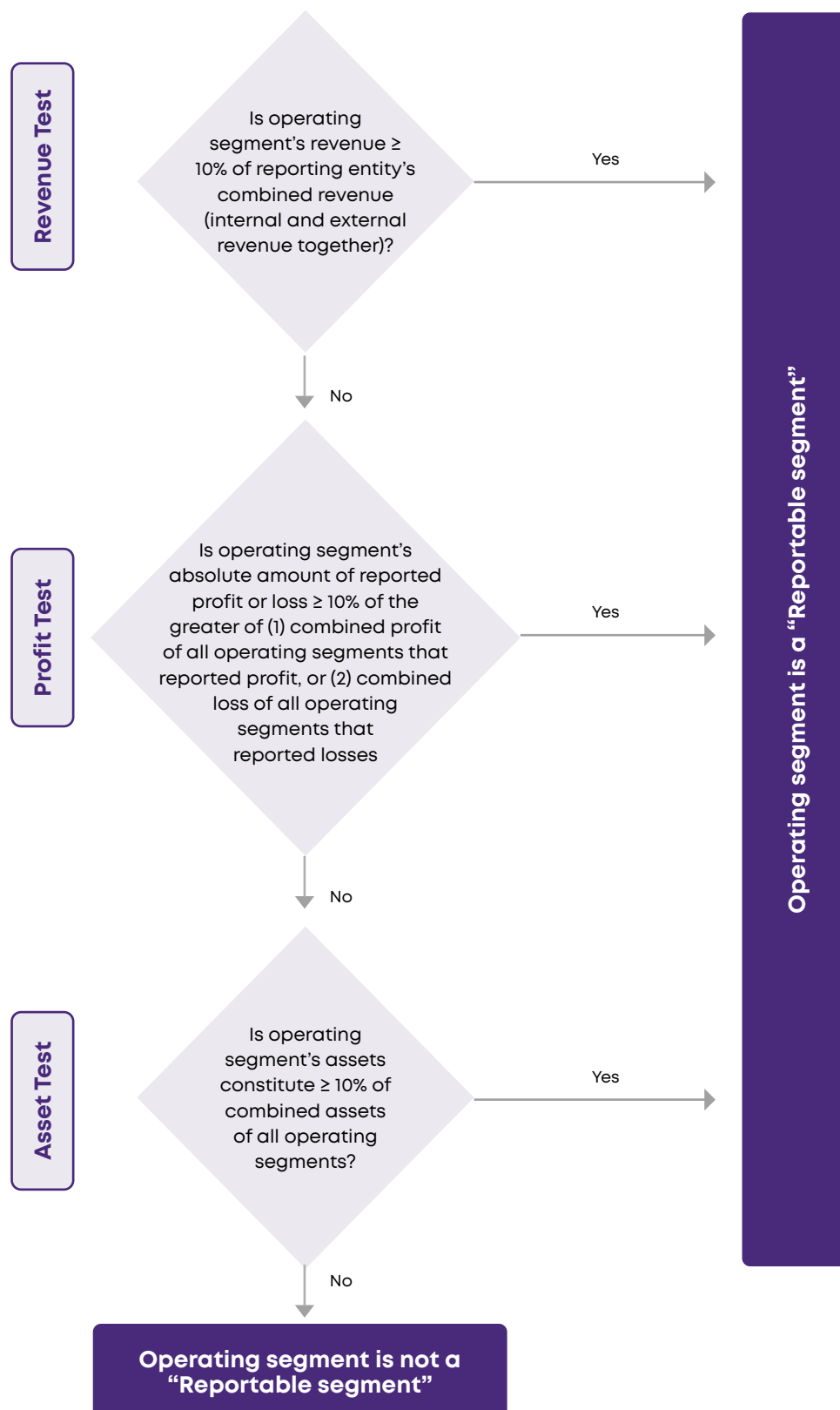
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Operating segments that do not meet any quantitative thresholds may be considered reportable if management believes that the information would be useful for the readers.

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Step 02

Combination of operating segments that do not meet quantitative thresholds

After identifying the operating segments which meet the 10% quantitative threshold, the next step is for the entity to decide how to report the remaining segments (or immaterial operating segments) that did not meet the quantitative thresholds. The entity is permitted to combine immaterial operating segments and immaterial groups of aggregated operating segments (i.e., those that do not meet the 10% tests) subject to fulfillment of the following conditions:

- The aggregation is consistent with the objective and basic principles of ASC 280 (i.e., providing the users of the financial statements with disaggregated information like what is received by management to understand the entity's performance better and assess its prospects for future net cash flows)
- The segments have similar economic characteristics
- The operating segments share most of the qualitative aggregation criteria (as stated above).

In other words, aggregation of immaterial operating segments shall be evaluated for aggregation based on the same principles as applicable to Step 2 Aggregate operating segments, to combine operating segments into a single reportable segment.

Step 03

75% of consolidated revenue test

As per the principles of ASC 280, external revenue of all the reportable segments should aggregate to at least 75% of a reporting entity's consolidated revenue. If the aggregate reported revenue of reportable segment is less than 75% threshold, additional reportable segments should be identified and included in a reportable segment, even if those additional operating segments do not meet the 10% tests, until at least 75% of consolidated revenue is included in reportable segments.

"All other" segments category

- The residual non-reportable operating segments and other components that are not identified as operating segments should be combined and disclosed in an **"All other"** category.
- Non-reportable segments should not be aggregated with a reportable segment unless the aggregation criteria have been met.
- This category should be presented alongside the reporting entity's reportable segments and should not be identified as a reportable segment itself.

The practical limit for the number of reportable segments

As per ASC 280, there may be a practical limit to the number of reportable segments that a public entity separately discloses, beyond which segment information may become overly detailed. The guidance does not prescribe the limit; however, it states that as the number of reportable segments increases above 10, the entity should consider whether a practical limit has been reached to avoid the overly detailed segment information for the financial statement users.

Recasting prior-period segment data

For a newly identified reportable segment that meets the quantitative threshold in the current year, an entity shall present separate segment data for the current year and all prior years presented (i.e., recasted information) for comparison purposes. Such disclosure shall be made for prior years even if the operating segment was less than the quantitative thresholds in prior years, unless information is impracticable to present i.e., the necessary information is not available and the cost to develop it would be excessive.

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Examples:

I. 10% Threshold test for an entity wherein profitability and asset measures are different for all segments

ABC Inc. has three operating segments (A, B, and C). None of the segments can be aggregated under the aggregation criteria. The following is reported to the CODM:

Segment A	Segment B	Segment C
measures profitability based on operating income, with pension expenses reported on a cash basis. Segment 1 is the only segment with allocated pension expenses. Asset information is limited to the presentation of trade receivables.	measures profitability based on Profit before tax (PBT) income, which includes an internal cost-of-capital amount charged by "corporate" only to this segment. Asset information is limited to presenting trade receivables and property plant and equipment.	measures profitability based on Profit after tax (PAT) income. Asset information is limited to the presentation of trade receivable.

All segments of ABC Inc. are profitable.

How should ABC Inc. evaluate the operating segments using the 10% tests?

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Analysis:

Under circumstances wherein the measure of segment profit or loss that is used by the CODM is a different measure for each segment (for example, if the CODM uses EBITDA for purposes of evaluating the performance of two segments but uses PAT for purposes of evaluating the performance of three other segments).

While evaluating the segments based on different measures of segment profit or loss, the threshold criterion of the 10% of profit or loss test should be applied to a consistent measure of segment profit or loss for each segment (e.g., either PAT or EBITDA at the company's consistently applied option), even if such measure is not consistently used by the CODM for purposes of evaluating segment performance.

To apply this principle, an entity needs to identify the consistent measure for which information is available for each segment being evaluated.

As per the facts of the given case, since operating income is available for all segments (A, B, and C) of ABC Inc., therefore it may be considered the most consistent measure for performing the 10% profit test. For the 10% Asset test, ABC Inc. shall consider trade receivable as the most consistent asset measure, as it is the only asset measure regularly reviewed by the CODM.

II. Restatement of prior-period segment data- Change in Segment Composition

XYZ Inc. has eight operating segments, none of which qualify for aggregation. Six segments were disclosed as reportable in 20X2, based on the 10% tests. The aggregate external revenues of these reportable segments exceeded 75% of XYZ Inc.'s consolidated revenues. The remaining two operating segments were combined in an "all other" category. In the current year 20X3, one of the two operating segments included in the "all other" category in 20X2 became quantitatively material (i.e., it exceeded the threshold for one of the 10% tests). Also, in 20X3, one of the six 20X2 reportable segments was no longer quantitatively material.

How should XYZ Inc. reflect these changes in segment composition in its segment disclosures for the current year 20X3?

Analysis:

As per the principles of ASC 280, for a newly identified reportable segment that meets the quantitative threshold in the current year, an entity shall present separate segment data for the current year as well as all prior years presented (i.e., restated) for comparison purposes. Such disclosure shall be made for prior years, even if the operating segment was less than the quantitative thresholds in prior years unless the information is impracticable to present.

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As per the facts of a given case, in 20X3 one of the segments which failed the 10% test in 20X2 and was presented in an "all other category" meets the 10% threshold criteria and hence meets the definition of reportable segment. Therefore, applying the principles of recasting prior periods, segment data for all prior periods must be recast by XYZ Inc. to reflect the new reportable segment as a separate reportable segment, unless it would be impracticable to do so.

On the other hand, for the one of the six operating segments identified as a reportable segment in 20X2 that no longer meets the quantitative thresholds in current year (assuming the operating segment is not considered to be of continuing significance), disclosure of its individual results need not be made in 20X3. In this case, prior period segment disclosures could also be recast to conform to the current period presentation (provided the 75% revenue test threshold is met for all periods).

6. Segment disclosure

ASC 280 requires an entity to disclose the following information for reportable segments in the annual financial statements:



General information

Key disclosure requirements

- Entity shall disclose the approach for identification of reportable segments including:
 - Basis of organization i.e., by products and services, geographical area, regulatory environments, aggregation of operating segment
 - Types of products and services from which each reportable segment derives its revenue and
 - Sources of revenue included in the "all other" category
 - Title and position of the individual or the name of the group or committee identified as the Chief Operating Decision Maker

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Profit or loss measurement for reportable segments

Key disclosure requirements

- **Measure:** The entity shall disclose the measure of profit or loss for each reportable segment. Such disclosure shall also include disclosure of the following items that are considered for computation of segment profit or loss:
 - Revenue from external customers.
 - Revenue from transactions with the entity's other operating segments.
 - Interest revenue.
 - Interest expense.
 - Depreciation, depletion, and amortization expense.
 - Unusual items (like items from material events or transactions that are unusual or infrequent in the case of that entity (e.g., litigation settlements or restructuring costs).
 - Equity in the net income of investees accounted for by the equity method
 - Income tax expense or benefit.

- **Significant expense categories:**

The amendments under ASU 2023-07 create a principle around significant expense categories.

Under this principle, an entity discloses for each reportable segment the **significant expense categories** (consider quantitative and qualitative factors) and amounts **regularly provided to the CODM** and included in the reported measure of a segment's profit or loss.

Such information is provided if the expense is easily computable from the information provided to the CODM. For instance, if the gross margin for each segment is provided for the CODM and it is determined that the cost of sales is a significant expense category, then an entity is required to disclose the cost of sales as such information can be easily computed from the information provided to the CODM.

All other items are reported as "other segment items." Entities are required to disclose the qualitative composition of such other segment items.

Implementation matters

- **Separate disclosure of Interest revenue:** Interest revenue shall be disclosed separately from interest expense for each reportable segment. However, the entity may consider reporting the segment's interest revenue net of its interest expense and disclose the fact under the following situation-
 - Most of the segment's revenues are from interest and
 - CODM relies primarily on net interest revenue to assess the performance of the segment and make decisions about resources allocation.

However, consequent to the amendment under ASU 2023-07, interest expense would nonetheless be reported if it is significant.

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- Items forming part of the computation of Profit or loss (such as interest revenue, interest expense, etc.) shall be disclosed separately only if such amounts are **"provided to" the CODM by segment in management reports or other segment profitability reports**, even if these amounts are not part of the CODM's basic performance evaluation. For example, the CODM evaluates the performance of its segments based on EBITDA. However, the management reports reviewed by the CODM include interest expenses and summaries of depreciation and amortization expenses related to each segment. Therefore, even though interest expense, depreciation, and amortization expense are not included in "the segment profit or loss measurement basis" reviewed by the CODM, these would be required to be disclosed for each reportable segment because it is included in segment reports provided to the CODM.

Assets for reportable segments:

Key disclosure requirements

- The entity shall disclose the measure of assets for each reportable segment, which includes only the assets included in the measure of the segment's assets reviewed by the CODM for assessing performance and allocating resources.
- An entity shall also disclose the following if these are reviewed by CODM:
 - Investment in equity method investees.
 - Total expenditure for additions to long-lived assets (excluding financial instruments, certain intangible assets of financial institutions, deferred policy acquisition costs, and deferred tax assets).

Implementation matters

- Items of assets that are included by segment in any of the reports that are regularly provided to the CODM shall be disclosed separately, even if those amounts are not included in the measure of segment assets reviewed by the CODM.



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Measurement basis

Key disclosure requirements

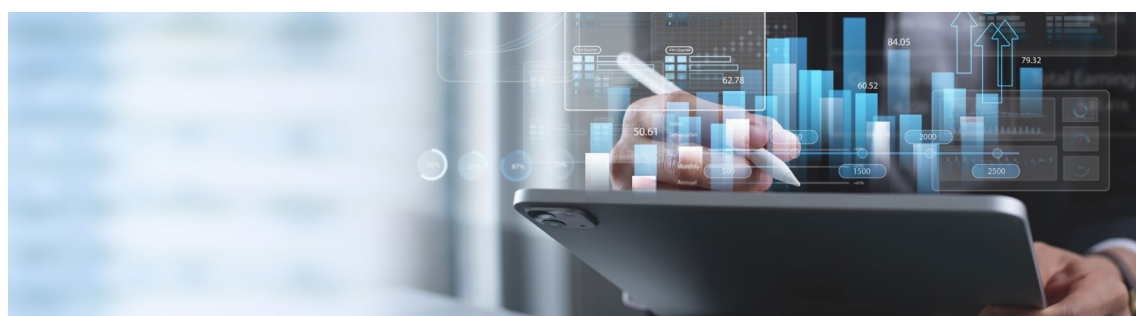
- Entity shall disclose how segment profit or loss and segment assets are measured for each reportable segment by providing, at a minimum, the following information:
 - The basis of accounting for transactions between reportable segments (e.g. Intersegment sales).
 - The nature of differences between the measurements of the reportable segments' profits or losses and the entity's consolidated income before income taxes and discontinued operations.
 - The nature of any differences between the measurements of the reportable segments' assets and the entity's consolidated assets.
 - The nature and effect of changes (if any) from prior periods in the measurement methods used to determine reported segment profit or loss, including significant changes to the measurement method of expenses, the method of allocating expenses, or centrally incurred expenses to a segment.
 - The nature and impact of any asymmetrical allocations to segments should be explained, such as allocating depreciation expense without corresponding depreciable assets.
 - Narrative explanation of how its CODM uses each reporting measure of a segment profit or loss in assessment performance or allocating resources.

Multiple measures of segment's profit or loss

Key disclosure requirements

- Consequent to the amendments under ASU 2023-07, the Standard now permits an entity to report multiple measures of a segment profit or loss provided that
 - The CODM uses such multiple measures for assessing the performance of a segment and deciding how to allocate resources and
 - The measure closest to the reported GAAP numbers is also provided.
- If a CODM only uses one measure to assess such performance or allocate resources, then such measure shall be disclosed as segment results.

Due to this amendment, which allows more than one measure of a segment's profit or loss to be reported, public entities may include in their disclosures segment profitability measures used by the CODM, which may be non-GAAP measures.



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Reconciliations

Key disclosure requirements

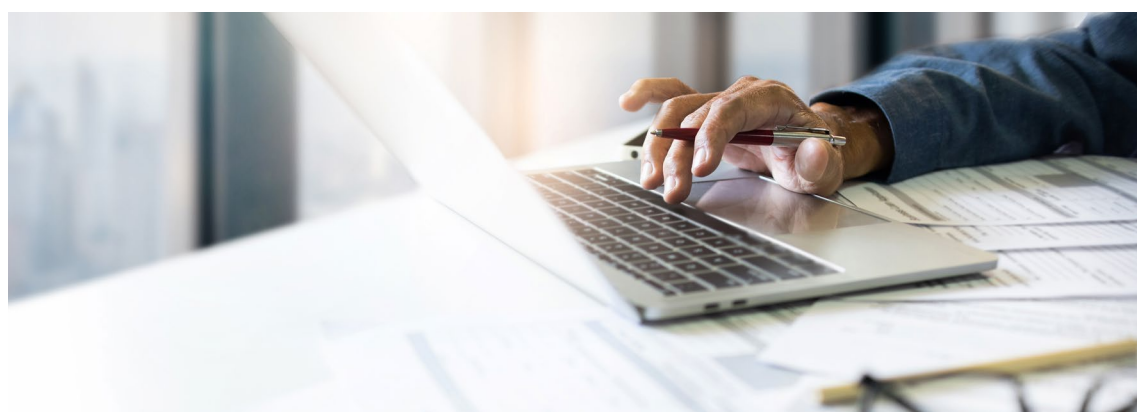
- Entity shall disclose quantitative reconciliations of differences between combined segment information and consolidated totals, with separate disclosure of the following items:
 - The total of the reportable segments' revenues to consolidated revenue.
 - The total of the reportable segments' each measure of profit or loss to the entity's consolidated income before income taxes and discontinued operations.
 - The total of the reportable segments' assets to the entity's consolidated assets.
 - The total of other significant items for the reportable segment disclosed to the corresponding consolidated amount.
 - Intersegment profit where intersegment revenues were reported.

7. Entity-wide disclosures

ASC 280 requires entities to make certain entity-wide disclosures, which include information about:



However, entities are not obligated to make duplicate disclosures if provided elsewhere. For instance, if an entity's operating segments are defined based on products and services, and revenue for each product/service (or similar group) is disclosed in the reportable segments' disclosures, this information need not be reiterated in the entity-wide disclosures.



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Entity-wide segment information- Products and services

- Reporting entities deriving revenue from a broad range of different products and services are required to provide entity-wide disclosures related to their products and services unless it is impracticable to do so. Reporting entities must disclose revenues derived from transactions with external customers for each product or service or each group of similar products or services, even when there is only one reportable segment.
- While disclosing entity-wide segment information for products and services, the entity shall consider the aggregation principles to determine the level at which products and services should be reported. For e.g., if all products have similar economic characteristics evidenced by similar rates of profitability, similar production processes, similar customer class, and similar growth opportunities, a reporting entity may conclude that all its products are similar and that no additional disclosures by product type are necessary.

Entity-wide segment information- Geographic areas

- The reporting entity must provide information about the geographic areas in which it generates its revenues and holds its long-lived assets, unless it is impracticable to do so.
- As per **ASC 280**, the entity shall disclose the following:
 - Revenues from external customers attributable to the public entity's country of domicile and attributed to all foreign countries in total from which the public entity derives revenues. If revenues from external customers attributed to an individual foreign country are material, those revenues shall be disclosed separately. A public entity shall disclose the basis for attributing revenues from external customers to individual countries.
 - 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 located in the public entity's country of domicile and located in all foreign countries in total, in which the public entity holds assets. If assets in an individual foreign country are material, those assets shall be disclosed separately.

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Entity-wide segment information- Major customers

- The reporting entity is required to disclose information related to major customers. If revenues from transactions with a single external customer amount to 10 percent or more of an entity's revenues, the entity must disclose that fact (but not the name of the customer). The entity must disclose the total amount of revenues from each such customer and the segment or segments reporting those revenues.

8. Interim disclosure requirements

Existing guidance (*Before ASU 2023-07 is effective*):

Prior to the amendment made by ASU 2023-07, reduced disclosures, as summarized below, were permitted in condensed financial statements of interim periods:

ASC 280 requires information to be disclosed for reportable segments in condensed financial statements in interim reports, such as Form 10-Q. The objective is to disclose an update of the information that was presented in the most recent annual financial statements.

Required to be included in Interim disclosures	Not required to be included in Interim disclosures
- External revenues. - Intersegment revenues. - A measure of segment profit or loss. - A description of differences, if any, from the last annual report based on segmentation or on the basis of measurement of segment profit or loss. - Reconciliation of the total of the reportable segments' measures of profit or loss to the entity's consolidated income before income taxes and discontinued operations along with significant reconciling items. - Change in the structure of the entity's internal organization during an interim period, resulting in the change in the composition of the entity's reportable segments.	- Following components of segment profit or loss: - Interest revenue. - Interest expense. - Depreciation, depletion, and amortization expense. - Unusual items. - Equity in the net income of investees accounted for by the equity method. - Income tax expense or benefit. - Segment assets unless they have changed materially since the last annual report. - Basis of segmentation, unless there are differences, from the last annual report. - Measurement basis of profit or loss, unless there are differences, from the last annual report. - Entity-wide disclosures.

Amended Guidance (After ASU 2023-07 is effective):

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ASC 280-10-50-32 requires that all annual disclosures about the reportable segment's Profit or Loss and assets should also be made in interim periods, as against reduced disclosure requirements applicable before the applicability of ASU 2023-07. These include reported measures of segment profit or loss, total assets, revenues, interest revenue and expense, depreciation, depletion and amortization, unusual items, equity in income of investees, income tax expense or benefit, significant non-cash items other than depreciation depletion, and amortization, equity method investments, and total additions to long-lived assets.

Interim period disclosure shall also include:

- Significant segment expenses and other segment item disclosures are also required for interim periods, and
- The reconciliation of the total of reportable segments' measures of profit or loss to consolidated income before income taxes and discontinued operations.

However, the following disclosures are not required for Interim periods:

- The reconciliations of the total of reportable segments' revenues and assets to their corresponding consolidated totals.
- Entity-wide disclosures, including disclosures about major customers.

9. Amendment to ASC 280 (ASU 2023-07)

With the objective to improve disclosures about a public entity's reportable segments and to address requests from investors for more detailed information about each reportable segment's expenses, FASB issued an Accounting Standards Update No. 2023-07 (ASU) on November 27, 2023. Amendments in this Update introduce a new disclosure principle in Topic 280 requiring public entities to report on an annual and interim basis, incremental information about significant segment expenses and other segment items included in a segment's profit or loss measure. Further, this ASU permits entities to disclose multiple measures for each reportable segment's performance as reviewed by the CODM. Public entities with a single reportable segment will also have to provide the disclosures required by these amendments, and all disclosures required by Topic 280.

Applicability of ASU

The ASU applies to all public entities that are required to report segment information in accordance with Topic 280. All public entities will be required to report segment information in accordance with the new guidance for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. Early adoption is permitted.

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Key highlights of amendments

In the table below, we have highlighted amendments introduced by the ASU in the application of ASC 280's operating principles:

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	Segment reporting principles	Key Changes introduced
1.	Identification of CODM	No change
2.	Identifying operating segments & aggregation rules	
3.	Reportable segment identification rules	
4.	Entity-wide information	
5.	Disclosure requirements	
	Entities with a single reportable segment	Topic 280 was previously silent about how entities with a single reportable segment would apply the disclosure & reconciliation requirements. The ASU clarifies that alldisclosure & reconciliation requirements in Topic 280, including those introduced in the ASU, would apply to these entities.
	General information	CODM's title & position (if an individual) or name of the group/ committee identified as the CODM to be disclosed.
	Profit or loss and asset information	- Entities that provide more than one (multiple) measure of segment profit (which may be non-GAAP measures) are now allowed to report one or more of those additional measures as long as one of these measures is consistent with a GAAP measure. - Further, the ASU requires entities to disclose how the CODM uses the reported measure(s) to assess each reportable segment's performance and decide resource allocation. - Furthermore, changes in the method of allocating expenses to segments, including allocation of centrally incurred expenses in the current period vis-a-vis prior periods for each reportable segment, are to be disclosed. - ASU introduces a new principle to disclose amounts of 'significant segment expenses' included in segment P&L which are regularly provided to CODM, including expenses that are easily computable from the CODM information package (e.g., amounts of COGS if the information provided to CODM is only the gross profit margin %).

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	Segment reporting principles	Key Changes introduced
	Reconciliation requirements	Reconciliation between the segment measure and consolidated income before taxes & discontinued operations is required for 'each' of the measures elected as reportable by entities (i.e., reconciliation of non-GAAP measure to GAAP measure would be required if an entity elects to disclose the non-GAAP measure in the financial statements).
6.	Interim disclosures	All annual disclosures about reportable segment's P&L and assets be made in interim periods, except for entity-wide disclosures and reconciliation of segment balance sheet amounts.
7.	Recasting of comparative period for Changes made in the current period	ASU requires: - Recasting comparative information (including interim periods), when practical, if changes are made in the current period to the information provided to CODM, which causes a change in the identification of 'significant segment expenses'. - Entities that do not recast comparative information for changes made in the current period to either the method of expense measurement or the method of expense allocation between segments, including centrally incurred expenses, to disclose the nature of change in the measurement method.

To learn more about requirements, implementation matters, and key considerations of amendments made by FASB to Topic 280 through Accounting Standard Update ASU 2023-07, refer to our recent publication titled, FASBs' Amendments to Segment Reporting Disclosure Requirements (Topic 280).



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Lack of clear definition for CODM

ASC 280 describes CODM as the function responsible for allocating resources and assessing segment performance but provides minimal guidance on specific titles or criteria for identification. This ambiguity may result in subjectivity and inconsistency in CODM identification across companies.

Identifying CODM in complex organizational structures

In contemporary organizational structures, roles and responsibilities often overlap or are shared across multiple individuals. Identifying the true decision-maker responsible for segments, particularly in decentralized organizations, becomes intricate.

Identifying operating segments in case of diversified operations

Companies engaged in diverse business activities may find it challenging to define clear and distinct operating segments. Determining whether certain activities qualify as separate segments or are integrated into a broader segment can be subjective and complex.

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**Aggregating operating
segments**

Paragraph 280-10-50-11 states that operating segments are considered similar if they have the same future prospects. Therefore, if the economic characteristics and the aggregation criteria are met, then the segments may be aggregated. However, judgment is required in each case. The SEC frequently investigates segment performance, seeking a detailed analysis spanning 3-5 years (including the current interim period) of segment revenue and profit trends (e.g., gross, operating profit). SEC focuses on evidencing similar economic traits of aggregated segments. The SEC might request data like profitability projections, forecasts, and long-range plans when assessing economic similarity.

**Allocating shared
costs among segments
accurately**

Shared costs, such as administrative expenses or corporate overhead, need to be allocated to individual segments based on reasonable and consistent allocation methodologies. Establish clear allocation methodologies based on objective criteria, such as resource usage, benefits received, or market prices. Regularly review and update allocation methods to ensure they reflect changes in business operations and remain consistent with segment performance.

Entity-wide disclosures

As per the guidance, the reporting entity is required to provide information on Entity-wide disclosure geography wise based on materiality. In the absence of explicit guidance on materiality, assessing what is material is a matter of judgment. Drawing reference to the 10% test criteria for reporting entity if an individual country has external revenues or long-lived assets that represent more than 10% of the consolidated totals, the presumption is that the country is material and should be disclosed separately.

Comparison with IFRS

1. Foreword

2. Purpose

3. Background

4. Summary of Topic

5. Key challenges in Segment Reporting requirements- Uniquis Perspective

6. Comparison with IFRS

Both **ASC 280, Segment Reporting** under USGAAP, and **IFRS 8, Operating Segments** under IFRS, provide guidance on the Segment reporting requirements. While there are similarities between segment reporting requirements under two GAAPs, wherein the key principle for segment reporting is based on information reported to the chief operating decision maker (CODM), the following table summarizes some of the Key differences:

Key Provisions	ASC 280	IFRS 8
Segment reporting- Disclosure of assets and liabilities:	The entity is not required to report the segment liabilities, even if they are reported to the CODM. However, an entity can voluntarily make these disclosures.	If the entity regularly provides the CODM with a measure of total assets and total liabilities for each reportable segment, it is required to report this information.
Identification of Operating segments	Entities utilizing a matrix organizational structure are required to determine their operating segments based on the products or services offered rather than geography or other metrics.	Identification of operating segments is based on the "core principle" (i.e., disclosing information, which enables users of financial statements to evaluate the nature and financial effects of the business activities in which the entity engages and the economic environments in which it operates) regardless of the form of organization used.



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