

Financial reporting developments

A comprehensive guide

Segment reporting

Accounting Standards Codification 280


April 2023

To our clients and other friends

Segment reporting continues to be an important element of financial reporting for public companies. A fundamental principle of Accounting Standards Codification (ASC or Codification) 280, *Segment Reporting*, is that a company's segment disclosures should be consistent with management's reporting structure. The objective is to allow users to "see through the eyes of management" a company's business. By highlighting the risks and opportunities that management views as important, the Financial Accounting Standards Board (FASB or Board) believes that financial statement users will be better positioned to understand the public entity's performance, to assess its prospects for future net cash flows and to make more informed judgments about the entity as a whole.

While the requirements of ASC 280 have been effective for many years, segment disclosures continue to be a frequent area of emphasis in Securities and Exchange Commission (SEC) staff comment letters. In these reviews, the SEC staff continues to focus on how companies identify and aggregate operating segments and whether companies have inappropriately included non-GAAP measures in their segment disclosures. Companies also are frequently asked about the adequacy of their entity-wide disclosures with respect to products and services, revenues attributable to individual foreign countries and revenues from major customers.

We encourage public companies to continue to evaluate their segment reporting practices, especially in situations in which an entity has undertaken a reorganization or when there are inconsistencies between an entity's management reporting structure and its segment disclosures. EY professionals are prepared to help you identify and understand the issues related to segment reporting.

The logo for Ernst & Young LLP, featuring the company name in a stylized, cursive script font.

April 2023

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Notice to readers:

This publication includes excerpts from and references to the Financial Accounting Standards Board (FASB or the Board) Accounting Standards Codification (the Codification or ASC). The Codification uses a hierarchy that includes Topics, Subtopics, Sections and Paragraphs. Each Topic includes an Overall Subtopic that generally includes pervasive guidance for the Topic and additional Subtopics, as needed, with incremental or unique guidance. Each Subtopic includes Sections that in turn include numbered Paragraphs. Thus, a Codification reference includes the Topic (XXX), Subtopic (YY), Section (ZZ) and Paragraph (PP).

Throughout this publication references to guidance in the Codification are shown using these reference numbers. References are also made to certain pre-Codification standards (and specific sections or paragraphs of pre-Codification standards) in situations in which the content being discussed is excluded from the Codification.

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1

Scope and overview

Excerpt from Accounting Standards Codification

Segment Reporting – Overall

Scope and Scope Exceptions

280-10-15-2

The guidance in the Segment Reporting Topic applies to all **public entities**, with certain exceptions noted below. Entities other than public entities are also encouraged to provide the disclosures described in this Subtopic.

280-10-15-3

The guidance in this Subtopic does not apply to the following entities:

- a. Parent entities, subsidiaries, joint ventures, or investees accounted for by the equity method if those entities' 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 Subtopic does apply to those entities if they 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.

Glossary

280-10-20

Public Entity

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

- a. 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).
- b. It is required to file financial statements with the Securities and Exchange Commission (SEC).
- c. It provides financial statements for the purpose of issuing any class of securities in a public market.

Conduit Debt Securities

Certain limited-obligation revenue bonds, certificates of participation, or similar debt instruments issued by a state or local governmental entity for the express purpose of providing financing for a specific third party (the conduit bond obligor) that is not a part of the state or local government's financial reporting entity. Although conduit debt securities bear the name of the governmental entity that issues them, the governmental entity often has no obligation for such debt beyond the resources provided by a lease or loan agreement with the third party on whose behalf the securities are issued. Further, the conduit bond obligor is responsible for any future financial reporting requirements.

The segment reporting requirements apply only to public entities, as defined above, which includes companies making filings with a regulatory agency in preparation for the sale of securities in a public market (e.g., an initial public offering). Although they are not required to apply ASC 280, certain nonpublic entities and not-for-profit entities are encouraged to provide the disclosures described therein.

In addition to the consolidated financial statements, some entities present in their annual reports additional information such as “separate company” financial statements of the parent entity, subsidiaries, joint ventures or equity method investees. ASC 280 does not apply to those entities’ separate company financial statements. However, if the subsidiaries are public entities themselves (as defined in ASC 280), ASC 280 still applies to the separate financial statements of the public subsidiaries. See section 2.3 for further discussion of unconsolidated businesses.

Excerpt from Accounting Standards Codification

Segment Reporting – Overall

Objectives

General

280-10-10-1

The objective of requiring disclosures about segments of a **public entity** and related information is to provide information about the different types of business activities in which a public entity engages and the different economic environments in which it operates to help users of financial statements do all of the following:

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

Overview and Background

General

280-10-05-3

A public entity could provide 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. The guidance in this Subtopic requires that general-purpose financial statements include selected information reported on a single basis of segmentation. The method 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 public entity for making operating decisions and assessing performance. Consequently, the segments are evident from the structure of the public entity’s internal organization, and financial statement preparers should be able to provide the required information in a cost-effective and timely manner.

ASC 280 requires public entities to disclose certain information about reportable operating segments in complete sets of financial statements of the entity and in condensed financial statements of interim periods. It also requires public entities to present certain “entity-wide” information, including revenues related to products and services and geographic areas in which they operate. Information about major customers also is required.

A public entity also is required to present disaggregated information by segment using the *management approach*. The objective of this approach is to allow users to see the company’s business through the eyes of management based upon the way management reviews performance and makes decisions. The management approach requires segment information to be reported based on how management internally evaluates the operating performance of the company’s business units or segments (i.e., its management reporting structure).

The FASB believes users consider the management approach to be preferable for many reasons, including the following:

- 1) The management approach is based on an entity's internal organization, which is valuable because it highlights the risks and opportunities that management believes are important and allows users to assess the performance of individual operating segments in the same way that management reviews performance and makes decisions.
- 2) The management approach provides users with the opportunity to see the entity from management's vantage point and enhances users' ability to predict actions or reactions of management that can significantly affect the entity's prospects for future cash flows.
- 3) Because the information is already generated for management's use, the incremental cost of reporting segment information should be relatively low. Other than some of the entity-wide disclosures (see chapter 5 for a discussion of these disclosure requirements), management should not need to prepare any new reports to comply with the segment disclosure requirements.
- 4) Segment reporting under the management approach is consistent with other significant sections of an entity's annual report, such as the business review section and the chairman's letter. These sections of the annual report usually describe the company's businesses the way that management views and runs these businesses, which is how segment information is presented under the management approach.

1.1 Competitive harm

Certain entities have expressed concern that making disclosures under the management approach may put them at a competitive disadvantage. Some entities believe that disclosing this information could affect their bargaining position in negotiations. Others believe that because some competitors may not have to make the same disclosures, the competitors will have a strategic advantage. Competitors may not have similar disclosures because their organizations are managed differently, resulting in different reportable segments, or because they are nonpublic or foreign and reporting under a framework that doesn't require similar segment reporting.

ASC 280 does not provide a "competitive harm" exemption for providing segment information because the FASB was concerned that such an exemption might be overused.¹ The SEC staff has stated that some registrants have contended that they should not be required to apply a US GAAP standard because the result would be "competitively harmful" or "misleading." The staff stated that these arguments are troubling as they disregard the thoughtful balance taken by the accounting standard setters in crafting reporting standards that provide transparent, useful information to investors.² As such these concerns do not provide a rationale to not provide the disclosures required by ASC 280.

1.2 Operating segments

Excerpt from Accounting Standards Codification

Segment Reporting – Overall

Overview and Background

General

280-10-05-4

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

¹ See paragraph 111 of Statement 131.

² **Remarks by Wesley R. Bricker**, SEC Deputy Chief Accountant, Office of the Chief Accountant, at the 2015 AICPA National Conference on Current SEC and PCAOB Developments, 9 December 2015.

While the concept of operating segments is fundamental to segment reporting, the identification of operating segments often is one of the biggest challenges in applying ASC 280. To properly determine the operating segments, the first step is to identify the entity's chief operating decision maker (CODM). The term CODM identifies the decision-making role within an organization and not necessarily an individual with a specific title. Often the CODM of an entity is its chief executive officer (CEO) or chief operating officer, but it may be a group of executives. The CODM is the individual or individuals within the organization who evaluate an entity's operating results to assess performance and allocate resources. The focus on "operating results" (e.g., revenues, margin) is consistent with the concept in ASC 280-10-05-4 regarding making decisions about the entity's operating matters. Consideration should be given to the measures used by the CODM to allocate resources. Once the CODM is identified, an entity will be able to determine its operating segments. ASC 280 defines an operating segment as a component of a business entity that has each of the three following characteristics:

- 1) The component engages in business activities from which it may recognize revenues and incur expenses (including startup operations and revenues and expenses relating to transactions with other components of the same entity).
- 2) The operating results of the component are regularly reviewed by the entity's CODM to assess the performance of the individual component and make decisions about resources to be allocated to the component.
- 3) Discrete financial information about the component is available.

For many entities, application of these three characteristics clearly will identify their operating segments. If the CODM assesses performance and makes resource allocation decisions based on only one type of segment information (e.g., products or services, geographic), the components reflected by that type of information constitute the operating segments of the entity. However, in some cases, the CODM may assess performance based on more than one type of operating result. For example, the CODM may review one type of result based on product lines and another type based on geographic area. In those situations, segment information is required to be presented for the type for which there are segment managers that are held accountable. If both types of segments have managers that are held accountable to the CODM, the types of segments based on products or services would be disclosed.

1.3

Aggregation criteria

ASC 280 permits operating segments to be aggregated for reporting purposes even though they may be individually material, if (1) aggregation is consistent with the objective and basic principles of ASC 280, (2) the operating segments have similar economic characteristics (e.g., comparable long-term average gross margin) and (3) the operating segments are similar in each (i.e., **all**) of the following areas:

- ▶ The nature of the products or services
- ▶ The nature of the production processes
- ▶ The type or class of customer for their products or services
- ▶ The methods used to distribute their products or provide their services
- ▶ If applicable, the nature of the regulatory environment (e.g., banking, insurance)

Illustration 1-1: Aggregation

Assume a retailer has eight stores, each of which meets the definition of an operating segment and each of which is similar in each of the five areas listed above. If each store also has similar economic characteristics and aggregation would be consistent with the objective and basic principles of ASC 280, the stores can be aggregated into one reportable segment. However, if there were differences between the stores, such as demographics (which generally would affect the economic characteristics of the markets), aggregation might not be allowed even if all of the other criteria were met.

In our experience, we have noted that the SEC staff questions whether aggregation of operating segments into one or just a few reportable segments is consistent with the objective and basic principles of ASC 280. In evaluating the aggregation of operating segments, the SEC staff presumes that investors would prefer receiving disaggregated information about the operating segments. In addition, the SEC staff often requires registrants to provide historical and forecasted economic measures, such as sales growth, gross margins, operating margins and any additional financial information, to help the SEC staff assess whether individual operating segments are economically similar. ASC 280 does not prescribe a specific threshold for economic similarity, and therefore, there is no bright line when making this evaluation. However, the greater the percentage difference, the more evidence the company should have to support economic similarity of its operating segments. The SEC staff has stated that the aggregation criteria are intended to be a high hurdle³ and should be viewed from the perspective of investors.

1.4 Reportable segments

Unless the aggregation criteria described in section 1.3 above, and in greater detail in section 3.1, are met, a public entity is required to report each material operating segment. The materiality thresholds for reporting individual or aggregated operating segments are based on 10% or more of segment revenues, segment absolute profit or loss, or segment assets. If any individual or properly aggregated operating segments do not meet the materiality thresholds, ASC 280 permits two or more of these immaterial operating segments to be combined into a single reportable segment if (1) combination is consistent with the objective and basic principles of ASC 280, (2) the operating segments have similar economic characteristics (e.g., comparable long-term average gross margin) and (3) the operating segments share a **majority** of the five specific aggregation criteria discussed in the preceding paragraphs.

In addition, a public entity is required to report separate operating segments until the external revenue attributable to reportable segments is at least 75% of total consolidated revenue. For example, if an entity identifies four operating segments that have combined revenues of 60% of total consolidated revenue, the entity must disclose additional operating segments (even if they do not individually meet the quantitative thresholds) that have combined revenue of at least 15% of total consolidated revenue such that the reportable segments in the aggregate account for at least 75% of total consolidated revenue.

1.5 Annual disclosure requirements



Proposed amendment to the standard

In October 2022, the FASB issued an exposure draft that would require public entities to disclose more segment information, including significant segment expenses and other segment items, on an annual and interim basis and provide in interim periods all disclosures about a reportable segment's profit or loss and assets that are currently required annually. The proposal would also permit public entities to disclose multiple measures of segment profit or loss, and public entities with a single reportable segment would have to provide all the disclosures required by ASC 280, including the proposed disclosures.

Readers should monitor developments.

³ **Remarks by Dan Murdock**, SEC Deputy Chief Accountant, Office of the Chief Accountant, at the 2014 AICPA National Conference on Current SEC and PCAOB Developments, 8 December 2014.

Excerpt from Accounting Standards Codification

Segment Reporting – Overall

Overview and Background

General

280-10-05-5

To provide some comparability between public entities, this Subtopic requires that an entity 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 entity is organized. As a consequence, some entities are likely to be required to provide limited information that may not be used for making operating decisions and assessing performance.

Other Presentation Matters

General

280-10-45-1

This Subtopic does not require that a **public entity** report segment cash flow. However, paragraphs 280-10-50-22 and 280-10-50-25 require that a public entity report certain items that may provide an indication of the cash-generating ability or cash requirements of an entity's operating segments.

280-10-45-2

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

ASC 280 requires certain “first-level” disclosures (e.g., revenue by segment, a measure of profit or loss and assets by segment) for reportable segments (see chapter 4 for a discussion of these disclosure requirements) and additional “entity-wide” disclosures (e.g., revenues for the entire entity, organized by products and services and by geographic area) if such information is not subject to the first-level disclosures. Entity-wide disclosures are required regardless of whether that information is provided to or used by the CODM (see chapter 5 for a discussion of these disclosure requirements).

ASC 280 requires segment information to be reported for each period for which a complete set of financial statements is provided and in condensed financial statements of interim periods. Also, to ensure comparability, if there are changes in the composition of reportable segments in the current period, those changes are required to be retrospectively applied to earlier periods. However, restatement is not required when it is impracticable (i.e., when the necessary information is not available and the cost to develop it would be excessive). For example, restatement might not be practicable when a public entity undergoes a fundamental reorganization and redesigns its internal financial reporting system. Disclosure is required if an entity has changed its segment presentation as a result of a change in the composition of reportable segments. Furthermore, if the segment information for earlier periods is not restated because it is impractical, the entity must disclose its current year segment information under both the old basis and new basis of segmentation unless such information is not available and is impracticable to maintain. We note that the SEC staff views “impracticable” as a very high standard and often challenges registrants that do not recast the prior year's segment information consistent with its segment reporting in the current year. As a result, companies should carefully evaluate whether it is impracticable to present comparable segment information for earlier periods as the SEC staff has an expectation that the information will be disclosed.

1.5.1 First-level disclosures

ASC 280 requires that a public entity disclose the factors that management considers most significant in determining its reportable segments, such as differences in products or services, geographic areas of operations or regulatory environments. A public entity also must disclose the types of products and services generating revenues for each reportable segment. In addition to these general requirements, first-level disclosures include reported segment profit or loss and related information and segment assets.

Adjustments and eliminations made in preparing a public entity's general-purpose financial statements and allocations of specific revenues, expenses, gains, losses and assets are included in the determination of segment amounts *only* if those items are included in the information provided to the CODM. For example, an entity that accounts for interest expense only on a consolidated basis (i.e., it is not included in the segment information) would not report interest expense for each reportable segment. Rather, the unallocated amount of interest expense, if material, would be separately reported in the reconciliation to consolidated amounts.

1.5.1.1 Segment profit or loss and related information

Under ASC 280, a public entity reports segment profit or loss for each reportable segment based upon the performance measure provided to and used by the CODM for purposes of making decisions about allocating resources to the segment and assessing its performance. Therefore, the performance measure is company specific and may vary by company.

ASC 280 requires certain components of segment profit or loss that are reported to the CODM to be separately reported for each reportable segment, including revenue, depreciation, interest revenue and expense, income taxes, and significant noncash items.

The segment information reporting in the footnotes should follow the same accounting policies used in generating the information used in the reports reviewed by the CODM, even if those accounting policies are different from the ones used to prepare the consolidated financial statements. For example, first-in, first-out (FIFO) basis may be used in reporting to the CODM and in the segment disclosures even though last-in, first-out (LIFO) is used in consolidation. Segment information also is not required to comply with GAAP. For example, pension expense might be reported on a cash basis to the CODM and in the segment disclosures though appropriate pension accounting would be required in the consolidated financial statements. However, an entity is required to make certain disclosures regarding how it has measured segment profit or loss and segment assets if these measures differ from the basis used in the preparation of the consolidated financial statements.

If the CODM 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 should 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 consolidated financial statements. See section 3.2.3 for further discussion when there is more than one measure of segment profit/loss or segment assets.

1.5.1.2 Segment assets

Under ASC 280, a public entity reports a measure of assets for each reportable segment for those assets that are included in the measure of the segment's assets provided to the CODM. If no asset information is provided for a reportable segment, disclosure of segment assets is not required, but that fact and the reason for its exclusion should be disclosed. In addition, an entity is required to disclose its equity investments and capital expenditures if these items are included in the measure of segment assets reviewed by the CODM.

1.5.1.3 Reconciliations

Under ASC 280, a public entity is required to provide a reconciliation of:

- ▶ The total of the reportable segments' profit or loss to the consolidated income before income taxes and discontinued operations (if an entity allocates these items to segments, the entity may reconcile to income or loss after these items)
- ▶ The total of the reportable segments' revenues to the entity's consolidated revenues
- ▶ The total of the reportable segments' assets to the entity's consolidated assets
- ▶ The total of the reportable segments' amounts for every other significant item of information disclosed to the corresponding consolidated amount

Significant reconciling items should be disclosed separately.

1.5.2 Entity-wide disclosures

Although ASC 280 requires a management approach, certain additional information must be disclosed, even if that information is not provided to or used by the CODM to manage the public entity. For example, if an entity is not managed based on differences in products or services (e.g., a geographical approach is used), certain information about products or services is nonetheless required to be disclosed. On the other hand, if a public entity manages its worldwide operations based on differences in products or services, certain geographic information nonetheless must be disclosed. The amounts reported should be based on the financial information used to produce the public entity's general-purpose financial statements. If providing entity-wide disclosures is impracticable (which is expected to be rare), the disclosures are not required, but that fact and the reason should be disclosed.

1.5.2.1 Information about major customers

ASC 280 requires all public entities to provide information about reliance on major customers (i.e., external customers that represent 10% or more of the public entity's revenue), even if such entities operate in only one segment.

To the extent the disclosures coincide with disclosures required in other ASC Topics (e.g., ASC 275) the disclosures could be combined. For example, the disclosures under ASC 275 on the description of products and services and concentration in volume of business transacted with a particular customer could be integrated with the disclosures regarding segments.

1.6 Interim disclosure requirements



Proposed amendment to the standard

In October 2022, the FASB issued an exposure draft that would require public entities to disclose more segment information, including significant segment expenses and other segment items, on an annual and interim basis and provide in interim periods all disclosures about a reportable segment's profit or loss and assets that are currently required annually. The proposal would also permit public entities to disclose multiple measures of segment profit or loss, and public entities with a single reportable segment would have to provide all the disclosures required by ASC 280, including the proposed disclosures.

Readers should monitor developments.

ASC 280 requires selected segment information to be reported on an interim basis. The disclosures include information on revenues, profit or loss, total assets for which there has been a material change from the amount disclosed in the last annual report, differences since year end in the measurement of segment profit or loss, and a reconciliation of combined segment profit or loss to consolidated income (before income taxes and discontinued operations, unless these items are already allocated to individual segments). This information must be disclosed in the condensed financial statements included in a registrant's Form 10-Q.

Entity-wide disclosures are not required for interim reporting purposes. Consistent with annual reporting, segment information for earlier periods is restated (unless impracticable) when an entity changes the composition of its reportable segments.

1.7 SEC considerations

The SEC staff has continued to focus on segment disclosures and the application of ASC 280. SEC staff members have discussed⁴ their approach in their review of segment disclosures and encouraged registrants to adopt a similar mindset when evaluating the appropriateness of segment disclosures. Some of the areas highlighted by the SEC staff have included (1) the identification of the CODM, (2) the identification of operating segments, (3) the aggregation or combination of operating segments, (4) internal controls over segment reporting, (5) use of non-GAAP measures and (6) entity-wide disclosures. SEC representatives said that segment reporting continues to be a critical focus area because investors continue to identify it as the most important disclosure area in SEC filings.

The SEC staff⁵ has emphasized the objectives and principles outlined in the guidance on segment reporting, including whether the design and operation of internal controls over the segment reporting judgments are appropriate. The SEC staff highlighted that the guidance on segment reporting requires the application of reasonable judgment and that input from, and interaction with, the CODM may be an important element in the design of effective internal controls over financial reporting, specifically how the CODM allocates resources and assesses performance. Documenting the design and effective operation of management's controls over these judgments is an integral part of management's support for the effectiveness of its internal controls over financial reporting and will be essential to the auditor's ability to evaluate these controls.

The following sections highlight remarks from the SEC staff:

- ▶ Identification of the CODM – see section 2.1.2
- ▶ Identification of operating segments – see section 2.1
- ▶ Aggregation of operating segments – see section 3.1
- ▶ Non-GAAP measures – see section 4.1.3
- ▶ Entity-wide disclosures – see section 5

⁴ **Remarks by Dan Murdock**, SEC Deputy Chief Accountant, Office of the Chief Accountant, at the 2014 AICPA National Conference on Current SEC and PCAOB Developments, 8 December 2014; **remarks by Courtney D. Sachtleben**, SEC Professional Accounting Fellow, Office of the Chief Accountant, at the 2015 AICPA National Conference on Current SEC and PCAOB Developments, 9 December 2015; comments by Nili Shah, SEC Deputy Chief Accountant, Division of Corporation Finance, at the 2016 AICPA National Conference on Current SEC and PCAOB Developments; comments by Patrick Gilmore, SEC Deputy Chief Accountant, Division of Corporation Finance, at the 2020 AICPA Conference on Current SEC and PCAOB Developments; comments by Melissa Rocha, SEC Deputy Chief Accountant, Division of Corporation Finance, at the 2021 and 2022 AICPA & CIMA Conference on Current SEC and PCAOB Developments.

⁵ **Remarks by Courtney D. Sachtleben**, SEC Professional Accounting Fellow, Office of the Chief Accountant, at the 2015 AICPA National Conference on Current SEC and PCAOB Developments, 9 December 2015.

We continue to see the SEC staff review publicly available information about registrants beyond the information included in public filings, including content from earnings calls, registrant websites and industry or analyst presentations. The review of additional information is often focused on identifying any potential inconsistencies between the way that management describes its business to the public (e.g., in its earnings releases) and the information contained in the company's segment footnote. The SEC staff often requests that registrants explain any potential inconsistencies between the information that is available elsewhere in the public domain and the information included in the segment footnote. The staff also has said that entities should consider the total mix of information that is reviewed by the CODM when determining its operating segments.

In light of the SEC staff's continued focus on segment reporting, we encourage public companies to continue to challenge their segment reporting practices, including the design and operation of their internal controls over financial reporting.

1.8 **Transition for initial adoption of ASC 280**

For entities that have not previously applied the provisions of ASC 280 (that is, non-public entities or not-for-profit entities that voluntarily adopt or become required to adopt ASC 280), the segment disclosures are required for all years presented in the entity's financial statements, unless it is impracticable to prepare prior year information.

2 Operating segments

2.1 Determination of operating segments

Excerpt from Accounting Standards Codification

Segment Reporting – Overall

Disclosure

Operating Segments

280-10-50-1

An **operating segment** is a component of a **public entity** that has all of the following characteristics:

- a. It engages in business activities from which it may recognize revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same public entity).
- b. Its operating results are regularly reviewed by the public entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance.
- c. Its discrete financial information is available.

280-10-50-2

An operating segment shall include components of a public entity that sell primarily or exclusively to other operating segments of the public entity if the public entity is managed that way. Information about the components engaged in each stage of production is particularly important for understanding vertically integrated public entities in certain businesses, for example, oil and gas entities. This information is also important because different activities within the entity may have significantly different prospects for future cash flows.

280-10-50-3

An operating segment may engage in business activities for which it has yet to recognize revenues, for example, start-up operations may be operating segments before recognizing revenues.

280-10-50-4

Not every part of a public entity is necessarily an operating segment or part of an operating segment. For example, a corporate headquarters or certain functional departments may not recognize revenues or may recognize revenues that are only incidental to the activities of the public entity and would not be operating segments. For purposes of this Subtopic, a public entity's pension and other postretirement benefit plans are not considered operating segments.

280-10-50-5

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

The determination of an entity's operating segments is the first step in determining what segment information needs to be reported in the entity's financial statements and is often the primary focus of the SEC staff in the review of an entity's segment disclosures. ASC 280 says individual business components are operating segments if they meet all of the following criteria:

- ▶ It engages in business activities from which it may recognize revenues and incur expenses (section 2.1.1).
- ▶ Its operating results are regularly reviewed by the public entity's CODM to allocate resources and assess performance (section 2.1.2).
- ▶ Its discrete financial information is available (section 2.1.3).

Sometimes, application of the guidance will result in identification of a single operating segment. In such circumstances, management should carefully evaluate whether its conclusion is consistent with the guidance and the way in which the company presents itself to investors. For example, the SEC staff has cautioned that it would seem counter to the objectives of segment reporting if the entity's business description indicates the entity is diversified across businesses or products but is not managed in a disaggregated way.⁶ See chapter 4 for disclosure considerations when an entity is organized as a single operating segment.

2.1.1 Engages in business activities

To be an operating segment, a component engages in business activities from which it may recognize revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same public entity).

Certain functional departments that do not recognize revenues or that recognize revenues that are incidental to the entity's activities would not be operating segments. Corporate headquarters, corporate shared services and centralized treasury operations generally would not qualify as operating segments. Conversely, a division that earns revenues, even if its revenues are all intercompany revenues, as might be the case in a vertically integrated operation (such as in the extractive industry) might be an operating segment.

In certain circumstances, a division that only performs research and development activities might be considered an operating segment if there is discrete financial information available and the operating results are reviewed regularly by the CODM (as discussed further below). Even a startup operation that has not yet earned revenues may meet the requirement of engaging in business activities. Further, ASC 280 does not preclude such a division from being a reportable segment if management believes the additional information may contribute to a better understanding of the entity, even if the revenues are considered incidental (ASC 280-10-55-3 and 55-4).

Components that recognize revenues and incur expenses are not required to have assets to be considered operating segments. The focus of the criterion is whether the component engages in business activities from which it may recognize revenues and incur expenses provided it otherwise meets the definition of an operating segment. For example, Division A, which meets the ASC 280 definition of an operating segment, leases assets from Division B. The leased assets are presented in the internal financial reports of Division B. In this case, Division A is an operating segment despite the fact that no assets are allocated to it. However, if no asset information is provided for a reportable segment, that fact and the reason for it should be disclosed (ASC 280-10-55-5 and 55-6).

⁶ [Remarks by Courtney D. Sachtleben](#), SEC Professional Accounting Fellow, Office of the Chief Accountant, at the 2015 AICPA National Conference on Current SEC and PCAOB Developments, 9 December 2015.

2.1.2 Operating results are regularly reviewed by the CODM to allocate resources and assess performance

To be an operating segment, the operating results of the component are regularly reviewed by the public entity's CODM in order to assess the performance of the individual segment and make decisions about resources to be allocated to the segment. That is, the CODM makes key operating decisions based on financial information for the component.

Identification of the CODM

The term "chief operating decision maker" defines a function rather than an individual with a specific title. The function of the CODM is to allocate resources to and assess the operating results of the operating segments of an entity and may not necessarily be the individual responsible for strategic decisions or the individual who has ultimate decision-making authority. It is important to think about what the key operating decisions are and who is making those decisions for the entity to properly identify the CODM. Often, an entity's CODM is its chief executive officer or chief operating officer, but the CODM also could be a group consisting of top executives (e.g., a management committee or the executive committee of the board of directors). The SEC staff has encouraged registrants to take a fresh look at their CODM determination and not default to the entity's CEO.

Identifying the CODM is critical to the evaluation of operating segments because it is the information used by the CODM for purposes of allocating resources and assessing performance that would provide the basis for determining the operating segments.

The function of the CODM is to allocate resources and assess performance for each segment but not necessarily how these resources are allocated within the individual segments. For example, the CODM may assess the performance of and allocate resources to an operating segment but delegate the allocation of those resources within the operating segment to the segment manager.

In most circumstances, the identification of the CODM is rather straightforward based upon clearly defined operational and reporting protocols of the organization. However, the determination of an entity's CODM may be more difficult when the organizational structure of the entity is complex. Consider the following illustration:

Illustration 2-1: Identification of the CODM

Assume that a public entity has a president, a chief executive officer and a chief operating officer and that these positions are held by different individuals. Also assume that all three of these individuals serve on a management committee, which exists to make operating decisions related to the operating segments of the entity, and that each has an *equal* vote in decisions made by the committee. In this case, 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. Thus, the internal financial information that is provided to the members of the management committee in order to make operating decisions and assess performance would constitute the operating segment information.

While the CODM may be a committee, it is important to note that the mere existence of a management committee does not necessarily mean that the management committee is the CODM. We believe the FASB intended to include the management committee concept for situations in which executives were, in effect, sharing decision-making authority in an entity. When a management committee is used as a mechanism to provide input to the chief executive officer, the chief executive officer would be the CODM if they are responsible for assessing performance and making the key operating decisions. However, if the management committee is the level at which the key operating decisions are made, then the management committee may be the CODM. In these circumstances, it's important to understand the relationship and interaction between the management committee and the level at which the key operating decisions are being made.

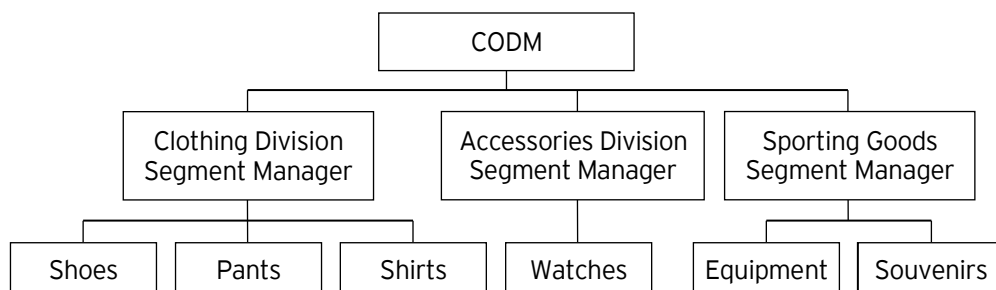
The CODM's assessment of performance and allocation of resources

The periodic financial reporting package provided to the CODM provides insight into how management has organized the company for purposes of making operating decisions and assessing performance. Historically, the SEC staff has placed emphasis on the financial information included in the reporting package reviewed by the CODM, with the presumption that if information was included in the reporting package provided to the CODM, it must be used by the CODM to assess performance and allocate resources. However, a company must assess how that financial information is being used by the CODM in making key operating decisions, and the SEC staff has stated that inclusion of information in a reporting package should not be the only factor considered in the analysis.⁷

Although it's important to consider the financial information available and used by the CODM when identifying an entity's operating segments, the level in which financial information is presented on a disaggregated basis in the reporting package given to the CODM is just one data point to consider in the determination of operating segments. That is, the lowest level of disaggregation presented in the CODM reporting package would not be determinative. Other factors to consider include the overall management structure (i.e., the organizational chart, including the roles and responsibilities of those who report directly to the CODM), how an organizational structure may have changed in recent years due to acquisitions, dispositions or changes in business strategy, the basis on which budgets and forecasts are prepared, and the basis for how executive compensation is determined (e.g., performance criteria underlying compensation plans). However, the SEC staff may continue to request the reporting package reviewed by the CODM, as well as the company's organizational structure, to understand how management makes operating decisions and assesses performance. Consider the following example:

Illustration 2-2: Process for making key operating decisions

Below is the reporting structure for a public entity:



Assume that the six operating units (shoes, pants, shirts, watches, equipment and souvenirs) are grouped into three divisions (clothing, accessories and sporting goods) and that each of the three divisions has a segment manager who reports directly to the CODM. The CODM receives discrete financial information at both the division and component level every month. Even though the CODM receives discrete financial information for the six components, the company must assess how the CODM makes key operating decisions and at what level those decisions are made.

⁷ **Remarks by Dan Murdock**, SEC Deputy Chief Accountant, Office of the Chief Accountant, at the 2014 AICPA National Conference on Current SEC and PCAOB Developments, 8 December 2014; and **remarks by Courtney D. Sachtleben**, SEC Professional Accounting Fellow, Office of the Chief Accountant, at the 2015 AICPA National Conference on Current SEC and PCAOB Developments, 9 December 2015.

The company determines that operating decisions are made at the division level by the CODM. For example, marketing strategies are determined by the CODM for each division, and each segment manager is responsible for deploying that strategy at the component level. Also, quarterly financial information is presented to the board of directors and investors at the division level, which is consistent with the level at which the CODM makes decisions. In addition, the company determines the following:

- ▶ Budgets and forecasts are prepared at the division level, and the CODM reviews budget-to-actual variances at that level on a monthly basis.
- ▶ The segment managers are compensated in accordance with the company's bonus plan, which sets targets for each division.

Therefore, the company concludes that while the CODM receives financial information for the components, performance is assessed and resources are allocated at the division level so the three divisions are the operating segments.

Some registrants have asserted that the component (the operating units in the example above) could not be an operating segment because the operating unit managers do not report directly to the CODM. The SEC staff has historically rejected such assertions when the CODM bases their decisions on the information provided at the component level (operating unit level) despite the absence of segment managers at that level. Rather, the registrant must demonstrate that the CODM does not use the individual component information received, but instead uses information at the more aggregated level (the division level in the example above) to assess performance and allocate resources. Therefore, it is important to understand the operating decisions made by the CODM and what information is used to make those decisions.

It is also important to understand the key metrics (e.g., gross margin, EBITDA, operating margin, return on investment) on which the CODM bases their evaluation of performance and allocation of resources. In some circumstances, the CODM may emphasize one or two metrics in making their decisions. In other circumstances, the CODM may use a suite of metrics or performance indicators. Consider the following example:

Illustration 2-3: Metrics used in key operating decisions

Assume the CODM receives a monthly financial results package that includes metrics for three product lines and also includes metrics for five geographical areas. The package includes certain metrics for each product and each of the geographical areas (e.g., revenues, operating margins). However, the package includes only a measure of earnings before interest, taxes, depreciation and amortization (EBITDA) for each product line. Although the CODM receives multiple metrics, they assess performance and allocate resources of the components based on EBITDA results for each product line. This is corroborated by the existence of a performance bonus plan (i.e., bonuses are based on EBITDA targets) and is further evidenced by the existence of three product segment managers that report to the CODM. In this case, although the CODM receives information for the five geographical areas, the three product lines would appear to be the operating segments.

Registrants should be able to provide verifiable evidence supporting the level at which operating decisions are made. An analysis of the information presented to the board of directors, the budgeting process (including the level at which the budget is approved and reviewed), the performance objectives and criteria underlying compensation plans, the level of autonomy given to segment managers and recent actions taken by segment managers based on their authority are important factors that will contribute to the determination of operating segments and support that conclusion.

2.1.3 Discrete financial information is available

To be an operating segment, the CODM must have discrete financial information available about the component in order to assess performance and make resource allocation decisions. It is not necessary that assets be allocated to a component for it to have discrete financial information. Discrete financial information can constitute as little as operating information. This financial information must be sufficiently detailed to allow the CODM to make decisions. At the 2015 AICPA National Conference on Current SEC and PCAOB Developments, the SEC staff stated that a company shouldn't conclude that discrete financial information is not available simply because certain costs are shared and not allocated specifically to each component. Gross profit information, or other operating measures, provided to the CODM and used to assess performance and make resource allocation decisions could be considered discrete financial information.

A question that can arise is whether a component for which the CODM receives only revenue information can be defined as an operating segment. For example, a CODM may receive revenue information by product line as part of the package of information that the CODM uses to make operational decisions relating to the entity. In general, the fact that a CODM receives revenue information provided by component (e.g., by product line, by major customer) would likely mean that the component isn't an operating segment because this information isn't sufficient for the CODM to make decisions about allocating resources to the component and to assess its performance. However, the facts and circumstances of each entity should be carefully considered when operating segments are being determined. We believe it is important for all entities to evaluate how the CODM uses the revenue-only information in the CODM package, as well as what factors influence the operational decisions the CODM makes with regard to the allocation of resources and the assessment of each component's performance.

Illustration 2-4: Discrete financial information

Assume the CODM of an entity receives information that shows revenue for three different products produced by an operating unit. Operating expense information is not available for each of the products. Because the CODM does not have a measure of profit or loss by product, they likely would not have enough information to assess the performance or make resource allocation decisions regarding the individual products. In this case, the operating segment would need to be at a level where discrete financial information is available and provided to the CODM for use in making operational decisions.

2.1.4 CODM uses multiple types of segment information

Excerpt from Accounting Standards Codification

Segment Reporting – Overall

Disclosure

Operating Segments

280-10-50-6

For many public entities, the three characteristics of operating segments described in paragraph 280-10-50-1 clearly identify a single set of operating segments. However, a public entity 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 a public entity'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.

280-10-50-7

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.

280-10-50-8

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 paragraphs 280-10-50-1 and 280-10-50-3 apply to more than one set of components of a public entity but there is only one set for which segment managers are held responsible, that set of components constitutes the operating segments.

280-10-50-9

The characteristics in paragraphs 280-10-50-1 and 280-10-50-3 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 public entities, 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.

Many entities, particularly multinational companies with diverse operations, report financial information to the CODM in more than one way. For instance, the CODM of an entity might get one report that combines all of the entity's products for review purposes and breaks down the entity's business components geographically, while another report may break down the entity by product, without regard to geography. Often, both types of reports will reflect business components that could be considered operating segments under the management approach. In this case, when more than one set of segment information is used in assessing performance and allocating resources, it becomes necessary to consider other factors to determine the entity's operating segments. Factors to consider include:

- ▶ *The nature of the business activities of each component.* The nature of activities of some entities and the composition of a company's business may be organized and reported more logically one way than another. For example, assume that a public entity has a majority of its operations in the US and the CODM of an entity gets financial information that is organized both by country and by product. Generally, we would expect the entity to distinguish its business activities by product for segment reporting purposes. Geography would be less relevant because most of the business is done in the US.
- ▶ *The existence of segment managers responsible for the components.* An operating segment typically has a segment manager who is directly accountable and maintains regular contact with the CODM to discuss operating activities, financial results, forecasts or plans for the segment. A segment manager is not a specific title but rather a function. In certain circumstances, the CODM may be the segment manager. If the CODM is also a segment manager and that segment has multiple divisions or businesses that individually (1) constitute components that engage in business activities and, (2) have discrete financial information available, the entity should carefully consider whether those components are regularly reviewed by the CODM to assess performance and make resource allocation decisions such that the multiple divisions or businesses are, in fact, the entity's operating segments. See section 2.5 for further discussion of the existence of a segment manager and considerations for the determination of reporting units.

If ASC 280's three operating segment characteristics apply to more than one set of components of an organization but there is only one set that has segment managers, generally, the set of components with segment managers constitutes the operating segments.

Some entities use a matrix form of organization, whereby business components are managed in more than one way. For example, a public entity may have certain segment managers that are responsible for geographic regions and other segment managers that oversee the product and service lines worldwide. The CODM may regularly review the operating results of both sets of

components and makes key operating decisions at both levels. In this situation, ASC 280 requires that the components that are based on products and services be considered the operating segments. An entity that can demonstrate that its CODM uses only the geographic information to assess performance and allocate resources can use geographic segments as operating segments.

- ▶ *Information presented to the board of directors.* If only one type of financial information is presented to the board of directors, that type of data generally is indicative of how management views the entity's activities. Accordingly, the business components that make up that type of financial information are likely the operating segments. If the board of directors receives overlapping information, the business components distinguished by products and services generally would constitute the operating segments.

When there are multiple types of segment information, judgment will be necessary to evaluate the above factors in order to determine operating segments.

2.2 Discontinued operations

Excerpt from Accounting Standards Codification

Segment Reporting – Overall

Implementation Guidance and Illustrations

Operating Segments–Discontinued Operations

280-10-55-7

If a reportable segment meets the conditions in paragraphs 205-20-45-1A through 45-1G to be reported in discontinued operations, an entity is not required to also disclose the information required by this Subtopic. Paragraph 280-10-55-19 addresses whether there is a need to restate previously reported information if there is a disposal of a component that was previously disclosed as a reportable segment.

280-10-55-19

Segment information for prior periods for disposal of a component that was previously disclosed as a reportable segment is not required to be restated. However, if the income statement and balance sheet information for the discontinued component have been reclassified in comparative financial statements, the segment information for the discontinued component need not be provided for those years. Paragraph 280-10-55-7 addresses disclosure requirements if a component of a public entity that is reported as a discontinued operation is a reportable segment.

ASC 205 provides guidance on the accounting and reporting of discontinued operations. Discontinued operations may include a "component of an entity," which is defined in ASC 205-20-20 as comprising "operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity. A component of an entity may be a reportable segment or an operating segment, a reporting unit, a subsidiary, or an asset group."

If a component of an entity to be disposed of meets the criteria to be accounted for as a discontinued operation, ASC 205 provides the guidance on the appropriate financial statement disclosures that would be required, subsequent to the measurement date, for that component. If the discontinued operation is a reportable segment, an entity would not be required to also disclose the information required by ASC 280 for that reportable segment. Further, segment information for periods prior to the measurement date of a discontinued operation previously disclosed as a reportable segment is not required to be restated.

If the discontinued operation is part of a reportable segment but not the entire reportable segment (that is, an aggregated or combined operating segment or a component of an operating segment), the reportable segment would not include the discontinued operation in the disclosure of segment information for the period in which the component is classified as a discontinued operation. Further, segment information for periods prior to the measurement date of a discontinued operation that is part of a reportable segment is required to be restated to reflect the discontinued operation classification.

As discussed in section 3.2.2, reasonable allocations of costs to operating segments are permitted. However, allocations of costs to a discontinued operation are limited to those costs that are directly related to the discontinued operation or that will be eliminated as a result of the discontinued operation. As a result, there may be costs allocated to operating segments that will not be allocated to the discontinued operation and that will be reallocated to other operating segments on a go-forward basis. We believe that if a discontinued operation is a reportable segment and the entity elects to restate prior years, or the discontinued operation is part of a reportable segment but not the entire reportable segment (in which case the entity is required to restate prior years), the restatement should include a reallocation of costs previously allocated to a discontinued operation to the remaining operating segments.

Interpretative guidance on determining what constitutes a component of an entity along with additional guidance on the accounting and reporting of discontinued operations is provided in our Financial reporting developments (FRD) publication, *Discontinued operations*.

2.3

Unconsolidated businesses

Excerpt from Accounting Standards Codification

Segment Reporting – Overall

Implementation Guidance and Illustrations

Operating Segments – Equity Method Investees

280-10-55-2

An equity method investee could be considered an **operating segment**, if, under the specific facts and circumstances being considered, it meets the definition in paragraphs 280-10-50-1 and 280-10-50-3. An investee accounted for by the equity method could be considered an operating segment even though the investor has no control over the performance of the investee. Paragraph 280-10-50-1(b) provides that an operating segment is one whose operating results are regularly reviewed by the public entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance. Management may regularly review the operating results and performance of an equity method investee for purposes of evaluating whether to retain the investor-investee relationship. This Subtopic does not require that the chief operating decision maker be responsible for making decisions about resources to be allocated within the segment. That is, this Subtopic does not require that the chief operating decision maker be responsible for making decisions at the investee operating level that affect its operations and performance. Therefore, control over the investee is not a criterion for the investee to be considered an operating segment. For information relating to equity method investees, see Topic 323.

An equity method investee, joint venture, or any other unconsolidated business could be considered an operating segment, if it meets the definition of operating segment in ASC 280-10-20, even if the investor does not control the investee. The CODM may regularly review the operating results and performance of an equity method investee for purposes of making resource allocations (for example, additional investments or advances), evaluating financial performance or evaluating whether to retain the investor-investee relationship. The CODM is not required to be responsible for making decisions at the investee operating level that affect the investee's operations and performance in order for the investee to be identified as an operating segment. Therefore, control over the investee is not a criterion for the investee to be considered an operating segment.

2.3.1 Inclusion of separate financial statements of other entities

In certain situations, a registrant may be required to file audited financial statements of significant acquired businesses or real estate operations separately in accordance with Rules 3-05 and 3-14 of Regulation S-X. Refer to our Technical Line, *Applying the SEC's requirements for significant acquired businesses*, for more guidance.

A registrant may also be required to include in its annual reports separate financial statements of an unconsolidated business (e.g., an equity method investee, joint venture) in accordance with Rule 3-09 of Regulation S-X. Refer to section 6.4 of our SEC Financial Reporting Series publication, *2022 SEC annual reports – Form 10-K*, for more information.

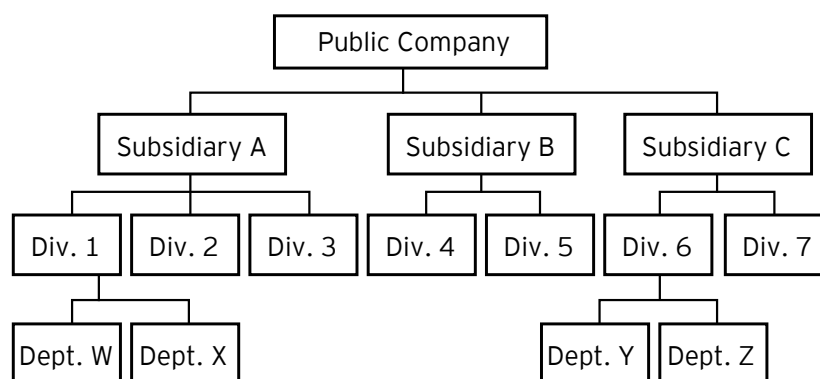
If registrants are required to file separate financial statements of other entities with the SEC, those financial statements are not required to include segment disclosures, unless the other entities meet the definition of a public entity in ASC 280-10-20 as discussed in section 1.

2.4 Reportable segments of public subsidiaries

If a public entity has a subsidiary that is also public, the subsidiary is required to apply ASC 280 in its separate financial statements. The parent should not automatically assume that the reportable segments of the subsidiary also are reportable segments to be disclosed in the parent company's consolidated financial statements. Determining the number of operating segments of an entity depends on the specific facts and circumstances and should be separately evaluated for each public entity based on the information provided to the CODM for that entity. In many cases, the operating segments of the subsidiary also may be determined to be operating segments of the parent. However, the CODM of the parent may be provided information on a different basis or the parent may consider aggregating certain of these operating segments with other operating segments (e.g., divisions of a parent) and then must determine that the remaining operating segments meet the quantitative threshold to be considered reportable segments.

Illustration 2-5: Public subsidiaries

Consider the following example involving Public Company:⁸



Further assume that Subsidiary C is a public entity and discloses three reportable segments (Dept. Y, Dept. Z and Division 7) in its separate financial statements. Dept. Y, Dept. Z and Division 7 should not automatically be considered reportable segments for Public Company because they are reportable segments for Subsidiary C. Determining the number of operating segments of an entity depends on the specific facts and circumstances and should be separately evaluated for each public entity.

⁸ Example is adapted from ASC 280-10-55-27 through 55-30.

2.5 Goodwill considerations

The proper identification of operating segments affects more than just segment disclosures. That is, the determination of operating segments also can affect the recognition and measurement of goodwill impairment.

ASC 350 requires goodwill to be assessed for impairment at the reporting unit level, which is defined as an operating segment (i.e., before aggregation or combination), or one level below an operating segment (i.e., a component). ASC 350-20-35-34 states, “A component of an operating segment is a reporting unit if the component constitutes a business or a nonprofit activity for which discrete financial information is available and segment management, as that term is defined in paragraph 280-10-50-7, regularly reviews the operating results of that component.”

The existence of a segment manager is important not only for the determination of operating segments but also for the identification of reporting units. In instances where there is a single operating segment, careful consideration should be given to the determination of reporting units. For example, an entity with a single operating segment but no segment manager reporting to the CODM may determine that the CODM is the segment manager. When the CODM is the segment manager, an entity should carefully consider whether the operating segment is the reporting unit or whether more than a single operating segment exists.

If a segment manager is responsible for the single operating segment (e.g., the chief operating officer) and reports to the CODM, an entity will need to evaluate the discrete information that is provided to the segment manager for each component to determine whether the components are reporting units. See sections 2.1.2 and 2.1.4 for further discussion of the existence of segment managers responsible for components.

When the operating segment is a reporting unit, an entity may not aggregate the operating segment/reporting unit with any other reporting units (regardless of whether the other reporting units are operating segments or components of operating segments) for purposes of testing goodwill for impairment. When two or more components of an operating segment are identified, ASC 350-20-35-35 requires aggregation of the components within the same operating segment if certain criteria are met.⁹ It states that “two or more components of an operating segment shall be aggregated and deemed a single reporting unit if the components have similar economic characteristics.” Refer to our FRD, *Intangibles – Goodwill and other*, for additional considerations related to the determination of whether components of an operating segment have similar economic characteristics and are therefore required to be aggregated for the purposes of goodwill impairment testing.

The SEC staff frequently challenges the aggregation of components into a reporting unit. Companies should be able to clearly explain their determinations of reporting units in relation to their operating segments. When a registrant concludes that it previously had not properly identified its operating segments, or that it had incorrectly aggregated reporting units, the registrant should assess its goodwill for impairment on the basis of the appropriate reporting units. A reassessment based on a greater number of reporting units could lead the registrant to conclude that it should have recognized a goodwill impairment charge. In such circumstances, the registrant’s historical financial statements may need to be restated if the effects are material.

⁹ Reporting units that are components of different operating segments should not be aggregated.

3

Reportable segments

Excerpt from Accounting Standards Codification

Segment Reporting – Overall

Disclosure

Reportable Segments

280-10-50-10

A public entity shall report separately information about each operating segment that meets both of the following criteria:

- a. Has been identified in accordance with paragraphs 280-10-50-1 and 280-10-50-3 through 50-9 or results from aggregating two or more of those segments in accordance with the following paragraph¹⁰
- b. Exceeds the quantitative thresholds in paragraph 280-10-50-12.

Paragraphs 280-10-50-13 through 50-18 specify other situations in which separate information about an operating segment shall be reported. Paragraph 280-10-55-26 and Examples 1 and 2 (see paragraphs 280-10-55-27 through 55-45) illustrate how to apply the main provisions in this Subtopic for identifying reportable operating segments.

280-10-50-18A

An entity need not aggregate similar segments, and it may present segments that fall below the quantitative thresholds.

280-10-50-19

Public entities 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 public entity must decide what constitutes material.

Once a public entity has identified its operating segments, the next step is to determine which of those operating segments will be reported in the notes to the financial statements. ASC 280 allows individual operating segments to be aggregated for reporting purposes if certain criteria are met. In addition, an operating segment (or two or more operating segments that collectively meet all of the aggregation criteria) is required to be separately reported if it meets certain quantitative thresholds. Aggregation of operating segments is optional – an entity is not required to aggregate similar segments, and it may separately report an operating segment that falls under the quantitative thresholds. Entities are encouraged to report information about segments that do not meet the quantitative thresholds if management believes that separate disclosure is material.

Following is a summary of the steps that a public entity should follow to determine its reportable segments:

- ▶ Step 1: If the entity elects to aggregate some or all of its identified operating segments, the entity would determine which operating segments meet all of the aggregation criteria and, if so, whether aggregation is consistent with the objective and basic principles of ASC 280 (i.e., aggregation helps

¹⁰ We believe the term “following paragraph” refers to ASC 280-10-50-11 (see section 3.1).

users better understand the entity's performance and assess its prospects for future net cash flows). The operating segments that meet all of the aggregation criteria can be aggregated for purposes of determining whether the aggregated segment meets the quantitative thresholds.

- ▶ Step 2: Determine which operating segments (either individually or those that are aggregated, based upon Step 1 above) meet the quantitative thresholds (i.e., the 10% tests discussed in section 3.3). Operating segments or those aggregated together that meet the quantitative thresholds constitute reportable segments.
- ▶ Step 3: For operating segments (either individually or aggregated based upon Step 1 above) that *do not meet* the quantitative thresholds and that the entity might elect to combine, assess whether the operating segments have similar economic characteristics and share a majority of the five other aggregation criteria. If these criteria (similar economic characteristics and sharing of a majority of the five other aggregation criteria) are met and combination is consistent with the objective and basic principles of ASC 280 (i.e., aggregation helps users better understand the entity's performance and assess its prospects for future net cash flows), the operating segments can be combined for reporting purposes and be reported as a single reportable segment.
- ▶ Step 4: Determine whether the external revenue of the reportable segments contribute at least 75% of total consolidated revenue. If they do not, additional operating segments (either individually, aggregated or combined) that do not individually meet the quantitative thresholds must be reported separately to reach 75% of consolidated revenue.
- ▶ Step 5: Group remaining segments that are not individually reportable and do not share a majority of the aggregation criteria with another operating segment in the "all other" category, along with business activities that are not considered operating segments.

3.1

Aggregation criteria

Excerpt from Accounting Standards Codification

Segment Reporting – Overall

Disclosure

Aggregation Criteria

280-10-50-11

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 Subtopic, if the segments have similar economic characteristics, and if the segments are similar in all of the following areas (see paragraphs 280-10-55-7A through 55-7C and Example 2, Cases A and B [paragraphs 280-10-55-33 through 55-36]):

- 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.

Implementation Guidance and Illustrations

Aggregation Criteria

280-10-55-7A

Paragraph 280-10-50-11 states that operating segments are considered to be similar if they can be expected to have essentially the same future prospects. Therefore, the similarity of the economic characteristics should be evaluated based on future prospects and not necessarily on the current indicators only. In other words, if the segments do not currently have similar gross margins and sales trends but the economic characteristics and the other five criteria are met and the segments are expected to again have similar long-term average gross margins and sales trends, the two segments may be aggregated.

280-10-55-7B

Likewise, if segments generally do not have similar economic characteristics, but in the current year have similar gross margins or sales trends and it is not expected that the similar gross margins or sales trends will continue in the future, it should not be presumed that the segments should be aggregated for the current-year segment disclosures just because current economic measures are similar.

280-10-55-7C

Aggregation of segments should be consistent with the objective and basic principles of this Subtopic – to provide information about the different types of business activities in which a public entity engages and the different economic environments in which it operates in order to help users of financial statements better understand the public entity's performance, better assess its prospects for future net cash flows, and make more informed judgments about the public entity as a whole. This Subtopic mentions that segments having similar economic characteristics would be expected to have similar long-term average gross margins. That measure is used, only as an example, because gross margin is a measure of profitability that is less likely to be affected by allocations. Evaluating similar economic characteristics is a matter of judgment that depends on specific facts and circumstances.

Under ASC 280, a public entity is required to both *determine* its operating segments and *report* operating segment financial information in accordance with the management approach. However, reporting separate information about every operating segment that the CODM reviews separately may not enhance the financial statement user's understanding of the business, particularly when two or more of the operating segments are so similar that they "can be expected to have the same future prospects." As such, operating segments are permitted (but not required) to be aggregated for reporting purposes if the operating segments meet the aggregation criteria described below. ASC 280 requires companies that elect to aggregate operating segments to disclose that they have aggregated segments (ASC 280-10-50-21(a) and Q&A 131, Question 12).

Specifically, ASC 280 allows an entity to aggregate two or more operating segments into a single operating segment (for purposes of determining whether the aggregated operating segment meets any of the quantitative threshold tests) only if the operating segments meet the following aggregation criteria, each of which can require judgment. In assessing whether the aggregation criteria are met, it is important to note that the aggregation criteria are tests, not indicators, of similarity between operating segments. The SEC staff has said that the aggregation criteria are intended to be a high hurdle.¹¹ Each of the following criteria must be met for aggregation to be permitted:

- ▶ Aggregation must be consistent with the objective and basic principles of ASC 280 (section 3.1.1).
- ▶ The operating segments have similar economic characteristics (section 3.1.2).

¹¹ **Remarks by Dan Murdock**, SEC Deputy Chief Accountant, Office of the Chief Accountant, at the 2014 AICPA National Conference on Current SEC and PCAOB Developments, 8 December 2014.

- ▶ The operating segments are similar in all of the five qualitative characteristics, including 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, if applicable, the nature of the regulatory environment (section 3.1.3).

Reasonable judgment with a thorough understanding of the entity's specific facts and circumstances is required in applying these criteria. This judgment is informed by the starting point in the analysis, which is that management has already determined the level of disaggregation that it finds useful in managing the business.

3.1.1 Consistent with the objective and basic principles of ASC 280

Aggregation must be consistent with the objective and basic principles of ASC 280, which are to help users better understand the entity's performance and assess its prospects for future net cash flows. Aggregation is appropriate only when the operating segments are so similar that presenting the information separately would not significantly add to an investor's understanding of the future prospects of the company and its operating segments. Although the identification of operating segments is based on the management approach, the aggregation of operating segments should be viewed from the perspective of investors. This is consistent with the basis for conclusions of Statement 131 (the predecessor to ASC 280) and has been a focus area of the SEC staff in its review of segment disclosures.¹² 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.¹³

In reviewing periodic filings, the SEC staff has indicated that it presumes that investors would prefer information on a more disaggregated basis. As a result, the SEC staff often questions whether it is consistent with the objective and basic principles of ASC 280 for a company to report just one reportable segment or a limited number of reportable segments. In addition, the SEC staff may want to understand the underlying reasons for the company's organizational structure that resulted in the identification of separate operating segments and whether those reasons provide evidence that the operating segments are not similar. Companies that choose to aggregate operating segments should be prepared to explain why an operating segment is important enough to be individually reported to the CODM, but similar enough to other segments to be aggregated when reported to investors.

3.1.2 Economic characteristics

Operating segments must have similar economic characteristics to be aggregated. ASC 280 specifically mentions that segments with similar economic characteristics would have similar long-term average gross margins.¹⁴ While ASC 280 includes long-term gross margin as an example of similar economic characteristics, if the CODM uses a different measure of profit or loss (e.g., EBITDA) to assess performance and allocate resources to each operating segment, that measure of profit or loss *should also* be considered when assessing whether operating segments possess similar economic characteristics. In addition, if other economic measures are provided to the CODM, the similarities of those economic measures should also be considered. For example, if the CODM uses sales metrics, return on investment or other standard industry measures, those metrics may also be relevant in determining economic similarity.

In assessing whether long-term average gross margins (or the appropriate measure of operating performance used by the CODM to assess performance and allocate resources, such as EBITDA) of operating segments are sufficiently similar, companies should look to past and present performance as

¹² See paragraph 73 of Statement 131.

¹³ **Remarks by Courtney D. Sachtleben**, SEC Professional Accounting Fellow, Office of the Chief Accountant, at the 2015 AICPA National Conference on Current SEC and PCAOB Developments, 9 December 2015.

¹⁴ Gross margin is defined as sales minus cost of goods sold.

indicators that segments are expected to have the same future prospects. In other words, if operating segments do not currently have similar gross margins and sales trends but are expected to again have similar long-term average gross margins and sales trends, it may be appropriate to aggregate the two operating segments (provided all other criteria are met). Conversely, if operating segments happen to have similar gross margins or sales trends in a given year but it is not expected that the similar gross margins or sales trends will continue in the future, the operating segments should not be aggregated for the current-year segment disclosures just because current economic measures happen to be similar (ASC 280-10-55-7A through 55-7C, 55-35, and 55-36).

Illustration 3-1: Changes in economic characteristics in current year

Assume Segments A and B meet all of the five criteria for aggregation and have similar economic characteristics; however, in the current year, certain economic performance measures differ. That is, gross margins differ and sales of the segments, which typically move in tandem, displayed a slightly different growth trend in the current year. Those differences were due to inventory problems caused by the company's suppliers and it is expected that the margins and sales trends of Segments A and B will again be similar next year. In this circumstance, the differences identified in the current-year results would not preclude these two segments from meeting the similar economic characteristics criteria and, therefore, being eligible for aggregation (provided all other criteria have been met).

The SEC staff's objections to aggregation often have been based on its determination that the operating segments in question do not have similar economic characteristics. The SEC staff looks closely at sales growth, gross margins, operating margins or other measures of operating performance provided to the CODM (e.g., EBITDA). The SEC staff has noted that the types of metrics considered and the acceptable level of differences in those metrics among the segments being evaluated for aggregation may differ across industries. Additionally, the SEC staff has stated that an expectation that operating segments will have similar economic characteristics (e.g., long-term average gross margins) in the future does not take precedence over the lack of similarity in current and past performance.

In addition, the SEC staff may request that the registrant provide an analysis of gross margins or other economic measures that the CODM uses to assess performance and allocate resources. The SEC staff carefully reviews the gross margin (or similar) analysis when considering a company's assertion that operating segments are similar and, therefore, justify aggregation. In assessing whether aggregation is appropriate, one factor to consider is whether there are significant differences in current or expected gross margin percentages or other measures of operating performance. Differences are calculated based on a relative difference between measures of operating segments rather than a difference in percentage points. For example, two operating segments with gross margins of 30% and 33% have a relative difference of 10% ($33\% \text{ less } 30\% \text{ equals } 3\%$, which is then divided by the base margin of 30%, to calculate the relative difference).

ASC 280 does not prescribe a specific threshold for economic similarity, and therefore, there is no bright line when making this evaluation. However, the greater the percentage difference, the more evidence the company should have to support economic similarity of its operating segments. For example, a relative difference of more than 10% may indicate that operating segments are not economically similar and would require more evidence to support economic similarity. Additional factors may be appropriate to consider in determining whether a difference in the economic measure percentages would not support a company's assertion that operating segments are similar. Those considerations may relate to unforeseen or unanticipated events that are not indicative of the long-term operating results. For example, as discussed above, a company may have experienced inventory problems caused by vendors in the current year that caused gross margins to differ by a greater percentage when compared to an otherwise economically similar operating segment. In this case, the company might be able to demonstrate that long-term average gross margins are expected to be similar in the future in order to conclude that the segments have similar economic characteristics. The question of economic similarity also comes up in circumstances in which a

company has recently made an acquisition and is currently going through the process of integrating the target. Consider the following example:

Illustration 3-2: Recent acquisition

Company A, a public entity has recently acquired Company B. Company A previously identified two operating segments, X and Y, which are also its reportable segments. Company A has determined that Company B will meet the definition of an operating segment (Segment B). Company A wishes to aggregate Segment B with its operating segment X. Gross margins of B have historically been 30% while X's gross margin has historically been 35%. Company A forecasts that as the result of realizing synergies through the acquisition, gross margins for Segment B are expected to be 37%. All other aggregation criteria are met. Therefore, Company A concludes that it is appropriate to aggregate Segment B with operating segment X. The fact that the difference in historical gross margins is greater than 10% would not prevent aggregation in this circumstance. However, if Company A does not realize all or part of the synergies it expected and Company B does not achieve the forecasted gross margins, Company A would have to reassess whether the segments are economically similar.

Also note that, when operating segments are based on geography and when the relevant macroeconomic indicators have varied or are expected to vary between the respective geographic regions, it might be difficult for a registrant to support an assertion that its geographic operating segments exhibit similar long-term financial performance and qualify for aggregation.

3.1.3

Qualitative characteristics

Careful consideration should be given not only to quantitative factors but also to qualitative factors in assessing whether it is appropriate to aggregate operating segments. The SEC staff has focused on the qualitative criteria in ASC 280 and has reminded registrants of the requirement to meet all of the aggregation criteria in ASC 280.

In the basis for conclusions of Statement 131, the FASB indicated that an entity's range of activities can affect conclusions about similarity.¹⁵ The SEC staff has reminded registrants that the guidance on determining whether two operating segments are "similar" requires the evaluation to be made relative to the range of the company's business activities and the economic environment in which it operates.¹⁶

The operating segments must be *similar in each* (i.e., all) of the following areas:

- 1) *The nature of the products and services.* Similar products or services generally will have similar purposes or end uses. Thus, they may be similar types and degrees of risk and similar opportunities for growth. Evaluation of similarity of products or services should be based on the range of activities of the organization. For example, when evaluating the similarity of products and services, a company with a diversified product portfolio may consider certain products to be similar, while a company with a narrower product portfolio may conclude that those same products are not similar.

Illustration 3-3: Similar products and services

When evaluating the similarity of products and services, a highly diversified company that manufactures a variety of consumer products, provides financial services and has a construction business may determine that all of its consumer products are similar. However, an entity that only sells consumer products might determine that not all of its consumer products are similar.

¹⁵ See paragraph 68 of Statement 131.

¹⁶ **Remarks by Courtney D. Sachtleben**, SEC Professional Accounting Fellow, Office of the Chief Accountant, at the 2015 AICPA National Conference on Current SEC and PCAOB Developments, 9 December 2015.

- 2) *The nature of the production processes.* A similar production process might be demonstrated by the sharing of common or interchangeable production facilities, equipment, labor force or service group and by using similar raw materials in the production process. Likewise, similarity in the nature and type of labor or amounts of capital required also may be indicative of a similar production process. The nature of the production process of two different products may be similar, even if the products do not function similarly. Consider the following example:

Illustration 3-4: Similar production process

Assume that Life Co., a life sciences company manufactures various pharmaceutical products for commercial sale. These products include cold medicines and diet pills. Each product is manufactured through the same production process, even though the products have different applications. Both products consist of various chemical compounds that are mixed together in batches to create the end product. Both products undergo quality control testing in order to confirm the efficacy of the product. Both products also use the same manufacturing equipment for parts of the production process. Thus, Life Co. concludes that for purposes of the segment aggregation criteria, the production processes are similar, despite the differences in the applications of the end products.

- 3) *The type or class of customer for their products and services.* Factors to consider in evaluating whether the type or class of customer are similar include: (1) the region or geography in which the products or services are marketed, (2) the methods used to market the products or services, including the use of a common or interchangeable sales force and (3) the nature or type of customer, including the industries in which the customers may operate. Entities should carefully consider whether this criterion has been met when the products or services are targeted to a different customer base. We understand that the SEC staff has objected to aggregation in circumstances where one of the operating segments had an incremental customer base with a material revenue stream.¹⁷ Consider the following example:

Illustration 3-5: Type and class of customer

Market Co., a diversified clothing manufacturer has two operating segments, Retail and Wholesale. Retail primarily markets its products to consumers through electronic and print advertising. In contrast, Wholesale principally markets its products through a network of sales representatives who call upon the distributors to purchase the products. In considering the type or class of customer, Market Co. concludes that the type and class of customer are not similar for the two operating segments based upon the distinction between retail and wholesale as well as the primary marketing methods for its products. As such, aggregation of the two operating segments would not be permitted.

- 4) *The methods used to distribute their products or provide their services.* The determination of whether two methods of distribution are similar will depend on the structure of a particular company. Consider the following example:

Illustration 3-6: Retail outlets and internet distribution

Software Co., a software retailer, has two operating segments: Retail, which distributes its products through retail outlets, and Internet, which distributes its products through a website on the internet. In evaluating whether these operating segments can be aggregated, Software Co., might conclude that the methods to distribute its products are not similar because Retail and Internet distribute products through different distribution channels.

¹⁷ **Remarks by Dan Murdock**, SEC Deputy Chief Accountant, Office of the Chief Accountant, at the 2014 AICPA National Conference on Current SEC and PCAOB Developments, 8 December 2014.

- 5) *If applicable, the nature of the regulatory environment, for example, banking, insurance or public utilities.* Entities that operate within certain industries may be subject to regulatory requirements that are promulgated by a government agency. Sometimes two operating segments may produce the same product through the same production process, but because of differences in the class of customer and the regulatory environment, the operating segments should not be aggregated. For example, it may not be appropriate for an entity that has an operating segment that produces a product under government contracts and an operating segment that produces the same product for commercial purposes to aggregate these operating segments.

Some entities are comprised of operating segments that operate within different regulatory environments. We believe that the nature of the regulatory environments in which two or more operating segments operate might be similar, even if the regulatory bodies are not the same.

ASC 280 does not define the term “similar” and does not provide guidance about what is similar for aggregation purposes. The FASB acknowledges that the determination of whether two or more operating segments are similar requires professional judgment and is dependent on the individual facts and circumstances.¹⁸

3.2 Determining amounts included in segment measures for the quantitative threshold tests

Once an entity has determined its operating segments and which of those operating segments may be aggregated, it must next determine which of the operating segments are reportable. Operating segments (or aggregated operating segments) that meet certain quantitative thresholds are material and must be individually disclosed under ASC 280. However, entities are encouraged to report information about segments that do not meet the quantitative thresholds if management believes that the information is useful to the readers of the financial statements.

The quantitative threshold tests are based on the amounts that are reported internally and used by the CODM for purposes of allocating resources and assessing the performance of the operating segments. Generally, these same amounts used in the quantitative threshold tests are the amounts that are reported in the financial statements for operating segments; however, as discussed in section 3.2.3, if the CODM uses a different measure of performance for different operating segments, the measures disclosed may differ from the measures used in the quantitative tests. The amounts used to measure the quantitative thresholds for operating segments also are affected by the accounting principles used for internal segment reporting as well as the allocations, if any, to operating segments for internal segment reporting.

ASC 280 does not provide a standard measure of revenues, profit or loss, or assets for reportable operating segments. Instead, the FASB decided that each segment should be measured on the same basis as the information used by the CODM. The FASB did not think that a separate measure of segment profit or loss or assets should have to be developed solely for the purpose of measuring reportable segments and disclosing segment information.¹⁹ For example, an entity that accounts for inventory using a specialized valuation method for internal purposes is not required to restate inventory amounts for each segment. In addition, an entity that accounts for pension expense only on a consolidated basis is not required to allocate pension expense to each operating segment.

If the accounting principles and allocations used in generating the financial information for segments are not consistently applied from period to period, a company is required to disclose 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. For example, if an entity switches

¹⁸ See paragraph 74 of Statement 131.

¹⁹ See paragraph 81 of Statement 131.

from using the FIFO method of valuing inventory at the segment level to using the LIFO method (the method used in consolidation), an entity would disclose the fact that it had changed its method to measure inventory at the segment level and would disclose the effect of these changes on segment profit or loss.

3.2.1 Operating segment accounting principles

When presenting segment information, the required information does not have to be provided in accordance with the same GAAP that are used in consolidation. Instead, segment disclosures should be based on the accounting principles used to report segment information to the CODM. The FASB decided not to require that segment information be provided in accordance with the same GAAP used to prepare the consolidated financial statements because the FASB believes that preparing segment information in accordance with GAAP used at the consolidated level may be difficult in certain circumstances because some aspects of generally accepted accounting principles are not intended to apply at the segment level.²⁰ Examples include allocation of the purchase price of an acquisition to individual assets acquired and liabilities assumed in a business combination when the allocation is made only in consolidation, accounting for the cost of entity-wide employee benefit plans, accounting for income taxes in an entity that files a consolidated tax return and accounting for inventory on a LIFO basis if the pools include items in more than one segment. Further, there is no explicit GAAP for allocating joint costs, jointly used assets or jointly incurred liabilities or for pricing intersegment transfers.

Furthermore, the segment information is not required to be in accordance with any GAAP. For example, an entity that reports pension expense on a cash basis for individual segments for internal segment reporting would not be required to change to GAAP for external segment reporting purposes.

3.2.2 Allocations to operating segments

Under ASC 280, adjustments and eliminations made in preparing a public entity's consolidated financial statements and allocations of revenues, expenses, gains or losses are only included in the reported measure of profit or loss if these items are included in the measure provided to the CODM. Thus, the measure of segment profit or loss should include items such as allocations of the costs of the headquarters building, equity in the net income of investees accounted for under the equity method, interest and gains/losses on asset dispositions, only if these amounts are included in the measure used by the CODM to make operating decisions.

Under the management approach, even revenues and expenses directly incurred by or directly attributed to an operating segment (e.g., an impairment write-off) are not included in the segment's profit or loss unless those items are included in the measure reviewed by the CODM. However, the FASB observed that it is likely that information used by the CODM would include amounts that clearly are directly attributable to a particular segment, otherwise the information for decision-making purposes is less useful.²¹

Similarly, only those assets that are included in the measures of the segment's assets that are used by the CODM are included in the segment assets that are reported in the financial statements. Even if assets are directly identifiable with the segment, they are not included in the measure of segment assets unless they are also included in the information provided to and used by the CODM. Often segment assets provided to and used by the CODM include assets maintained for general corporate purposes (e.g., corporate headquarters or common warehouses), intersegment loans and advances, and equity method investments. However, jointly used assets are not included in the amount of segment assets disclosed unless they are allocated for the CODM's review.

If amounts are allocated in the measurement of segment profit or loss or of assets used by the CODM, the allocations must be *reasonable*. ASC 280 does not include interpretative guidance with respect to what types of allocation methods may be acceptable. As a result, there is diversity in practice regarding

²⁰ See paragraph 84 of Statement 131.

²¹ See paragraph 89 of Statement 131.

the approaches that companies use in allocating amounts to segments. For example, pension expense may be allocated to individual segments based on the number of employees in each segment as compared to company-wide headcount or based on a ratio of segment salary expense to consolidated salaries. Either of these methods may be reasonable, but the amounts allocated could vary significantly.

On the other hand, certain allocation methods might be unreasonable in some cases. For example, a method that results in the allocation of pension expense to a segment with no employees would appear to be unreasonable. Because arbitrary approaches to allocations may result in potentially misleading information, the FASB decided that allocations must be reasonable even if those allocations result in a deviation from the management approach.²² If it is determined that the allocations are not reasonable, we believe that the segment disclosures should be adjusted from the management approach to reflect a reasonable allocation. As noted above, ASC 280 does not provide implementation guidance for allocations.

ASC 280 does not require the related asset to be allocated to a segment in order for related revenue or expenses to be allocated to that segment if the asset is not allocated in reports used by the CODM. For example, interest revenue on an intercompany loan may be reported by a segment even if the loan receivable is not identified as a segment asset (e.g., is maintained at the corporate level). Also, if depreciation expense is allocated to segments for the CODM's review, it is included in the related segment disclosures even when the related assets are not included in the CODM's measure of assets for that particular segment. Disclosure is required in the circumstances in which asset allocations are not symmetrical to the related income statement allocations for operating segments.

3.2.3 **CODM uses more than one measure of segment profit/loss or segment assets**

Companies also should consider the appropriate measure of profit or loss or measure of assets that should be used to determine reportable segments when more than one measure of profit or loss or of assets is used by the CODM for their review of operating segments.

Consistent with the disclosure guidance in ASC 280-10-50-28 (see section 4.1.4), if the CODM uses more than one measure of a segment's profit or loss, the segment measures to be used in the quantitative test should 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 entity's consolidated financial statements. For example, if the CODM uses operating income and EBITDA to assess performance and allocate resources, the GAAP measure (i.e., operating income) should be the measurement used in the quantitative test.

3.2.4 **CODM uses different measures for different segments**

In certain circumstances 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 net income for purposes of evaluating the performance of three segments but uses operating income for purposes of evaluating the performance of two other segments). In the event that segments are evaluated 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 net income or operating income at the company's consistently applied option), whether or not such measure is consistently used by the CODM for purposes of evaluating segment performance. While the use of a particular measure is not required, we generally would expect that entities would choose the measure used for the majority of the operations or the measure which is most consistent with a GAAP presentation. As discussed in section 4.1, the use of a consistent measure would not affect the requirement to disclose the actual measure of segment profit or loss that is used by the CODM for purposes of evaluating each reportable segment. Thus, the measure used to determine if the segment is reportable (i.e., for the quantitative threshold test) and the measure presented in the segment disclosures may be different (ASC 280-10-55-40).

²² See paragraph 88 of Statement 131.

The combined reported profit and loss of all reportable segments includes reportable operating segments as well as segments and business activities that would be reported in the “all other” category. Therefore, *the combined measure of profit or loss for the segments should approximate the corresponding measure* used in the consolidated financial statements (absent any reconciling items) (ASC 280-10-55-39). Similarly, the 10% threshold criteria for revenues and assets should be applied to a combined measure of all segment revenues and all segment assets, respectively. Such combined measures should approximate (absent any reconciling items) consolidated revenues and consolidated assets, respectively.

3.2.5 **Changes in segment measurements (updated April 2023)**

As discussed in section 4.6, restatement of segment disclosures is required only for changes in the composition of reportable segments, and it is not required for changes in segment measurements. If the accounting principles or allocations are not consistently applied at the operating segment level, or the measurement used by the CODM changes, ASC 280-10-50-29 requires disclosure of 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, on the measure of the prior year’s segment profit or loss. In addition, since ASC 280 emphasizes comparability of segments among periods presented, ASC 280-10-50-36 states that restatement of prior years to reflect the change in segment measurement is preferable if practicable to do so.

For example, if an entity switches from using the FIFO method of valuing inventory at the segment level to using the LIFO method, the entity would disclose the fact that it had changed its method to measure inventory at the segment level and would disclose the effect of these changes on prior years’ segment profit or loss (i.e., the segment profit or loss for each year presented is disclosed with and without the change in segment measure). Alternatively, the public entity may restate the prior periods to reflect the segment disclosures as if it had used the LIFO method and disclose the change in accounting method.

As discussed above, this would also apply if the CODM changes the segment measure used for purposes of assessing performance and allocating resources. For example, if the CODM changes the segment profit or loss measure from operating income to EBITDA, the entity would disclose that fact and the effect of the change on prior years’ reportable segments.

Although a restatement is not required for a change in segment measure, it is preferable to show all segment information on a comparable basis, if practicable. If a CODM undertakes a process to change the measure used to assess performance and allocate resources, we would expect the entity to provide this information on a comparable basis to assist users in understanding the performance of the segment.

When the measure of segment profit or loss is changed, the entity should also carefully consider whether the CODM continues to use the previous measure. If so, the entity needs to report the measure that is most consistent with that used in measuring the corresponding amounts in its consolidated financial statements. See section 4.1.4 for considerations when the CODM uses more than one measure of segment profit or loss.

3.3

Quantitative thresholds

Excerpt from Accounting Standards Codification**Segment Reporting – Overall***Disclosure**Quantitative Thresholds***280-10-50-12**

A public entity shall report separately information about an operating segment that meets any of the following quantitative thresholds (see Example 2, Cases C, D, and E [paragraphs 280-10-55-39 through 55-45]):

- 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 operating segments.
- b. The absolute amount of its reported profit or loss is 10 percent or more of the greater, in absolute amount, of either:
 1. The combined reported profit of all operating segments that did not report a loss
 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.

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 readers of the financial statements.

A public entity must separately report information about an operating segment that meets *any* of the following quantitative thresholds. In addition, an entity may elect to separately report information about operating segments that do not meet the quantitative thresholds if it believes such information is useful. These tests can be applied to either single operating segments or to two or more operating segments that have been properly aggregated for purposes of determining reportability.

- ▶ **Revenues** – The segment’s reported revenue, including sales to external customers and intersegment sales or transfers, is 10% or more of the combined revenue, internal and external, of all operating segments. Combined revenue is the sum of all segment revenue, not consolidated revenue (i.e., intersegment revenues are not eliminated unless they are already eliminated in the segment measures reviewed by the CODM).
- ▶ **Profit/loss** – The absolute amount of the segment’s reported profit or loss is 10% or more of the greater, in absolute amount, of (1) the combined profit of all operating segments that did not report a loss or (2) the combined loss of all operating segments that did report a loss.
- ▶ **Assets** – The segment’s assets are 10% or more of the combined assets of all operating segments.

In addition, as discussed in section 3.5, the combined revenue of reported segments from sales to external (unaffiliated) customers must constitute at least 75% of total *consolidated* revenues. Additional operating segments must be identified as reportable segments (even if they do not meet the quantitative thresholds) until this test is met.

3.3.1

Revenues

Operating segment revenue includes unaffiliated customer sales and intersegment sales or transfers, including sales primarily or exclusively to other operating segments of the same entity. Vertically integrated operating segments also are reportable if they meet the quantitative thresholds. For example,

the extractive, refining and retailing operations of an integrated oil company may be required to report separately even if sales of the extractive and refining operating segments are primarily to affiliates (e.g., the oil company's own retailers). In computing whether an operating segment meets the revenue threshold for disclosure, an entity should use the revenues that are used by the CODM to allocate resources and assess performance. Consider the following example:

Illustration 3-7: Revenue test

Reporting Co. has identified five segments: A, B, C, D and E. Further assume that the "all other" category is attributable to operating segments that are individually insignificant (e.g., four segments with revenues of under \$1 million each) based on a complete quantitative materiality assessment in accordance with ASC 280-10-50-12 (and as discussed here and in sections 3.3.2 and 3.3.3).²³ The following information summarizes sales information for Reporting Co. for its most recent reporting period:

(Amounts in thousands)

| | Segment A | Segment B | Segment C | Segment D | Segment E | All other | Combined | Eliminations | Consolidated |
|----------------------------------|-----------------|-----------------|-----------------|------------------|-----------------|-----------------|------------------|--------------------|------------------|
| Revenues from external customers | \$ 2,500 | \$ 3,000 | \$ 2,500 | \$ 19,000 | \$ 3,500 | \$ 3,500 | \$ 34,000 | - | \$ 34,000 |
| Intersegment revenues | 2,000 | 2,000 | - | 8,000 | - | - | 12,000 | \$ (12,000) | - |
| Total revenues | \$ 4,500 | \$ 5,000 | \$ 2,500 | \$ 27,000 | \$ 3,500 | \$ 3,500 | \$ 46,000 | \$ (12,000) | \$ 34,000 |

Segments B and D are individually reportable under the revenue test as their revenues are at least \$4,600,000, which is 10% of combined revenue of the operating segments of \$46,000,000. Segments A, C and E are not individually reportable under the revenue test.

3.3.2

Profit or loss

In assessing whether an operating segment meets the profit/loss threshold for disclosure, an entity's computation is based on the absolute amount of the greater 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, using the measure of segment profit or loss that is reviewed by the CODM to allocate resources and assess performance. Also, similar to the revenue test, profit or loss included in the "all other" category not related to operating segments are excluded from the test. Consider the following example:

Illustration 3-8: Profit or loss test

Reporting Co. has identified five segments: A, B, C, D and E. Also assume that Reporting Co.'s CODM uses the measure of segment profit or loss that does not include the loss on sale of assets or equity income.

(Amounts in thousands)

| | Segment A | Segment B | Segment C | Segment D | Segment E | All other ²⁴ | Combined | Eliminations ²⁵ | Consolidated |
|---|-----------------|-------------------|---------------|-----------------|-----------------|-------------------------|-----------------|----------------------------|-----------------|
| Segment profit (loss) (before items shown below) | \$ (800) | \$ (4,000) | \$ 900 | \$ 7,400 | \$ 400 | \$ 100 | \$ 4,000 | \$ (400) | \$ 3,600 |
| Loss on sale of assets | - | - | (200) | - | - | - | (200) | - | (200) |
| Equity income | - | - | - | - | 1,000 | - | 1,000 | - | 1,000 |
| Segment profit (loss) | \$ (800) | \$ (4,000) | \$ 700 | \$ 7,400 | \$ 1,400 | \$ 100 | \$ 4,800 | \$ (400) | \$ 4,400 |

²³ To the extent that revenues in the "all other" category are not related to an operating segment (e.g., incidental revenues), these revenues should be subtracted from the combined total to obtain the denominator for purposes of determining which operating segments are reportable.

²⁴ This category includes operating segments that are clearly not individually significant as well as net proceeds from incidental sales of miscellaneous items (e.g., scrap). In this example, we assumed the sale of scrap was at a breakeven otherwise the impact to the profit/loss would be excluded (similar to the revenue test example).

²⁵ This column would include such items as intercompany profit eliminations and depreciation on unallocated assets.

Since some operating segments reported income and others reported a loss, Reporting Co. must first determine the denominator in the calculation, which is the greater, in absolute amount, of (1) the combined profit of all operating segments that did not report a loss or (2) the combined loss of all operating segments that did report a loss. The *absolute* amount of the combined segment profit of all operating segments that did not report a loss is \$8,800,000 (\$900,000 + \$7,400,000 + \$400,000 + \$100,000) and the *absolute* amount of the combined segment loss for all operating segments that reported a loss is \$4,800,000 (\$800,000 + \$(4,000,000)). Therefore, the operating segments with a profit or loss reported to the CODM of more than \$880,000, which is 10% of the greater of \$8,800,000, and \$4,800,000 are material and must be individually reported. As a result, operating segments B, C and D meet the profit or loss test and are required to be separately presented. The following table summarizes Reporting Co.'s evaluation.

(Amounts in thousands)

| Segment | Absolute amount of profit/loss | Threshold | Reportable? |
|---------|--------------------------------|-----------|--|
| A | \$800 | \$880 | No (even though over 10% of combined loss) |
| B | \$4,000 | \$880 | Yes |
| C | \$900 | \$880 | Yes |
| D | \$7,400 | \$880 | Yes |
| E | \$400 | \$880 | No |

3.3.2.1

Use of a consistent measure of profit or loss

The evaluation of the profit or loss test could change if the CODM used different measures of operating profit or loss for different segments in order to allocate resources and assess performance. As discussed in section 3.2.4, if profit or loss measures used by the CODM are different by operating segment, a consistent measure should be used in the quantitative threshold test. We believe that the measure used should be the one that is most consistent with the GAAP used in the entity's consolidated financial statements or the measure that is used for the majority of the operations. Consider the following example:

Illustration 3-9: Different measures of profit or loss

Assume the same facts as in Illustration 3-8 above. Further, assume that Reporting Co.'s CODM uses a measure of segment profit or loss that includes equity income and the loss on sale of assets for Segments B and C but uses segment profit or loss before equity income and the loss on sale of assets for Segments A, D and E. In order to apply the quantitative threshold test, Reporting Co. uses segment profit or loss that includes equity income and the loss on sale of assets because this is the measure most consistent with a GAAP presentation.

If segment profit or loss that includes equity income and the loss on sale of assets is used to determine whether or not the segment meets the profit or loss quantitative threshold, the combined segment profit of all operating segments that reported a profit is \$9,600,000 (\$700,000 + \$7,400,000 + \$1,400,000 + \$100,000). In this case, the operating segments with an absolute amount of profit or loss reported to the CODM of more than \$960,000 (which is the greater of 10% of \$9,600,000 and 10% of \$4,800,000) are material and must be individually reported. Reporting Co. concludes that operating segments B, D and E meet the profit and loss test and require separate presentation. The following table summarizes Reporting Co.'s analysis:

(Amounts in thousands)

| Segment | Absolute amount of profit/loss | Threshold | Reportable? |
|---------|--------------------------------|-----------|-------------|
| A | \$ 800 | \$ 960 | No |
| B | \$ 4,000 | \$ 960 | Yes |
| C | \$ 700 | \$ 960 | No |
| D | \$ 7,400 | \$ 960 | Yes |
| E | \$ 1,400 | \$ 960 | Yes |

3.3.2.2 Aggregation may change reportable segments

As discussed before, ASC 280 requires that segments first be identified, and identified segments may be aggregated into a single segment. Identified segments (as revised for aggregation) then are measured against the quantitative thresholds to determine whether they are reportable (ASC 280-10-55-45). Management's decision to aggregate may change the number of reportable segments from the number that would be reported assuming management chooses not to aggregate.

Illustration 3-10: Without aggregation

Assume that Reporting Co. has five operating segments that have operating profit (loss) as summarized below:

| (Amounts in thousands) | |
|------------------------|----------------------|
| Segment | Profit/(loss) |
| A | (\$ 800) |
| B | (\$ 4,000) |
| C | \$ 900 |
| D | \$ 7,400 |
| E | \$ 400 |
| All other | \$ 100 ²⁶ |

Assuming that Reporting Co. does not choose to aggregate, the threshold calculations for separate reporting are as follows:

| (Amounts in thousands) | |
|---------------------------|----------------------|
| | Prior to aggregation |
| Combined reported profits | \$ 8,800 |
| Combined reported losses | (\$ 4,800) |
| Greater absolute amount | \$ 8,800 |
| 10% threshold | \$ 880 |

If Reporting Co. does not aggregate, Segments B, C and D would be identified as individually reportable because they meet the 10% of segment profit or loss criterion. Segments A and E do not meet the thresholds and are therefore not reportable.

Illustration 3-11: With aggregation

Assume the same facts as in Illustration 3-10. Now assume that Reporting Co. chooses to apply the aggregation criteria and concludes that Segments B and C meet all of the aggregation criteria. Assuming that Reporting Co. aggregates, the threshold calculations for separate reporting are as follows:

| (Amounts in thousands) | |
|---------------------------|---------------------------|
| | Subsequent to aggregation |
| Combined reported profits | \$ 7,900 |
| Combined reported losses | (\$ 3,900) |
| Greater absolute amount | \$ 7,900 |
| 10% threshold | \$ 790 |

The combined segment profit of all operating segments that reported a profit is now \$7,900,000 (\$7,400,000 + \$400,000 + \$100,000). As a result, Reporting Co. would be required to separately present as reportable segments A, D and the aggregated B/C.

²⁶ This category includes operating segments that are clearly not individually significant as well as net proceeds from incidental sales of miscellaneous items (e.g., scrap). In this example, we assumed the sale of scrap was at breakeven, otherwise the impact to the profit/loss would be excluded (similar to the revenue test example).

3.3.3 Assets

When performing the asset test, the asset amount is based upon the measure used by the CODM to allocate resources and assess performance even if other assets may be identifiable with the operating segment.²⁷ Further, if the CODM does not receive asset information by segment, the asset test need not be performed to determine if quantitative materiality thresholds have been met.

If the CODM used two measures of total assets to make operating decisions, application of the asset test would be based on the measure that management believes is more consistent with the measurement principles used to measure the corresponding amount in the consolidated financial statements. For example, if one measure of total assets did not include an allocation of the headquarters building but a second measure included all property, plant and equipment, the second measure would be used because it more closely corresponds to the consolidated amount.

Illustration 3-12: Asset test

Assume that Reporting Co. has identified the following operating segments: A, B, C, D and E. In addition, assume that the Reporting Co.'s CODM uses total assets as the measure of segment assets. The following table summarizes the asset information for Reporting Co.'s operating segments.

Asset test

(Amounts in thousands)

| | Segment A | Segment B | Segment C | Segment D | Segment E | All other ²⁸ | Combined | Eliminations ²⁹ | Consolidated |
|--------------|--------------|--------------|--------------|--------------|--------------|-------------------------|-----------|----------------------------|--------------|
| Total assets | \$ 3,000 | \$ 6,000 | \$ 6,000 | \$ 33,000 | \$ 5,000 | \$ 5,000 | \$ 58,000 | \$ (5,000) | \$ 53,000 |

Under the asset test, Segments B, C, and D are reportable because the measure of total assets for each of these segments is at least \$5,800,000, which is 10% of combined segment total assets of \$58,000,000.

3.4 Combination of operating segments that do not meet quantitative thresholds

Excerpt from Accounting Standards Codification

Segment Reporting – Overall

Disclosure

Quantitative Thresholds

280-10-50-13

An entity 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 aggregation is consistent with the objective and basic principles of this Topic, the segments have similar economic characteristics, and the operating segments share a majority of the aggregation criteria listed in paragraph 280-10-50-11.

²⁷ To the extent that assets that are in an "all other" category are not related to an operating segment, these assets should be subtracted from the combined total to obtain the denominator for purposes of determining which operating segments are reportable.

²⁸ This category is assumed to include operating segments that are clearly not individually significant.

²⁹ This column would include such items as intercompany receivables, intercompany inventory profit eliminations, purchase price adjustments made only in consolidation, the headquarters building if not allocated, and the LIFO reserve if segments are reported using FIFO.

After determining which segments meet the quantitative tests, the entity must decide how to report the remaining segments that did not meet the quantitative thresholds. If any individual or properly aggregated operating segment does not meet the quantitative thresholds discussed in section 3.3, the entity is permitted to combine two or more of those operating segments into a single reportable segment provided the following conditions are satisfied:

- ▶ The combination is consistent with the objective and basic principles of ASC 280 (i.e., to provide the users of the financial statements with disaggregated information similar to what management receives in order to better understand the entity's performance and assess its prospects for future net cash flows) (as discussed in section 3.1.1).
- ▶ The segments have similar economic characteristics (as discussed in section 3.1.2).
- ▶ The segments share a majority of the five specific aggregation criteria in ASC 280-10-50-11 (as discussed in section 3.1.3).

Companies may want to combine immaterial operating segments for reporting purposes to help satisfy the requirement to individually report operating segments that contribute at least 75% of consolidated revenue (see section 3.5). However, it may be difficult for relatively small operating segments to satisfy the criteria above and, therefore, be combined into a reportable segment. Also, the SEC staff may challenge a registrant's combination of operating segments under ASC 280-10-50-13 in much the same manner as it challenges aggregation of operating segments under paragraph ASC 280-10-50-11. Refer to section 3.1 for guidance on aggregating operating segments into reportable segments.

If operating segments do not meet the criteria to be combined and the entity has not met the requirement to individually report operating segments that contribute at least 75% of consolidated revenue, the entity must present additional operating segments until the threshold is met. Operating segments that do not meet the quantitative thresholds are presented for segment reporting purposes in an "all other" category (see section 3.7).

3.5

Meeting the 75% of consolidated revenue test

Excerpt from Accounting Standards Codification

Segment Reporting – Overall

Disclosure

Quantitative Thresholds

280-10-50-14

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 280-10-50-12) until at least 75 percent of total consolidated revenue is included in reportable segments.

Once an entity determines its reportable operating segments, it must ascertain that the external revenues attributable to those reportable segments constitute at least 75% of the total consolidated revenues.³⁰

Once segments that satisfy the 10% threshold for the revenue, profit/loss and asset tests are identified, ASC 280 does not specify an approach with respect to the determination of which additional operating segment(s) should be presented to satisfy the 75% test. As a result, companies that have numerous operating segments often will have latitude in selecting operating segments to report in order to satisfy the 75% test. Consider the following example:

³⁰ If revenue for an equity method investment operating segment is disclosed in the segment disclosures, as discussed in section 3.6, we do not believe such revenue would be considered in the 75% test as the revenue is not considered to be external revenue to the entity.

Illustration 3-13: Meeting the 75% of consolidated revenue test

Assume Performance Co. has determined that it has seven operating segments that contribute the following percentages to consolidated revenues. Further, assume that each of the operating segments that are below 10% of consolidated revenue do not meet either the profit/loss or asset quantitative threshold tests and, therefore, are not required to be separately reported. The following table summarizes the revenue information for Performance Co.'s operating segments:

| Segment | Percentage of consolidated revenue |
|-----------------------|------------------------------------|
| A | 27% |
| B | 40 |
| C | 4 |
| D | 9 |
| E | 3 |
| F | 8 |
| G | 4 |
| Miscellaneous revenue | 5 |
| | 100% |

Based upon the information above, Performance Co. would be required to separately report Segments A and B because they meet the revenue test. In addition, Performance Co. would be required to separately report a third segment (or combination of two or more segments) that constitutes at least 8% of consolidated revenue because Segments A and B provide only 67% of consolidated revenue. In this case, Performance Co. could choose to report individually Segment D or F to achieve the 75%. Alternatively, if two or more of the less than 10% segments have similar economic characteristics, meet a majority of the aggregation criteria and the combination is consistent with the objective and basic principles of ASC 280, they could be combined for reporting purposes (e.g., C and G if they meet the combination criteria could be combined into a single segment) and reported to achieve the 75%.

Any segment(s) that are not separately reported would be included in the "all other" category, along with any business activities that do not constitute operating segments.

3.6

Determining whether an equity method investment is a reportable segment

As discussed in section 2.3, an equity method investee or joint venture can be considered an operating segment if the criteria in ASC 280-10-50-1 are met. Generally, we would not expect that an equity method investment that is an operating segment would meet the criteria to be aggregated with other operating segments. As such, the quantitative thresholds would need to be considered to determine if an equity method investment that is an operating segment is required to be separately reported. We believe the quantitative tests should be applied to such an equity method investment as follows:

- ▶ **Revenue** – Generally, we do not believe a revenue test would be relevant for an equity method investment operating segment. However, if the CODM receives and uses revenue information from the equity method investment as part of the review of the operating segment, we believe the investee revenue reviewed by the CODM (i.e., the full amount or the investee proportionate share, whichever is used) should be included in the revenue test to determine reportability. That is, the revenue amount reviewed would be included in the numerator and would be combined with the revenue of the other operating segments to determine the denominator.
- ▶ **Profit/loss** – Generally, the calculation should be based on the public entity's equity in the earnings of the investee based on the same consistent measure used for the other operating segments. For example, if EBITDA is used in the public entity's profit/loss test, the public entity's proportionate share of the investee's EBITDA should be used to determine reportability. Also, if the public entity's

investment includes an embedded basis difference, the impact of the embedded basis difference on the equity method profit/loss should be included for purposes of the quantitative threshold test if it is included in the information used by the CODM.

- ▶ **Assets** – Generally, the calculation should be based on the public entity’s total investment in the investee, which would include any embedded basis difference, if these amounts are reflected in the information used by the CODM. However, if the CODM receives and reviews only full or proportionate asset information from the investee, this amount (either full or proportionate) would be used in the asset calculation. If the CODM receives and reviews both the total investment and full or proportionate asset information, we believe the total investment would be used in the asset calculation as the total investment would be the most consistent with the measurement principles used in the public entity’s consolidated financial statements.

See section 4.4 for a discussion of the information to be disclosed for an equity method investment that is required to be separately reported.

3.7 The ‘all other’ category

Excerpt from Accounting Standards Codification

Segment Reporting – Overall

Disclosure

Quantitative Thresholds

280-10-50-15

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 paragraphs 280-10-50-30 through 50-31. The sources of the revenue included in the all other category shall be described.

Many public entities have business activities that are not operating segments as defined in ASC 280. These activities are not required to be separately described in the segment footnote. However, it is not appropriate to combine these other activities that do not constitute an operating segment (or immaterial operating segments) with another reportable segment. Rather, these activities, along with operating segments that are neither individually reportable, nor aggregated (section 3.1) or combined (section 3.4) with another operating segment, are presented for segment reporting purposes in an “all other” category. The “all other” category should be presented alongside the reportable segments in the tabular presentation (i.e., the activities that compose the “all other” category should not be presented as reconciling items to consolidated totals). Since many immaterial operating segments and other activities potentially could be included in the “all other” category, ASC 280 requires a public entity to describe the sources of revenue that are included in the “all other” category.

3.8 Change in the quantitative thresholds from year to year

Excerpt from Accounting Standards Codification

Segment Reporting – Overall

Disclosure

Quantitative Thresholds

280-10-50-16

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 280-10-50-12.

280-10-50-17

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 280-10-50-12 in the prior period unless it is impracticable to do so. For purposes of this Subtopic, information is impracticable to present if the necessary information is not available and the cost to develop it would be excessive.

When an operating segment (either individually or aggregated) does not meet one or more of the quantitative thresholds in one year because of abnormal revenues or profits, it may be appropriate to rely on prior or expected future results for selecting reportable operating segments in order to provide comparability from year to year. For example, if revenues of an operating segment that historically have been more than 10% fell to 8% of the combined revenue of all operating segments, that operating segment likely would be considered a reportable segment if revenues were expected to increase to 10% or more in the following year(s). However, if revenues were not expected to increase to 10% or more in the following year(s), and the current year is less than the quantitative thresholds, for comparability purposes, we believe it is acceptable to continue to disclose the operating segment until all years presented are less than the quantitative thresholds.

In addition, for comparison purposes, separate segment data should be presented for all prior years presented (i.e., restated) as well as the current year for an operating segment that meets the quantitative threshold in the current year, even if the operating segment was less than the quantitative thresholds in prior years.

3.9**Number of reportable segments****Excerpt from Accounting Standards Codification****Segment Reporting – Overall***Disclosure**Quantitative Thresholds***280-10-50-18**

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. Although no precise limit has been determined, as the number of segments that are reportable in accordance with paragraphs 280-10-50-12 through 50-17 increases above 10, the public entity should consider whether a practical limit has been reached.

Although the tests are based on a 10% threshold, the application of the tests could result in more than 10 segments that would be reportable. For example, in one entity, seven segments could meet the revenue test, three additional segments could meet the profit/loss test and four more could meet the assets test. The FASB indicates in ASC 280 that there may be a practical limit to the number of reportable segments that an entity separately discloses beyond which segment information may become overly detailed. Although the FASB did not set a precise limit, it states that as the number of segments that are reportable increases above 10, the entity should consider whether a practical limit has been reached.

4 Segment disclosure requirements



Proposed amendment to the standard

In October 2022, the FASB issued an exposure draft that would require public entities to disclose more segment information, including significant segment expenses and other segment items, on an annual and interim basis and provide in interim periods all disclosures about a reportable segment's profit or loss and assets that are currently required annually. The proposal would also permit public entities to disclose multiple measures of segment profit or loss, and public entities with a single reportable segment would have to provide all the disclosures required by ASC 280, including the proposed disclosures.

Readers should monitor developments.

Excerpt from Accounting Standards Codification

Segment Reporting – Overall

Disclosure

Disclosure Requirements

280-10-50-20

A public entity shall disclose all of the following for each period for which an income statement is presented. However, reconciliations of balance sheet amounts for reportable segments to consolidated balance sheet amounts are required only for each year for which a balance sheet is presented. Previously reported information for prior periods shall be restated as described in paragraphs 280-10-50-34 through 50-35.

General Information

280-10-50-21

A public entity shall disclose the following general information (see Example 3, Case A [paragraph 280-10-55-47]):

- a. Factors used to identify the public entity's reportable segments, including the basis of organization (for example, whether management has chosen to organize the public entity 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.

ASC 280 requires a public entity to disclose segment information in both its year-end and interim financial statements. The FASB believes the disclosure requirements represent a balance between the needs of financial statement users, who generally want companies to disclose a lot of segment information, and the cost to preparers.³¹

In addition to the reportable operating segment disclosures, a public entity is also required to make certain entity-wide disclosures, which are discussed in chapter 5.

³¹ See paragraph 92 of Statement 131.

ASC 280 requires an entity to disclose the following information in the footnotes to the annual financial statements:

- ▶ **General information** describing how the entity's reportable segments were identified, including the basis of organization (e.g., by products and services, geographical area, regulatory environments, whether operating segments have been aggregated³²), the types of products and services from which each reportable segment derives its revenues and the sources of revenue included in the "all other" category
- ▶ **Profit or loss measurement** for reportable segments, including certain revenue and expense components included in the reported measure of profit or loss
- ▶ **Assets** for reportable segments, including certain asset components included in the measure of segment assets reviewed by the CODM
- ▶ **Measurement** basis of segment profit or loss and segment assets for each reportable segment
- ▶ **Reconciliations** of the totals of reported segment revenues, profit or loss measurement, assets and other significant items reported by segment to the corresponding consolidated GAAP totals

The information is required for each period in which an income statement is provided, including segment asset disclosures even though a Form 10-K requires the presentation of only two balance sheets. However, segment assets are only required to be reconciled to the consolidated balance sheet assets for the years in which a balance sheet is presented. See chapter 7 for a comprehensive example of the segment disclosure requirements.

In addition, summarized information for each reportable segment is required in condensed financial statements of interim periods.

At times, application of the guidance may result in the identification of a single operating segment. The SEC staff stated that when such identification is consistent with the guidance, it can be a significant signal to investors about how management has allocated resources.³³ Upon arriving at this conclusion, registrants should disclose that they allocate resources and assess financial performance on a consolidated basis and explain the basis for that management approach in their disclosure.

4.1 Disclosure of segment profit or loss and segment assets

Excerpt from Accounting Standards Codification

Segment Reporting – Overall

Disclosure

Information About Profit or Loss and Assets

280-10-50-22

A public entity shall report a measure of profit or loss and total assets for each reportable segment. A public entity also shall disclose all of 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 or are otherwise regularly provided to the chief operating decision maker, even if not included in that measure of segment profit or loss (see Example 3, Case B [paragraph 280-10-55-48]):

- a. Revenues from external customers

³² Q&A 131, Question 12.

³³ **Remarks by Courtney D. Sachtleben**, SEC Professional Accounting Fellow, Office of the Chief Accountant, at the 2015 AICPA National Conference on Current SEC and PCAOB Developments, 9 December 2015.

- b. Revenues from transactions with other operating segments of the same public entity
- c. Interest revenue
- d. Interest expense
- e. Depreciation, depletion, and amortization expense
- f. Unusual items as described in paragraph 220-20-45-1
- g. Equity in the net income of investees accounted for by the equity method
- h. Income tax expense or benefit
- i. Subparagraph superseded by Accounting Standards Update No. 2015-01
- j. Significant noncash items other than depreciation, depletion, and amortization expense.

A public entity 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, a public entity may report that segment's interest revenue net of its interest expense and disclose that it has done so.

280-10-50-25

A public entity shall disclose both of 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 or are otherwise regularly provided to the chief operating decision maker, even if not included in the determination of segment assets:

- a. The amount of investment in equity method investees
- b. Total expenditures for additions to long-lived assets other than any of the following (see Example 3, Case B [paragraph 280-10-55-48]):
 - 1. Financial instruments
 - 2. Long-term customer relationships of a financial institution
 - 3. Mortgage and other servicing rights
 - 4. Deferred policy acquisition costs
 - 5. Deferred tax assets.

Measurement

280-10-50-27

The amount of each segment item reported shall be the measure reported to the chief operating decision maker for purposes of making decisions about allocating resources to the segment and assessing its performance. Adjustments and eliminations made in preparing a public entity'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.

280-10-50-28

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 public entity's consolidated financial statements.

ASC 280 does not define the segment profit or loss measure of profit or loss to be reported. Rather, the measure of profit or loss disclosed for reportable segments is the measure used by the CODM to make decisions about allocating resources to the segment and to assess segment performance. As such, the components of reported profit or loss will often differ by company, even if the companies are in the same industry and if the reportable segments are similar. If the CODM uses more than one measure of profit or loss, the measure reported is the measure most consistent with that used in measuring the corresponding amounts in the entity's consolidated financial statements.³⁴ See section 4.1.4 for further discussion. Further, if the CODM uses different measures across operating segments, the measure used to determine whether or not the segment meets the quantitative threshold may not be the measure disclosed for each reportable segment. See section 3.2.4 for further discussion of how to make this determination.

4.1.1 What is required to be disclosed

The items described in items a. through j. in ASC 280-10-50-22 are to be separately reported for each reportable segment only if they are components of the measure of segment profit or loss used by the CODM or are otherwise regularly provided to the CODM. ASC 280-10-55-12 through 55-15 clarify that these 10 items should be separately reported for each reportable segment if such amounts are "provided to"³⁵ 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. That is, if amounts are included by segment in any reports that are regularly provided to and reviewed by the CODM (for example, interest revenue and expense), even though they are not included in the measure of segment profit or loss (operating income), then disclosure of such amounts is required.

For example, the CODM evaluates the performance of its segments based on EBITDA. However, included in the management reports reviewed by the CODM are summaries of depreciation and amortization expense related to each of the segments. Although depreciation and amortization expense is not included in "the measure of segment profit or loss" reviewed by the CODM, depreciation and amortization expense would be required to be disclosed for each reportable segment because it is included in segment reports provided to the CODM. This conclusion does not change the requirement that the measure of segment profit or loss to be disclosed for each reportable segment be based on the segment EBITDA data that are used by the CODM.

Conversely, if the CODM uses pretax income to assess the performance and allocate resources to the entity's segments, and the management reports or segment profitability reports used by the CODM do not contain allocations of income tax expense or benefit, that entity would not disclose an amount for income tax expense or benefit by segment.

³⁴ ASC 280-10-55-9.

³⁵ We believe the term "provided to" should be interpreted to include not only amounts that are specifically and separately provided to the CODM, but amounts that are inherently provided to the CODM. For example, if the CODM reviews operating income and is not separately provided depreciation expense, we believe depreciation expense is "provided to" the CODM as it is inherently included in the determination of operating income and, as such, is a component of the measure of segment profit or loss used by the CODM.

4.1.2 What is not required to be disclosed

Amounts that are not allocated for purposes of the CODM's review should not be allocated for reporting purposes. Further, a public entity is not required to disclose any components of the measure of profit or loss used by the CODM other than those 10 items that are noted above. For example, some entities engage in significant research and development activities and allocate research and development expense to operating segments for internal review purposes. ASC 280 does not require disclosure of this expense, even if the expense is allocated for the CODM's use. However, amounts allocated are included in the measure of the segment's profit or loss that is disclosed.

Also, separate disclosure of noncontrolling interest by segment is not required, even if these items are reported to the CODM. For example, if an entity consolidates a 60% owned subsidiary that constitutes a reportable operating segment, the entity would not be required to separately disclose the noncontrolling interest share of the earnings of the subsidiary in the reported segment profit or loss information. However, companies may wish to separately disclose these items to help users understand the information.

4.1.3 Non-GAAP measures

By definition, a segment measure of profit or loss that a company is required to disclose in accordance with ASC 280 (i.e., the measure that is reported to the CODM for purposes of making decisions about allocating resources to the segment and assessing its performance) is not a non-GAAP measure and is not subject to the rules and regulations on the use of non-GAAP financial measures by SEC registrants.

The SEC staff's Compliance & Disclosure Interpretations (C&DIs)³⁶ on the use of non-GAAP financial measures address this point. "Because [ASC 280] requires or expressly permits the footnotes to the company's consolidated financial statements to include specific additional financial information for each segment, that information also would be excluded from the definition of non-GAAP financial measures," the C&DIs state.

As discussed in section 4.3, ASC 280 requires a reconciliation of the total of the reportable segments' measures of profit or loss to the entity's consolidated income before taxes and discontinued operations. However, the SEC staff's C&DIs state that if the total segment profit or loss measure is presented in any context other than the reconciliation required by ASC 280 in the note to the financial statements (e.g., MD&A), the total of reportable segments' measures of profit or loss would be considered a non-GAAP measure and the presentation would have to comply with all of the non-GAAP rules and regulations.

The SEC rules³⁷ describe the requirements for disclosing non-GAAP measures in SEC filings and other communications, including the following:

- ▶ Non-GAAP measures cannot be presented in any way that may be misleading.
- ▶ Non-GAAP measures must be reconciled to the most directly comparable GAAP measure (which may be the measure of segment profit under ASC 280 for adjusted segment measures).
- ▶ Non-GAAP measures cannot be given prominence that is equal to or greater than the GAAP measures.
- ▶ Non-GAAP measures must be accompanied by disclosures about why they are useful to investors and how management uses them.

³⁶ Section 104. Segment Information, of the C&DIs on Non-GAAP Financial Measures can be found at <https://www.sec.gov/divisions/corpfin/guidance/nongAAPinterp.htm>.

³⁷ Regulation S-K Item 10(e).

At the 2016 AICPA National Conference on Current SEC and PCAOB Developments,³⁸ the SEC staff said that companies should not attempt to circumvent the rules on non-GAAP measures by disclosing multiple measures of a segment's profit or loss in their financial statements. See section 4.1.4 for considerations when the CODM uses more than one measure of segment profit or loss.

Similarly, the SEC staff may challenge a company that discloses a measure of segment profit or loss (that would otherwise be considered a non-GAAP measure) as part of its ASC 280 disclosure, but the company is managed as one operating segment and, therefore, discloses a single reportable segment. As discussed in section 4.1.4, when the CODM uses multiple measures, ASC 280-10-50-28 requires disclosure of the measure that is most consistent with the one used in measuring the corresponding amounts in the entity's consolidated financial statements (e.g., operating income instead of EBITDA). Therefore, the SEC staff has challenged the presentation of such a measure since it would not be consistent with a consolidated profit or loss measure presented in accordance with US GAAP.

The SEC's requirements for management's discussion of business segments are designed to give registrants the flexibility to discuss their business in the manner most appropriate to the company's facts and circumstances. However, the C&DIs also indicate that when a registrant includes in its MD&A a discussion of segment profitability determined in accordance with ASC 280, it also should include a discussion of the reconciling items (as disclosed in accordance with ASC 280) that apply to the particular segment being discussed. Refer to our SEC Financial Reporting Series publication, *2022 SEC annual reports – Form 10-K*, for additional considerations related to MD&A disclosure requirements.

4.1.4 CODM uses more than one measure of segment profit/loss or segment assets

Companies should consider the appropriate measure of profit or loss or measure of assets that should be disclosed in accordance with ASC 280-10-50-22 when more than one measure of profit or loss or of assets is used by the CODM for their review of operating segments.

Excerpt from Accounting Standards Codification

Segment Reporting – Overall

Disclosure

Measurement

280-10-50-28

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 public entity's consolidated financial statements.

³⁸ Comments by Mark Kronforst, SEC Chief Accountant, Division of Corporation Finance, at the 2016 AICPA National Conference on Current SEC and PCAOB Developments.

Implementation Guidance and Illustrations***A Public Entity Uses Multiple Performance Measures in Evaluating Segment Performance and Allocating Resources*****280-10-55-9**

If a public entity uses multiple performance measures in evaluating segment performance and allocating 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 public entity's consolidated financial statements (see paragraphs 280-10-50-27 through 50-29). Preparing segment information in accordance with the GAAP used at the consolidated level would be difficult because some GAAP are not intended to apply at a segment level. Examples include accounting for income taxes in a public entity that files a consolidated income tax return.

280-10-55-10

Entities may use multiple performance measures in evaluating segment performance and allocating resources including both pretax and after-tax measures. Because it may not always be practicable to apply GAAP relating to income taxes to the segment level, after-tax segment measures are not typically in accordance with GAAP. Therefore, either a pretax or after-tax measure could be used for reporting segment information, with disclosure of the difference in measurement principles for determining taxes, if an after-tax measure is used. However, if the after-tax measures are determined on the same basis as the consolidated financial statements, the after-tax measure would be the preferable measure of segment profit or loss to report.

If the CODM uses more than one measure of profit or loss, the measure reported to meet the requirements in ASC 280-10-50-22 is the measure most consistent with that used in measuring the corresponding amounts in the entity's consolidated financial statements.

In certain instances, a CODM may use both pretax and after-tax measures in evaluating segment performance and allocating resources. However, since it may not always be practicable to apply income taxes in accordance with GAAP at a segment level (for example, accounting for income taxes in an entity that files a consolidated tax return), after-tax segment measurements may not be in accordance with GAAP. Therefore, either a pretax or after-tax measure could be used for reporting segment information, provided that the difference in measurement principles for income taxes is disclosed when the after-tax measure is used. However, if the after-tax measures are determined on the same basis as the consolidated financial statements, the after-tax measure would be the preferable measure of segment profit or loss to report.

The SEC staff only considers the measure of segment profit or loss disclosed in accordance with ASC 280 to be required by US GAAP. Accordingly, measures of segment profit or loss other than the measure required to be disclosed under ASC 280 are considered non-GAAP measures, unless calculated in accordance with US GAAP. The SEC staff has stated that non-GAAP measures can never be presented in the financial statements, and it objects to the presentation of a non-GAAP measure in the footnotes when an entity has disclosed that the CODM also uses a GAAP measure to assess performance and allocate resources.³⁹ For example, if the CODM uses operating income and EBITDA to assess performance and allocate resources, the measure of segment profit would be operating income. Therefore, companies should expect the SEC staff to challenge the disclosure of the additional non-GAAP financial measure (EBITDA) by a reportable segment in the footnotes. Consider the following example:

³⁹ Comments by Patrick Gilmore, SEC Deputy Chief Accountant, Division of Corporation Finance, at the 2020 AICPA Conference on Current SEC and PCAOB Developments.

Illustration 4-1: Multiple measures of segment profit

Company X's CODM uses multiple measures of segment income when allocating resources and assessing performance of Company X's operating segments. These measures include income before income taxes and income before income taxes and depreciation expense. The appropriate income measure to be reported by Company X in its segment disclosure is the measure that includes depreciation expense because depreciation expense is included in the measurement of the corresponding amount (i.e., income before income taxes) in the consolidated financial statements.

4.1.5**Materiality**

While the provisions of ASC 280 are not required to be applied to immaterial items, the basis for conclusions of Statement 131 stated that "magnitude by itself, without regard to the nature of the item and circumstances in which the judgment has to be made, will not generally be a sufficient basis for a materiality judgment." Evaluating materiality may be more challenging when an item is not material to the consolidated financial statements but is material to the segment and requires careful consideration of the facts and circumstances.

Thus, an item of segment information that, if omitted, would change a user's decision about that segment so significantly that it may change the user's decision about the entity as a whole may be material, even though an item of a similar magnitude might not be considered material if it were omitted from the consolidated financial statements. Therefore, entities are encouraged to report information about segments that may not be material to the consolidated financial statements. The determination of what is material is a matter of professional judgment and must be made by those who are familiar with the particular circumstances of the entity, especially for those items that are of a material magnitude to the segment but not a material magnitude to the consolidated amounts. Factors that may be helpful in assessing materiality include considering whether an item distorts the trends reflected in the segment or consolidated information and whether an item is considered by management to be important to the entity's future profitability.

The considerations with respect to materiality by the SEC often consider the effect on segment disclosures. For example, the SEC settled civil proceedings alleging W. R. Grace & Co. (Grace) intentionally manipulated earnings of its Health Care Group and, thereby, misled investors. The misstated amounts were not material to Grace's consolidated results but had a significant impact on the Health Care Group's results, which was a reported industry segment. The erroneously reported Health Care Group growth rates remained relatively steady from 1991-1995. However, actual growth rates showed a significantly different trend. The SEC asserted that the misstatements resulting from the erroneous reserves were material to investors because they affected reported trends in operations. In this situation, the SEC indicated that materiality was not viewed solely in relation to the dollar amounts involved to the consolidated entity, but also included other qualitative factors such as information related to an industry segment and segment trend information.

ASC 250-10-S99-1 provides the SEC staff view regarding the factors that registrants may look to in determining when a misstatement is immaterial, including both quantitative and qualitative factors, as well as matters related to aggregation and netting. Included in these qualitative factors are "whether the misstatement concerns a segment or other portion of the registrant's business that has been identified as playing a significant role in the registrant's operations or profitability."

The materiality of a misstatement may depend on where it appears in the financial statements. For example, a misstatement may involve a segment of the registrant's operations. In that instance, in assessing materiality of a misstatement to the financial statements taken as a whole, registrants and their auditors should consider not only the size of the misstatement but also the significance of the segment information to the financial statements taken as a whole. The SEC guidance outlines that "a misstatement of the revenue and operating profit of a relatively small segment that is represented by management to be important to the future profitability of the entity is more likely to be material to investors than a misstatement in a segment that management has not identified as especially important."

4.1.6 Interest

Excerpt from Accounting Standards Codification

Segment Reporting – Overall

Disclosure

Information About Profit or Loss and Assets

280-10-50-23

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.

280-10-50-24

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 about interest is required.

Disclosure of interest revenue and interest expense included in the reported measure of segment profit or loss is intended to provide information about the financing activities of a segment. Both interest revenue and interest expense should be separately presented; however, an entity is permitted to report interest revenue net of interest expense if (1) a majority of the segment's revenues are from interest and (2) the CODM relies primarily on the "spread" between interest revenue and interest expense (net interest revenue) to assess performance of the segment and to make resource allocation decisions (e.g., banking, insurance, leasing and financing companies). The entity is required to disclose the fact that it has elected to report net interest revenue. If a segment has no financial operations or only immaterial financial operations, no disclosure of information about interest is required.

In addition, if the CODM reviews the performance of and allocates resources to the entity's segments using a measure of segment profit or loss that includes interest charged internally between the segments, disclosure of intercompany interest along with external interest is required (ASC 280-10-55-11). In this circumstance, intercompany interest should be included in the amounts of interest revenue and interest expense to be disclosed for each respective segment. Intercompany interest should not be disclosed if it is eliminated from the measure of a segment's profit or loss and is not otherwise regularly provided to the CODM.

4.1.7 Segment assets

Excerpt from Accounting Standards Codification

Segment Reporting – Overall

Disclosure

Information About Profit or Loss and Assets

280-10-50-26

If no asset information is provided for a reportable segment, that fact and the reason therefore shall be disclosed.

ASC 280 requires a public entity to disclose a measure of assets for each reportable segment. Generally, this disclosure would include only the assets that are included in the measure of the segment's assets reviewed by the CODM for assessing performance and allocating resources. However, if the amounts required to be disclosed separately by segment are included by segment in any of the reports that regularly are provided to the CODM, disclosure of such amounts is required even if those amounts are not included in the measure of segment assets reviewed by the CODM (ASC 280-10-55-14).

In certain cases, an entity may not allocate any assets to a segment and, therefore, no amount of assets is reported to the CODM and disclosed in the financial information for the segment. When an operating segment with no separately identified assets included in the discrete financial information provided to the CODM is a reportable segment, the fact that asset information is not available should be disclosed.

In addition to the measure of segment assets, an entity is required to disclose the following components of segment assets if these components are included in the measure of segment assets used by the CODM or otherwise provided to the CODM:

- ▶ The amount of investment in equity method investees, such as joint ventures, unconsolidated subsidiaries and other investments accounted for under the equity method
- ▶ Total expenditures for additions to long-lived assets (excluding financial instruments, certain intangible assets of financial institutions, deferred policy acquisition costs and deferred tax assets)

Segment liabilities do not have to be reported, even if they are reported to the CODM. However, an entity can elect to voluntarily make these disclosures.

4.2

Explanation of measurements

Excerpt from Accounting Standards Codification

Segment Reporting – Overall

Disclosure

Measurement

280-10-50-29

A public entity shall provide an explanation of the measurements of segment profit or loss and segment assets for each reportable segment. At a minimum, a public entity shall disclose all of the following (see Example 3, Cases A through C [paragraphs 280-10-55-47 through 55-49]):

- 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 public entity's consolidated income before income taxes and discontinued operations (if not apparent from the reconciliations described in paragraphs 280-10-50-30 through 50-31). 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 public entity's consolidated assets (if not apparent from the reconciliations described in paragraphs 280-10-50-30 through 50-31). 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, a public entity might allocate depreciation expense to a segment without allocating the related depreciable assets to that segment.

As discussed earlier, segment information under the management approach is not required to be prepared in accordance with GAAP. Thus, ASC 280 requires an entity to explain 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). For example, an entity should disclose how it determines its internal selling price when its wholesale/manufacturing segment sells product to its retail segment.
- ▶ 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 (if not apparent from the reconciliations to consolidated amounts – see below). The differences could include accounting policies and allocation methods for centrally incurred costs that are necessary for an understanding of the reported segment information. For example, an entity that recognizes commission expense paid to salespeople at the time cash is collected for segment purposes, but for consolidated reporting purposes recognizes commission expense when the related revenue is recorded, would need to disclose that policy and reflect this difference in the reconciliation to consolidated amounts.
- ▶ The nature of differences between the measurements of the reportable segments' assets and the entity's consolidated assets (such as policies for allocation of jointly used assets), if not apparent from the reconciliation of those amounts. For example, an entity should disclose its policy to account for inventory on the FIFO basis at the segment level if at the consolidated level inventory is accounted for on a LIFO basis.
- ▶ The nature and effect on segment profit or loss of any changes from prior periods in the measurement methods used to determine segment profit or loss, if not apparent from the reconciliation of those amounts. For instance, if an entity allocated pension expense to operating segments based on the number of employees in each segment in one year, and in the following year allocated pension expense based on the segments' total salary expense in relation to the consolidated amounts, the change in allocation method as well as the effect of the change should be disclosed. As discussed in section 3.2.5, although not required, restatement of prior years to reflect the change in segment measurement would be preferable.
- ▶ The nature and effect of any asymmetrical allocations to segments. Asymmetrical allocations are differences between the measurements of the reportable segments' assets and those segments' profits. For example, if an operating segment reported a significant gain on a sale of a long-lived asset, but the long-lived asset was carried on the corporate books rather than on the books of the segment, that should be disclosed.

4.3

Reconciliations

Excerpt from Accounting Standards Codification

Segment Reporting – Overall

Disclosure

Reconciliations

280-10-50-30

A public entity shall provide reconciliations of all of the following (see Example 3, Case C [paragraphs 280-10-55-49 through 55-50]):

- a. The total of the reportable segments' revenues to the public entity's consolidated revenues.

- b. The total of the reportable segments' measures of profit or loss to the public entity's consolidated income before income taxes and discontinued operations. However, if a public entity allocates items such as income taxes to segments, the public entity 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 public entity'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, a public entity may choose to disclose liabilities for its reportable segments, in which case the public entity would reconcile the total of reportable segments' liabilities for each segment to the public entity's consolidated liabilities if the segment liabilities are significant.

280-10-50-31

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 public entity's consolidated amounts shall be separately identified and described.

In addition to the disclosures regarding how and why segment information differs from consolidated financial information, public entities are required to disclose quantitative reconciliations of differences between combined segment information and consolidated totals, with separate disclosure of significant reconciling items:

- ▶ The total of the reportable segments' *revenues* to the entity's consolidated revenues. The combined reportable segment revenue amount often will include intersegment revenues that have to be eliminated in consolidation, and therefore, the elimination would be reported as a reconciling item.
- ▶ The total of the reportable segments' *profit or loss* to the entity's consolidated income **before** income taxes and discontinued operations. If an entity allocates these items to segments, the entity may reconcile the combined total of the reportable segments' profit or loss to the consolidated income amount that reflects these items. For example, if the CODM uses segment net income to assess performance and allocate resources, then an entity should reconcile the combined total of reportable segment net income to consolidated net income.
- ▶ Intersegment profit must be eliminated in consolidation and, therefore, would be a reconciling item where intersegment revenues were reported (unless the transfer price between segments equaled the cost to the selling segment). The reconciliation also should identify items not allocated to reportable segments or included in "all other" category, but recorded in consolidation, such as centrally incurred corporate overhead expenses. Accounting policy differences also would be identified in the reconciliation. For instance, if pension expense is allocated to segments on the cash basis for internal reporting, the adjustment to pension expense in consolidation would be identified in the reconciliation.
- ▶ The total of the reportable segments' *assets* that are required to be disclosed to the entity's consolidated assets. Frequently, an entity will not allocate to segments those assets that are used by more than one segment, such as warehouses and corporate headquarters. These items would represent reconciling items. Further, if the total of current assets is the measure of total segment assets reported, the entity should reconcile this total to consolidated current assets.
- ▶ The total of the reportable segments' amounts for every other significant item of information disclosed (e.g., interest, segment liabilities if voluntarily presented) to the corresponding consolidated amount.

4.4 Disclosures and reconciliations related to equity method investments

Excerpt from Accounting Standards Codification

Segment Reporting – Overall

Implementation Guidance and Illustrations

Information About Profit or Loss and Assets Measurement

Proportionate Consolidation Used to Measure Performance of an Equity Investee

280-10-55-8

In measuring the performance of its equity investees, proportionate consolidation shall be used for reporting segment information if that is the way in which such information is reviewed by the chief operating decision maker. This Subtopic specifies that the amount of each segment item reported shall be the measure reported to the chief operating decision maker for purposes of making decisions about allocating resources to the segment and assessing its performance. If proportionate consolidation is used for segment reporting, this Subtopic also requires disclosure of the accounting policy followed for segment reporting (see paragraph 280-10-50-29(b)), the elimination of the investee's revenues and assets in reconciling to consolidated results (see paragraphs 280-10-50-30 through 50-31), and the investment in and equity income from the investee (see paragraphs 280-10-50-22(g) and 280-10-50-25(a)). Even though the proportionate consolidation method may be used for internal reporting purposes (and thus for external reporting of segment information), that method is not permitted for purposes of preparing general-purpose financial statements in accordance with generally accepted accounting principles (GAAP) except where it is established industry practice (for example, in some oil and gas venture accounting).

If an equity method investment is considered a reportable segment, as discussed in section 3.6, an entity is required to disclose financial information that is consistent with the management approach and is based on the information the CODM receives and uses for purposes of assessing performance and allocating resources. If the CODM reviews financial information of the equity method investee on a proportionate consolidation basis, the entity would provide its segment disclosures on a proportionate consolidation basis. Similarly, if the CODM reviews full financial information of the investee (e.g., total revenue, total profit or loss), we believe it would be appropriate for the entity to provide its segment disclosures on that basis (i.e., full financial information of the investee).

If the information an entity discloses about the investee differs from the equity in earnings (losses) measured in accordance with US GAAP, ASC 280 also requires an entity to disclose the accounting policy it follows for segment reporting (see section 4.2) and eliminate the investee's full or proportionate amounts in reconciling to consolidated amounts (see section 4.3). Further, ASC 280 may require an entity to disclose the investment in and equity in earnings (losses) of the investee (see section 4.1). Entities should also consider whether additional disclosures are necessary to make sure that the financial information they present about the investee is not misleading.

4.5 Interim period information

Excerpt from Accounting Standards Codification

Segment Reporting – Overall

Disclosure

Interim Period Information

280-10-50-32

A public entity shall disclose all of the following about each reportable segment in condensed financial statements of interim periods:

- 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 public entity's consolidated income before income taxes and discontinued operations. However, if a public entity allocates items such as income taxes to segments, the public entity 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.

280-10-50-33

Interim disclosures are required for the current quarter and year-to-date amounts. Paragraph 270-10-50-1 states that when summarized financial data are regularly reported on a quarterly basis, the information in the previous paragraph with respect to the current quarter and the current year-to-date or the last 12 months to date should be furnished together with comparable data for the preceding year.

Implementation Guidance and Illustrations

Interim Period Information

280-10-55-16

Interim information is intended to be an update of the information that was presented in the most recent annual financial statements. Therefore, in the absence of a change in the structure of a public entity's internal organization during an interim period that would cause the composition of its reportable segments to change, generally, a public entity need not apply the quantitative tests in each interim period. However, if facts and circumstances change that would suggest that application of the quantitative tests in an interim period would reveal a reportable segment that was previously not reportable, and management expects that the segment will continue to be of significance, the segment should be disclosed as a new, separate reportable segment. This conclusion is consistent with the basic principle of interim financial reporting in paragraph 270-10-45-2.

ASC 280 requires certain information to be disclosed for reportable segments in condensed financial statements in interim reports, such as a Form 10-Q. While ASC 280 requires, for the entity as a whole, certain additional information about the geographic areas and the products and services of all entities that disclose segment information, these disclosures are not required for interim reporting purposes.

The interim disclosures are required for the current quarter and year-to-date amounts. These requirements include:

- ▶ External revenues
- ▶ Intersegment revenues
- ▶ A measure of segment profit or loss. It is important to note that the components of segment profit or loss required to be disclosed in the annual report are not required to be disclosed in condensed interim reports.
- ▶ Segment assets if they have changed materially since the last annual report. For example, if a substantial portion of the assets of a segment were sold or written off, the entity would be required to disclose the new asset balance of the segment and explain the reason(s) for the change.
- ▶ A description of differences, if any, from the last annual report in the basis of segmentation or in the basis of measurement of segment profit or loss. For instance, if an entity in its 31 December 20X8 annual report discloses that it does not allocate corporate overhead to segment profit or loss and subsequently in its 31 March 20X9 Form 10-Q begins to allocate corporate overhead to segments, that change in how segment profit or loss is measured must be disclosed. Also, if the way that an entity determines its segments' changes, that must be disclosed. For instance, a company must disclose that it reported its operations to the CODM based on geographic distinctions in its 31 December 20X8 annual report and after a restructuring in the first quarter of 20X9 now reports to the CODM based on product differences. The prior periods would have to be restated, if practicable.
- ▶ In general, an entity need not apply the quantitative tests to their operating segments when determining reportable segments for the interim period. However, if facts and circumstances change, for instance, there is a change in the structure of an entity's internal organization in an interim period, a new operating segment may be identified. Application of the quantitative tests in an interim period could indicate that this operating segment is a reportable segment. If management expects that this segment will continue to be of significance, the segment should be disclosed as a new, separately reportable segment in the interim reports.
- ▶ A reconciliation of the total of the reportable segments' profits or losses to the entity's consolidated income before income taxes and discontinued operations. If certain of these items are allocated to segments, the entity may choose to reconcile the total of the segments' measure of profit or loss to consolidated income after those items. All significant reconciling items are shown separately with a corresponding description provided.

4.6

Changes in reportable segments

Excerpt from Accounting Standards Codification

Segment Reporting – Overall

Disclosure

Restatement of Previously Reported Information

280-10-50-34

If a public 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 it is impracticable to do so. Accordingly, a public entity 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, a public entity shall disclose whether it has restated the corresponding items of segment information for earlier periods.

280-10-50-34A

For example, a fundamental reorganization of an entity may cause it to be very difficult and expensive to restate segment information and therefore it may not be practicable.

280-10-50-35

If a public entity 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 public entity 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.

280-10-50-36

Although restatement is not required to reflect a change in measurement of segment profit and loss, it is preferable to show all segment information on a comparable basis to the extent it is practicable to do so. If prior years' information is not restated, paragraph 280-10-50-29(d) nonetheless requires disclosure of 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.

Sometimes, when an entity implements a new internal reporting system, undergoes reorganization, restructuring or other corporate transactions (such as an acquisition or a spin-off), or changes its CODM, the way the CODM assesses performance and allocates resources could change. In these circumstances, a company should consider the effect, if any, on the determination of its operating segments as well as the application of the aggregation criteria. Acquisitions, corporate restructurings (including changes in who reports to and meets with the CODM), changes in the process to establish budgets, updates to compensation plans, changes in the information that is communicated to external parties or changes to the CODM's reporting package may affect the determination of a company's reportable segments.

In some instances, an entity may reorganize certain businesses (e.g., product lines) by moving a business or product line to a different operating segment without a change in the determination of operating segments or its management structure. For example, consider an entity that has two operating segments and multiple product lines within each segment. Product X has historically been included in the results of operating segment A and now will be included in the results of operating segment B. The reporting package reviewed by the CODM will remain the same after the reorganization. A question may arise as to whether this change qualifies as a change in the composition of an entity's reportable segments. We believe in these situations an entity will need to carefully consider the qualitative changes as well as quantitative impact (i.e., materiality) of the change (for both the current period and prior periods) in order to determine whether there has been a change in the reportable segments of the entity.

When a change in the composition of reportable segments occurs, an entity is required to restate its prior periods, including interim periods, to reflect the change, unless it is impracticable to do so (i.e., the necessary information is not available and the cost to develop it would be excessive). ASC 280 also allows for partial restatement if certain of the individual items could be restated but it is not practicable to restate others. Accordingly, an entity restates those individual items of disclosure that it can practicably restate. If the composition of a reportable segment changes, the entity must disclose whether it has restated the corresponding items of segment information for earlier periods. If it is impracticable to restate prior period information, an entity must report the current period segment information under *both* the new and old basis in the year in which the change occurs, unless it is also impracticable to do this. If a company determines that it is impracticable to restate, the entity must disclose that fact.

We view impracticable as a very high standard to meet, and the SEC staff shares this view. In evaluating whether it is impracticable to restate, the FASB notes that if a reorganization is simply the reassignment of a discrete profit center from one segment to another, restatement would be relatively simple.⁴⁰ On the other hand, if an entity undergoes a fundamental reorganization, restatement may be very difficult and expensive, which may indicate restatement is impracticable. Companies are encouraged to carefully consider the facts and circumstances before concluding that it is impracticable to provide the comparative historical information when there is a change to its segment presentation.

4.6.1 Interim restatement

Consistent with annual reporting, segment information for earlier interim periods is restated when a public entity changes its organization in a manner that causes the composition of its reportable segments to change unless restatement is impracticable (in which case the entity should disclose that fact). For example, if a change in internal reporting related to implementation of a new internal reporting system were completed in the third quarter of 20X9, the new segmentation would need to be reflected in the segment disclosures for the third quarter and year-to-date periods ended 30 September 20X9 and 20X8.

4.6.2 Timing of a change in segment reporting

If the change in the identification or composition of reportable segments occurs after the balance sheet date but before the issuance of the financial statements, the reportable segments should continue to be disclosed under the old basis in the financial statements as the change is considered a nonrecognized subsequent event. However, disclosures that describe the change in the composition of reportable segments should be made in the notes to the financial statements.⁴¹ The succeeding interim and annual periods would disclose the reportable segments under the new basis with prior periods restated to reflect the change, unless it is impracticable to do so, as described in ASC 280-10-50-34 and discussed in section 4.6.

4.6.3 SEC reporting considerations (added April 2023)

A change in reportable segments that occurs after the end of a fiscal year may require a registrant to retrospectively revise annual or interim financial statements included (or incorporated by reference) in a registration statement or proxy statement. Depending on the circumstance, the registrant may be required to recast financial statements (the “pre-event” financial statements) that were previously filed. In other situations, management will need to evaluate whether the change in reportable segments represents a fundamental change and, therefore, requires a post-effective amendment to a Form S-3 to retrospectively recast financial statements.

4.6.3.1 New registration statements and proxy statements

Registration statements (e.g., Form S-1, Form S-3, Form S-4) and proxy statements (excluding Form S-8) require reissuance of recast financial statements (the “pre-event” financial statements) for a change in reportable segments if the registration statement also includes (or incorporates by reference) financial statements that cover the period in which the change occurred (i.e., “post-event” financial statements).

For example, if a change in reportable segments occurred in July 20X1 for a calendar-year company but interim financial statements as of 30 September 20X1 (i.e., “post-event” financial statements) have not been issued, the registrant would not recast its annual financial statements for the three years ended 31 December 20X0 (or current fiscal year interim period) to reflect the change in reportable segments since “post-event” financial statements have not been issued.

⁴⁰ See paragraph 100 of Statement 131.

⁴¹ ASC 855-10-50-2.

However, if the 30 September 20X1 financial statements reflecting the change in reportable segments are included in or incorporated into the registration statement (e.g., Form 10-Q incorporated by reference), the prior-year annual financial statements would require recasting, generally through a Form 8-K incorporated by reference in the registration statement or included in the registration statement itself. The registrant's Description of Business and MD&A should be similarly revised. Generally, and in this example, the first- and second-quarter interim information is deemed superseded, and any first- and second-quarter information that also may be incorporated by reference does not require recasting.

4.6.3.2 **Effective shelf registration statements**

After the effective date of a shelf registration statement or post-effective amendment, the prospectus doesn't need to be updated unless there has been a "fundamental change." Thus, entities can sell securities based on shelf registration statements without recasting financial statements to reflect a change in reportable segments, unless the event is deemed a fundamental change.

However, even if a registrant, in consultation with legal counsel, concludes that a post-effective amendment is not required because there has not been a fundamental change, management still could conclude that the change was material based on their judgment and choose to file recast annual financial statements in a Form 8-K once "post-event" financial statements have been issued. In this case, financial statements for interim periods preceding the event are superseded and not recast (similar to the discussion in section 4.6.3.1) even though they remain incorporated by reference.

4.6.4 **Non-SEC offerings (added April 2023)**

For exempt offerings by a private or public company, there is no explicit guidance that would require recasting and reissuing historical annual financial statements to reflect a change in reportable segments. However, if the historical annual financial statements are directly included (i.e., reissued) in the offering document along with interim period financial statements reflecting the "post-event" change in reportable segments, then retrospective revision of the historical financial statements for the change in reportable segments as described in ASC 280-10-50-34 would apply in a manner similar to the discussion in section 4.6.3.1.

If the historical annual financial statements are incorporated by reference rather than directly included in the exempt offering document, we believe entities should consider the guidance for effective shelf registration statements as discussed in section 4.6.3.2.

4.7 **Interaction with other ASC Topics**

In addition to the disclosures required by ASC 280, certain ASC Topics also may require disclosures by segment.

4.7.1 **Goodwill**

Excerpt from Accounting Standards Codification

Segment Reporting – Overall

Relationships

Intangibles – Goodwill and Other

280-10-60-1

For information to be disclosed about goodwill in each reportable segment and significant changes in the allocation of goodwill by reportable segments, see Topic 350.

Intangibles – Goodwill and Other – Goodwill

Disclosure

350-20-50-1

The changes in the carrying amount of **goodwill** during the period shall be disclosed, showing separately (see Example 3 [paragraph 350-20-55-24]):

- a. The gross amount and accumulated impairment losses at the beginning of the period
- b. Additional goodwill recognized during the period, except goodwill included in a disposal group that, on acquisition, meets the criteria to be classified as held for sale in accordance with paragraph 360-10-45-9
- c. Adjustments resulting from the subsequent recognition of deferred tax assets during the period in accordance with paragraphs 805-740-25-2 through 25-4 and 805-740-45-2
- d. Goodwill included in a disposal group classified as held for sale in accordance with paragraph 360-10-45-9 and goodwill derecognized during the period without having previously been reported in a disposal group classified as held for sale
- e. Impairment losses recognized during the period in accordance with this Subtopic
- f. Net exchange differences arising during the period in accordance with Topic 830
- g. Any other changes in the carrying amounts during the period
- h. The gross amount and accumulated impairment losses at the end of the period.

Entities that report segment information in accordance with Topic 280 shall provide the above information about goodwill in total and for each reportable segment and shall disclose any significant changes in the allocation of goodwill by reportable segment. If any portion of goodwill has not yet been allocated to a reporting unit at the date the financial statements are issued, that unallocated amount and the reasons for not allocating that amount shall be disclosed.

Glossary

350-10-20

Goodwill

An asset representing the future economic benefits arising from other assets acquired in a business combination or an acquisition by a not-for-profit entity that are not individually identified and separately recognized. For ease of reference, this term also includes the immediate charge recognized by not-for-profit entities in accordance with paragraph 958-805-25-29.

Pending Content:

Transition Date: (P) December 16, 2019; (N) December 16, 2022 | **Transition Guidance:** 350-20-65-3

350-20-50-1A

Entities that have one or more reporting units with zero or negative carrying amounts of net assets shall disclose those reporting units with allocated goodwill and the amount of goodwill allocated to each and in which reportable segment the reporting unit is included.

Entities that report segment information in accordance with ASC 280 are required to disclose goodwill for each reportable segment and any significant changes in the carrying amount or allocation of goodwill by reportable segment from period to period. In addition, an entity must disclose whether goodwill has not been allocated to a reportable segment at the date the financial statements are issued and the reason why the amount was unallocated. Refer to our FRD, *Intangibles – Goodwill and other*, for further discussion.

4.7.2 Business combinations

Excerpt from Accounting Standards Codification

Business Combinations – Goodwill or Gain from Bargain Purchase, Including Consideration Transferred

Disclosure

805-30-50-1

Paragraph 805-10-50-1 identifies one of the objectives of disclosures about a **business combination**. To meet that objective, the **acquirer** shall disclose all of the following information for each business combination that occurs during the reporting period:

- e. If the acquirer is required to disclose segment information in accordance with Subtopic 280-10, the amount of goodwill by reportable segment. If the assignment of goodwill to reporting units required by paragraphs 350-20-35-41 through 35-44 has not been completed as of the date the financial statements are issued or are available to be issued (as discussed in Section 855-10-25), the acquirer shall disclose that fact. ...

Glossary

805-10-20

Acquirer

The entity that obtains control of the **acquiree**. However, in a **business combination** in which a **variable interest entity** (VIE) is acquired, the primary beneficiary of that entity always is the acquirer.

Business Combination

A transaction or other event in which an **acquirer** obtains control of one or more **businesses**. Transactions sometimes referred to as true mergers or mergers of equals also are business combinations. See also **Acquisition by a Not-for-Profit Entity**.

4.7.3 Exit or disposal activities

Excerpt from Accounting Standards Codification

Segment Reporting – Overall

Relationships

Exit or Disposal Cost Obligations

280-10-60-3

For segment information to be disclosed in the period in which an exit or disposal activity is initiated, see paragraph 420-10-50-1.

Exit or Disposal Cost Obligations – Overall*Disclosure***420-10-50-1**

All of the following information shall be disclosed in notes to financial statements that include the period in which an exit or disposal activity is initiated and any subsequent period until the activity is completed:

- d. For each reportable segment, as defined in Subtopic 280-10, the total amount of costs expected to be incurred in connection with the activity, the amount incurred in the period, and the cumulative amount incurred to date, net of any adjustments to the liability with an explanation of the reason(s) why.

Entities that are in the scope of ASC 280 also must disclose the amount of costs related to exit or disposal activities incurred in the period and cumulative-to-date costs by reportable segment. These disclosures must be presented starting in the period in which an exit or disposal activity is initiated and in any subsequent period until the plan is completed, regardless of whether a liability for those costs is recognized at that date or not. Refer to our FRD, [Exit or disposal cost obligations](#), for further discussion.

4.7.4 Discontinued operations**Excerpt from Accounting Standards Codification****Presentation of Financial Statements – Discontinued Operations***Disclosure***205-20-50-1**

The following shall be disclosed in the notes to financial statements that cover the period in which a discontinued operation either has been disposed of or is classified as held for sale under the requirements of paragraph 205-20-45-1E:

- d. If applicable, the segment(s) in which the discontinued operation is reported under Topic 280 on segment reporting.

4.7.5 Revenue recognition (updated April 2022)**Excerpt from Accounting Standards Codification****Revenue from Contracts with Customers – Overall***Disclosure**Disaggregation of Revenue***606-10-50-6**

In addition, an entity shall disclose sufficient information to enable users of financial statements to understand the relationship between the disclosure of disaggregated revenue (in accordance with paragraph 606-10-50-5) and revenue information that is disclosed for each reportable segment, if the entity applies Topic 280 on segment reporting.

Implementation Guidance and Illustrations**Disclosure of Disaggregated Revenue****606-10-55-90**

When selecting the type of category (or categories) to use to disaggregate revenue, an entity should consider how information about the entity's revenue has been presented for other purposes, including all of the following:

- a. Disclosures presented outside the financial statements (for example, in earnings releases, annual reports, or investor presentations)
- b. Information regularly reviewed by the chief operating decision maker for evaluating the financial performance of operating segments
- c. Other information that is similar to the types of information identified in (a) and (b) and that is used by the entity or users of the entity's financial statements to evaluate the entity's financial performance or make resource allocation decisions.

The FASB noted in the Basis for Conclusions of Accounting Standards Update (ASU) 2014-09⁴² that segment revenue disclosures may not always provide users of financial statements with enough information to help them understand the composition of revenue recognized in the period. Under ASC 606-10-50-6, an entity is required to explain the relationship between the disclosure of disaggregated revenue and revenue information that is disclosed for each reportable segment. Refer to section 10.5.1.1 of our FRD, ***Revenue from contracts with customers (ASC 606)***, for further discussion.

4.7.6 Impairment of intangible assets

Excerpt from Accounting Standards Codification**Intangibles – Goodwill and Other – General Intangibles Other Than Goodwill****Disclosure****350-30-50-3**

For each impairment loss recognized related to an intangible asset, all of the following information shall be disclosed in the notes to financial statements that include the period in which the impairment loss is recognized:

- d. If applicable, the segment in which the impaired intangible asset is reported under Topic 280.

4.7.7 Impairment or disposal of long-lived assets

Excerpt from Accounting Standards Codification**Property, Plant, and Equipment – Overall****Disclosure****360-10-50-2**

All of the following information shall be disclosed in the notes to financial statements that include the period in which an **impairment** loss is recognized:

- d. If applicable, the segment in which the impaired long-lived asset (asset group) is reported under Topic 280.

⁴² Paragraph BC340 of ASU 2014-09.

360-10-50-3

For any period in which a long-lived asset (**disposal group**) either has been disposed of or is classified as held for sale (see paragraph 360-10-45-9), an entity shall disclose all of the following in the notes to financial statements:

- f. If applicable, the segment in which the long-lived asset (disposal group) is reported under Topic 280 on segment reporting.

Glossary**360-10-20****Disposal Group**

A disposal group for a long-lived asset or assets to be disposed of by sale or otherwise represents assets to be disposed of together as a group in a single transaction and liabilities directly associated with those assets that will be transferred in the transaction. A disposal group may include a discontinued operation along with other assets and liabilities that are not part of the discontinued operation.

Impairment

Impairment is the condition that exists when the carrying amount of a long-lived asset (asset group) exceeds its fair value.

In the period in which an impairment loss is recognized or for any period in which a long-lived asset either has been disposed of or is classified as held for sale, an entity is required to disclose the segment in which the related long-lived asset is reported. Refer to our FRD, ***Impairment or disposal of long-lived assets***, for additional information and an illustration of the segment disclosure requirements for impairments of long-lived assets.

5

Entity-wide disclosures

Excerpt from Accounting Standards Codification

Segment Reporting – Overall

Disclosure

Entity-Wide Information

280-10-50-38

Paragraphs 280-10-50-40 through 50-42 apply to all public entities subject to this Subtopic including those public entities that have a single reportable segment. Some public entities' business activities are not organized on the basis of differences in related products and services or differences in geographic areas of operations. That is, a public entity'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, a public entity'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 280-10-50-40 through 50-42 need be provided only if it is not provided as part of the reportable operating segment information required by this Subtopic.

280-10-50-39

Entity-wide disclosures are required only for annual reporting.

In addition to the management approach, ASC 280 requires disclosure of certain additional information about an entity even if it is not used by the CODM to manage the entity. For example, if an entity is not managed based on differences in products or services (e.g., a geographical approach is used), the standard requires disclosure of certain information about products or services. In addition, if an entity manages its worldwide operations based on differences in products or services, certain geographic information also is required to be disclosed. Further, some entities might not be managed by either a products or services approach or a geographic approach, in which case both products or services and geographic information would be required to be disclosed on an entity-wide basis. For example, entities that are managed by customer type would disclose entity-wide information regarding its products or services and geographic areas.

The entity-wide disclosures must be made for all public entities, including entities with only one reportable segment. To the extent that the information required by the entity-wide disclosures is provided via the individual segment reporting requirements, it is not required to be repeated. These disclosures are required to be made only for annual periods, not interim periods.

Unlike much of the other information required to be disclosed about segments, the amounts reported for purposes of the entity-wide disclosures are based on the financial information that is used to produce the entity's general-purpose (consolidated) GAAP financial statements, as opposed to the amounts of revenues reported to the CODM (or some other measure) (ASC 280-10-55-21). As a result, the revenue reported under the entity-wide disclosure requirements should agree to the consolidated revenue amount.

ASC 280 requires disclosure of entity-wide information about products and services and geographic areas unless it is *impracticable* to provide that information. It might be impracticable for an entity to provide this information if its internal reporting systems are simply not capable of gathering financial information by product or service or by geographic area; however, situations such as these are expected to be rare. If it is determined that the entity-wide disclosures are impracticable to provide, that fact must be disclosed.

5.1 Information about products and services

Excerpt from Accounting Standards Codification

Segment Reporting – Overall

Disclosure

Information About Products and Services

280-10-50-40

A public entity 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 public entity's general-purpose financial statements. If providing the information is impracticable, that fact shall be disclosed.

ASC 280 requires a public entity to disclose the amount of revenues derived from transactions with external customers for each product or service or each group of similar products or services, if not already provided as part of the reportable operating segment information required by ASC 280. Entities that have only one reportable segment and that provide a range of products and services also would be required to disclose revenues from transactions with external customers for each product or service or each group of similar products or services. Consider the following example:

Illustration 5-1: Products and services

Assume that Global Co. has determined its operating segments based upon the following geographic areas: the Eastern United States, the Western United States and Canada. Assume that the entity manufactures carpet that it sells to retailers in each of its three geographic segments and other consumer products that it sells only to retailers in the two segments in the United States.

| Segment | Includes carpet sales | Includes consumer products |
|-----------------------|-----------------------|----------------------------|
| Eastern United States | X | X |
| Western United States | X | X |
| Canada | X | |

Even though Global Co.'s segments are based upon geography, it still must disclose the amount of revenue attributable to carpet and consumer products sales for the entity as a whole. Global Co. would disclose that it sells carpet in each of its three segments and that it sells consumer products only in the Eastern United States and Western United States segments.

ASC 280 does not define "similar" products and services. Therefore, the determination of whether two or more products and services are similar and can be combined for purposes of the entity-wide disclosures will depend on the facts and circumstances of the particular entity. In the basis for conclusions of Statement 131, the FASB noted that an entity with a relatively narrow product line may not consider two products to be similar, while an entity with a broad product line may consider those same two products to be similar.⁴³

⁴³ See paragraph 68 of Statement 131.

For example, a highly diversified entity that manufactures a variety of consumer products, owns financial institutions and has a construction business may determine that all of its consumer products are similar. However, an entity that sells only a narrow line of consumer products might determine that its sales of furniture and rugs do not represent similar products.

5.2 Information about geographic areas

Excerpt from Accounting Standards Codification

Segment Reporting – Overall

Disclosure

Information About Geographic Areas

280-10-50-41

A public entity shall report the following geographic information unless it is impracticable to do so (see Example 3, Case D [paragraph 280-10-55-51]):

- a. Revenues from external customers attributed 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.
- 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 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.

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. A public entity may wish to provide, in addition to the information required by the preceding paragraph, subtotals of geographic information about groups of countries.

In addition to the information required, a public entity may wish to provide subtotals of geographic revenue and long-lived asset information for groups of countries. For example, if an entity was not required to report individual foreign countries because of immateriality, the entity may choose to instead report groupings of countries (e.g., Europe, South America) to provide additional information.

A public entity is required to provide the geographic information by individual country, if material. However, the entity may always provide the subtotal of geographic information for groups of countries (e.g., Europe).

The country of domicile for an entity usually is the country where it is incorporated and maintains its headquarters and executive offices. For most domestic SEC registrants, the country of domicile will be the United States. On the other hand, the country of domicile of a foreign SEC registrant generally will not be the United States.

For the purposes of providing geographic information, Puerto Rican (as well as other non-self-governing US territories, such as the Virgin Islands and American Samoa) operations of US public companies are considered domestic operations.⁴⁴ ASC 280 does not prohibit additional disclosures about such operations that might be useful in analyzing and understanding a company's financial statements.

⁴⁴ ASC 280-10-55-25.

5.2.1 Meaning of 'material'

ASC 280 does not define "material" for purposes of the individual country disclosure requirement. We believe a reasonable approach is if an individual country has external revenues or long-lived assets that represent more than 10% of the consolidated totals, the presumption is that country is material and should be disclosed separately.

However, an individual country may be material even if it does not contribute more than 10% of the consolidated amount in question. ASC 280-10-55-51 provides an example that separately discloses a country that provides slightly less than 10% of consolidated revenue. Certain countries may present more risk than other countries and, therefore, disclosure may be appropriate even if that country is not 10% of the consolidated amount in question. Ultimately, the determination of whether a particular country is material is a matter of judgment and should be based upon careful consideration of the particular facts and circumstances of the entity.

5.2.2 Revenues from external customers

The basis for attributing revenues from external customers to individual countries must be disclosed. Often revenues will be attributed to individual countries based on the location of the customer. For example, if a company headquartered in the United States sells its product to a customer whose country of domicile is Germany, that company would attribute that sale to Germany, the location of the customer. However, the determination of the foreign country to disclose may be less clear for multinational customers. For example, suppose that the customer, although domiciled in Germany, has the product shipped directly from the US to one of its subsidiaries in France. In that example, the revenue could be attributed to Germany (where the customer is located and where the sales invoice is sent) or France (where the product is shipped). The determination may be further complicated if the customer has products shipped to both Germany and France. All the revenue could be attributed to Germany (where the subsidiary is located) or shown separately (Germany and France) based on the location of the customer.

ASC 280 doesn't prescribe a specific method for determining the appropriate country for attribution of sales. We believe that the approach used is a matter of accounting policy that should be reasonable and consistently applied. However, the basis that is used to attribute revenues should be disclosed.⁴⁵

5.2.3 Long-lived assets

Generally, long-lived assets include items such as property, plant, equipment, long-term prepaid assets, capital leases of lessees (before the adoption of ASC 842), right-of-use (ROU) assets of lessees (after the adoption of ASC 842), assets of lessors subject to operating leases and goodwill. However, for the purposes of entity-wide geographic area disclosures, the definition of long-lived assets implies hard assets that cannot be readily removed. As such, intangible assets (ASC 280-10-55-23) and goodwill, would be excluded. An ROU asset is in the scope of ASC 360 and is similar to a tangible asset. Accordingly, ROU assets would generally be included in entity-wide geographic disclosures. Each company should assess what should be included in long-lived assets based on their specific facts and circumstances. Entity-wide disclosure of capital expenditures during the year is not required.

Disclosure of long-lived assets by geographic area is required so that users may understand concentrations of risk and the possible effect of negative or positive changes in economic conditions as well as prospects for growth. Risks include political risks, such as the possibility of expropriation or long-term business failures if the country is unstable. For example, if an entity discloses that 25% of the company's long-lived assets are located in Canada (versus, for example Zimbabwe), users likely would have a different picture of potential risk. We believe that disclosures by each country that are material typically would not be burdensome because most companies have that information readily available.

⁴⁵ ASC 280-10-55-22.

5.3 Information about major customers

Excerpt from Accounting Standards Codification

Segment Reporting – Overall

Disclosure

Information About Major Customers

280-10-50-42

A public entity 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 a public entity's revenues, the public entity 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 public entity 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 Subtopic, a group of entities known to a reporting public entity 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 (see Example 3, Case E [paragraph 280-10-55-52]).

ASC 280 requires a public entity to disclose the extent of its reliance on major customers. If 10% or more of the entity's revenue is derived from a single external customer, the entity is required to disclose that fact (but not the name of the customer). The total amount of revenues from each such customer, and the segment or segments reporting those revenues must be disclosed. For the purposes of assessing a customer's relative concentration, a group of entities under common control is considered a single customer. Consider the following example:

Illustration 5-2: Major customers

Assume Sales Co. sells products to two subsidiaries of Company XYZ, 6% of total revenue to subsidiary A and 7% of total revenue to subsidiary B. When assessing whether more than 10% of Sales Co.'s revenue is derived from a single customer, Sales Co. would be required to aggregate the sales to A and sales to B. As a result, Sales Co. would report Company XYZ as a major customer and disclose total combined revenues (i.e., 13%) attributable to Company XYZ, as well as the segment or segments to which these revenues relate.

Federal, state and local governments (e.g., a city, county) or a foreign government each should be considered a single customer. For example, if an entity derives 8% of its revenues from services to the federal government and 4% of its revenues from services to a state government, it would not be required to report the federal or state government as a major customer. If, on the other hand, that entity also earned 12% of its revenues through services provided to the Canadian government, it would have to report the Canadian government as a major customer.

It is not always clear who the "customer" is when evaluating possible disclosures under this provision of ASC 280. For example, insurance premiums received through an independent agent should be considered sales to the insured individuals and not the agent because the agent, in substance, acts only as an intermediary between the insurance entity and the insured.

5.4 Restatement of entity-wide disclosures

ASC 280 does not provide guidance on whether restatement of prior period entity-wide disclosures is necessary if there is a change in the current year. However, one of the fundamental principles of ASC 280 is to reflect comparable segment information from year to year. Therefore, we believe providing comparative information is appropriate. For example, if revenues of a particular country are material for the current year but were immaterial in prior years (and thus not separately disclosed pursuant to ASC 280-10-50-41), we believe it would be consistent with the principles of ASC 280 to present the particular country's revenues for the current and prior years, even though prior year's revenue for that country are immaterial.

5.5 SEC disclosure rules

Form 10-K and most registrant statements filed under the Securities Act call for information specified in Item 101 of Regulation S-K, including a description of the registrant's business and each of its reportable segments. Item 101(c), *Description of Business*, of Regulation S-K allows the registrant to focus its business discussion on its dominant segment or on each reportable segment about which financial information is presented in the registrant's financial statements. The rules also contain a non-exclusive list of topics that would need to be disclosed only if they are material to understanding the registrant's business taken as a whole.

Regulation S-K requires registrants to describe the location and general character of their principal physical properties that are material and identify the business segment or segments that use these properties.

Registrants should consider related existing staff guidance and interpretations, including presentation of separate quantitative disclosures for each different business segment under quantitative and qualitative disclosures about market risk⁴⁶ (i.e., S-K Item 305).

For more information on these requirements, refer to our SEC Financial Reporting Series publication, *2022 SEC annual reports – Form 10-K*.⁴⁷

⁴⁶ SEC's Frequently Asked Questions and Staff Statements, "Questions and Answers About the New 'Market Risk' Disclosure Rules" (31 July 1997), Question 29.

⁴⁷ Specifically, refer to (1) sections 3.1 and 3.2 related to S-K Item 101, (2) section 3.5 related to S-K Item 102 and (3) section 4.3 related to S-K Item 305.

6 Industry supplements

6.1 Introduction

Under the management approach, each company will have its own unique circumstances to consider in satisfying its segment reporting requirements. However, companies in the same industry are likely to face similar issues. This section provides guidance for determining and reporting segments for public entities in the following specific industries:

- ▶ Banking and capital markets (section 6.2)
- ▶ Insurance (section 6.3)
- ▶ Retail (section 6.4)
- ▶ Real estate (section 6.5)
- ▶ Health (section 6.6)
- ▶ Oil and gas (section 6.7)
- ▶ Telecommunications (section 6.8)
- ▶ Casinos (section 6.9)

The information provided in chapter 6 is supplemental and should be considered in conjunction with the other sections of this publication.

6.2 Banking and capital markets

Smaller or mono-line institutions (e.g., community banks, retail broker-dealers) may often determine that under the requirements of ASC 280 they have only one operating segment. However, financial services companies with larger and more diversified operations, may determine that they are required to report more than one segment in their financial statements.

6.2.1 Operating segments

Financial services companies provide a full range of products through traditional branches, offices, ATMs, telephones, online banking and other delivery channels throughout their various geographic areas. We believe operating segments defined by aggregate product or service are the most common for financial services companies (e.g., retail/consumer banking, commercial real estate, corporate/wholesale banking, securities/investment banking, market making and trading, mortgage banking, transaction/data processing, consumer services).

However, operating segments may vary depending on the size and complexity of the organization as the information that the CODM receives and uses to make decisions will differ depending on the organization. For example, at large, diverse financial services companies, financial information for residential mortgages, credit cards, student loans and auto loans may be reviewed by the CODM on a combined basis and thus qualify as a single operating segment – consumer services. At another institution, depending on the facts and circumstances, any one of these components alone might constitute an operating segment.

Bank holding companies that have acquired substantial asset management, insurance or other lines of business (which may be separate operating subsidiaries) will have to determine whether these business lines, often with their own brand identities, are individual operating segments or whether they are part of some larger operating segment for which discrete financial information is regularly reviewed by the CODM.

6.2.2 Reportable segments

Because many financial services companies will conclude that they have more than one operating segment, determining which of their operating segments constitute *reportable* operating segments will require careful thought and analysis. As discussed in detail in section 3.1, while consideration of the aggregation criteria is subjective in nature, they nonetheless represent a considerable hurdle for aggregation as all the criteria must be met in order to report two or more material operating segments on an aggregated basis.

For financial services companies, the revenue measure used in determining the quantitative tests (both the 10% threshold test and the 75% of total consolidated revenue test) may vary depending on the nature of the operating segment and the information primarily relied upon by the CODM. For example, the CODM of certain operating segments, such as deposit- and lending-based operating segments, may rely on interest revenue net of interest expense as the relevant “revenue” measure in order to assess performance and allocate resources. On the other hand, fee-based operating segments, such as trust services, item processing or securities trading, may rely on a more traditional “gross” fee revenue as their relevant revenue measure. Therefore, depending on how the operating segment is managed and what measure of revenue is relied upon by the CODM in decision-making, interest expense may be considered in the total consolidated revenue measure for a financial institution.

Financial services companies that identify several operating segments will also need to thoroughly understand how the materiality thresholds affect their reporting. Large institutions with several (e.g., more than three or four) reportable operating segments may have multiple operating segments that are under the 10% thresholds. These same institutions will probably also find that they need to disclose some of these “smaller” operating segments in order to meet the 75% of total consolidated revenue test. Section 3.5 covers numerous conditions that should be considered in determining which additional operating segments to report in order to meet the 75% test.

It is important to keep in mind that operating segments that are currently immaterial may exceed the 10% thresholds in the future. If an immaterial segment subsequently meets the materiality thresholds and must be separately reported, prior-period segment data must be restated, unless impracticable. To minimize restatement situations, financial services companies should consider reporting operating segments that are currently under the 10% thresholds when those operating segments are expected to exceed the reporting thresholds in the future. This approach may be particularly relevant for financial services companies that need to select additional operating segments to report to meet the 75% test.

Financial services companies also can consider combining immaterial segments to meet the 75% test. As fully explained in section 3.4, operating segments that do not individually meet the 10% thresholds, (after determining that combining is consistent with the objective and basic principles of ASC 280 and economic similarity), the individually immaterial segments must only share a majority of the aggregation criteria to be combined for reporting purposes.

6.2.3 Entity-wide disclosures

Because ASC 280 does not define “similar” products or services for purposes of the entity-wide disclosures, the extent that products and services can be combined at financial services companies will depend on individual circumstances. Consider a consumer services operating segment that includes credit cards, student loans and installment loans. Such an operating segment may provide similar products and services and, therefore, would not require any further product or service disclosure. On the other hand, a bank holding company may consider each of its subsidiary banks an operating segment if that is the way the entity is run. Each operating segment bank could provide a range of commercial, consumer loan/deposit and trust services. In this situation, entity-wide disclosures by product or service may be warranted.

Although ASC 280 includes geographic based disclosures for long-lived assets, because the requirements exclude financial instruments, core-deposit intangibles and mortgage servicing rights (generally the significant long-lived assets of a financial institution), the disclosure requirements regarding long-lived assets will not be material to many financial services companies. However, it is important to note that public entities are still required to report information about financial instruments with concentrations of risk in accordance with ASC 825 and ASC 275.

6.3 Insurance (updated April 2022)

Despite similarities in the underlying products offered by insurers, segments to be reported under ASC 280 will depend on facts and circumstances specific to each insurance entity and should be consistent with other public financial information of the insurance entity. In this section, we will make a few observations with respect to specific questions an insurer may have in satisfying its segment reporting requirements.

6.3.1 Operating segments

A CODM of an insurance entity may review business components at various levels of detail. For example, a CODM may review financial information separately, or on a combined basis, for different types of insurance operations (e.g., life, property/casualty, health) as well as for the different types of major products that comprise those insurance operations (e.g., protection, wealth and asset management, accumulation, personal, commercial, reinsurance, governmental). The components that are regularly reviewed by the CODM generally comprise the entity's operating segments for purposes of segment reporting.

For insurers, particularly global insurers, there could also be situations in which a CODM reviews financial information for some operating segments on a basis that differs from other operating segments. For example, a CODM may review domestic operations on one basis, such as by product, and foreign operations on another basis, such as geography. In this case, the entity would report segment information for each of the reportable segments, even though the basis of segmentation (i.e., by geographic location and by product) of the business components differs (note that the entity also would need to make adequate disclosure of the basis of segmentation). In addition, the insurer would need to make the appropriate entity-wide disclosures, such as disclosure of products for foreign operations.

6.3.2 Aggregation criteria

When determining which operating segments to aggregate, insurers, like all companies, should consider the operating segments reviewed by the CODM, aggregation criteria and materiality through application of quantitative thresholds. Based on the varying size and business strategies among insurers (e.g., large diverse organizations vs. small niche players), it is likely that the operating segments will differ among insurers, even among peer companies. For example, while a CODM of a multi-line insurer may review separate financial information for life and property/casualty insurance operations, a CODM of a large financial services conglomerate, which includes insurance operations, may review combined financial information for life and property/casualty operations. Additionally, application of the aggregation criteria may yield different results by company, even when operating segments of the entities are similar.

ASC 280 permits operating segments to be aggregated for reporting purposes even though they may be individually material, if: (1) aggregation is consistent with the objective and basic principles of ASC 280, (2) the operating segments have similar economic characteristics and (3) the operating segments are similar in each of the five qualitative areas discussed in section 3.1.3 of this FRD. In determining whether aggregation of operating segments is consistent with the objective and basic principles of ASC 280, insurers may consider certain qualitative factors such as whether the segments are combined in operational analyses (e.g., product disclosures) presented in the business section of Annual Reports or separately provided to financial analysts, rating agencies or regulators.

In determining whether operating segments have similar economic characteristics, operating measures typically should be considered.

For example, a property/casualty insurer might compare operating measures (e.g., duration of claim payments, types of coverage, commission structure) to determine if two or more segments have similar economic characteristics. For a life insurer, different products often will not possess similar economic characteristics because of different revenue and cost characteristics. For example, a life insurance entity reports policy premium revenue for traditional insurance products, such as whole life and term insurance, whereas the entity reports service fee revenue for certain investment-type products, such as variable annuities. When two or more operating segments report different types of operating measures to the CODM, aggregation may still be appropriate, provided the entity can demonstrate that the other operating measures of the operating segments indicate similar economic characteristics.

Some life and property/casualty insurers have both direct and assumed reinsurance operations. When considering whether it would be appropriate to aggregate direct and reinsurance operating segments, entities will need to carefully consider whether the objective and basic principles of ASC 280 have been met and that the operating segments meet all of the aggregation criteria, each of which can require significant judgment.⁴⁸

Included below are some of the aggregation criteria and related judgments that should be considered for the insurance industry:

- ▶ *The nature of the products and services* – Mono-line and multi-line writers will typically reach different conclusions in determining operating segments because of differences in the financial information used by the CODM. For example, the CODM of a mono-line writer may use information organized by geographic region or class of customer, whereas the CODM of a multi-line writer may review information by product.
- ▶ *The type or class of customer for their product and services* – This characteristic should be carefully considered as it may preclude aggregation of operating segments for many insurers. For purposes of CODM review, many property/casualty insurers segregate personal and commercial lines, and many life and health insurers segregate group and individual products. Because these businesses usually have different types of customers (e.g., companies versus individuals), aggregation may not be appropriate.
- ▶ *The methods used to distribute their products or provide their services* – There are various distribution methods used by insurers. In determining whether two distribution methods are similar, an entity should consider the nature of the distribution method. For example, selling products direct to end users either through internal or external distribution methods might still be considered similar since both methods result in products being distributed directly to the end user. Sometimes, two segments share some, but not all, distribution methods. For example, a life insurer may sell its life insurance through agents, the internet and direct mailings, while it sells its annuity products only through agents and banks. In these cases, if certain of the distribution methods differ, the significance of these differences must be considered in determining whether this criterion for aggregation is met.

⁴⁸ See the SEC Financial Reporting Releases and Codifications (FRR), Section 400 Specialized Industries, 403 Insurance Companies, 403.01 Consolidation and Supplementary Segment Disclosures for SEC Considerations.

- ▶ *The nature of the regulatory environment* – While life, property/casualty and health insurers may be regulated by different bureaus within a state or other regulatory department, the nature of such regulation (e.g., protect the policyholders from non-payment of claims or insurer insolvency) often is similar. In addition, certain products issued by life insurers may require filings with the SEC. Aggregation of operating segments regulated by the SEC with segments that are not subject to SEC regulation may not be appropriate because the nature of the regulation may be viewed as fundamentally different.

See section 3.1 for additional information associated with the aggregation criteria.

6.3.3 Measurements used in segment disclosures

The measurement of segment profit or loss may vary widely among insurers. Many insurer CODMs review financial information on a statutory accounting basis (SAP) as accounting systems may be designed to facilitate reporting in the Statutory Annual Statement filed by insurers with state insurance regulators. Other CODMs review financial information on a GAAP basis, while some CODMs review financial information on both GAAP and SAP accounting bases. If the CODM reviews information about operating segments prepared under both accounting bases, an entity would report the segment information that is prepared under GAAP.

For property/casualty insurance products, profitability is often reviewed by underwriting results that exclude the impact of investment income and miscellaneous expenses. For life insurance products, profitability is often reviewed on the basis of pretax income. Insurers often may not allocate certain operating costs, such as the cost of aggregate reinsurance agreements that provide protection for more than one segment, or a portion of investment results, such as investment income, among segments. If the operating results reviewed by the CODM exclude certain items, such as allocated costs or realized gains/losses, segment disclosures should exclude those items as well.

When disclosing profit or loss by segment and reconciling to consolidated profit or loss, the insurer should consider whether additional disclosure is necessary for the readers of the financial statements to understand the company's performance. For an insurer, disclosure of profits in excess of GAAP income (e.g., certain costs are not allocated) may raise pricing questions from consumers and regulators if not adequately addressed in the financial statement disclosures. Conversely, disclosure of operating results that are unfavorable relative to GAAP results (e.g., underwriting results) may raise shareholder concerns. Management should evaluate whether disclosure in response to those questions is appropriate.

6.3.4 Scope

As sponsors of variable annuity and life separate accounts, financial statements of many life insurers are included in N-4 and N-6 filings with the SEC, respectively. If the sponsor insurance company is not a public entity (in accordance with ASC 280-10-20) because it only furnishes financial statements with the SEC, the sponsor would not be required to include segment information in its financial statements. See section 1 for the definition of a public entity.

6.4 Retail (updated April 2022)

6.4.1 General considerations

The application of ASC 280 will vary from one retailer to another in light of the variety of issues retailers face. An individual retailer could have multinational operations, grant credit to customers and others, separately manage real estate operations, operate both company-owned and franchised stores, be vertically integrated (by virtue of its manufacturing and/or wholesale operations), manage multiple brands or labels, sell to wholesalers and other retailers, and have both outlet stores and full-price stores. Often, retailers will have a number of different retail operations that meet the definition of operating segments. The most significant question then is whether and how operating segments may be aggregated.

Retailers will have to make many judgments in determining how the aggregation rules apply to their particular circumstances. It is unlikely that two retailers with multiple segments will consider and apply the aggregation criteria identically. The following broad guidelines reflect certain considerations as to how the rules apply.

6.4.2 Aggregation considerations

From company to company, retailers are likely to organize reporting to the CODM in a variety of ways, and therefore, the business components that constitute operating segments will vary by company. Some retailers report business components to the CODM by retail channel – for example, traditional brick and mortar stores, e-commerce, wholesale, distributor or licensing. Other retailers report to the CODM by retail chain, concept/format, geographic region, etc. The CODM of entities that consist of several chains might use information organized by traditional retail segments – for example, the individual chains might be combined into separate segments for apparel, shoes, sportswear, soft goods, hardlines and broadlines. The determination of operating segments and decisions about which of those segments can be aggregated will depend on each retailer’s facts and circumstances.

Once the operating segments are identified, they can be separately reported, or they may be aggregated for reporting purposes provided the criteria for aggregation are met. In that regard, ASC 280 requires that aggregated segments have similar economic characteristics. While ASC 280 includes similar average long-term gross margin as an example, we believe other economic characteristics that retailers could consider include year-to-year comparable-store sales, return on investment (ROI) and return on capital (ROC), if these measures are used by the CODM. Although those economic characteristics are not prescriptive, we believe it would be inappropriate to aggregate identified segments that historically (say, over three to five years) have not performed comparably. For example, it generally would be inappropriate to aggregate a historical “outperformer” with a historical “underperformer” because it would be difficult to support that they have similar economic characteristics.

Once a retailer determines that two or more operating segments have similar economic characteristics, the retailer may aggregate the segments into one operating segment only if the segments also are similar with respect to all of the following aggregation criteria:

- ▶ *The nature of the products and services* – To determine whether products and services are similar, generally, we would expect retailers to follow traditional merchandise classifications – such as broadlines, apparel, food, hardlines and electronics. However, that is not to suggest those classifications represent the minimum aggregation level. For example, it may be inappropriate to aggregate a men’s apparel chain and a women’s apparel chain if it is determined the class of customer is different. Similarly, it may be inappropriate to combine a fashion-forward apparel segment with one that focuses on basic apparel because of the differing nature of the products.
- ▶ *The nature of the production processes* – Except for vertically integrated retailers who are considering whether to combine multiple manufacturing segments, this factor generally is not applicable.
- ▶ *The type or class of customer for their products and services* – As it applies to retailers, this factor generally would consider whether the segments’ sales are comparably affected by the nature of the target customers. For example, an apparel chain focusing on high-income customers usually would not be aggregated with an apparel chain focusing on customers in lower income brackets. In that regard, an upscale department store generally would not be aggregated with an off-price, deep-discount mass merchandise store. Additionally, see Illustration 3-5 in section 3.1.3.
- ▶ *The methods used to distribute their products or provide their services* – For retailers, this criterion often is analyzed based upon the type of retail channel or format. General classifications that typically would not be combined are stores and e-commerce. Retailers should also consider whether it is appropriate to combine different store concepts/formats that otherwise meet the aggregation

criteria. In certain circumstances, the same chain might have large-store formats that sell a broader variety of merchandise than a smaller-store format bearing the same name, and the different concepts/formats are separate operating segments (i.e., the different concepts/formats each meet the definition of an operating segment). The distribution concepts are similar, but the product and service offerings might be considered too dissimilar to permit aggregation. Additionally, see Illustration 3-6 in section 3.1.3.

- ▶ *The nature of the regulatory environment* – As retailers typically do not operate under a regulatory authority, this factor is generally not applicable.

6.4.3 Geographic segments in the same country

A retailer might be organized by geographic region within the United States and report information to the CODM by region, such as Southeast, Northwest and Mid-Atlantic. The regions could represent the combination of chains within the region, a single chain within the region or a national chain's stores within a designated region. The concepts and formats are assumed to be similar, although they might trade under different names. Those segments may be properly aggregated if they have similar economic characteristics (e.g., similar gross margins, similar comparable-store sales growth).

6.4.4 Real estate operations

Many retailers have real estate departments that perform a variety of functions. In the usual situation, they buy, finance and manage real estate used by the retail operations and charge the retail operations rental and other fees for their services. In that situation, the real estate operations are essentially a support function and generally would not qualify as an operating segment because the CODM does not use discrete financial information about real estate activities to make decisions or allocate resources. In these cases, the costs and assets generally are not allocated to the individual retail operating segments and often are included as part of corporate overhead (and, thus, are not reported as a segment). On the other hand, if the real estate department performs services for and collects revenue from third-party customers, assuming that activity is a significant part of the operations, it often would qualify as an operating segment because the CODM likely would receive and use financial information about the business.

6.5 Real estate

As discussed in section 3.1, ASC 280 lists certain attributes that must be present in order for two or more operating segments to be aggregated. If an entity has various real estate properties, the ability to aggregate may be important. Judgment is often required to determine whether operating segments share "similar economic characteristics." This assessment might become more straightforward after considering the other aggregation criteria because the other criteria tend to impact the economics of a real estate asset. For example, one of the aggregation criteria is the similarity of the type or class of customer. Low-income housing will attract a different class of customer (tenant) than a deluxe apartment complex. Similarly, a strip mall attracts different tenants than a super-regional mall. The class of customer likely will impact the long-term financial performance of real estate assets primarily due to such things as the amount of rent that can be charged, credit risk associated with the tenants and the ability to negotiate long-term leases. Thus, a similar class of customer (tenant) is often indicative of similar economic characteristics.

The other aggregation criteria, their relationship to real estate entities and observations about their impact on economic characteristics are discussed below:

- ▶ *The nature of the products and services* – For a real estate entity, the nature of the product or service is primarily leasing space on a transient, short-term or long-term basis, or selling assets developed by the entity. Economics are impacted for reasons similar to those noted above for class of customer.

- ▶ *The nature of the production processes* – This attribute is applicable primarily to builders and developers because the nature of the production process generally is the development of raw land or the improvement of developed land for sale to end users. Different project types often will have different margins and may impact the analysis of whether the projects have similar economic characteristics.
- ▶ *The methods used to distribute their products or provide their services* – This criterion usually is not applicable to the majority of real estate entities. However, this criterion might be applicable if, for example, a lodging company has both a value-oriented motel and a full-service destination resort. These products will often have divergent economics because of the difference in the room rates that can be charged.
- ▶ Consider the following example:

Illustration 6-1: Real estate aggregation

Real Co., a diversified real estate entity, has investments in various property types: Central Business District (CBD) office buildings and retail and residential properties located in a number of markets. The CODM uses information at the individual property level to assess performance and make resource allocations. Therefore, Real Co. wishes to consider the aggregation criteria in ASC 280 to determine whether each of the properties share similar economic characteristics. In performing its analysis, Real Co. determines that it cannot aggregate the operating segments for office, retail and residential properties because they generally do not have similar economic characteristics. In addition, they do not meet the other aggregation criteria in certain circumstances.

Alternatively, some entities are segmented geographically as opposed to by product or service. For those entities, it might be appropriate to aggregate two or more geographic regions, depending on whether the aggregation criteria are met. For lodging properties, the nature of the property, such as resort property, CBD hotels, budget hotels and extended stay hotels, will often impact whether the aggregation criteria are met.

6.6 Health

6.6.1 Scope

ASC 280 applies to public entities with certain exceptions. It does not apply to not-for-profit entities, including not-for-profit health care entities, regardless of whether they meet the definition of a public entity.

Some health care entities may conclude that their consolidated operations represent a single operating segment as that is the way in which the CODM manages the business. However, health care entities that are in the scope of ASC 280 need to perform a careful analysis to determine reportable segments and satisfy the segment disclosure requirements.

6.6.2 Determining operating segments

In determining operating segments, a health care entity should evaluate whether the CODM reviews operating results on a disaggregated basis, including by geographic location (e.g., south, west, main campus) or product or service line (e.g., acute care, managed care, home health, skilled nursing, physician practice).

6.6.3 Segment disclosures

The disclosure requirements for health care entities are the same as the requirements for all other entities in the scope of ASC 280. The CODMs of health care entities often use EBITDA to assess performance and allocate resources. As a result, it is appropriate for those entities to disclose EBITDA by reportable segment to satisfy the requirement to disclose a measure of profit or loss. See section 4.1 for further discussion.

6.6.4 Entity-wide disclosures

Entity-wide disclosures, as discussed in Chapter 5, are required even if the entity has only one reportable segment. Health care entities with only one reportable segment that provide a range of products and services must disclose revenues for each product, type of service or groups of similar products or services. Because ASC 280 does not define “similar” products and services, combining products and services for purposes of entity-wide disclosures will depend on the entity’s specific facts and circumstances.

In addition, entity-wide disclosures include revenues from major customers, as described in section 5.3. ASC 954-280-45-1 states that, for purposes of providing information about major customers, an insuring entity is not considered the customer of a health care entity. An insuring entity is a paying agent for the patient (i.e., the customer) and does not decide which services to purchase and from which health care entity to purchase the services. The latter two factors are important in determining the customer.

6.7 Oil and gas

ASC 932-280 requires that oil- and gas-producing entities follow the requirements in ASC 932-235-50-22 and 50-23. These requirements include reporting the results of operations for oil- and gas-producing activities in the aggregate and by each geographic area for which oil and gas reserve quantities are disclosed. Entities with oil and gas operations are permitted to make required oil and gas disclosures as part of segment disclosures if they represent an operating segment. Entities that report using the full cost method capture cost pools at the country level; therefore, the geographic regions for reporting would not typically be at any level lower than the country. A successful efforts entity may determine geographic regions on a lower level depending on its specific facts and circumstances. Once geographic regions are determined, oil- and gas-producing entities should report revenue, production costs, exploration expenses, DD&A (depreciation, depletion and amortization) and valuation provisions, income tax and results of operations for oil- and gas-producing activities, excluding corporate overhead and interest costs. Oil- and gas-producing entities should consider whether this information is appropriate for segment reporting (i.e., if segment information is based on the same geographic areas as the required oil and gas disclosures, or if the segments are on some other basis). If required oil and gas disclosures are made within the segment disclosures, they are not required to be disclosed elsewhere.

Organizations with multiple reporting entities (e.g., entities with multiple SEC-registered entities within the consolidated group) should consider their basis for segment reporting conclusions for each reporting entity. They also should fully evaluate any inconsistencies between the conclusions reached on segment reporting for the separate reporting entities. For example, a subsidiary of an oil and gas entity may have public debt that creates a separate SEC reporting requirement. The CODM may be the same or different for each of these entities, and the evaluation of information available for resource allocations may be the same or different. Oil and gas entities should carefully evaluate the requirements of segment reporting for each entity, especially when the CODM is the same for both reporting entities but the segment reporting conclusions differ.

In ASC 280, the definition of an operating segment includes businesses that sell primarily or exclusively to other operating segments of the entity. Thus, a vertically integrated entity could have a segment that does not have any external sales. The standard provides that information about the components engaged in each stage of production is particularly important for understanding vertically integrated entities in certain businesses, including oil and gas.⁴⁹

⁴⁹ ASC 280-10-50-2.

Oil and gas entities should carefully consider the requirements in ASC 280 as they relate to downstream businesses, including refining, transportation and marketing activities. Often, analysts request the separate operating results for the refining and marketing businesses included in vertically integrated energy companies. Any information that is made public is generally considered to be available to the CODM and, therefore, could influence the determination of segment reporting. As a result, oil and gas entities should carefully evaluate the other information about their operations that may be publicly available.

6.8 Telecommunications (updated April 2022)

The business models as well as the range of products and services that telecommunications (telecom) companies offer to customers continue to evolve as the industry converges with the media and entertainment and technology industries. From TV and video services offered through fiber networks, cable and satellite technology, cloud computing and other enterprise business solutions, to apps for smart phones and tablets, telecom companies are continuing to expand the products and services they offer.

Telecom companies need to evaluate the requirements in ASC 280 regarding the identification of operating segments and the related aggregation criteria. As with other organizations, the operating segments that telecom companies identify depend on the information that the CODM uses. The information that the CODM receives and uses to make decisions often varies based upon the size and complexity of the organization. For example, a CODM of a telecom company may review business components by class of customer or for all customers. We believe operating segments defined by class of customer or aggregate product or services are the most common for telecom companies.

When determining which operating segments to aggregate, telecoms, like all companies, should consider the operating segments reviewed by the CODM, aggregation criteria and materiality through application of quantitative thresholds. Based on the varying size and business strategies among telecoms, there may be instances where the operating segments will differ among telecoms, even among peer companies. Additionally, application of the aggregation criteria may yield different results by company, even when operating segments of the entities are similar. In determining whether aggregation of operating segments is consistent with the objective and basic principles of ASC 280, telecoms may consider certain qualitative factors, such as whether the segments are combined in operations analyses provided in Annual Reports or through earnings releases and information that is routinely provided to financial analysts or regulators.

6.9 Casinos

Excerpt from Accounting Standards Codification

Entertainment – Casinos – Segment Reporting

Disclosure

Geographic Segments

924-280-50-1

Operations of a nonpublic business entity with a casino property that also includes a hotel, restaurant, parking garage, and the like are generally considered as one industry segment. The operating revenues of each are generally separately determinable. However, because of the natural interdependence of such operations, an allocation of costs among them to determine relative contributions to income (operating profit) would be largely arbitrary and, therefore, not meaningful. However, nonpublic casino business entities operating in various legal jurisdictions may have geographic segments and shall therefore report such information.

7 Comprehensive example

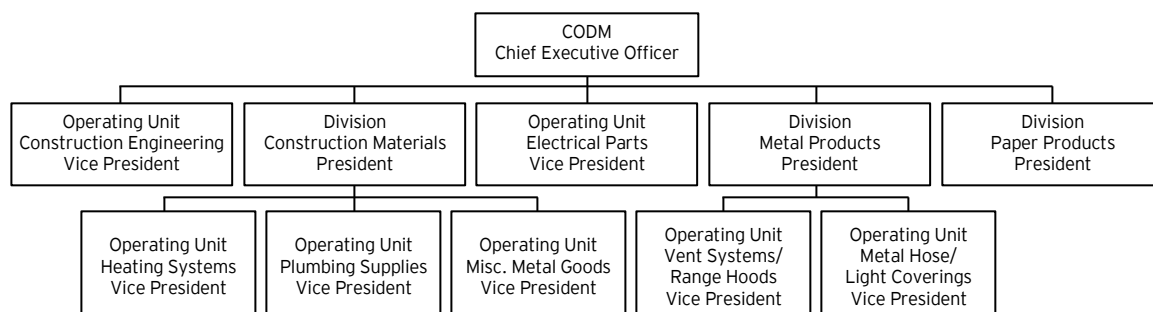
This section provides a comprehensive example that illustrates the year-end and interim disclosure provisions of ASC 280 for ABC Company (Company), a hypothetical public company. The example includes the determination of ABC Company's reportable operating segments based on ABC Company's internal system of management reporting, the disclosures required to be made for each reportable segment, the entity-wide disclosures and the interim period information. There are a wide variety of ways that entities organize themselves and the determination of reportable segments must be based on the individual facts and circumstances.

All amounts in the example are in thousands.

Background

ABC Company has three divisions: construction materials, metal products and paper products. The Company's construction materials division consists of three operating units. Its metal products division consists of two operating units. Its paper products division is a single operating unit that manufactures and distributes boxes, cartons and other packing materials for industrial uses. In addition, ABC Company has two smaller operating units, electrical parts and construction engineering, which are not part of a division. The Company also has a corporate headquarters, which is not a separate operating unit.

The organizational chart of ABC Company is as follows:



Each of the three divisions has a president who reports directly to the CEO. The CEO has final authority over resource allocation decisions and performance assessment. Consequently, the CEO has been identified as the CODM. Each of the operating units has a vice president who reports to the applicable division president, except for the electrical parts and construction engineering operating units, whose vice presidents report directly to the CODM. The CODM receives discrete financial information about the divisions, as well as the operating units. However, for decision-making purposes related to the assessment of performance and allocation of resources, the CODM uses financial information at the divisional level, except for the electrical parts and construction engineering operating units, which report directly to the CODM.

The divisions, as well as the electrical parts and construction engineering units, constitute the operating segments of ABC Company. In this example, even though the CODM receives discrete financial information about the other operating units, the CODM does not use the financial information of those operating units to assess performance and make resource allocations. In addition, there are segment managers at the division level (division president).

For purposes of this example, ABC Company has determined that the construction materials, metal products and paper products operating segments are separately reportable because each meets the quantitative thresholds for reporting segment information. In addition, ABC Company has determined that the electrical parts and construction engineering operating segments are not required to be separately reported because they do not meet the quantitative thresholds and the revenue attributable to the three reportable divisions constitutes more than 75% of consolidated revenue. These two operating segments are included in the “all other” category along with information about the corporate headquarters.

Disclosures

The format of the disclosures in this example is consistent with the format of the example provided in ASC 280-10-55-46 through 55-52. This is not a required format. However, the standard provides for entities to present segment information in the most understandable manner given the entity's specific circumstances. The example presents the data for one year; however, the data is required for each year that a full set of financial statements is presented (e.g., three years).

Note that the following italicized text under the italicized headers is not part of the disclosure; the text under the boldfaced headers as well as the headers themselves is what actually would be disclosed.

Descriptive information about reportable operating segments

ASC 280 requires certain descriptive information to be provided about an entity's reportable operating segments. This information includes the factors that management uses to identify the reportable segments of an entity, the types of products and services from which each reportable segment derives its revenues, how management measures segment profit or loss and segment assets, and if any reportable segments are aggregated. The following paragraphs provide examples of the disclosures for ABC Company.

Description of the types of products and services from which each reportable segment derives its revenues

ABC Company has three reportable segments: construction materials, metal products and paper products. The Company's construction materials division consists of three operating units that sell the following products directly to construction companies and independent wholesale supply warehouses: residential heating systems, plumbing supplies and miscellaneous metal goods (including items that are purchased from the metal products division). The Company's metal products division consists of two operating units that also sell to construction companies and independent wholesale supply warehouses, and also sell to the construction materials division. One operating unit sells vent systems and range hoods, the other sells flexible metal hoses and light coverings. The paper products division manufactures and distributes boxes, cartons and other packing materials for industrial uses.

Measurement of segment profit or loss and segment assets

The Company evaluates performance and allocates resources based on profit or loss from operations before income taxes, not including gains and losses on the Company's investment portfolio. The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies except that the Company recognizes and measures pension expense of its segments based on cash payments to the pension plan, and accounts for inventory on a FIFO basis at the segment level compared to a LIFO basis in the consolidated financial statements.

Intersegment sales and transfers are recorded at ABC Company's cost; there is no intercompany profit or loss on intersegment sales or transfers.

Factors management used to identify the public entity's reportable segments

ABC Company's reportable segments are business units that offer different products. The reportable segments are each managed separately because they manufacture and distribute distinct products with different production processes.

Information about segment profit/loss and segment assets

The following table illustrates a suggested format for presenting information about reported segment profit or loss and segment assets. The same type of information is required for each year for which a complete set of financial statements is presented. The amounts in this illustration are assumed to be the amounts in reports used by the CODM and that are deemed material. Assume that the information is provided in the annual report for the year ended 31 December 20X8.

Year ended 31 December 20X8

| | Construction materials | Metal products | Paper products | All other | Totals |
|--|------------------------|----------------|----------------|------------------------|------------|
| Revenues from external customers | \$ 110,000 | \$ 20,000 | \$ 20,000 | \$ 8,000 ⁵⁰ | \$ 158,000 |
| Intersegment revenues | - | 10,000 | - | - | 10,000 |
| Interest expense | 1,500 | 500 | 500 | - | 2,500 |
| Restructuring charge | - | - | 1,000 | - | 1,000 |
| Depreciation expense | 4,000 | 3,000 | 4,000 | - | 11,000 |
| Segment profit (loss) | 15,000 | 5,000 | (4,000) | 3,000 | 19,000 |
| Other significant noncash item: | | | | | |
| Write-down of impaired long-lived assets | - | - | 2,600 | - | 2,600 |
| Segment assets | 100,000 | 20,000 | 20,000 | 10,000 | 150,000 |
| Expenditures for long-lived assets | 10,000 | 12,000 | 2,000 | - | 24,000 |

Reconciliations

The following are illustrations of reconciliations of reportable segment revenues, profit or loss, and assets to ABC Company's consolidated totals. Reconciliations also are required to be disclosed for every other significant item of information disclosed. As discussed in the disclosure related to the measurement of segment profit or loss and segment assets, ABC Company recognizes and measures pension expense of its segments based on cash payments to the pension plan, and it values its inventory on the FIFO basis for segment reporting purposes, as opposed to LIFO for consolidated purposes. Also, the company does not allocate certain items to its segments.

Revenues

| | |
|---|-------------------|
| Total external revenues for reportable segments | \$ 150,000 |
| Intersegment revenues for reportable segments | 10,000 |
| Other revenues | 8,000 |
| Elimination of intersegment revenues | <u>(10,000)</u> |
| Total consolidated revenues | <u>\$ 158,000</u> |

⁵⁰ Revenue from segments below the quantitative thresholds is attributable to two operating segments of ABC Company, an electrical parts business and a construction engineering consulting business. Neither of these segments meet the quantitative thresholds for determining reportable segments.

Profit or loss

| | |
|--|-----------|
| Total profit or loss for reportable segments | \$ 16,000 |
| Other profit or loss | 3,000 |

Unallocated amounts:

| | |
|--|------------------|
| Loss on sale of marketable securities | (1,100) |
| Adjustment to pension expense in consolidation | (750) |
| Adjustment of inventory to LIFO in consolidation | <u>(1,000)</u> |
| Income before income taxes | <u>\$ 16,150</u> |

Assets

| | |
|--|-------------------|
| Total assets for reportable segments | \$ 140,000 |
| Other assets | 10,000 |
| Elimination of intercompany receivables | (2,000) |
| Adjustment of inventory to LIFO in consolidation | <u>(7,000)</u> |
| Total consolidated assets | <u>\$ 141,000</u> |

Other significant items

| | <u>Segment totals</u> | <u>Adjustments</u> | <u>Consolidated totals</u> |
|--|-----------------------|--------------------|----------------------------|
| Depreciation expense | \$ 11,000 | \$ 200 | \$ 11,200 |
| Interest expense | 2,500 | 100 | 2,600 |
| Restructuring charge | 1,000 | - | 1,000 |
| Write-down of impaired long-lived assets | 2,600 | 150 | 2,750 |
| Expenditures for assets | 24,000 | 1,000 | 25,000 |

The reconciling item to adjust expenditures for segment assets is the amount of acquisitions by non-reportable operating segments. None of the other adjustments to consolidated totals is significant.

Entity-wide disclosures

The following illustrates the entity-wide geographic disclosures. Note that ABC Company is segmented based on differences in products and services; as such, no additional disclosures of revenue information about products and services are required.

Geographic information

| | <u>Revenues</u> | <u>Long-lived assets</u> |
|-------------------------|-----------------|--------------------------|
| United States | \$ 80,000 | \$ 50,000 |
| Mexico | 35,000 | 16,000 |
| Germany | 37,000 | 20,000 |
| Other foreign countries | 6,000 | 2,000 |
| Consolidated total | \$ 158,000 | \$ 88,000 |

Revenues are attributed to countries based on the location of customers.

Major customer

Revenues from one customer of ABC Company's paper products segment represents approximately \$18,000 of the Company's consolidated revenues.

Interim period information

Following is an example of the interim period information that ABC Company would present in its condensed financial statements of interim periods. Note that segment information in interim reports is provided both for the current quarter and for the year-to-date. For example, in an interim report for the nine months ended 30 September 20X9, segment information would be provided for the nine months and three months ended 30 September 20X9 and 20X8 (for purposes of this example, only the disclosures for the interim periods in 20X9 are provided). The information is required for each reportable segment.

Note X – Segment Information

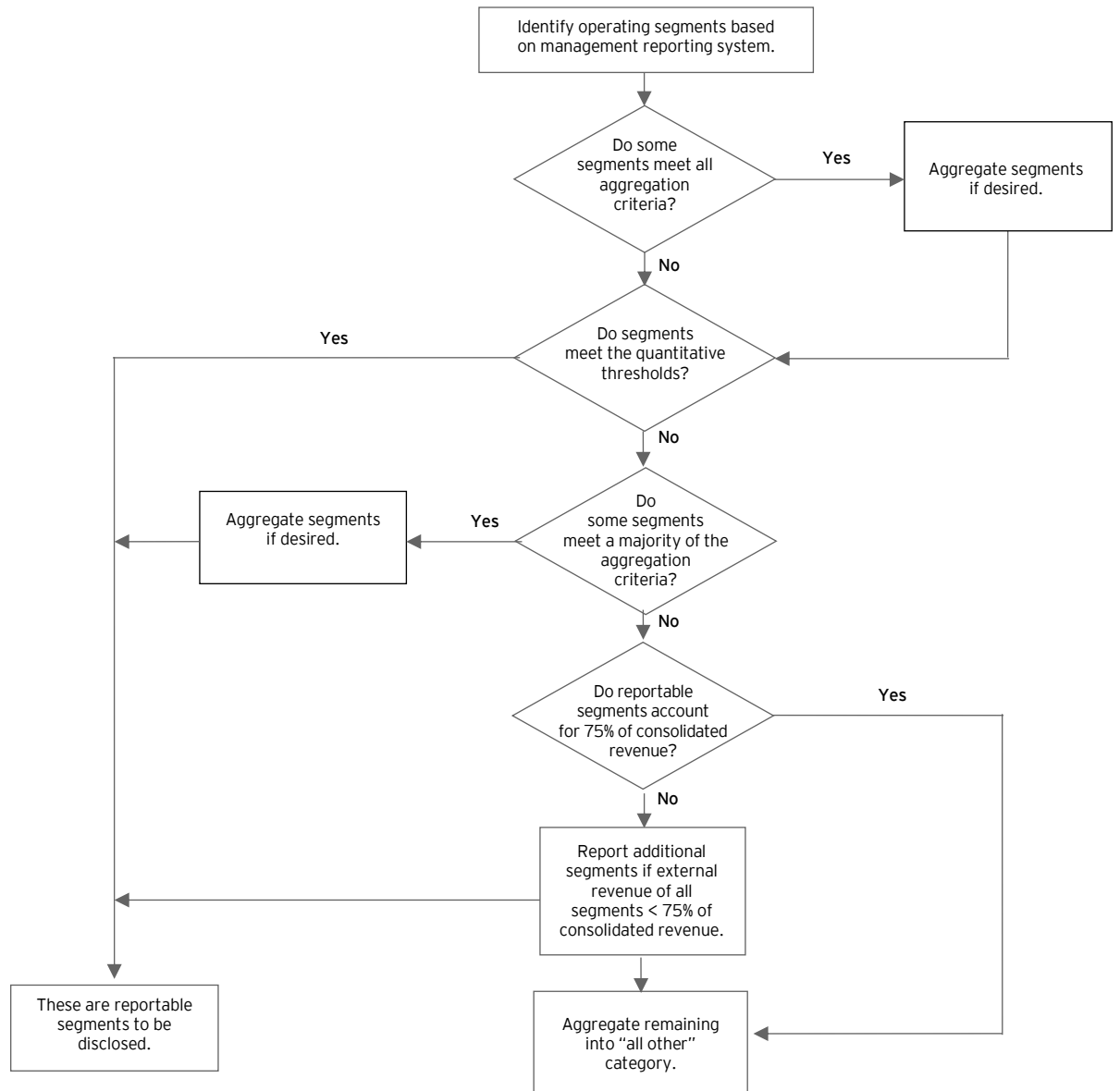
| | Construction materials | Metal products | Paper products |
|---|-----------------------------------|-----------------------|-----------------------|
| <i>Three months ended 30 September 20X9</i> | | | |
| Revenues from external customers | \$ 20,000 | \$ 5,000 | \$ 3,500 |
| Intersegment revenues | – | 2,000 | – |
| Segment profit | 6,000 | 2,500 | 1,000 |
| <i>Nine months ended 30 September 20X9</i> | | | |
| Revenues from external customers | 65,000 | 12,000 | 9,700 |
| Intersegment revenues | – | 8,000 | – |
| Segment profit | 11,500 | 6,000 | 1,500 |
| Segment assets | 94,000 ⁵¹ | – | – |

| | Profit | |
|---|---|--|
| | Three months ended 30 September 20X9 | Nine months ended 30 September 20X9 |
| Total profit for reportable segments | \$ 9,500 | \$ 19,000 |
| Other profit | 1,000 | 2,250 |
| Loss on sale of marketable securities | – | (750) |
| Adjustment to pension expense in consolidation | (200) | (600) |
| Adjustment of inventory to LIFO in consolidation | (300) | (800) |
| Income before income taxes | \$ 10,000 | \$ 19,100 |

⁵¹ The decrease in assets since 31 December 20X8 is due to the company's disposition of a portion of its residential heating systems business.

A Diagram to determine segments

The following diagram, taken from ASC 280-10-55-26, illustrates how to identify reportable operating segments as discussed in chapters 2 and 3.



B Abbreviations used in this publication

| Abbreviation | FASB Accounting Standards Codification |
|---------------------|--|
| ASC 205 | FASB ASC Topic 205, <i>Presentation of Financial Statements – Discontinued Operations</i> |
| ASC 250 | FASB ASC Topic 250, <i>Accounting Changes and Error Corrections</i> |
| ASC 275 | FASB ASC Topic 275, <i>Risks and Uncertainties</i> |
| ASC 280 | FASB ASC Topic 280, <i>Segment Reporting</i> |
| ASC 350 | FASB ASC Topic 350, <i>Intangibles – Goodwill and Other</i> |
| ASC 360 | FASB ASC Topic 360, <i>Property, Plant, and Equipment</i> |
| ASC 420 | FASB ASC Topic 420, <i>Exit or Disposal Cost Obligations</i> |
| ASC 606 | FASB ASC Topic 606, <i>Revenue from Contracts with Customers</i> |
| ASC 805 | FASB ASC Topic 805, <i>Business Combinations</i> |
| ASC 825 | FASB ASC Topic 825, <i>Financial Instruments</i> |
| ASC 842 | FASB ASC Topic 842, <i>Leases</i> |
| ASC 855 | FASB ASC Topic 855, <i>Subsequent Events</i> |
| ASC 924 | FASB ASC Topic 924, <i>Entertainment – Casinos</i> |
| ASC 932 | FASB ASC Topic 932, <i>Extractive Activities – Oil and Gas</i> |
| ASC 954 | FASB ASC Topic 954, <i>Health Care Entities</i> |
| Abbreviation | Other Authoritative Standards |
| ASU 2014-09 | FASB Accounting Standards Update No. 2014-09, <i>Revenue from Contracts with Customers (Topic 606)</i> |
| Regulation S-K | SEC Regulation S-K, <i>Standard instructions for filing forms under Securities Act of 1933, Securities Exchange Act of 1934 and Energy Policy and Conservation Act of 1975</i> |
| Regulation S-X | SEC Regulation S-X, <i>Form and content of and requirements for financial statements</i> |
| Rule 3-05 | <i>Financial statements of businesses acquired or to be acquired</i> |
| Rule 3-09 | <i>Separate financial statements of subsidiaries not consolidated and 50 percent or less owned persons</i> |
| Rule 3-14 | <i>Special instructions for real estate operations to be acquired</i> |
| Abbreviation | Non-Authoritative Standards |
| Q&A 131 | FASB Q&A 131, <i>Segment Information: Guidance on Applying Statement 131</i> |
| Statement 131 | FASB Statement No. 131, <i>Disclosures about Segments of an Enterprise and Related Information</i> |
| C&DI | SEC Division of Corporation Finance staff's Compliance and Disclosure Interpretations, <i>Non-GAAP Financial Measures</i> |

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| 360-10-50-3 | 4.7.7 | Impairment or disposal of long-lived assets |
| 420-10-50-1 | 4.7.3 | Exit or disposal activities |
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| 805-10-20 | 4.7.2 | Business combinations |
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| 855-10-50-2 | 4.6.2 | Timing of a change in segment reporting |
| 924-280-50-1 | 6.9 | Casinos |
| 932-235-50-22 | 6.7 | Oil and gas |
| 932-235-50-23 | 6.7 | Oil and gas |
| 954-280-45-1 | 6.6.4 | Entity-wide disclosures |

D **Summary of important changes**

The following highlights important changes to this FRD since the April 2022 edition:

- ▶ Sections 1.5, 1.6 and Chapter 4 were updated to highlight recent developments in the FASB's project on segment reporting.
- ▶ Section 3.2.5 was updated to include additional considerations when there is a change in the measure of segment profit or loss.
- ▶ Sections 4.6.3 and 4.6.4 were added to include reporting considerations in connection with SEC and non-SEC offerings when there is a change in reportable segments.

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