

Insights into IFRS 8

IFRS 8 disclosures for annual financial statements

Segmental information is a way of increasing transparency in financial statements prepared for investors and creditors, especially for areas of the business that are significant and drive the entity's overall business strategy. IFRS 8 'Operating Segments' requires this information that is provided to management to be disclosed in the annual financial statements, so that investors and other users of entities' financial statements can review an entity's operations from the same perspective.

Our 'Insights into IFRS 8' series is designed to illustrate how IFRS 8 should be applied and it provides guidance and insight in some problematic areas. We also include several examples illustrating the Standard's requirements. This article sets out example disclosures of segment information.

Included in this article are illustrative disclosures under IFRS 8 for a fictional entity Illustrative Corporation Ltd and its subsidiaries ('the Group') – a fictional consulting, service and retail entity that has been preparing IFRS consolidated financial statements for several years.

IFRS 8 requires each operating segment item to be disclosed using the same measures reported to the chief operating decision maker (ie based on internal management information).

The illustrative disclosures in this article are based on a fictitious entity described above, and so cannot be viewed as the only acceptable way of providing segment disclosures. It is therefore important to emphasise that segment reporting should always be tailored on the basis of the entity's internal management reporting and it should always be aligned with the core disclosure objectives of the Standard.



An illustrative IFRS 8 accounting policy for segment reporting

- IFRS 8.22(a)-(b) The Group has three operating segments: consulting, service and retail. In identifying these operating segments, management follows the Group's service lines representing its main products and services.
- IFRS 8.27(a) Each of these operating segments is managed separately as each requires different technologies, marketing approaches and other resources. Each operating segment has a divisional manager who is directly accountable to the Group's Chief Executive who has been identified as the Group's chief operating decision maker (CODM). The divisional managers are held responsible for the results of the whole division rather than for each entity in the division. All inter-segment transfers are carried out at arm's length prices based on prices charged to unrelated customers in stand-alone sales of identical goods or services.
- IFRS 8.27(b)-(d) For management purposes, the Group uses the same measurement policies as those used in its financial statements, except for certain items not included in determining the operating profit of the operating segments, as follows:
- post-employment benefit expenses
 - share-based payment expenses
 - research costs relating to new business activities
 - revenue, costs and fair value gains from investment property.
- In addition, corporate assets which are not directly attributable to the business activities of any operating segment are not allocated to a segment. This primarily applies to the Group's headquarters and the Illustrative Research Lab in Greatville.

An illustrative IFRS 8 segment reporting note

- IFRS 8.22(a) Management currently identifies the Group's three service lines as its operating segments (see Note 1). The Group's Chief Operating Decision Maker (CODM) is its chief executive and she monitors the performance of these operating segments as well as deciding on the allocation of resources to them based on divisional level financial reports regularly provided by the relevant division's manager. Segmental performance is monitored using adjusted segment operating results.
- IFRS 8.16 In addition, two minor operating segments are combined below under other segments. The main sources of revenue for this segment is the sale and disposal of used IT equipment that the Group collects from its customers.

Segment information for the reporting period is as follows:

| | | For the year ended 31 December 20X3 | | | | |
|---------------|---|--|---------------|---------------|--------------|----------------|
| | | Consulting | Service | Retail | Other | Total |
| | | Revenue | | | | |
| IFRS 8.23(a) | From external customers | 110,810 | 18,140 | 72,098 | 3,679 | 204,727 |
| | Discontinued operations | - | - | 9,803 | - | 9,803 |
| IFRS 8.23(b) | From other segments | 231 | - | - | - | 231 |
| | | 111,041 | 18,140 | 81,901 | 3,679 | 214,761 |
| | | Segment revenues | | | | |
| | Changes in inventories | (4,794) | - | (3,129) | - | (7,923) |
| IFRS 8.23(f) | Costs of materials | (17,368) | (5,442) | (22,040) | (1,398) | (46,248) |
| IFRS 8.23(f) | Employee benefits expense | (58,164) | (9,694) | (43,799) | (2,154) | (113,811) |
| IFRS 8.23(e) | Depreciation and amortisation of non-financial assets | (3,922) | (1,104) | (3,273) | (125) | (8,424) |
| IAS 36.129(a) | Impairment of non-financial assets | (1,669) | - | - | - | (1,669) |
| IFRS 8.23(f) | Other expenses | (5,911) | (30) | (1,333) | (10) | (7,284) |
| IFRS 8.23 | Segment operating profit | 19,213 | 1,870 | 8,327 | (8) | 29,402 |
| IFRS 8.23 | Segment assets | 75,057 | 18,326 | 56,107 | 2,521 | 152,011 |
| IFRS 8.23 | Segment liabilities | 32,494 | 16,316 | 28,673 | 1,185 | 78,668 |
| | | For the year ended 31 December 20X2 | | | | |
| | | Consulting | Service | Retail | Other | Total |
| | | Revenue | | | | |
| IFRS 8.23(a) | From external customers | 109,302 | 17,832 | 59,310 | 3,756 | 190,200 |
| | Discontinued operations | - | - | 11,015 | - | 11,015 |
| IFRS 8.23(b) | From other segments | 110 | - | - | - | 110 |
| | | 109,412 | 17,832 | 70,325 | 3,756 | 201,325 |
| | | Segment revenues | | | | |
| | Changes in inventories | (4,123) | - | (2,692) | - | (6,815) |
| IFRS 8.23(f) | Costs of materials | (17,737) | (5,350) | (18,734) | (1,315) | (43,136) |
| IFRS 8.23(f) | Employee benefits expense | (58,487) | (9,542) | (38,148) | (2,010) | (108,187) |
| IFRS 8.23(e) | Depreciation and amortisation of non-financial assets | (3,578) | (596) | (3,084) | (133) | (7,391) |
| IAS 36.129(a) | Impairment of non-financial assets | (190) | - | - | - | (190) |
| IFRS 8.23(f) | Other expenses | (9,213) | (100) | (1,761) | (20) | (11,094) |
| IFRS 8.23 | Segment operating profit | 16,084 | 2,244 | 5,906 | 278 | 24,512 |
| IFRS 8.23 | Segment assets | 58,097 | 15,100 | 48,442 | 1,911 | 123,550 |
| IFRS 8.23 | Segment liabilities | 29,763 | 14,994 | 29,110 | 1,095 | 74,962 |

The Group's non-current assets (other than financial instruments, investments accounted for using the equity method, deferred tax assets and post-employment benefit assets) are located into the following geographic regions:

| IFRS 8.33(a) IFRS 8.33(b) | 31 December 20X3 | 31 December 20X2 |
|------------------------------|---------------------|---------------------|
| Euroland (domicile) | 45,991 | 40,170 |
| United Kingdom | 5,749 | 5,021 |
| USA | 5,174 | 4,519 |
| Other countries | 575 | 502 |
| Total | 57,489 | 50,212 |

IFRS 8.33(a) Non-current assets are allocated based on their physical location. The above table does not include discontinued operations (disposal groups), for which revenue and assets can be attributed to Euroland.

Revenues from external customers in the Group's domicile, Euroland, as well as its major markets, the United Kingdom and the USA, have been identified on the basis of the customer's geographical location and are disclosed in Note 8.

IFRS 8.34 During 20X3, CU 24,744 or 12% (20X2: CU 21,076 or 11%) of the Group's revenues depended on a single customer in the consulting segment.

The totals presented for the Group's operating segments reconcile to the key financial figures as presented in its consolidated financial statements as follows:

| IFRS 8.28(a) | 20X3 | 20X2 |
|--|----------------|----------------|
| Revenues | | |
| Total reportable segment revenues | 211,082 | 197,569 |
| Other segment revenues | 3,679 | 3,756 |
| Discontinued operations | (9,803) | (11,015) |
| Elimination of intersegment revenues | (231) | (110) |
| | 204,727 | 190,200 |
| Rental income from investment property | 1,066 | 1,028 |
| Group revenues | 205,793 | 191,228 |
| Profit or loss | | |
| Total reportable segment operating profit | 29,410 | 25,637 |
| Other segment profit | (8) | 278 |
| Rental income from investment property | 1,066 | 1,028 |
| Change in fair value of investment property | 310 | 175 |
| Share-based payment expenses | (298) | (466) |
| Post-employment benefit expenses | (5,799) | (7,273) |
| Research and development costs | (1,690) | (1,015) |
| Other income not allocated | 676 | 341 |
| Other expenses not allocated | (304) | (263) |
| Operating profit of discontinued operations | (73) | (106) |
| Elimination of intersegment profits | (58) | (27) |
| Group operating profit | 23,232 | 18,309 |
| Share of profits from equity accounted investments | 391 | 141 |
| Finance costs | (3,869) | (3,993) |
| Finance income | 964 | 885 |
| Other financial items | 943 | 1,182 |
| Group profit before tax | 21,661 | 16,524 |

| | 31 December 20X3 | 31 December 20X2 | |
|--------------|---------------------------------|---------------------|----------------|
| IFRS 8.28(c) | Assets | | |
| | Total reportable segment assets | 149,490 | 121,639 |
| | Other segment assets | 2,521 | 1,911 |
| | Group headquarters | 3,925 | 2,127 |
| | Investment property | 12,662 | 12,277 |
| | Illustrative Research Lab | 5,046 | 2,735 |
| | Other assets | 3,364 | 2,080 |
| | Consolidation | (1,018) | (378) |
| | Group assets | 175,990 | 142,391 |

| | 31 December 20X3 | 31 December 20X2 | |
|--------------|--------------------------------------|---------------------|---------------|
| IFRS 8.28(d) | Liabilities | | |
| | Total reportable segment liabilities | 77,483 | 73,867 |
| | Other segment liabilities | 1,185 | 1,095 |
| | Pension and employee obligations | 11,853 | 15,138 |
| | Group liabilities | 90,521 | 90,100 |

IFRS 8.28 Unallocated operating income and expense mainly consists of research expenditure as well as post-employment benefits expenses. The Group's corporate assets, consisting of its head-quarters, investment properties and research facility, are not allocated to any segment's as-sets.

IFRS 8.32 An analysis of the Group's revenue from external customers for each major product and service category (excluding revenue from discontinued operations) is as follows:

| | 20X3 | 20X2 | |
|--|--|----------------|----------------|
| | Sale of hardware | 47,585 | 39,145 |
| | Sale of software | 24,513 | 20,165 |
| | Other | 3,679 | 3,756 |
| | Sale of goods | 75,777 | 63,066 |
| | After-sales service and maintenance | 18,140 | 17,832 |
| | Consulting | 59,837 | 60,116 |
| | Construction contracts for telecommunication systems | 50,973 | 49,186 |
| | Investment property rental income | 1,066 | 1,028 |
| | Rendering of services | 130,016 | 128,162 |
| | Group revenue | 205,793 | 191,228 |

This links to management accounts which provide the following information:

| Management accounts Year ended 31 December 20X3 | Consulting | | | Retail | | | | | |
|---|---------------|---------------|-----------------|----------------|--------------|--------------|--------------|-------------|-----------------|
| | Large CU | SME CU | Total CU | Euroland CU | UK CU | USA CU | France CU | Spain CU | Total CU |
| Revenue – continuing operations | 35,845 | 74,965 | 110,810 | 57,678 | 7,210 | 6,489 | 540 | 181 | 72,098 |
| Inter-group sales | - | 231 | 231 | - | - | - | - | - | - |
| Revenue – discontinued operations | - | - | - | 9,803 | - | - | - | - | 9,803 |
| Total revenue | 35,845 | 75,196 | 111,041 | 67,481 | 7,210 | 6,489 | 540 | 181 | 81,901 |
| Changes in inventories | (1,551) | (3,243) | (4,794) | (2,578) | (275) | (248) | (21) | (7) | (3,129) |
| Material costs | (5,618) | (11,750) | (17,368) | (18,160) | (1,940) | (1,746) | (145) | (49) | (22,040) |
| Employee benefit costs | (18,815) | (39,349) | (58,164) | (36,087) | (3,856) | (3,470) | (289) | (97) | (43,799) |
| Depreciation and amortisation of non-financial assets | (1,269) | (2,653) | (3,922) | (2,697) | (288) | (259) | (22) | (7) | (3,273) |
| Impairment of non-financial assets | (540) | (1,129) | (1,669) | - | - | - | - | - | - |
| Other expenses | (1,912) | (3,999) | (5,911) | (1,098) | (117) | (106) | (9) | (3) | (1,333) |
| Divisional operation profit | 6,140 | 13,073 | 19,213 | 6,861 | 733 | 660 | 55 | 18 | 8,327 |
| Segment assets | 24,280 | 50,777 | 75,057 | 46,228 | 4,939 | 4,445 | 370 | 124 | 56,107 |
| Segment liabilities | 10,511 | 21,983 | 32,494 | 23,625 | 2,524 | 2,272 | 189 | 63 | 28,673 |

| | Service | | | IT disposals CU | Service | | Total CU |
|---|-------------------|---------------|----------------|--------------------|---------------------|--------------|------------------|
| | Maintenance CU | Repairs CU | Total CU | | Telephony kit CU | Total CU | |
| Revenue – continuing operations | 15,455 | 2,695 | 18,140 | 1,835 | 1,844 | 3,679 | 204,727 |
| Inter-group sales | - | - | - | - | - | - | 231 |
| Revenue – discontinued operations | - | - | - | - | - | - | 9,803 |
| Total revenue | 15,445 | 2,695 | 18,140 | 1,835 | 1,844 | 3,679 | 214,761 |
| Changes in inventories | - | - | - | - | - | - | (7,923) |
| Material costs | (4,634) | (809) | (5,442) | (697) | (701) | (1,398) | (46,248) |
| Employee benefit costs | (8,254) | (1,440) | (9,694) | (1,074) | (1,080) | (2,154) | (113,811) |
| Depreciation and amortisation of non-financial assets | (940) | (164) | (1,104) | (62) | (63) | (125) | (8,424) |
| Impairment of non-financial assets | - | - | - | - | - | - | (1,669) |
| Other expenses | (26) | (4) | (30) | (5) | (5) | (10) | (7,284) |
| Divisional operation profit | 1,592 | 278 | 1,870 | (4) | (4) | (8) | 29,402 |
| Segment assets | 15,603 | 2,723 | 18,326 | 1,257 | 1,264 | 2,521 | 152,011 |
| Segment liabilities | 13,892 | 2,424 | 16,316 | 591 | 594 | 1,185 | 78,668 |

Notes to the management accounts

Based on the management accounts pack it may appear the operating segments identified as Consulting, Retail and Service are, in fact, the only reportable segments after the aggregation of the divisional results in each segment. However, as disclosed in the extract of the notes to the financial statements each division has a divisional manager. Such a function is referred to as a segment manager in paragraph 9 of IFRS 8. In this fictional company, these divisional managers were held responsible for the results of the Consulting, Retail and Service divisions as a whole so, in this case, there has been no aggregation of operating segments. However, if there had been then the disclosures required by paragraph 22(aa) of IFRS 8 would have been required including clear disclosure of the economic characteristics that had been considered by management in concluding that the UK and USA operations could be aggregated with the other operations based in Europe.

The two divisions that are also identified as part of a service division are involved in the disposal of IT and telephony products. As neither of these divisions shared all of the characteristics of the main service division as set out in paragraph 12 of the Standard they have been combined to form an 'other' operating segment.

How we can help

We hope you find the information in this article helpful in giving you some insight into IFRS 8. If you would like to discuss any of the points raised, please speak to your usual Grant Thornton contact or visit www.grantthornton.global/locations to find your local member firm.

