

## NEWSLETTER – MARCH 2009

**HKFRS 8 “Operating Segments”**

- Effective for accounting periods beginning on or after 1 January 2009
- Almost a word for word copy of the US standard SFAS 131
- Reporting is based on a “management approach”
- Must consider what is reported to the CODM for assessing performance
- Do not have to use same measurement policies as in the financial statements
- More than 10% of total revenue, profit or assets will usually result in a reportable segment
- Segment numbers include both internal and external revenue
- External revenue by segments must be more than 75% of reported revenue
- Combine smaller segments (<10%) if entity cannot meet the 75% test
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Last month we published our first newsletter dealing with the new and revised IFRS/HKFRS applicable for future accounting periods following the International Accounting Standard Board’s four-year, “stable” period from 2005 to 2008. This newsletter now considers HKFRS 8 “Operating Segments” and the changes from the old financial reporting standard for segmental reporting, HKAS 14. The new standard is based on SFAS 131 “Disclosures about Segments of an Enterprise and Related Information” issued by the FASB and its issue is part of the convergence project between IFRS and US GAAP.

**Accounting for Operating Segments – HKFRS 8**

HKFRS 8 is mandatory for entities whose equity or debt securities are publicly traded, or that are in the process of issuing such securities. It is applicable for accounting periods commencing on or after 1 January 2009 with early adoption permitted.

The key change introduced by HKFRS 8 is the move to the “management approach” for identifying segments and for the measurement of segment information. The main changes are:

- HKFRS 8 requires identification of operating segments on the basis of internal reports that are regularly reviewed by the entity’s Chief Operating Decision Maker (“CODM”) in order to allocate resources to the segment and to assess its performance. The CODM refers to a function; this may often be the Chief Executive Officer or Chief Operations Officer, but it may also be a group of executive directors. HKAS 14 requires the identification of business segments and geographical segments. Under HKAS 14, one basis of segmentation is regarded as primary and the other is secondary with less information required to be disclosed for secondary segments. The assessment of which is the primary segment reporting format is based on the dominant source and nature of the entity’s risks and returns.
- HKFRS 8 requires the amount reported for each operating segment item to be the measure reported to the CODM for the purposes of allocating resources to the segments and assessing its performance. HKAS 14 requires segment information to be prepared in conformity with the accounting policies adopted for preparing and presenting the financial statements of the consolidated group. The amounts disclosed under HKAS 14 are based on amounts in the financial statements whilst the disclosures under HKFRS 8 must be reconciled to the financial statement figures.
- In contrast to HKAS 14, HKFRS 8 does not define segment revenue, segment expense, segment result, segment assets and segment liabilities, but requires an explanation of how segment profit or loss, segment assets and segment liabilities are measured for each reportable segment.
- Reportable segments are those operating segments for which external and internal revenue, profit or assets exceed 10% of total external and internal amounts and include segments that earn a majority of revenue from internal customers. Operating segments may be aggregated if they share similar economic and other characteristics. The number of reportable segments is not specified but is unlikely to exceed 10.
- Under IFRS 8, the financial statements should disclose details of revenues from external customers for each product or service, about the geographical areas in which the entity operates, and about major customers, regardless of whether that information is used by management. IFRS 8 also requires disclosure of interest income and expense and other items if these are reported to the CODM by segment.

Should you wish to discuss the implications of HKFRS 8 in more detail, please call your usual Moore Stephens contact partner and/or Michael Pyburn and Erik Tang in the Technical Department.