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Segment Reporting

More than just disclosure

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1. Introduction

Entities are typically organized into multiple components, or operating segments, that are used to monitor performance and effectively manage resources. ASC 280 requires public entities to disclose certain disaggregated information about their operating segments in their financial statements. Public entities' segment disclosures continue to be an area of frequent comment by the U.S. Securities and Exchange Commission (SEC) staff. Almost every year, the SEC staff discusses their current views on some aspect of segment reporting during the annual AICPA Conference on Current SEC and PCAOB Developments. This guide is designed to help preparers navigate the complexities involved in identifying and reporting segments under ASC 280.

The segment disclosures as required by ASC 280 are designed to assist financial statement users in understanding an entity's performance, assessing its expected future cash flows, and making informed decisions about the entity.

ASC 280-10-05-2

This Subtopic provides guidance to public entities on how to report certain information about operating segments in complete sets of financial statements of the public entity and in condensed financial statements of interim periods issued to shareholders. It also requires that public entities report certain information about their products and services, the geographic areas in which they operate, and their major customers.

ASC 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.

Grant Thornton insights: FASB segment reporting project

Despite the lack of recent changes to the segment reporting guidance in U.S. GAAP, segment reporting remains an area that the SEC staff consistently focuses on in filing reviews. In addition, the FASB currently has a project on its technical agenda to increase decision-useful information about reportable segments provided to financial statement users by improving segment aggregation criteria and segment disclosures. This project is generating attention and feedback from various constituents. See the FASB's website for current project details and to read about the Board's tentative decisions on this project. All decisions are tentative until the Board issues a final Accounting Standards Update.

Some practitioners may view ASC 280 as "disclosure only" guidance, applicable only to public entities, because ASC 280 does not address the accounting for any particular transaction or economic event. However, in the eyes of the SEC, an amendment to the financial statements included in a previously filed periodic report (Form 10-K or Form 10-Q)) is considered a restatement, even if it only adds or modifies segment disclosures. Further, while the reporting requirements under ASC 280 only apply to a "public entity," as defined in the ASC's Master Glossary, the concepts underlying the determination of segments are also employed by other entities when, for example, determining the reporting units (the unit of account) for allocating goodwill and assessing its impairment following a business combination.

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

1. 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).
2. It is required to file financial statements with the SEC.
3. It provides financial statements for the purpose of issuing any class of securities in a public market.

Grant Thornton insights: SEC staff focus on segment disclosures

While SEC staff speeches are directed at a broad audience of financial statement preparers and users as well as auditors, SEC registrants—especially those that report their operations under one reportable segment—are becoming keenly aware of the SEC staff's ongoing practice of questioning registrants' historical segment reporting practices through comment letters. The SEC staff may request internal financial and other operating data at a granular level to support a registrant's assertions about management's reporting structure, among other things. Some of the specific questions the SEC staff has asked include:

- How were reportable segments determined? Specifically, what measure of profit and loss is reviewed by the chief operating decision maker (CODM) and how the aggregation criteria were met?
- Why have interest expense, income tax, and depreciation and amortization been excluded from each segment?
- How does operating segment income reconcile to consolidated income before taxes?
- Please provide a copy of the operating information regularly reviewed by the CODM.
- How are paragraphs 280-10-50-1, 50-3 and 50-4 applied for purposes of defining operating segments? How is the presumption that the line items presented on the monthly report reviewed by the CODM are segments rebutted?

The SEC staff will often review copies of the monthly reporting package sent to the CODM, and may also ask to see information sent to the Board of Directors. Additionally, they may choose to review analyst reports, press releases and interviews of management and other publicly reported information, including information from an entity's website.

Evaluation and proper disclosure of segments is complex and can require management to exercise significant judgment. Registrants should go through a contemporaneous and robust exercise of compiling appropriate internal supporting documentation for their segment reporting assertions to avoid the SEC staff asserting that their historical segment reporting has not been appropriate.

Additionally, at the 2015 AICPA National Conference on Current SEC and PCAOB Developments, the SEC staff reminded registrants that if a change in the company's segment presentation is required during the comment letter process, the staff may permit a registrant to reflect the change in future filings for certain fact patterns, subject to discussion with the staff. However, the staff further noted that this practice would generally not be an option, and that an entity would generally be required to restate and amend the filing when such a change has a material impact on previous goodwill impairment determinations. The staff also reminded registrants to develop and implement effective internal controls related to segment reporting, adding that input from the CODM may be essential in the development of such controls.

1.1 Entities subject to reporting under ASC 280

While the disclosure guidance in ASC 280 technically applies only to public entities, other entities may want to consider providing ASC 280 disclosures as well. For instance, nonpublic entities that will likely become public entities in the future are encouraged to adopt segment reporting. The impact of the segment reporting guidance on certain nonpublic entities is discussed in Section 1.2. Not-for-profit entities are exempted from segment reporting under ASC 280, regardless of whether they meet the definition of a "public entity."

ASC 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.

ASC 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.

1.2 ASC 280 implications for nonpublic entities

Although nonpublic entities are not subject to the disclosure requirements of ASC 280, they must use the guidance in ASC 280 to determine operating segments when identifying reporting units (the unit of account) for purposes of allocating goodwill and testing for goodwill impairment, as required by ASC 350.

Further, if a nonpublic entity elects to voluntarily provide segment information, it should follow the guidance in ASC 280.

The first step of the goodwill impairment test for all entities (except for those nonpublic entities discussed below) is to establish reporting units.

A **reporting unit** is an "operating segment" or a component, which is one level below an operating segment.

Determination of a reporting unit for both public and nonpublic entities begins with applying the guidance in ASC 280 to identify the operating segments (see Section 2.1). Nonpublic entities may find it more difficult to identify reporting units because they are not required to report segment information under ASC 280. Allocating goodwill and testing for impairment is much less onerous for nonpublic entities that elect the accounting alternative to test goodwill impairment at the entity level, rather than the reporting unit level, as indicated in ASC 350-20-35-62. Upon the occurrence of a triggering event, the nonpublic entity that elects this alternative also has the option to first apply a qualitative impairment assessment, and thereby avoid calculating the difference between the carrying amount of the reporting unit and its fair value. Nonetheless, except in those circumstances, a nonpublic entity is still required to apply the guidance in ASC 280-10-50-1 through 50-9 on identifying operating segments as a first step in identifying its reporting units.

ASC 350-20-35-38

An entity that is not required to report segment information in accordance with Topic 280 is nonetheless required to test goodwill for impairment at the reporting unit level. That entity shall use the guidance in paragraphs 280-10-50-1 through 50-9 to determine its operating segments for purposes of determining its reporting units.

1.3 Segment reporting in SEC filings for entities other than public entities (reporting entities)

As discussed in ASC 280-10-15-3 (see Section 1.1), segment reporting is not always required for parent companies, subsidiaries, joint ventures, or investees accounted for by the equity method if those entities' separate company statements are included in consolidated or combined financial statements that are part of either a financial report or a filing issued by a public entity. For example, Rule 3-09 of Regulation S-X could, in certain circumstances, require a registrant to include in its annual report on Form 10-K the separate financial statements of an investee accounted for using the equity method. However, segment reporting is required for an equity method investee if it is a public entity that issues separate financial statements.

In another example, Rule 3-05 of Regulation S-X may require an acquirer that is a public entity to include the financial statements of an acquired business in certain filings with the SEC. Unless the business being acquired is a public entity itself, the historical financial statements of the acquired business included in the filing are not required to comply with ASC 280.

1.4 Industry-specific segment reporting guidance

Certain industry guidance in the Codification includes a Subtopic focused on industry-specific segment reporting issues. For example, ASC 924-280 addresses the segment disclosure requirements for casino entities operating in multiple legal jurisdictions that have geographic segments. Other industry-specific segment reporting guidance is included in:

- ASC 908, *Airlines*
- ASC 932, *Extractive Industries – Oil and Gas*
- ASC 954, *Health Care Entities*

2. Identifying operating and reportable segments

Organizing information into multiple components, or operating segments, can be relevant in an investor's decision-making process as it assists in better understanding an entity's performance and prospects for future net cash flows, allowing investors to make more informed judgments about the entity as a whole. However, many entities can be subdivided into numerous operating segments to the point where the information is so diluted that it may no longer be useful. For this reason, the Board provides guidelines to use in determining when operating segments should also be considered separate reportable segments, or combined into one reportable segment, for which the entity should provide discrete financial information within the financial statements.

Grant Thornton insights: Consider the key principle when exercising judgment

Numerous judgments are required in determining the operating segments and which segments are reportable. Rather than relying on the guidance as a set of rules, entities should take a step back and evaluate whether the overall objective is being met. In other words, consider whether the segment disclosures provide financial statement users with the information needed to understand the nature of the entity's business activities and the environment in which it operates and how key decision makers of the entity use financial information to manage the business.

In this section, we walk through the general process used to identify operating segments (see Section 2.1.1) and discuss segment reporting considerations in specific fact patterns, such as when an entity has equity method investees (see Section 2.1.2). We also discuss how to identify operating segments if an entity has certain managers responsible for products or services worldwide and other managers responsible for geographic areas (see Section 2.1.3).

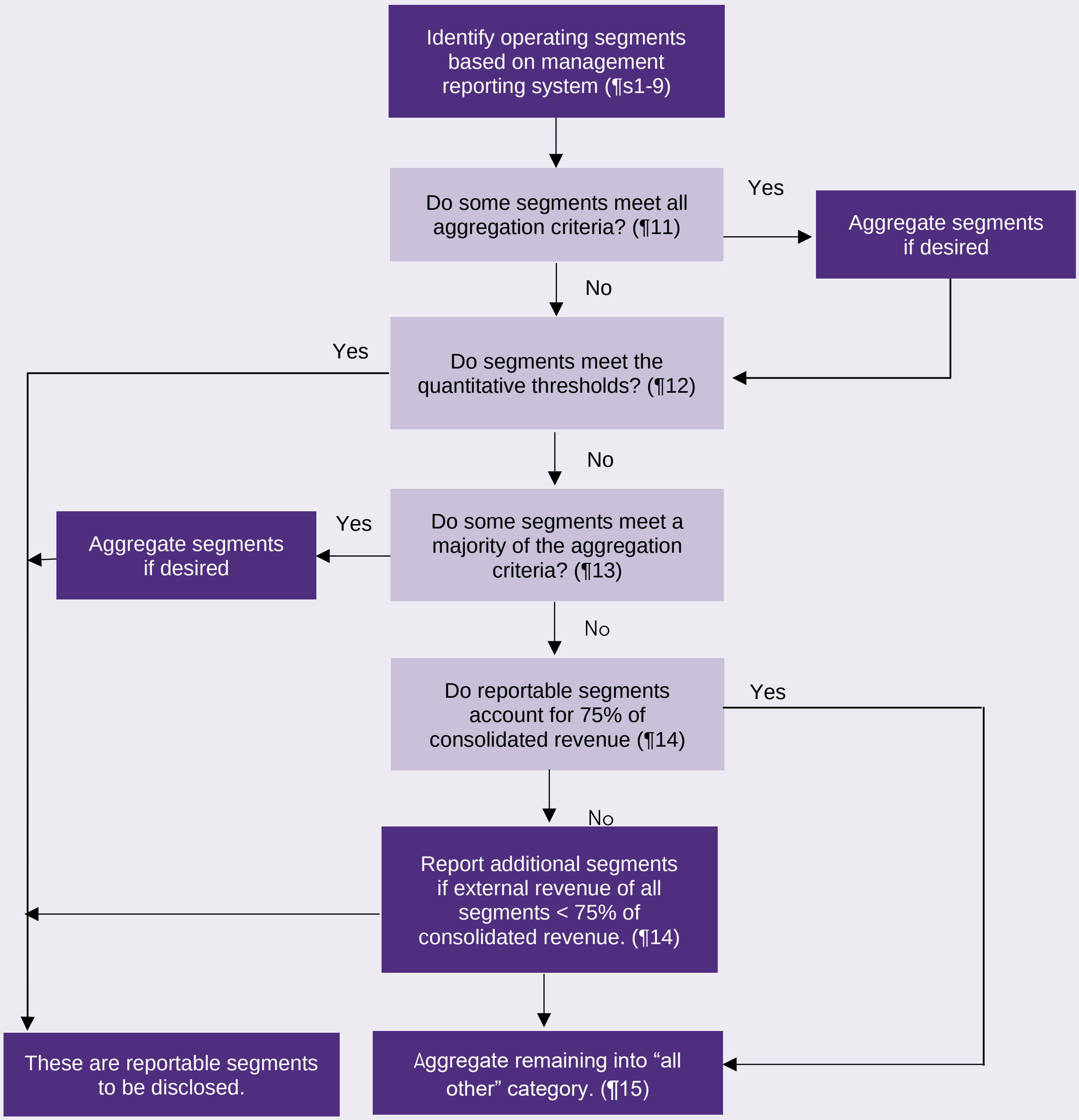
Once the operating segments have been identified, they should be evaluated for aggregation based on qualitative criteria (see Section 2.2.1), then quantitatively evaluated to determine if the aggregated segments (if applicable) and individual operating segments are reportable (see Section 2.2.2). For segments that do not meet the quantitative thresholds, the entity may then evaluate whether any of these segments meet the majority of the aggregation criteria and could therefore be combined and reported together (see Section 2.2.3). Management conducts a final test to determine if the segments identified for reporting make up at least 75 percent of consolidated revenue (see section 2.2.4).

The following diagram, taken from ASC 280, outlines this process.

ASC 280-10-55-26

The following diagram illustrates how to apply the main provisions for identifying reportable operating segments as defined in this Subtopic. The diagram is a visual supplement to the written standards section. It should not be interpreted to alter any requirements of this Subtopic nor should it be considered a substitute for the requirements.

Note: All paragraph references are within Topic/Subtopic/Section: **280-10-50**



2.1 Operating segments

An “operating segment” is a component of a public entity that engages in business activities for which discrete financial information is both available and regularly reviewed by the chief operating decision maker (CODM) for the purpose of making operating decisions about the allocation of resources.

A component of an entity comprises 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.

Codification outlines three characteristics that must be met for a component to be considered an operating segment.

ASC 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 earn 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.

2.1.1 Identifying the operating segments

The first step in identifying reportable operating segments is to identify operating segments based on how information is organized for the CODM to assess company performance and make decisions about resource allocation. Of course, completion of this first step requires an entity to also identify the CODM (see Section 2.1.4). Operating segments are identified through a "management approach" that is intended to provide a view of an entity through the eyes of management.

It is important to remember that identifying an operating segment does not automatically mean that this operating segment is reportable, since it might qualify for aggregation (see Section 2.2.1) or it might not meet a quantitative threshold for reporting (see Section 2.2.2).

An entity can provide a complete set of financial statements by breaking down its business in numerous ways, including what it sells, where it operates, how it is organized, and who it sells to. But, to provide all of this information in every set of financial statements is impractical and would likely create more confusion than clarity for financial statement users. Therefore, the guidance in ASC 280 requires that entities select a single basis of segmentation reflecting how management organizes information for internal decision making and performance analysis. Requiring entities to select a basis of segmentation using their own internal organization structure, rather than prescribing a specific basis to use, allows entities to provide information that better reflects management's views of the entity's performance in a cost-effective and timely manner.

ASC 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 280-10-05-4

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.

The guidance in ASC 280 defines an operating segment as a component of a public entity having all of the following characteristics (discussed in detail below):

- The component engages in business activities that may generate revenue and incur expenses, including revenue and expenses relating to transactions with other components of the same entity.
- The component's operating results are regularly reviewed by the CODM to make decisions about allocating resources to the segments and assessing each segment's performance.
- There is discrete financial information available for the component.

Engages in business activities

The first characteristic of an operating segment is that it engages in business activities. While this typically means that the component generates revenue and incurs expenses, these activities are not a requirement.

Components that sell exclusively to other components within the same entity may still be considered operating segments. This is likely to be the case in vertically integrated businesses, such as oil and gas entities, where understanding internal purchases and sales is vital to fully understanding the entity's performance.

A component could also be engaged in business activities that do not generate revenue. For example, a start-up operation that has not yet earned revenue may still meet this requirement. Similarly, a research and development component could also be considered to engage in business activities, even though it does not yet generate revenue.

Grant Thornton insights: Component with revenues but no assets

A component may also generate revenue but not hold any assets for the purposes of internal reporting and still be considered an operating segment. ASC 280-10-55-6 states that if no asset information is provided for a reportable segment, that fact and the reason therefore shall be disclosed. This indicates that the allocation of assets is not a determinative factor when evaluating whether a component meets the definition of an operating segment.

Not every part of a public entity, however, should be considered an operating segment. Functional departments that earn minimal to no revenue, corporate headquarters or other centralized shared-services, and pension and other postretirement benefit plans should not be considered operating segments or even part of an operating segment.

ASC 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.

ASC 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.

ASC 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.

Although unusual, a corporate division that recognizes revenue and incurs expenses could be considered an operating segment if the criteria are met. If a corporate division recognizes revenue, has discrete financial information and has its operating results reviewed regularly by the CODM, it could be considered an operating segment. The guidance in ASC 280 provides the following example of when a corporate division may qualify as an operating segment.

Operating Segments – Corporate Divisions

ASC 280-10-55-3

A corporate division that recognizes revenues (for example, a treasury operation that recognizes interest income) and incurs expenses could be considered an operating segment, if, under the specific facts and circumstances being considered, it meets the definition in paragraph 280-10-50-1. Some believe that corporate divisions could not be considered operating segments because paragraph 280-10-50-4 indicates that 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 that do not recognize revenues or that recognize revenues that are only incidental to the activities of the public entity.

ASC 280-10-55-4

However, a corporate division that recognizes revenues and that has available discrete financial information and whose operating results are reviewed regularly by the chief operating decision maker should be considered an operating segment. Even if the revenues are considered incidental, this Subtopic 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 public entity.

ASC 280-10-55-5

A division that recognizes revenues and incurs expenses but does not have any assets associated with it for internal reporting purposes could be considered an operating segment, if, under the specific facts and circumstances being considered, it otherwise meets the definition in paragraph 280-10-50-1. For example, assume Division A of a public entity conducts business with a separate class of customer using assets shared with Division B and Division B allocates expenses associated with those shared assets to Division A, but the assets, themselves, are presented in the internal financial reports of Division B. A public entity may allocate an expense to a segment without allocating the related asset; however, disclosure of that fact is required. Therefore, allocation of assets is not a criterion for the component to be considered an operating segment.

Operating results are regularly reviewed by the CODM

The management approach in ASC 280 that is used to identify an operating segment focuses on how management has organized the entity to make key operating decisions and to assess performance. Identifying operating segments may be obvious for many entities, but a number of entities produce multiple sets of reports detailing business activities in different ways. In cases where the CODM reviews more than one set of information, other factors should be considered in identifying the components that constitute operating segments, such as the nature of the business activities of each component, the existence of managers responsible for each component, and how information is presented to the board of directors.

Grant Thornton insights: Supporting management's approach for organizing segments

The segment reporting guidance in ASC 280 requires an entity to use a management approach centered on how management organizes segments for making operating decisions to assess performance. Applying this approach may require significant judgment on management's part and is an area that regularly captures the attention of the SEC staff when reviewing issuer filings. At the 2011 AICPA National Conference on Current SEC and PCAOB Developments, the SEC staff said it not only looks at information contained in the financial statements, but also examines other information for consistency, including information reported in Management's Discussion and Analysis (MD&A), on websites, and in conference call transcripts, as well as any other sources of public information. Additionally, the staff said that the reports provided to the CODM are simply one consideration in the overall segment analysis and reminded entities to consider other factors, such as management's structure, the basis for budgeting, and the rationale for executive compensation.

When reviewing management's approach to identifying segments, the SEC staff has historically requested financial and nonfinancial information that includes

- An organizational chart, including the identification of the CODM and individuals that report to the CODM
- Information regularly reviewed by the CODM
- Information reviewed by the board of directors
- Information the CODM uses to prepare for earnings calls
- Budgets approved by the CODM

Management should ensure that information in these documents supports the segments disclosed in the financial statements and be prepared to explain the rationale behind any differences in presentation.

When the CODM receives information in a greater level of detail than the segments reported in the financial statements, the entity should be prepared to support that the information being provided is not used for resource allocation decisions. The SEC staff has presumed that the way the entity disaggregates information in internal management reports is the way the CODM manages the business and has challenged entities that decide not to use the more detailed information. Companies should exercise caution when making this assertion. It would be difficult for management to assert that the CODM receives, but does not use, financial information to allocate resources and to assess the performance of segments.

The SEC staff has indicated that it may challenge a registrant that concludes a certain component is not an operating segment if the CODM receives reports on that component on a quarterly or more frequent basis. In assessing proper segment disclosure, the SEC staff may request copies of all reports provided to the CODM (the “CODM package”). The CODM package is simply one data point in the overall segment analysis, including the other factors discussed above.

Discrete financial information is available

Another characteristic that must exist in an operating segment is that discrete financial information is available. According to the guidance in ASC 280, “discrete financial information” need not comprise a full set of GAAP financial statements, or even be reported at the level of detail produced by other identified operating segments. The primary consideration in determining whether discrete financial information is available for a product line, geographic area, or other operating component is whether the information is provided in sufficient detail to allow the CODM to assess performance and make resource allocations. Even if the information is sufficiently detailed, the CODM must actually use this information to assess performance and make resource allocations for the operating unit to qualify as an operating segment. In some cases, an entity may generate discrete financial information for an operating component, but the CODM uses the discrete financial information of a larger operating component (that would likely include the discrete financial information of the smaller component) to assess performance and make resource allocations.

Grant Thornton insights: Disaggregated information provided only to the margin level

One common question that arises when identifying operating segments is whether the requirement for discrete financial information is met when the disaggregated information the CODM receives is provided only to the margin level. The SEC staff has indicated that a gross profit or other operating measure may be sufficient to meet this requirement if the information is sufficiently detailed for the CODM to assess performance and make decisions about the allocation of resources.

Additionally, the staff has noted that it is not necessary that assets be allocated to a component for it to have discrete financial information. The fact that certain costs may be shared and not allocated to each component does not preclude the component from being considered an operating segment.

2.1.2 Equity method investees

The implementation guidance in ASC 280 addresses certain specific circumstances, including when the entity has an equity method investee. The guidance in ASC 280 clarifies that equity method investees may qualify as distinct operating segments, provided the operating segment criteria in Section 2.1.1 are met.

Operating Segments – Equity Method Investees

ASC 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.

2.1.3 Identifying operating segments in a matrix form of organization

A matrix form of organization exists if an entity has certain managers responsible for products or services worldwide, while other managers are responsible for geographic areas. The identified CODM of this type of entity regularly might review a reporting package that contains separate information on both a product/service line and a geographic basis. Although the CODM regularly reviews both sets of available information, ASC 280 requires that components based on products and services (instead of components based on geographic areas) be identified as the operating segments for financial reporting purposes. As a result, in this circumstance, operating segments should be identified based on products and services.

ASC 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.

2.1.4 Identifying the CODM

A key aspect in correctly determining an entity's operating segments is to properly identify its CODM.

The term **chief operating decision maker** (CODM) identifies an individual or group of individuals whose function is to allocate resources to, and assess the performance of, the segments of an enterprise.

CODM does not necessarily mean only an individual executive with a specific title, but instead refers to the individual(s) in the organization that perform the function of allocating resources to, and assessing the performance of, segments. Generally, the decision about an entity's overall resource allocation to different segments is made at the highest levels of management. As a result, the CODM is often the chief executive officer or chief operating officer, but it is not necessarily an individual with one of these titles, or even an individual. In certain instances, the CODM may be a group consisting of several individuals, including the president, executive vice presidents, and others. Additionally, certain decisions about resource allocation are inevitably made at a lower level, for instance, by a segment manager, which is a person or function that is responsible for maintaining direct communication with the CODM to discuss operating activities, financial results, forecasts, or plans for the segment. In certain instances, the CODM may also be the manager for a particular segment.

ASC 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.

ASC 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.

ASC 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.

ASC 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.

Grant Thornton insights: Identifying the CODM

Identifying the CODM can be difficult and the CODM will vary from entity to entity. It could be an individual, such as the chief executive officer or chief operating officer, or it could be a group of people, such as a senior management team or a board of directors. The SEC staff stressed in a speech at the 2014 AICPA National Conference on Current SEC and PCAOB Developments that entities should not assume that the chief executive officer is the CODM. The key is to identify who is making the decisions on how resources are allocated.

It is important that entities not only properly identify the CODM when initially implementing segment reporting, but that they also continuously reassess whether the proper person, or group of people, has been identified. This can be particularly important after a business is acquired or disposed of or when the entity goes through a reorganization.

In reviewing disclosures relating to operating segments, the SEC staff has focused on the process used to identify the CODM and, in particular, on whether the CODM is an individual or a group of individuals. If the CODM is a group of individuals, the identification of operating segments is typically made at a lower level than if the CODM is an individual, resulting in the identification of additional operating segments.

The example below illustrates the importance of appropriately identifying the CODM.

Impact of identifying the CODM

Entity A’s management organization consists of a chief executive officer (CEO) who oversees two vice presidents that are responsible for two separate continental regions, each consisting of multiple countries. If the CODM is identified as the CEO, then the operating segments would be the continental regions overseen by the two vice presidents (segment managers). But, if the CODM is identified as a group consisting of the CEO and vice presidents, the operating segments would be identified at the country—not the continental—level, resulting in a larger number of operating segments (and, quite possibly, a larger number of reportable operating segments) if, for example, none of the identified operating segments meet the aggregation criteria discussed in Section 2.2.1. The identification of the CODM as the CEO or as a group comprised of the CEO and vice presidents in this example rests on whether an individual or a group of individuals assesses performance and makes the decisions about resource allocation and might result in a significantly different outcome when identifying operating segments.

2.2 Reportable segments

A public entity must identify which operating segments are reportable segments that should be disclosed in the notes to the financial statements under ASC 280. First, the entity determines whether it wishes to aggregate identified operating segments based on the criteria outlined in Section 2.2.1. Next, the entity must evaluate aggregated operating segments and individual operating segments using the quantitative thresholds discussed in Section 2.2.2 to determine if they should be considered a reportable segment.

ASC 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 paragraph

b. Exceeds the quantitative thresholds in paragraph 280-10-50-12.

2.2.1 Aggregating similar segments

Under ASC 280, operating segments that meet certain criteria may be aggregated for reporting purposes. Operating segments that might be individually material (see Section 2.2.2) may be aggregated for reporting purposes if certain criteria are met (discussed below). An entity is not required to aggregate similar segments. In other words, an entity may decide to separately report a segment that otherwise meets the aggregation criteria, particularly if management believes that separate disclosure of that segment information is material.

ASC 280-10-50-18A

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

ASC 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.

Identified operating segments are evaluated for aggregation before the quantitative thresholds in ASC 280-10-50-12 are evaluated. As a result, when an entity applies the aggregation criteria in ASC 280-10-50-11, it might conclude that it is appropriate to aggregate operating segments that are individually below the quantitative criteria, but meet quantitative thresholds once aggregated.

Applying quantitative thresholds to aggregated segments

Assume that operating segment A and operating segment B make up 8 percent and 7 percent of total reported revenues, respectively. The entity would first apply the criteria in ASC 280-10-50-11 to determine whether the operating segments may be aggregated. If the aggregation criteria are met, the entity could conclude that segments A and B are considered a single operating segment making up 15% of total revenue when evaluating the quantitative thresholds.

Under ASC 280-10-50-11, entities can aggregate operating segments before evaluating quantitative thresholds only if all of the following considerations are met:

- The aggregation is consistent with both the objective and basic principles of ASC 280.
- The operating segments have similar economic characteristics (for example, similar gross margins).
- The operating segments are similar in all of the following additional areas:
  - Types of products and services offered
  - Processes used in the production of products or in providing services to its customers
  - Class of customers
  - Distribution methods
  - The regulatory environment in which the segments operate, if applicable

ASC 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.

ASC 280 includes implementation guidance and illustrations to assist preparers in determining whether the aggregation criteria are met. Excerpts of this guidance are presented below.

ASC 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.

ASC 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.

ASC 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.

As discussed in Section 3, entities are required to disclose whether operating segments have been aggregated. Aggregation of operating segments into reportable segments based on similar economic characteristics is an area that the SEC staff typically asks about in comment letters to registrants. The SEC staff has consistently taken the view that it is a very high hurdle for a registrant to meet the aggregation criteria and that a registrant must meet all of the criteria in ASC 280-10-50-11, including the requirement that segments must have similar economic characteristics, in order to aggregate operating segments.

Grant Thornton insights: Similar economic characteristics

Many preparers and auditors have questioned which type of evidence is needed for management to conclude that operating segments have similar economic characteristics. To meet the similar economic characteristics criterion in ASC 280-10-50-11, the operating segments must be so similar that they are expected to have essentially the same future prospects (for example, gross margins and sales trends). There is no bright-line guidance to use when assessing whether two or more operating segments are economically similar. In addition to the future prospects analysis required to support this claim, the SEC staff has held that an entity must demonstrate the economic similarity of two different segments by using historical results. The entity's expectations that the economic characteristics of two or more operating segments are likely to merge in the future may not lead to aggregation if the operating segments' past performance was dissimilar. Although the historical results analysis should not be based solely on a long-term average gross-margin analysis, the SEC staff has consistently challenged aggregation if the gross margins of the segments differ by more than an immaterial amount. The difference between the two margins should be measured by their percentage difference.

Gross margin is used in this analysis because it is less likely to be impacted by allocations of resources. However, factors to consider in evaluating the economic similarities of operating segments will vary by entity and by industry. Prioritizing certain economic characteristics is a matter of judgment for management that will depend on the particular facts and circumstances of each situation. With that in mind, when determining economic similarities between operating segments, management may consider evaluating historical and long-term trends in the following items:

- Revenue
- Cash flows
- Gross profit
- Segment profit or loss
- Costs of goods sold
- Major cost components
- Net income or loss

If management cannot reliably estimate far into the future, it might be inappropriate to assert that operating metrics that are not aligned will converge over an unreasonably long period of time. Any analysis of long-term economic similarities between operating segments being evaluated for aggregation should be consistent with both the historical results for each segment and the assumptions used for other accounting considerations, such as intangible asset impairment or realization of net deferred tax assets. When segments are aggregated, the SEC has frequently asked entities to provide budget evidence and other support to demonstrate that long-term average margins are expected to be similar, especially if they are currently different.

When evaluating whether two segments have similar economic characteristics, the difference between their gross margins should be measured by their percentage difference, as illustrated in the example below.

Long-term average gross margin analysis

Assume that operating segment A and operating segment B have long-term (usually a period of three to five years) average gross margins of 25 percent and 20 percent, respectively. When an entity evaluates whether these two segments have similar economic characteristics, the difference that it evaluates would not be 5 percent (25% – 20% = 5%). Instead, the difference in gross margins is 25 percent [(25% – 20%) ÷ 20% = 25%], which would not be considered an immaterial difference when evaluating the aggregation criteria.

Differences in current-year margins between operating segments may not preclude aggregation if the segments are expected to have similar long-term average gross margins and other trends in the future. However, it is more difficult to demonstrate that operating segments are expected to have similar long-term average gross margins when the gross margins have not been historically similar. Likewise, two operating segments that have similar gross margins in the current year, but are expected to have dissimilar gross margins in the future, should not be aggregated.

Grant Thornton insights: Assessing whether operating segments should be aggregated

Determining whether operating segments should be aggregated can be challenging for management, especially in an environment marked by financial volatility. At the 2009 AICPA Conference on Current SEC and PCAOB Developments, the SEC staff cautioned registrants that management should consider the underlying volatility of segments when determining whether they should be aggregated, since the levels of variations in period-over-period operating results might raise questions as to whether the economic characteristics of those segments are similar.

An example used by the SEC staff to illustrate this point involved an operating segment with a constant 3 percent per year increase in revenue for six years. Although no conclusions were provided, the SEC staff said that it might raise questions about the dissimilarity in economic characteristics if that segment is aggregated with an operating segment that reports flat revenue for five years and a 16 percent increase in the sixth year, or with a segment that reports year-over-year increases and decreases in revenue, which result in the same compound revenue growth rate in year six. Additionally, when operating segments have similar economic characteristics but the other qualitative characteristics are dissimilar, the staff has questioned whether aggregation is appropriate.

The staff noted that even if a company operates in a single industry, its product lines might represent different operating segments, requiring consideration of each line’s economic performance. When an entity appropriately concludes that segments can be aggregated and a single operating segment exists, the disclosures should indicate that resources have been allocated and that performance has been assessed on a consolidated basis, and the entity should include the rationale for the consolidated approach. In the case of a single operating segment, an entity should also confirm that the business description outside the financial statements is consistent with the view that the entity is managed on a consolidated basis.

2.2.2 Quantitative analysis

The quantitative thresholds in ASC 280-10-50-12 that require an operating segment to be separately reported, after applying the above mentioned aggregation considerations, are as follows:

- Reported revenue (that is, 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.
- The absolute amount of reported profit or loss is 10 percent or more of the greater of the absolute amount of either (1) the combined reported profit of all profitable operating segments, or (2) the combined reported loss of all operating segments reporting losses.
- Assets are 10 percent or more of the total assets of all operating segments.

If any of the above conditions are met, the operating segment must be separately reported; an operating segment is not required to meet all three conditions.

ASC 280 does not include a standard measure of the benchmarks that entities should use to quantitatively evaluate the criteria to identify reportable operating segments. Instead, an entity should base the quantitative threshold tests 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. If the CODM evaluates segment performance based on pre-elimination amounts, those amounts, both for the individual segment and for the entire entity, should be used for this quantitative analysis. If applicable, these amounts should also be reported in the segment disclosures, with a reconciliation to the corresponding financial statement amounts (see Section 3.1.3).

ASC 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.

Applying quantitative thresholds to aggregated segments

As discussed in Section 2.2.1, an entity should evaluate identified operating segments for aggregation before it evaluates the quantitative thresholds. In certain circumstances, operating segments that do not meet the 10 percent threshold criterion during an initial quantitative evaluation might meet the criterion after aggregation. This can be the case, for example, when individual segment results include income and losses. Entities should reevaluate the segments after aggregation to determine if one or more additional segments now meet the criterion. This is illustrated in the following example from ASC 280.

Example 2: Identifying Reportable Segments;
Case E: Determining Reportable Segments After First Level of Aggregation

ASC 280-10-55-43

Assume that operating income (loss) of each of the six segments is as follows.

	Operating Income (Loss)
Segment A	$ 1
Segment B	(5)
Segment C	2
Segment D	9
Segment E	9
Segment F	(1)
Consolidated income	15

Assume that based on the above information (and an evaluation of revenues and assets) Segments A and C do not meet any of the quantitative threshold criteria. The public entity chooses to apply the aggregation criteria of paragraph 280-10-50-11. Segments B and E meet all of the aggregation criteria and the public entity aggregates them into a single operating segment. When the quantitative thresholds are then evaluated, Segment C (which previously did not meet any of the quantitative thresholds) now meets the 10 percent of segment profit or loss criterion.

ASC 280-10-55-44

Threshold calculations based on the above assumptions are as follows.

	Prior to Aggregation	Subsequent to Aggregation
Combined reported profits	21.0	16.0
Combined reported losses	(6.0)	(1.0)
Greater absolute amount	21.0	16.0
10 percent threshold	2.1	1.6

ASC 280-10-55-45

Segment C, which previously did not meet the quantitative thresholds but subsequent to the first level of aggregation meets one of the quantitative thresholds, would be considered a reportable segment. This Subtopic provides the order of the steps that should be performed for purposes of identifying reportable segments. That process is also diagrammed in paragraph 280-10-55-26 and further explained in Example 2, Case A (see paragraphs 280-10-55-33 through 55-34). This Subtopic requires that segments first be identified; then identified segments may be aggregated into a single segment; and then identified segments (as revised for aggregation, if applicable) are measured against the quantitative thresholds to determine if they are reportable. The fact that one segment did not meet the quantitative thresholds prior to the aggregation of other segments, in accordance with paragraph 280-10-50-11, does not preclude it from being considered a reportable segment subsequent to that aggregation.

Separately reporting operating segments that do not meet the quantitative thresholds

Operating segments that do not meet any of the quantitative thresholds may be reportable segments that should be separately disclosed if management believes the information would be useful to readers of the financial statements. An example of such an operating segment might be a newer component that neither qualifies for aggregation before quantitative analysis, nor meets the quantitative thresholds for a reportable segment, in the current period.

Grant Thornton insights: Using judgment when reporting segments that do not meet the quantitative thresholds

The guidance for reporting segments that do not meet the quantitative thresholds is not prescriptive and therefore requires management to exercise judgment. There are many factors an entity might consider when determining whether information would be useful to readers of the financial statements. For example, a new product line that does not meet the quantitative thresholds in the current year could have the potential for significant growth, which might be of interest to investors. As a result, an entity might decide to report this operating segment in the current year, even though it does not meet any of the quantitative thresholds.

2.2.3 Combining segments that do not meet quantitative thresholds

When an entity determines that one or more operating segments do not meet any of the quantitative thresholds and it has decided not to separately report any of these operating segments, it may evaluate whether any of these operating segments can be combined into one or more reportable segments. According to ASC 280-10-50-13, an entity may, in certain instances, combine information about operating segments that do not meet the reportable segment quantitative thresholds with information about other operating segments that also do not meet the quantitative thresholds, to produce another reportable segment. Some entities use this approach to identify additional reportable segments when the external revenue of the originally identified reportable segments does not meet the 75 percent threshold (see Section 2.2.4).

Entities should note, however, that any operating segments that are combined under ASC 280-10-50-13 must be presented as an individual reportable segment instead of as part of the "all other" category described in ASC 280-10-50-15 (see Section 3.1.3).

While operating segments that do not individually meet the quantitative thresholds in ASC 280-10-50-12 can be combined under ASC 280-10-50-13, the following three conditions must apply:

- Aggregation is consistent with the objective and basic principles of ASC 280.
- The segments have similar economic characteristics.
- The segments share a majority of the aggregation criteria in ASC 280-10-50-11 (see Section 2.2.1).

Entities should also note that the first two bullets above are identical to the aggregation criteria in ASC 280-10-50-11 (see Section 2.2.1).

ASC 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.

Grant Thornton insights: Combining segments that share only a majority of aggregation criteria

The guidance for combining segments that do not meet the quantitative thresholds is not as restrictive as the guidance for aggregating quantitatively significant segments. The first two conditions for aggregation are the same, however the third criteria is less onerous when combining operating segments that are not quantitatively significant. In evaluating aggregation under ASC 280-10-50-11, segments must meet *all* of the aggregation criteria (see Section 2.2.1). Under ASC 280-10-50-13, operating segments that do not meet the quantitative thresholds are only required to share a *majority* of the aggregation criteria with other operating segments that also do not meet the quantitative thresholds.

However, entities should still exercise caution in combining these segments since these actions may be subject to intense SEC scrutiny.

2.2.4 Identifying additional reportable segments after the quantitative thresholds tests

An entity might need to identify additional reportable segments after performing the quantitative thresholds tests because external revenue of reportable segments does not constitute at least 75 percent of total consolidated revenue, as stipulated under ASC 280-10-50-14. The guidance requires the use of total consolidated revenue as reported under GAAP, not total segment revenue, when making this determination. Identification of additional reportable segments is not required if this minimum threshold is met. If the threshold is not met, additional operating segments or aggregated operating segments that would be considered quantitatively immaterial individually must be identified and presented as reportable segments.

ASC 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.

When trying to reach the 75 percent threshold, an entity does not need to identify reportable segment(s) that are the next largest segment(s) by percentage of total external revenue. Although it may often be logical for an entity to report the next largest reportable segment, the guidance in ASC 280 does not require this approach. Instead, the need to identify one or more additional reportable segments is satisfied once the 75 percent threshold is met, as illustrated in the following example.

Selecting additional segments for reporting to meet the 75 percent threshold

ABC Corporation conducts its initial analysis and identifies five segments for reporting, which make up 67 percent of total consolidated revenue. None of the remaining segments meets the criteria for aggregation. The remaining segments make up the percentages of total consolidated revenue shown in the following table:

	% of consolidated revenue
Segment A	4
Segment B	5
Segment C	6
Segment D	7
Segment E	9
Segment F	2

ABC Corporation may choose to report only Segment E, or to report individually any combination that makes up at least 8 percent of consolidated revenue would be permissible.

When the external revenue of the originally identified reportable segments does not meet the 75 percent threshold, some entities may produce a reportable segment by aggregating information about operating segments that do not meet the quantitative thresholds with information about other operating segments that also do not meet the quantitative thresholds (see Section 2.2.3).

All other business activities and operating segments that are not reported should be combined and presented in an “all other” category in the segment disclosures, separate from other reconciling items in the reconciliation to the consolidated financial statements (see Section 3.1.3). Entities are also required to disclose the sources of revenue for the business activities and operating segments presented within the “all other” category.

ASC 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.

Grant Thornton insights: Nonreportable segments should not be aggregated with reportable operating segments

ASC 280 precludes entities from combining information about business activities that are not operating segments and about operating segments that are not reportable (including immaterial operating segments), with information about other operating segments. Instead, these segments should be (1) combined with other operating segments not meeting the quantitative thresholds (if criteria under ASC 280-10-50-13 are met) to form one or more additional reportable segments, (2) disclosed separately to meet the 75 percent threshold under ASC 280-10-50-14, or (3) included in the “all other” category in the segment disclosure under ASC 280-10-50-15, separate from other items in the reconciliations of reportable segment financial data to the corresponding consolidated amounts.

The SEC staff has reported seeing cases of improper segment aggregation related to quantitatively immaterial segments, prompting a number of comments. In these instances, the quantitatively immaterial segment was added to a reportable segment, despite not meeting all of the aggregation criteria in ASC 280-10-50-11. Entities should not apply the less stringent aggregation criteria in ASC 280-10-50-13 to these circumstances.

2.2.5 Practicability limit

If, after aggregating segments based on all the criteria discussed above, the number of reportable segments to disclose exceeds a “practical limit,” the entity should evaluate whether any of the identified segments meets the aggregation criteria in ASC 280-10-50-11 and consider which segments should be reported to meet the 75 percent minimum threshold. Although the guidance in ASC 280 does not create a hard-and-fast rule, in general, if the number of segments rises above 10, the entity should consider whether a practical limit has been reached, as explained below.

ASC 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.

2.3 Changes in reportable segments

An entity might need to reevaluate reportable segments if changes occur in the business, such as changes in its internal reporting system, organization, or management. The following discussion addresses common reporting issues that could arise in growing businesses.

2.3.1 Operating segment that was reportable in prior period(s) but does not meet criteria in current period

In certain circumstances, an operating segment that was reported separately in prior period(s) may not qualify as a reportable segment in the current period because it no longer meets the quantitative thresholds in ASC 280-10-50-12. As a result, the operating segment can either be aggregated with another operating segment (as discussed in Section 2.2.3), or it can be included in the "all other" category (as discussed in Section 2.2.4), depending on whether or not it meets the aggregation criteria. However, if management deems the operating segment will still be significant in future periods, then the entity should continue to report the segment separately in the current period.

ASC 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.

Grant Thornton insights: What does 'continuing significance' mean?

When determining whether an operating segment will be of "continuing significance" in future periods, management will need to exercise judgment. Entities may consider whether the operating segment is expected to exceed the 10 percent threshold in the future when making this assessment. For example, a segment that experiences a one-time decline in revenue, but is expected to recover in future periods, may be of continuing significance. If, on the other hand, the drop is due to the acquisition of another large entity or significant growth in other segments, the entity may determine that it does not expect the operating segment to be of continuing significance.

2.3.2 Operating segment that was not separately reportable in prior period(s)

An operating segment that was not identified as a reportable segment in prior period(s) may subsequently rise to meet a quantitative threshold, requiring it to be a reportable segment in the current period. It would not be appropriate for an entity to presume that it should present only the current-period data of this reportable segment. Under ASC 280-10-50-17, the prior-period segment data should be restated in the current period to reflect the newly reportable segment, unless doing so is "impracticable," as defined in ASC 280. Of course, if the operating segment did not exist in prior periods (because, for instance, it was newly formed in the current period), an entity would not be required to restate prior periods, but should consider disclosing this fact.

ASC 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.

Grant Thornton insights: When is restatement of a reportable segment 'impracticable'?

If the necessary information is not available and the costs to develop it are excessive, an entity may conclude that restating prior-period segment data for a newly reportable segment is impracticable. However, in practice, the FASB has set a high hurdle for management in supporting its assertion that restatement is "impracticable" in this situation. With the addition of disaggregated revenue disclosures required by ASC 606, which does not offer an impracticability exception, it may be even more difficult to clear this hurdle for segment reporting.

2.3.3 Changes in organization structure

Segment reporting can be impacted when an entity changes the structure of its internal organization or changes the financial information being provided to the CODM for use in the resource allocation decisions. If an entity changes its internal organizational structure or reporting to the CODM and, as a result, reportable segments change, information for earlier annual and interim periods should be restated, unless doing so is impracticable. After a change in its reportable segments, an entity should disclose whether it has restated segment information for earlier periods in the notes to the financial statements.

When restating segment information, an entity should restate all individual disclosure items that it can practicably restate. However, if an entity determines that it is impracticable to restate prior periods, it should disclose segment information for the current period under both the old and new basis of segmentation. Entities should show all segment information on a comparable basis to the extent that it is practicable to do so. If prior-years' information is not restated, entities are also required to disclose the nature of any changes in measurement methods used to determine reported segment profit or loss, as well as the effect of those changes on segment profit or loss. Additionally, if entities do not report comparative information, they should disclose why it is impracticable to do so.

ASC 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.

ASC 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.

ASC 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.

ASC 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.

The guidance in ASC 280-10-50-34 states that an entity shall disclose whether it has restated segment information for earlier periods following a change in the composition of its reportable segments. It does not, however, explicitly state when that change should be reported, which has led to questions on when to report segment changes if the entity decides after the reporting period that they are going to make changes to the internal structure of the organization which will impact the reportable segments.

The SEC staff has indicated that the segment reporting should not be updated for the new structure until the entity has reported its operating results on the basis of the new structure. However, the entity may choose to disclose the effects of the future changes in the notes to the financial statements.

Grant Thornton insights: Changes in reportable segments

Registrants should continually monitor their business operations to determine whether there are any changes in operating or reportable segments. For example, an acquisition might prompt a change in internal reporting, which in turn might impact the determination of operating and reportable segments. Another example is when an entity aggregates operating segments because it expects gross margins to converge over time, which does not transpire.

As a reminder, an entity should not present segment disclosures reflecting a new business structure until it reports operating results from the new structure. As such, changes made to the structure of an entity's internal organization after its fiscal year-end may not be reflected in the entity's segment disclosures until the financial results of the subsequent fiscal year are reported.

2.3.4 Discontinued operations

If a reportable segment meets the conditions under ASC 205 to be reported in discontinued operations, the entity is not required to present the discontinued operation as a reportable segment under ASC 280-10-55-7.

An entity is not required to restate segment information in prior periods for a component that is discontinued in the current period. Additionally, an entity is not required to continue to separately present segment information in prior years if prior-period comparative financial statements are restated for a discontinued operation, and the discontinued segment was presented separately in the prior year. The prior-period segment information may also be omitted if the income statement and balance sheet information for a discontinued component has been reclassified in comparative financial statements.

ASC 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.

ASC 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.

Grant Thornton insights: Impact of discontinued operations on prior-period presentation

If a discontinued operation was individually presented as an operating segment in a prior period, the segment information for the discontinued operation can be omitted from the prior comparative-period disclosures. However, if the discontinued operation was previously aggregated with another operating segment in the prior year, the entity should restate the reportable segment—which is an aggregation of the discontinued operation and at least one other operating segment—to reflect the removal of the discontinued operation.

2.3.5 Impact of changes in reportable segments on SEC reporting

A “restatement” of any prior-period segment data in a previously filed periodic report (Form 10-K or Form 10-Q) for the circumstances described in this section would not constitute a correction of an error, and would not necessarily require the registrant to file an amendment to previously filed periodic reports. However, as described in Section 13310.1 of CorpFin’s FRM, there are circumstances when an entity may still need to provide the SEC with revised annual audited financial statements that include a revised segment footnote as well as revised, related disclosures, such as in the Description of Business and

MD&A sections. For example, if a registration statement or proxy statement includes, or incorporates by reference, subsequent periods managed on the basis of the new segment structure, the entity should include or incorporate by reference revised annual audited financial statements and related disclosures that reflect the new segment structure.

2.4 Determining reporting units for goodwill impairment testing

Stakeholders have questioned how reportable segments required by ASC 280 relate to the determination of reporting units used to test goodwill for impairment under ASC 350. The guidance in ASC 350 requires entities to perform a goodwill impairment test at the reporting unit level, and a "reporting unit" is defined as an operating segment or one level below an operating segment (that is, a "component").

As a result, the starting point for determining both reportable segments under ASC 280 and reporting units under ASC 350 is to identify an entity's operating segments. All entities, even those that are not required to report segment information, are nonetheless required to use the guidance in ASC 280 to determine their operating segments for the purpose of determining their reporting units, unless the entity is a private company or not-for-profit that has elected the accounting alternative for the subsequent measurement of goodwill and has also elected to test goodwill for impairment at the entity level in accordance with ASC 350-20-35-65.

Grant Thornton insights: Can there be differences between the assets (and liabilities) allocated to reporting units and the assets (and liabilities) reflected in reportable segments?

ASC 350-20-35-44 indicates that goodwill and all other related assets and liabilities assigned to reporting units (to test goodwill for impairment) might be different than the amounts reported by the entity for its segments. These differences might result because assets (and liabilities) are allocated to a reporting unit based on the criteria in ASC 350-20-35-39, and these criteria do not include whether the asset is included in the amounts reported by the entity for its segments.

In determining reportable segments for disclosure purposes, an entity is permitted to consider whether certain operating segments may be combined using the criteria in ASC 280-10-50-11. A basic concept in segment reporting is whether operating segments can be aggregated—the maximum number of reportable segments therefore is the number of operating segments identified.

However, in determining reporting units for goodwill impairment testing, entities must consider whether a reporting unit should be identified at the operating segment level or one level below at the component level according to the guidance in ASC 350-20-35-33 through 35-38. A basic concept in determining reporting units is whether an operating segment should be disaggregated—the minimum number of reporting units therefore is the number of operating segments identified. Said another way, an entity cannot have fewer reporting units than the number of operating segments identified, but it can have more reporting units than operating segments. The following example explores this concept.

Determining reporting units for goodwill impairment testing

XYZ Corporation applies the guidance in ASC 350-20-35-33 through 35-38 and determines that it has three operating segments—North, South, and West. After considering the guidance for aggregating operating segments in ASC 280-10-50-11, XYZ determines that it can aggregate its three operating segments for segment reporting, resulting in a single reportable segment.

However, in determining reporting units for goodwill impairment, XYZ may not combine its operating segments into a single reporting unit because it must have at least three reporting units since it has three operating segments (one reporting unit per operating segment). Further, XYZ must consider whether its reporting units should be identified at the component level under the requirements in ASC 350-20-35-34, potentially resulting in more than three reporting units in total. Even if components with similar economic characteristics within an operating segment may be aggregated into a single reporting unit, as described in ASC 350-20-35-35, XYZ may not combine components in one operating segment with any component in another operating segment.

When an entity evaluates whether it can aggregate two or more components into a single reporting unit, it should consider the operating segment aggregation guidance in ASC 280-10-50-11 in determining whether the components have similar economic characteristics.

3. Disclosures

3.1 Annual segment disclosures

The annual disclosure requirements in ASC 280 are designed to assist financial statement users in understanding an entity's performance, assess its expected future cash flows and make more informed judgments about the entity as a whole. To that end, the guidance requires an entity to disclose segment information in each annual period for which an income statement is presented, as well as reconciliations of balance-sheet amounts for reportable segments to consolidated balance-sheet amounts for each year a balance sheet is presented. These disclosures, along with others, are discussed in greater detail in this section.

3.1.1 General information

Entities are required to disclose certain qualitative information about how they identify reportable segments, along with the types of products or services that generate revenue for each segment. As part of these disclosures, entities are also required to disclose whether any of their reportable segments consist of operating segments that have been aggregated.

ASC 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.

The nature of these disclosures will differ across industries and among entities since the information disclosed is specific to the individual entity. However, the Board did provide guidance on the kind of analysis it would expect to see in the following example.

Example 3: Illustrative Disclosures; Case A: Disclosure of Descriptive Information About Reportable Segments

ASC 280-10-55-47(a)

The following is an example of the disclosure of descriptive information about a public entity's reportable segments. (References to paragraphs in which the relevant requirements appear are given in parentheses.)

a. Description of the types of products and services from which each reportable segment derives its revenues (see paragraph 280-10-50-21(b)).

Diversified Company has five reportable segments: auto parts, motor vessels, software, electronics, and finance. The auto parts segment produces replacement parts for sale to auto parts retailers. The motor vessels segment produces small motor vessels to serve the offshore oil industry and similar businesses. The software segment produces application software for sale to computer manufacturers and retailers. The electronics segment produces integrated circuits and related products for sale to computer manufacturers. The finance segment is responsible for portions of the company's financial operations including financing customer purchases of products from other segments and real estate lending operations in several states.

ASC 280-10-55-47(d)

d. Factors management used to identify the public entity's reportable segments (see paragraph 280-10-50-21(a)).

Diversified Company's reportable segments are strategic business units that offer different products and services. They are managed separately because each business requires different technology and marketing strategies. Most of the businesses were acquired as a unit, and the management at the time of the acquisition was retained.

3.1.2 Information about profit or loss and assets

In determining the information to be disclosed about each reportable operating segment, the FASB sought to balance the needs of financial statement users and the costs to preparers. To meet this goal, the Board decided that an entity is required to disclose a measure of profit or loss for each reportable segment along with other financial information, but only if this information is regularly reviewed by the CODM.

ASC 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
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 225-20-45-16
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.

ASC 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.

ASC 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.

ASC 606 requires disaggregation and disclosure of information to enable financial statement users to understand the relationship between the disclosure of disaggregated revenue in ASC 606 and revenue information that is disclosed for each reportable segment under ASC 280.

Additionally, within the segment asset disclosures, entities should separately report certain amounts if these amounts are either (1) included in the determination of segment assets or (2) are otherwise regularly provided to the CODM. If the disclosures for a reportable segment do not include asset information, the entity must disclose the reason for this omission in lieu of the information required under ASC 280-10-50-25.

If an entity does not allocate assets to a reportable segment, it would not report asset information for that segment, but would be required to disclose this fact, along with the reason for not allocating any assets.

ASC 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.

ASC 280-10-50-26

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

In determining the amounts to report for each of the items above in the financial statements, an entity should use the same measure that was used when reporting this information to the CODM. Any adjustments, eliminations, or allocations made in preparing the financial statements and in reporting segment profit or loss should be included only if they are included in the measure of the segment's profit or loss that is used by the CODM to allocate resources and assess performance.

ASC 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.

ASC 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.

Grant Thornton insights: Determining the appropriate amounts for disclosure

If the CODM uses only one measure of a segment's profit or loss and only one measure of a segment's assets to monitor performance and allocate resources, determining the appropriate amounts for disclosure is relatively straightforward. However, oftentimes the CODM uses more than one measure of a segment's profit or loss and more than one measure of a segment's assets. In these situations, the entity needs to exercise judgment when selecting the reported measures that are most consistent with those used in measuring the corresponding amounts in the entity's consolidated financial statements.

When the CODM reviews segment information on both a pretax and after-tax basis, the entity will need to select which measure to use for disclosure purposes. ASC 280-10-55-10 permits entities to use either a pretax or an after-tax measure, but requires disclosure of the difference in measurement principles 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 is preferred.

ASC 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.

To assist entities in the development of these disclosures, the Board provided the following example of how the requirements in ASC 280 may be met. In this example, the reporting entity does not allocate income taxes to segments. The format presented below is a suggested format, but it is not the only acceptable format. An entity should present the required information in whatever format would be most useful to the users of its financial statements.

Example 3: Illustrative Disclosures; Case B: Information About Reported Segment Profit or Loss and Segment Assets

ASC 280-10-55-48

The following table illustrates a suggested format for presenting information about reported segment profit or loss and segment assets (see paragraphs 280-10-50-22 and 280-10-50-25). The same type of information is required for each year for which an income statement is presented. Diversified Company does not allocate income taxes or unusual items to segments. In addition, not all segments have significant noncash items other than depreciation and amortization in reported profit or loss. The amounts in this Example are assumed to be the amounts in reports used by the chief operating decision maker.

	Auto Parts	Motor Vessels	Software	Electronics	Finance	All Other	Totals
Revenues from external customers	$3,000	$5,000	$9,500	$12,000	$5,000	$1,000[(a)]	$35,500
Intersegment revenues	-	-	3,000	1,500	-	-	4,500
Interest revenue	450	800	1,000	1,500	-	-	3,750
Interest expense	350	600	700	1,100	-	-	2,750
Net interest revenue[(b)]	-	-	-	-	1,000	-	1,000
Depreciation and amortization	200	100	50	1,500	1,100	-	2,950
Segment profit	200	70	900	2,300	500	100	4,070
Other significant noncash items:							
Cost in excess of billings on long-term contracts	-	200	-	-	-	-	200
Segment assets	2,000	5,000	3,000	12,000	57,000	2,000	81,000
Expenditures for segment assets	300	700	500	800	600	-	2,900

a. Revenue from segments below the quantitative thresholds are attributable to four operating segments of Diversified Company. Those segments include a small real estate business, an electronics equipment rental business, a software consulting practice, and a warehouse leasing operation. None of those segments has ever met any of the quantitative thresholds for determining reportable segments.

b. The finance segment derives the majority of its revenue from interest. In addition, management primarily relies on net interest revenue, not the gross revenue and expense amounts, in managing that segment. Therefore, as permitted by paragraph 280-10-50-22, only the net amount is disclosed.

In addition to the quantitative disclosures discussed above, entities are also required to provide certain qualitative disclosures explaining how the entity measures profit or loss and assets for each reportable segment.

ASC 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.

ASC 280 includes the following example of how an entity might disclose the information required by ASC 280-10-50-29.

Example 3: Illustrative Disclosures; Case A: Disclosure of Descriptive Information About Reportable Segments

ASC 280-10-55-47(b)

b. Measurement of segment profit or loss and segment assets (see paragraph 280-10-50-29).

The accounting policies of the segments are the same as those described in the summary of significant accounting policies except that pension expense for each segment is recognized and measured on the basis of cash payments to the pension plan. Diversified Company evaluates performance based on profit or loss from operations before income taxes not including nonrecurring gains and losses and foreign exchange gains and losses.

3.1.3 Reconciliations

Because the guidance in ASC 280 does not require an entity to prepare segment information on the same basis as the consolidated financial statements, there may be differences between amounts reported in the segment disclosures and the totals reported in the consolidated statements. For example, the amounts reviewed by the CODM when evaluating segment performance and asset allocation may be pre-elimination amounts that are presented as segment revenue in the segment disclosures. To assist in understanding these differences, the Board requires that entities provide information that will help financial statement users reconcile the segment disclosure information to the corresponding amounts in the consolidated financial statements.

ASC 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.

ASC 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.

Grant Thornton insights: Reconciling items should not be included in 'all other' category

The purpose of these reconciliations is to demonstrate how the segment disclosure information ties into the corresponding amounts in the consolidated financial statements, if applicable. For example, if segment revenue includes intersegment sales, an entity would provide a reconciliation of segment revenue to total consolidated revenue, with the amount of intersegment revenue presented as the reconciling item. Reconciliations may also be provided for segment profit or loss, segment assets, and other significant segment amounts.

The example in ASC 280-10-55-48 shows how an entity might present certain segment information under an "all other" category. As discussed in ASC 280-10-55-15, the "all other" category is used to capture information about other business activities and operating segments that are not reportable (see Section 2.2.3 and Section 2.2.4). Entities should note that the reconciliations described in ASC 280-10-50-30 represent a separate disclosure, and, as a result, it would not be appropriate to include these reconciling items in the "all other" category instead of presenting a reconciliation.

The presentation and format of the reconciliation is not prescribed by the guidance, but the following example illustrates the form that the reconciliation might take.

Example 3: Illustrative Disclosures; Case C: Reconciliations of Reportable Segment Revenues, Profit or Loss, and Assets, to the Consolidated Totals

ASC 280-10-55-49

The following are examples of reconciliations of reportable segment revenues, profit or loss, and assets, to the public entity's consolidated totals (see paragraph 280-10-50-30(a) through (c)). Reconciliations also are required to be shown for every other significant item of information disclosed (see paragraph 280-10-50-30(d)). For example, if Diversified Company disclosed segment liabilities, they are required to be reconciled to total consolidated liabilities. The public entity's financial statements are assumed not to include discontinued operations. As discussed in the illustration in paragraph 280-10-55-47, the public entity recognizes and measures pension expense of its segments based on cash payments to the pension plan, and it does not allocate certain items to its segments.

Revenues	
Total revenues for reportable segments	$ 39,000
Other revenues	1,000
Elimination of intersegment revenues	(4,500)
Total consolidated revenues	$ 35,500
Profit or Loss	
Total profit or loss for reportable segments	$ 3,970
Other profit or loss	100
Elimination of intersegment profits	(500)
Unallocated amounts:	
Litigation settlement received	500
Other corporate expenses	(750)
Adjustment to pension expense in consolidation	(250)
Income before income taxes	$ 3,070
Assets	
Total assets for reportable segments	$ 79,000
Other assets	2,000
Elimination of receivables from corporate headquarters	(1,000)
Goodwill not allocated to segments	4,000
Other unallocated amounts	1,000
Consolidated total	$ 85,000

Other Significant Items

	Segment Totals	Adjustments	Consolidated Totals
Interest revenue	$ 3,750	$ 75	$ 3,825
Interest expense	2,750	(50)	2,700
Net interest revenue (finance segment only)	1,000	-	1,000
Expenditures for assets	2,900	1,000	3,900
Depreciation and amortization	2,950	-	2,950
Cost in excess of billing on long-term contracts	200	-	200

ASC 280-10-55-50

The reconciling item to adjust expenditures for assets is the amount of expenses incurred for the corporate headquarters building, which is not included in segment information. None of the other adjustments are significant.

3.1.4 Disclosures related to equity method investments

For an equity method investment that is considered a reportable segment, ASC 280 requires disclosures f financial information, as discussed above in Section 3.1.2. The financial information disclosed should be consistent with the format utilized by the CODM, whether it is on a proportionate consolidation basis or full financial information of the investee, such as total revenue and total profit or loss. If the profit or loss disclosed for an equity method investment is different from the equity in earnings (loss), an entity should disclose its accounting policy for segment reporting and eliminate the full or proportionate amounts in order to reconcile these amounts to those presented in the consolidated financial statements. Additional disclosures should be considered to provide any other details that would help to ensure that the information about the investee is not misleading.

3.2 Segment disclosures in condensed interim financial statements

In addition to the annual segment disclosures, ASC 280 also requires certain segment disclosures for interim reporting periods. The interim disclosures are, however, reduced compared to the annual requirements in order to balance the incremental costs of preparing the information.

Under ASC 280, an entity is required to present certain segment information in interim financial statements for both the current quarter and year-to-date periods, together with comparable segment information for the interim periods of the prior year. For example, an entity with a calendar year-end filing its quarterly report for the interim period ended September 30, 20X2 would present segment information for the quarterly and year-to-date periods ended September 30, 20X2 and 20X1.

ASC 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.

ASC 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.

When preparing interim information, entities should use the same composition of reportable segments identified in their most recent annual financial statements, unless a change in facts and circumstances indicates that applying the quantitative tests would result in a previously unreported segment that meets the quantitative tests and will continue to be significant in future periods.

As a result, an entity should periodically review the composition of its segments, even during interim periods, to determine whether its segment reporting continues to provide financial statement users with timely information that can be used to evaluate the entity's performance. An entity needs to exercise judgment both when it determines the extent of the periodic review that it should perform and when it determines whether the results of this periodic review indicate there has been a change in its structure during an interim period that would cause the composition of its reportable segments to change.

See Section 2.3 for a discussion of the reporting implications of a change in the composition of an entity's segments.

ASC 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.

3.3 Entity-wide disclosures

ASC 280 requires certain additional entity-wide disclosures of information about the entity's products and services, geographic areas, and major customers if the information is not already included in the disclosures about segments. These disclosures are necessary because some reportable segments may report revenue from a number of different products and services, or, alternatively, multiple reportable segments might provide the same products and services. Because reportable segments are not often organized by geographic area, ASC 280 requires both product and service disclosures as well as geographical disclosures for all entities within its scope.

Instead of taking a management approach, an entity presents these disclosures to financial statement users based on amounts taken from information that was used in creating the financial statements. In other words, these amounts are the same as the amounts included in the financial statements, and the reconciliations discussed in Section 3.1.3 are not required.

If the entity-wide information is already presented as part of an individual reportable segment, an entity is not required to present the information as part of the entity-wide disclosures.

Entity-wide disclosures do not apply to interim reporting, although entities may choose to disclose this information in the interim financial statements.

ASC 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.

ASC 280-10-50-39

Entity-wide disclosures are required only for annual reporting.

3.3.1 Information about products and services

The disclosures about products and services are required in order to provide financial statement users with information that can be helpful in assessing an entity's past performance and prospects of future growth. By providing information about specific products that is not already provided as part of the reportable segment, analysts can examine trends and compare them to industry benchmarks and competitive information.

Information about products and services is a required disclosure for all entities that provide multiple products and services to external customers, even if the entity does not have multiple segments. These disclosures should be prepared under U.S. GAAP, not based on how information was presented for segment reporting.

ASC 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.

Grant Thornton insights: Evaluating whether multiple products are 'similar'

Under ASC 280-10-50-40, entities are required to report revenue for "each group of similar products and services," But the guidance does not define what is considered "similar." As a result, judgment is required when evaluating whether two or more products are similar and can be combined for the purpose of preparing these disclosures. The answer may differ significantly based on the facts and circumstances of a particular entity. For example, an entity that only manufactures cars and trucks may consider those two products to be different product lines, whereas an entity that manufactures cars and trucks, sells used vehicles, and offers extended service contracts may determine that new cars and trucks are similar products.

3.3.2 Information about geographic areas

In order to help financial statement users understand possible concentrations of risk or areas of potential growth due to economic changes in different geographies, the Board requires entities to report certain information about the geographic areas where they operate.

Entities are required to disclose how revenue is attributed to each country or other geographic area. For example, an entity might attribute revenue from external customers to a geographic area based on where the customer is located or where the product is shipped from.

An entity is also required to present entity-wide disclosures of long-lived assets, except for certain long-lived assets specifically mentioned in ASC 280-10-50-41. Based on the implementation guidance in ASC 280-10-55-23, intangible assets, including goodwill, should not be included in the entity-wide disclosures of long-lived assets. After an entity adopts the guidance on leases in ASC 842, however, a lessee's right-of-use assets should generally be included in long-lived assets in entity-wide geographic disclosures, because these assets are within the scope of ASC 360 and are akin to a tangible asset.

ASC 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.

The Board provided the following illustrative example of the format these disclosures might take.

Example 3: Illustrative Disclosures; Case D: Geographic Information

ASC 280-10-55-51

The following illustrates the geographic information required by paragraph 280-10-50-41. Because Diversified Company's segments are based on differences in products and services, no additional disclosures of revenue information about products and services are required (see paragraph 280-10-50-40).

Geographic Information

	Revenue [a]	Long-Lived Assets
United States	$ 19,000	$ 11,000
Canada	4,200	-
Taiwan	3,400	6,500
Japan	2,900	3,500
Other foreign countries	6,000	3,000
Total	$ 31,000	$ 24,000

(a) Revenues are attributed to countries based on location of customer.

Grant Thornton insights: Improper geographical disclosures

Some entities that report segments on a geographic basis have improperly disclosed geographical information. In addition to the geographical area disclosure (including all foreign countries) required by segment reporting, ASC 280 requires the disclosure of additional information for each material country. If an entity reports segments by geographic area (for example, by continent), it still must provide information for any individual country within the segment if it is material. Entities will need to apply judgment when determining which, if any, individual country is material.

3.3.3 Information about major customers

Similar to the information about geographic areas, disclosures of major customers are designed to assist financial statement users in assessing where there may be a significant concentration of risk. The Board established a 10 percent threshold of total annual revenue for identifying and disclosing major customers. The guidance in ASC 280-10-50-42 also discusses circumstances that require an entity to consider a group of separate entities as a single customer. For example, a group of entities known to be under common control should be considered a single customer.

Entities should also review the information required to be disclosed in the applicable SEC form(s) and the related SEC regulations to determine if additional information about significant customers might be required to be disclosed outside the financial statements. Regulation S-K Item 101, among other things, requires disclosure of the dependence of the segment upon a single customer, or a few customers. Disclosures of the entity's current vulnerability to risk of loss due to certain concentrations in volume of business from a particular customer may also be required in the notes to the financial statements under ASC 275-10-50-16 through 50-22.

ASC 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]).

The disclosure can take a more general format, as seen in the example provided below.

Example 3: Illustrative Disclosures; Case E: Information About Major Customers

ASC 280-10-55-52

The following is an example of the information about major customers required by paragraph 280-10-50-42. Neither the identity of the customer nor the amount of revenues for each operating segment is required.

> Revenues from one customer of Diversified Company's software and electronics segments represents approximately $5,000 of the company's consolidated revenues.

3.3.4 Omission of entity-wide disclosures

Entity-wide disclosures do not need to be separately included in the financial statements when they are disclosed as part of the reportable segment information required by ASC 280. Additionally, an entity is exempt from this disclosure requirement if it is impracticable to provide this information. Such situations, however, are expected to be rare. Furthermore, with the addition of disaggregated revenue disclosure requirements under ASC 606, the impracticability exception will likely be more difficult to meet.

Grant Thornton insights: Improper omission of entity-wide disclosures

The entity-wide disclosures in ASC 280 require entities to identify each product and service from which reportable segments derive revenue from external customers. The total reported revenue for each product or service (or group of substantially similar products and services) must be disclosed under this guidance. The SEC staff has questioned certain cases where entity-wide product and service disclosures have been omitted. The staff has also objected to broad views of what constitutes similar products and services, especially when the number of revenue categories used for segment reporting are fewer than the number of revenue categories reported in the consolidated statement of operations.

Appendix A: Abbreviations

FASB Accounting Standards Codification abbreviations

Abbreviation	**FASB Accounting Standards Codification**
ASC 205	ASC 205, *Presentation of Financial Statements*
ASC 275	ASC 275, *Risks and Uncertainties*
ASC 280	ASC 280, *Segment Reporting*
ASC 350	ASC 350, *Intangibles – Goodwill and Other*
ASC 360	ASC 360, *Property, Plant, and Equipment*
ASC 606	ASC 606, *Revenue from Contracts with Customers*
ASC 842	ASC 842, *Leases*
ASC 908	ASC 908, *Airlines*
ASC 924	ASC 924, *Entertainment – Casinos: Segment Reporting*
ASC 932	ASC 932, *Extractive Industries – Oil and Gas*
ASC 954	ASC 954, *Health Care Entities*

Other abbreviations

Abbreviation	
Regulation S-K	SEC Regulation S-K, *Standard instructions for filing forms under Securities Act of 1933, Securities Act of 1934 and Energy Policy and Conservation Act of 1975*
Item 101	Regulation S-K Item 101, *Description of Business*
Regulation S-X	SEC Regulation S-X, *Form and content of and requirements for financial statements*

Rule 3-05	*Financial statements of businesses acquired or to be acquired*
Rule 3-09	*Separate financial statements of subsidiaries not consolidated and 50 percent or less owned persons*
Section 13310.1 of CorpFin's FRM	SEC Division of Corporation Finance Financial Reporting Manual Section 13310.1, *Changes in segments*

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