

FRS 8

OPERATING SEGMENTS

Key features and comparisons from FRS 114₂₀₀₄



INTRODUCTION

Financial Reporting Standard 8 ("FRS 8") Operating Segments was issued by the Malaysian Accounting Standards Board ("MASB") in November 2008. It replaces FRS 114₂₀₀₄ Segment Reporting which is in line with MASB's plans to converge with the International Financial Reporting Standards ("IFRSs") by 1 January 2012. FRS 8 is identical to IFRS 8 issued by the International Accounting Standards Board ("IASB").

This standard applies to entities whose debt and equity instruments are traded in a domestic or foreign stock exchange or to those that file, or are in the process of filing its financial statements with Securities Commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market.

FRS 8 sets out disclosure of information about an entity's operating segments, its products and services, geographical areas in which it operates and its major customers. The purpose is for management to highlight financial information and measures that they believe are important for them to make informed decisions. The adoption of FRS 8 can also differentiate an entity from its competitors and assist investors understand its value.

FRS 8 is effective for annual periods beginning on or after 1 July 2009. Early adoption is allowed, and management must disclose that fact. In Malaysia, the first set of financial statements that need to adhere to FRS 8 would be entities with financial year end 30 June 2010.

The main features of FRS 8 are highlighted below:

- Requires entity to report financial and descriptive information about its reportable segments.
- Requires identification of operating segments based on internal reports regularly reviewed by chief operating decision maker ("CODM").
- Requires financial information to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments.
- Includes entity's component that sells primarily or exclusively to other operation segments of the entity.
- Requires reportable segment information to be reconciled to the entity's financial statements.
- Requires explanation on measurement used for each reportable segment.
- Requires entity to disclose information about its revenue earned.
- Requires entity to disclose information on ways in which its operating segments were determined, segment's products and services, differences in measurement used in reporting segment and the financial statements and changes in measurement of segment amounts from prior periods.



FACTORS TO BE CONSIDERED ON FIRST TIME ADOPTION OF FRS 8

1. Identify Chief Operating Decision Maker ("CODM")

CODM represents a function within an entity that allocates resources and monitors performance of the operating segments. The term is not necessarily a manager with a specific title. It can be a group of executive directors or others. Information reviewed by CODM is the key driver of segment reporting. It is important for entities to identify the appropriate person(s) for this role as the designated person(s) will be responsible to correctly identify the reportable segments.

2. More operating (and therefore reportable) segments may be identified

More business components regularly reviewed by CODM. Management needs to consider the impact of disclosing this information in the financial statements as required by the standard, as certain information can be commercially sensitive.

3. Review internal control processes for management accounts

Management may need to invest more time and money to ensure management accounts are sufficient to support external disclosures and audit. The standard also requires reconciliation between total reportable segment revenues, total profit and loss, total assets and other amounts disclosed in the reportable segments to the corresponding amounts in the financial statements. An audit trail should be established between management accounts and financial statements.

4. Restate comparatives

Management must consider the impact of FRS 8 to its comparative figures. Comparative numbers must be restated if the structure of its internal organisation changes that causes corresponding information for earlier periods to be restated, unless information is not available or cost to develop it would be high. Management needs to find ways in capturing relevant information prior to the initial application of the standard.

KEY DIFFERENCES BETWEEN FRS 8 AND FRS 114₂₀₀₄

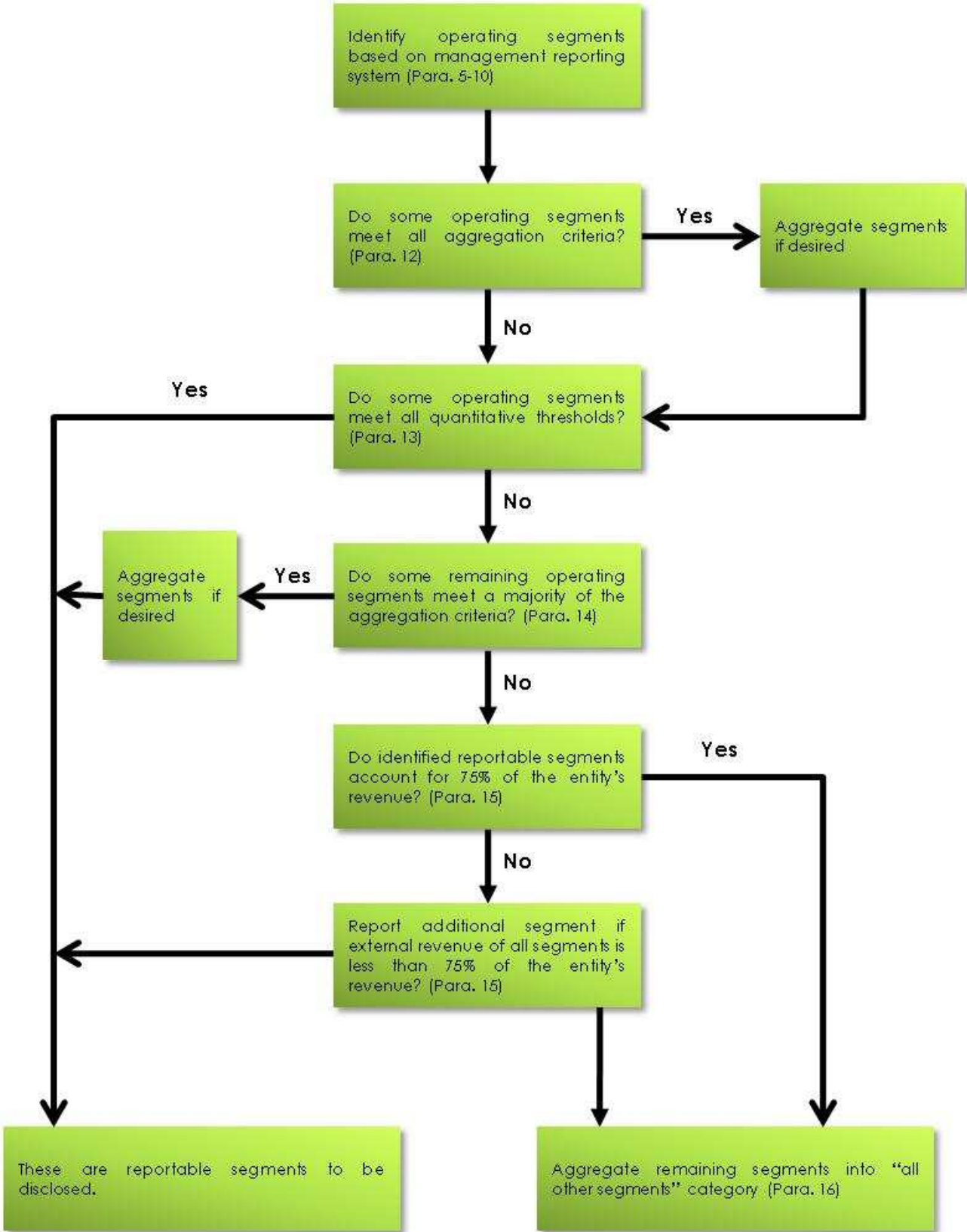
FRS 8	FRS 114 ₂₀₀₄
Segments Identification	
<p>Identification of operating segments is based on internal management reporting regularly reviewed by CODM. This is known as “management approach”.</p> <p>Benefits:</p> <ol style="list-style-type: none"> Segments information reported correspond to internal management reports. Segment information being reported will be more consistent with other parts of the entities annual report. Management no longer required to prepare separate reporting for internal and external purposes. Less costs for the preparers as information is available on a timely basis. <p>Disadvantages:</p> <ol style="list-style-type: none"> Methods of identifying segments, measure and segment information presentation could change. Create more diversity in the reported segment information. Segment information not measured under FRS, hence management is required to reconcile segment financial information to the financial statements. <p>Operating Segment Definition</p> <p>An operating segment is a component of an entity:</p> <ul style="list-style-type: none"> • that 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 entity). • operating results are regularly reviewed by CODM to make decisions about resources to be allocated to the segment and assess its performance. • for which discrete financial information is available. <p>An illustrative diagram for identifying reportable segments is included in Appendix 1 presented at the end of this publication.</p>	<p>Requires two sets of segments:</p> <p>a) Business segments</p> <p>An entity component engaged in providing individual or group products and services that are subject to risks and returns that are different from other business segments.</p> <p>b) Geographical areas</p> <p>An entity component engaged in providing products or services within a particular economic environment and subject to risks and returns that are different from components operating in other economic environment.</p>
<p>Requires entity to report different stages of vertically integrated operations as separate segments. Vertical integrated operations are components of an entity that sells primarily or exclusively to other operating segments of the entity if the entity is managed that way.</p>	<p>Reportable segments apply to those earning majority of their revenue from sales to external customers. Vertical integrated operations are not required to be identified as separate segments.</p>

KEY DIFFERENCES BETWEEN FRS 8 AND FRS 114₂₀₀₄

FRS 8	FRS 114 ₂₀₀₄
Segment Information Measurement	
<p>Amount reported for each operating segment item is measured based on CODM for the purpose of allocating resources to the segment and assessing its performance.</p>	<p>Segment information is prepared in accordance with the accounting policies adopted during the preparation and presentation of the consolidated group or entity's financial statements.</p>
<p>Segment revenue, expense, results, assets and liabilities are not defined. However the standard requires an explanation on how segment profit and loss, assets and liabilities are measured. At a minimum, the entity must disclose the following:</p> <ol style="list-style-type: none"> Accounting basis for transactions between reportable segments. Nature of differences between reportable segments' profit and loss and entity's profit or loss before tax. Nature of differences between reportable segment assets and liabilities and the entity's assets and liabilities. Nature of changes from prior periods in the measurement methods used to determine reported segment profit and loss and the effect. Nature and effect of asymmetrical allocations. 	<p>Segment revenue, expense, results, assets and liabilities are clearly defined.</p>
Disclosures	
<p>Disclose factors used to identify the entity's operating segments including basis of organisation.</p> <p>Disclose types of products and services from which reportable segment earns its revenue.</p> <p>Requires entity to disclose specified amounts for each reportable segment for financial statements users to evaluate the nature and financial statements effects of the entity's business activities and economic environments it operates:</p> <ol style="list-style-type: none"> Specified revenues and expenses. Segment assets and liabilities. Basis of measurement. Reconciliations of segment revenues, profit and loss, assets and liabilities to the financial statements. 	<p>Requires entity to disclose specified items of information about its primary segments.</p>
<p>Disclose separately interest revenue and interest expense unless majority of the revenues are from interest and CODM relies primarily on net interest revenue to assess the performance of the segments.</p>	<p>Disclosure of interest income and expense is not required.</p>
<p>Requires an entity to disclose information for the entity as a whole including its products and services, geographical areas and major customers.</p>	<p>Requires disclosure of secondary segment information to supplement information provided for the primary segments.</p>

APPENDIX 1

Diagram for identifying reportable segments under FRS 8 extracted from MASB Exposure Draft 57 Operating Segments



The Malaysian Institute Of Accountants (“MIA”)

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Dewan Akauntan
No. 2, Jalan Tun Sambanthan 3
Brickfields, 50470 Kuala Lumpur
Malaysia

[phone] +603 2279 9200
[web] www.mia.org.my

[fax] +603 2274 1316
[email] technical@mia.org.my