

**Statement of  
Financial Accounting Standards  
No. 20**

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Translated by

**Mei-Hwa Lin, Professor  
(National Chengchi University)**

**Financial Accounting Standards Committee**

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**Segment Reporting**

**I Introduction**

- (1) This Statement establishes the disclosure standards for segments of a business.
- (2) This Statement is applied only to the financial statements of companies whose equity securities are publicly listed.
- (3) Segment financial information defined in this Statement includes those relating to:
  - (a) different industries;
  - (b) geographic areas;
  - (c) export sales; and
  - (d) major customers.
- (4) When an enterprise prepares financial statements of the parent company only or prepares consolidated financial statements, information regarding unconsolidated subsidiaries or investment with substantial influence but without control, should not be included in segment reporting.

## II Definitions

(5) The definitions used in this Statement are as follows:

- (a) *Enterprise*: An enterprise is a financial reporting entity, including all affiliated companies when consolidated financial statements are prepared. An enterprise refers to the parent company or the individual subsidiary if financial statements of the individual parent company or the subsidiary company are prepared separately.
- (b) *Segment*: When referring to industrial information, a segment is the internal unit of an enterprise as considered in Paragraph 7. When referring to geographic information, a segment is the geographic area as considered in Paragraph 9 of this Statement.
- (c) *Industry segment*: An industry segment is a revenue generating unit of an enterprise which provides certain products or services, or a group of related products or services to an unaffiliated customer.
- (d) *Foreign operating segment*: A foreign operating segment is a revenue generating unit of an enterprise that operates outside the home country and sells products or services to unaffiliated customers or other segments located in a different area.
- (e) *Segment revenue*: Revenue of an industry segment includes revenue both from sales and other revenues (for simplicity, they are hereafter called sales revenue) to unaffiliated customers and from intersegment sales or transfers. Intersegment sales or transfers are recognized based on transfer pricing. If interest revenue comes from identifiable assets of a segment, then interest income from outside the enterprise and from intersegment accounts receivable should be included in revenue. Segment revenue should not include the following items:

- (i) corporate general revenue that is not related to a segment;
- (ii) revenue charged against other segments for the common use of facilities or other costs incurred jointly;
- (iii) interest earned on advances or loans to other segments, except when the interest revenue is the operating revenue of the segment; and
- (iv) investment income from investments accounted for using the equity method.

(f) *Segment costs and expenses*: These are the costs and expenses that are related to the generation of segment revenue. Intersegment purchases, sales and transfers should use the same transfer pricing basis. Operating costs or expenses should be allocated to segments using a reasonable basis if direct attribution is not possible. Segment costs and expenses should not include the following items:

- (i) general corporate expenses that are not related to a segment;
- (ii) interest expenses, except when interest income is the operating revenue of the segment; and
- (iii) investment loss from investment accounted for using the equity method.

(g) *Operating profit or loss of a segment*: Operating profit or loss of a segment is the remainder of segment operating revenue less segment costs and expenses, but excludes the following items:

- (i) income taxes;
- (ii) gain or loss from discontinued operations;

- (iii) extraordinary items;
  - (iv) cumulative effect of a change in accounting methods; and
  - (v) minority interest income.
- (h) *Identifiable assets*: Identifiable assets of a segment includes tangible or intangible assets that can be directly identified with the operation of an industry segment. For assets that are jointly used by more than one industry segment, a reasonable basis should be used to allocate assets to each segment. Asset valuation accounts are also included in computing identifiable assets. Identifiable assets of an industry segment should not include the following items:
- (i) assets held for general corporate purposes, and not for operating purposes of any specific segment;
  - (ii) advances or loans to other segments, except for the segment whose operating revenue is interest income;
  - (iii) intersegment investment and investments accounted for using the equity method.

### III Explanation

- (6) In an environment of diversification and globalization, the profitability, risk, and perspective of different industry segments differs due to different development potential, and the degree of impact from changes in the economy. Expected returns from investment and future demand on capital will also be different. The purpose of segment financial reporting is to provide industry or geographic financial data of an enterprise to financial statement users to help them understand the economic situation, and evaluate the past performance and future development of the enterprise.

- (7) In determining industry segments, the following factors should be considered. Segments with related or similar factors should be grouped into the same segment, including:
- (a) Characteristics of products or services: related products or services usually have similar purpose and final usefulness, and accordingly, their profitability, growth rate, and risk are similar.
  - (b) Production process: related products or services usually use similar production equipment or marketing approach, labor, and raw materials. They are also similar in terms of a labor or capital-intensive production process.
  - (c) Sales markets and marketing approaches: related products or services usually have the same marketing areas, type of customers, or marketing approaches. They may use common salesman; and may have the same degree of sensitivity to changes in product prices or economic situations.
  - (d) Specific regulations or characteristics of the industry.
- (8) In determining significant industry segments, the steps below are usually followed:
- (a) identify the individual products or services that generate revenues for an enterprise;
  - (b) group them into industry segments according to their industries;
  - (c) select important industry segments according to the enterprise as a whole.
- (9) In determining foreign operations of an enterprise, the following factors should be considered. Segments which are related or similar should be grouped into one segment:

- (a) geographic locations;
  - (b) economic relations;
  - (c) operating environments;
  - (d) nature, size, and the degree of mutuality of operations.
- (10) For the purpose of internal planning and control, an enterprise might collect information for units smaller than the enterprise as a whole. Those organization units may be used as a basis for determining a segment, but may not be consistent with the requirement of this Statement. For example, a profit center of an enterprise may cover different industries, or geographic areas. In this case, the requirement of this Statement should be used to define a segment.
- (11) Because different approaches may be used by enterprises to determine a segment, to recognize intersegment sales and transfer, and to account for cost allocation, the disclosure of segment financial information does not imply treating a segment as an independent enterprise, nor should it be used to compare similar segments of other enterprises.

#### IV Accounting standards

- (12) In preparing financial information of industry segments, all amounts disclosed and accounting standards used should be the same as the financial reports, except for intersegment sales and transfers which should be eliminated in the financial statements of the business but not in the segment data. Intersegment sales and transfers should be recognized based on internal transfer pricing.

#### Industry segment information

- (13) An industry segment meeting one of the following tests is a

significant industry segment, and should disclose segment information:

- (a) its revenue is 10% or more of the combined revenue (including intersegment sales and transfers) of all the enterprise's industry segments;
  - (b) the amount of its operating profit or loss is 10% or more of the greater, in absolute amount, of:
    - (i) the combined operating profit of all industry segments that earned an operating profit; or
    - (ii) the combined operating loss of all industry segments that suffered an operating loss.
  - (c) the amount of identifiable assets is 10% or more of the combined identifiable assets of all the enterprise's industry segments.
- (14) Except for the conditions listed above, the assessment of long-term trends is also necessary in determining a reportable industry segment. If a segment is an industry segment for all prior periods, and is expected to be in the future, but for some reason, it does not meet the significance test during the current period, it should be treated as an industry segment for the current period. If a segment meets the significance test for the current period, but was not an industry segment in prior periods and is not expected to be in the future, then it is not an industry segment for the current period.
- (15) To fully disclose financial information of a substantial portion of the industry segments of an enterprise, the combined revenue from sales to unaffiliated customers of all reportable segments should be at least 75% of the combined revenue from sales to unaffiliated customers of all industry segments. The total number of reportable segments should be increased until this condition is met.
- (16) To avoid the situation where the information disclosed for the

industry segments is too trivial, the number of the separately reportable segments is limited to no more than 10. When that number is exceeded, the most closely related industry segments should be combined.

- (17) Where an enterprise operates exclusively in a single industry, or a dominant portion of an enterprise's operation accounts for more than 90% of the combined revenue, operating profits (losses), and identifiable assets respectively of all industry segments, then segment reporting is not required. Such a company is required to provide information describing the type of single or dominant industry.
- (18) In determining an industry segment, consideration should be made on the basis of the operation of the enterprise as a whole. If the foreign operations can not be classified according to industries, then all these foreign operations should be combined into an industry segment.
- (19) After identifying the separately reportable industry segments, the remaining segments should be combined and disclosed together.
- (20) When industry segment information is disclosed, products or services of the reportable segments should be described and at least the following information should be disclosed:
- (a) revenue:
- (i) segment revenue from unaffiliated customers;
  - (ii) segment revenue from other segments;
  - (iii) basis used to recognize intercompany sales and transfers. The nature of the change and the effect of the change on segment profits or losses of current period should also be disclosed if the basis is changed.
- (b) profits and losses:

- (i) the amount of profits or losses of the segment;
  - (ii) the allocation methods for costs and expenses: when the allocation method is changed, the nature of the change and its effect on segment profits (or losses) of the current period should also be disclosed;
  - (iii) the nature and the amount of items with unusual nature or nonrecurring profits or losses, if any, should be disclosed.
- (c) book value of identifiable assets;
- (d) aggregate amount of depreciation, depletion, or amortization;
- (e) amount of capital expenditure (increase in property, plant and equipment);
- (f) the effect on segment profits or losses of the current period from changes in accounting principles;
- (g) investment income of the investee, book value of the investment and the location of the investee if the equity method investees are vertically integrated with the operations of the reportable industry segment.

#### **Information on geographic areas**

- (21) A foreign operation is identified as a significant foreign segment if one of the following conditions is met:
- (a) segment sales to unaffiliated customers is 10% or more of the revenue (after eliminating intersegment sales and transfers) as reported in the enterprise's income statement;
  - (b) identifiable assets of the enterprise's foreign operations are 10% or more of total assets as reported in the enterprise's balance sheet.

- (22) After identifying separately reportable foreign operations, information for all other foreign geographic areas that are not deemed significant should be disclosed in aggregate.
- (23) When information on geographic areas is presented, the following segment information should be disclosed by foreign operations and domestic operations:
- (a) revenue:
    - (i) from unaffiliated customers;
    - (ii) from other segments of the company;
    - (iii) accounting basis to recognize intersegment sales and transfers. If the accounting basis is changed, the nature of the change and its effect on the segment (operations) profits or losses of the current period should also be disclosed.
  - (b) amount of profits or losses;
  - (c) book value of identifiable assets.

Information on foreign operations does not have to be disclosed if the requirements of Paragraph 21 are not met.

#### **Information on export sales**

- (24) If export sales revenue of a domestic operation from unaffiliated customers is 10% or more of the total revenue as reported in the enterprise's income statement, the aggregate export sales, and export sales by geographic areas or by countries should be disclosed.

#### **Major customers**

- (25) If revenue coming from a particular customer is 10% or more of the revenue as reported in the enterprise's income statement, the customer is the major customer of the enterprise.
- (26) Revenue from each major customer should be disclosed by industry segment. Names of major customers do not have to be disclosed.
- (27) Domestic government agencies in aggregate, foreign governmental agencies from each country, or business groups that can be identified to be under the same control, shall be treated as a single customer. If most sales come from a certain government agency, and the amount is 10% or more of the revenue as reported in the enterprise's income statement, then the government agency should be treated as a single government.

#### **Reconciliation of information**

- (28) Financial information of industry segments and geographic areas should be reconciled with that of the enterprise's financial statements, including:
- (a) the aggregate revenue of segments should be reconciled to revenue as reported in the enterprise's income statement;
  - (b) the aggregate profits or losses of segments should be reconciled to income from continuing operations before income taxes as reported in the enterprise's income statement; and
  - (c) the aggregate identifiable assets of segments should be reconciled to total assets as reported in the enterprise's balance sheet. Jointly owned assets by segments should be disclosed separately.

#### **Methods of disclosure**

- (29) Segment financial information may be disclosed by one of the

following methods:

- (a) disclosure is made in the enterprise's financial statements, and explained in the footnotes;
  - (b) disclosure is made in the footnotes;
  - (c) disclosure is made by supplemental schedules.
- (30) Segment financial information of prior periods should be restated, and the nature and the effects on profits or losses of each segment should be described if one of the following situations occur when comparative financial statements are prepared:
- (a) when financial statements should be restated according to generally accepted accounting principles;
  - (b) when methods used to determine industry segments or foreign operations are changed, and the change affects financial information disclosed in previous periods.

## **V Notes**

- (31) This Statement is issued on June 25, 1992, and shall be effective for financial statements with fiscal year ending on or after December 31, 1993. Early adoption is encouraged.

The provisions of this Statement need not be applied to immaterial items.