

**Statement of
Financial Accounting Standards
No. 41**

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Translated by

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Financial Accounting Standards Committee

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Operating Segments

I Objective

- (1) This Standard establishes the accounting standards for the disclosure of the information of operating segments.
- (2) This Standard is to regulate the disclosure of operating segment information to enable users of financial statements to evaluate the nature and financial effects of an entity's business activities in which it engages and the economic environments in which it operates.

II Scope

- (3) This Standard shall apply to:
 - (a) the separate or individual financial statements of an entity:
 - (i) whose debt or equity instruments are traded in a public market, or
 - (ii) that files, or is in the process of filing, its financial statements with a securities commission or other regulatory organization for the purpose of issuing any class of instruments in a public market; and
 - (b) the consolidated financial statements of a group with a parent:

- (i) whose debt or equity instruments are traded in a public market, or
 - (ii) that files, or is in the process of filing, the consolidated financial statements with a securities commission or other regulatory organization for the purpose of issuing any class of instruments in a public market.
- (4) If an entity that is not required to apply this Standard chooses to disclose information about segments that does not comply with this Standard, it shall not describe the information as segment information.
- (5) If a financial report contains both the consolidated financial statements of a parent that is within the scope of this Standard as well as the parent's separate financial statements, segment information is required only in the consolidated financial statements. However the parent shall disclose in a footnote to its separate financial statements to this effect.

III Core principle

- (6) An entity shall disclose information to enable users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates.**

IV Operating segments

- (7) An operating segment is a component of an entity:
- (a) 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),

- (b) whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and
- (c) for which discrete financial information is available.

An operating segment may engage in business activities for which it has yet to earn revenues, for example, start-up operations may be operating segments before earning revenues.

- (8) Not every part of an entity is necessarily an operating segment or part of an operating segment. For example, a corporate headquarters or some functional departments may not earn revenues or may earn revenues that are only incidental to the activities of the entity and would not be operating segments. For the purposes of this Standard, an entity's post-employment benefit plans are not operating segments.
- (9) 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 operating segments of an entity. Often the chief operating decision maker of an entity is its chairman, president, chief executive officer or chief operating officer but it may be a group of executive directors or others.
- (10) For many entities, the three characteristics of operating segments described in paragraph 7 clearly identify its operating segments. However, an entity may produce reports in which its business activities are presented in a variety of 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 an 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.

- (11) 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. The chief operating decision maker also may be the segment manager for some operating segments. A single manager may be the segment manager for more than one operating segment. If the characteristics in paragraph 7 apply to more than one set of components of an organization but there is only one set for which segment managers are held responsible, that set of components constitutes the operating segments.
- (12) The characteristics in paragraph 7 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 entities, some managers are responsible for different product and service lines worldwide, whereas other managers are responsible for specific geographical 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 entity shall determine which set of components constitutes the operating segments by reference to the core principle in paragraph 6.

V Reportable segments

- (13) An entity shall report separately information about each operating segment that:
- (a) has been identified in accordance with paragraphs 7-12 or results from aggregating two or more of those segments in accordance with paragraph 14, and
 - (b) exceeds the quantitative thresholds in paragraph 15.

Paragraphs 16-21 specify other situations in which separate information about an operating segment shall be reported.

Aggregation criteria

- (14) 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 core principle in paragraph 6 of this Standard, the segments have similar economic characteristics, and the segments are similar in each of the following respects:
- (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; and
 - (e) if applicable, the nature of the regulatory environment, for example, banking, insurance or public utilities.

Quantitative thresholds

- (15) Quantitative thresholds, as described in paragraph 13(b), are items that meet any of the following criteria:
- (a) Its reported revenue, including both sales to external customers and intersegment sales or transfers, is 10 per cent 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 per cent or more of the greater, in absolute amount, of
 - (i) the combined reported profit of all operating segments that did not report a loss, and

(ii) the combined reported loss of all operating segments that reported a loss.

(c) Its assets are 10 per cent 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 users of the financial statements.

(16) 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 the operating segments have similar economic characteristics and share a majority of the aggregation criteria listed in paragraph 14.

(17) If the total external revenue reported by operating segments constitutes less than 75 per cent of the entity's revenue, additional operating segments shall be identified as reportable segments (even if they do not meet the criteria in paragraph 15) until at least 75 per cent of the entity's revenue is included in reportable segments.

(18) Information about other business activities and operating segments that are not reportable shall be combined and disclosed in an 'all other segments' category separately from other reconciling items in the reconciliations required by paragraph 29. The sources of the revenue included in the 'all other segments' category shall be described.

(19) If management judges that an operating segment identified as a reportable segment in the immediately preceding period is 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 15.

(20) If an operating segment is identified as a reportable segment in the current period in accordance with the quantitative thresholds, segment data for a prior period 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 15 in the prior period, unless the necessary information is not available and the cost to develop it would be excessive.

(21) There may be a practical limit to the number of reportable segments that an entity separately discloses beyond which segment information may become too detailed. Although no precise limit has been determined, as the number of segments that are reportable in accordance with paragraphs 15–20 increases above ten, the entity should consider whether a practical limit has been reached.

VI Disclosure

(22) To give effect to the principle in paragraph 6, an entity shall disclose the following for each period for which a statement of income is presented:

(a) general information as described in paragraph 23;

(b) information about reported segment profit or loss, including specified revenues and expenses included in reported segment profit or loss, segment assets, segment liabilities and the basis of measurement, as described in paragraphs 24–28; and

(c) reconciliations of the totals of segment revenues, reported segment profit or loss, segment assets, segment liabilities and other material segment items to corresponding amounts in the entity's financial statements as described in paragraph 29.

Reconciliations of the amounts in the balance sheet for reportable segments to the amounts in the entity's balance sheet are required for each date at which a balance sheet is presented.

Information for prior periods shall be restated as described in paragraphs 30 and 31.

General information

(23) An entity shall disclose the following general information:

- (a) factors used to identify the entity's reportable segments, including the basis of organization (for example, whether management has chosen to organize the entity around differences in products and services, geographical areas, regulatory environments, or a combination of factors and whether operating segments have been aggregated), and
- (b) types of products and services from which each reportable segment derives its revenues.

Information about profit or loss, assets and liabilities

(24) An entity shall report a measure of profit or loss and total assets for each reportable segment. An entity shall report a measure of liabilities for each reportable segment if such an amount is regularly provided to the chief operating decision maker. An entity shall also disclose 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:

- (a) revenues from external customers;
- (b) revenues from transactions with other operating segments of the same entity;

- (c) interest revenue;
- (d) interest expense;
- (e) depreciation and amortization;
- (f) material items of income and expense;
- (g) the entity's interest in the profit or loss of associates and joint ventures accounted for by the equity method;
- (h) income tax expense or income; and
- (i) material non-cash items other than depreciation and amortization.

An 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, an entity may report that segment's interest revenue net of its interest expense and disclose that it has done so.

(25) An entity shall disclose the following about each reportable segment if the specified amounts are included in the measure 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 measure of segment assets:

- (a) the amount of investment in associates and joint ventures accounted for by the equity method, and
- (b) the amounts of additions to non-current assets other than financial instruments, deferred tax assets, post-employment benefit assets (incurred in accordance with SFAS 18 *Accounting for Pensions*) and rights arising under insurance contracts.

VII Measurement

- (26) The amount of each segment item reported shall be the measure reported to the chief operating decision maker for the purposes of making decisions about allocating resources to the segment and assessing its performance. Adjustments and eliminations made in preparing an entity's 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 and liabilities that are included in the measures of the segment's assets and segment's liabilities that are used by the chief operating decision maker shall be reported for that segment. If amounts are allocated to reported segment profit or loss, assets or liabilities, those amounts shall be allocated on a reasonable basis.
- (27) If the chief operating decision maker uses only one measure of an operating segment's profit or loss, the segment's assets or the segment's liabilities in assessing segment performance and deciding how to allocate resources, segment profit or loss, assets and liabilities shall be reported at those measures. If the chief operating decision maker uses more than one measure of an operating segment's profit or loss, the segment's assets or the segment's liabilities, 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 entity's financial statements.
- (28) An entity shall provide an explanation of the measurements of segment profit or loss, segment assets and segment liabilities for each reportable segment. At a minimum, an entity shall disclose the following:
- (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 entity's

- profit or loss before income tax expense or income and discontinued operations (if not apparent from the reconciliations described in paragraph 29). 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 entity's assets (if not apparent from the reconciliations described in paragraph 29). 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 differences between the measurements of the reportable segments' liabilities and the entity's liabilities (if not apparent from the reconciliations described in paragraph 29). Those differences could include accounting policies and policies for allocation of jointly utilized liabilities that are necessary for an understanding of the reported segment information.
 - (e) 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.
 - (f) the nature and effect of any asymmetrical allocations to reportable segments. For example, an entity might allocate depreciation expense to a segment without allocating the related depreciable assets to that segment.

Reconciliations

- (29) An entity shall provide reconciliations of all of the following:

- (a) the total of the reportable segments' revenues to the entity's revenue.
- (b) the total of the reportable segments' profit or loss to the entity's profit or loss before tax expense (tax income) and discontinued operations. However, if an entity allocates tax expense (tax income) to reportable segments, the entity may reconcile the total of the segments' profit or loss to the entity's profit or loss after tax.
- (c) the total of the reportable segments' assets to the entity's assets.
- (d) the total of the reportable segments' liabilities to the entity's liabilities if segment liabilities are reported in accordance with paragraph 24.
- (e) the total of the reportable segments' amounts for every other material item of information disclosed to the corresponding amount for the entity.

All material reconciling items shall be separately identified and described. For example, the amount of each material adjustment needed to reconcile reportable segment profit or loss to the entity's profit or loss arising from different accounting policies shall be separately identified and described.

Restatement of previously reported information

- (30) If an 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 the information is not available and the cost to develop it would be excessive. The determination of whether the information is not available and the cost to develop it would be excessive shall be made for each individual item of disclosure. Following a change in the composition of its reportable segments, an entity shall disclose

whether it has restated the corresponding items of segment information for earlier periods.

- (31) If an 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 entity shall disclose in the year in which the change occurs segment information for the current period on both the old basis and the new basis of segmentation, unless the necessary information is not available and the cost to develop it would be excessive.

VIII Entity-wide disclosures

- (32) Paragraphs 33–35 apply to all entities subject to this Standard including those entities that have a single reportable segment. Some entities' business activities are not organized on the basis of differences in related products and services or differences in geographical areas of operations. Such an entity's reportable 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, an entity's reportable segments may hold assets in different geographical areas and report revenues from customers in different geographical areas, or more than one of its reportable segments may operate in the same geographical area. Information required by paragraphs 33–35 shall be provided only if it is not provided in accordance with paragraphs above in this Standard.

Information about products and services

- (33) An entity shall report the revenues from external customers for each product and service, or each group of similar products and services, unless the necessary information is not available and the cost to develop it would be excessive, in which case that fact shall be disclosed. The amounts of revenues reported shall be based on

the financial information used to produce the entity's financial statements.

Information about geographical areas

- (34) An entity shall report the following geographical information, unless the necessary information is not available and the cost to develop it would be excessive:
- (a) revenues from external customers attributed to the entity's country of domicile and attributed to all foreign countries in total from which the entity derives revenues. If revenues from external customers attributed to an individual foreign country are material, those revenues shall be disclosed separately. An entity shall disclose the basis for attributing revenues from external customers to individual countries.
 - (b) non-current assets other than financial instruments, deferred tax assets, post-employment benefit assets, and rights arising under insurance contracts, located in the entity's country of domicile and located in all foreign countries in total in which the 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 entity's financial statements. If the necessary information is not available and the cost to develop it would be excessive, that fact shall be disclosed. An entity may provide, in addition to the information required by this paragraph, subtotals of geographical information about groups of countries.

Information about major customers

- (35) An 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 per cent or more of an entity's

revenues, the 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 entity need not disclose the identity of each major customer or the amount of revenues that each segment reports from that customer. For the purposes of this Standard, a group of entities known to a reporting entity to be under common control shall be considered a single customer, and a government (national, local or foreign) and entities known to the reporting entity to be under the control of that government shall be considered a single customer.

IX Transition and effective date

- (36) This Standard was issued on April 9, 2009 and shall be effective for financial statements with fiscal years beginning on or after January 1, 2011. Earlier adoption is permitted. If an entity applies this Standard earlier, it shall disclose that fact.
- (37) Segment information for prior years shall be restated when an entity applies this Standard for the first time, unless the necessary information is not available and the cost to develop it would be excessive.
- (38) At the effective date of this Standard, SFAS 20 *Segment Reporting* shall no longer be applicable.
- (39) At the effective date of this Standard, SFAS 23 *Interim Financial Reporting* shall be amended as follows:

“(25) In preparing the interim financial statements, an enterprise is not required to follow the principles outlined in paragraph 34 of the SFAS No. 18, *Accounting for Pensions*.

(25-1) For annual financial statements that shall disclose segment information in accordance with SFAS No. 41, *Operating Segments*, the following segment information for interim

SFAS 41

financial statements shall be disclosed if such segment information is considered material:

- (a) revenues from external customers (if such an amount is provided to the chief operating decision maker for measure of segment profit or loss or are otherwise regularly provided to the chief operating decision maker.)
- (b) revenues from transactions with other operating segments of the same entity (if such an amount is provided to the chief operating decision maker for measure of segment profit or loss or are otherwise regularly provided to the chief operating decision maker.)
- (c) the measure of segment profit or loss.
- (d) segments' total assets (if such an amount has material fluctuations over the last fiscal year's closing date)
- (e) explanation for changes in basis of segment identification or basis of segment profit or loss measurement (if it is different from the last fiscal year)
- (f) reconciliation of the total of the reportable segments' profit or loss to the entity's profit or loss before tax expense (tax income) and discontinued operations. However, if an entity allocates tax expense (tax income) to reportable segments, the entity may reconcile the total of the segments' profit or loss to the entity's profit or loss after tax. All material reconciling items shall be separately identified and described."

- (40) At the effective date of this Standard, all other Standards that refer to SFAS 20 *Segment Reporting* shall be replaced with SFAS 41 *Operating Segments*.

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