



Snapshot

by Capital Markets & Accounting Advisory Services

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Understanding the impact of the recent IFRIC[®] agenda decision on segment reporting



What is the issue?

MFRS 8 'Operating Segments'^(*) requires an entity to disclose specific information about assets, liabilities and profit or loss by segment. MFRS 8 paragraph 23 requires an entity to disclose certain specified items of profit or loss if these are included in the measure of segment profit or loss reviewed by the chief operating decision maker ("CODM"), or are otherwise regularly provided to the CODM (even if not included in that measure of segment profit or loss). Some of the requirements from paragraph 23 are very straightforward, for example, 'revenue from external customers' and 'interest expense'. Others, such as the requirement to disclose material items of income and expense disclosed in accordance with paragraph 97 of MFRS 101 'Presentation of Financial Statements' are much more judgemental.

The IFRS[®] Interpretations Committee ("Committee") [agenda decision on 'Disclosures of Revenues and Expenses for Reportable Segments \(IFRS 8 'Operating Segments'\)](#) clarifies how an entity applies those requirements. This was done by responding to two aspects of the submission:

- Are you required to disclose items that are not separately reviewed by the CODM but that are included in the CODM's measure of segment profit?
- How do you decide which additional material items should be disclosed?

The key takeaways from the agenda decision are:

1. IFRS 8 / MFRS 8 paragraph 23 requires entities to disclose either specified income and expense items if they are included within the segment profit measure that is provided to the CODM. This is regardless of whether they are provided to the CODM separately.
2. Material items of income and expense that need to be disclosed as specified items are not limited to only unusual or non-recurring items.
3. Determining how much detail needs to be included in the segment reporting will be a matter of judgement considering the entity's specific facts and circumstances, the core principle of IFRS 8 / MFRS 8, and the principles of materiality in IAS 1 / MFRS 101 'Presentation of Financial Statements'.
4. The agenda decision is clear that an entity is not required to disclose by reportable segment each item of income and expense presented in its statement of profit or loss or disclosed in the notes.

(*) MFRS is equivalent to IFRS as issued and amended by the International Accounting Standards Board.



What is the impact and for whom?

The impacts needs to be considered by any entity that prepares segment information. These entities will need to consider their existing processes and controls for determining segment disclosures, to determine whether more disclosure should be provided. This will be particularly relevant for entities that have material items of income or expense (that are included within the measure of segment profit reported to the CODM) that are not currently presented by segment.

Our observation

In the past, many entities interpreted the requirement to disclose material income and expense items (if they were included within the measure of segment profit) to only relate to unusual or non-recurring items, such as material restructurings. The impact of the agenda decision will be relatively greater for these entities.

Entities should review their current financial statements and notes against the materiality and aggregation criteria in MFRS 101, to evaluate whether additional segmental disclosure is needed. The identification and determination of what is material to the financial statements (both quantitatively and qualitatively) has always been a highly judgemental area, and the segment note is no exception.

While we expect that many entities might find that changes are required to their segment disclosures, the Committee emphasised that it does not expect a full income statement by segment.

Our observation

In some jurisdiction, the regulators might have a particular view of the agenda decision and expectations for changes to segment disclosures. Entities should consider the views of their local regulators in their consideration of whether, and how much, change is needed.

Refer to two hypothetical examples in the [Appendix](#) at the end of this publication that might help to illustrate how we see the agenda decision being applied.



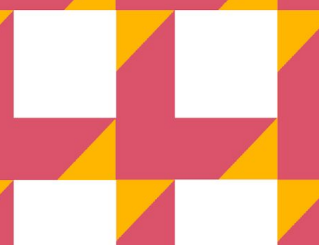
When does it apply?

Committee agenda decisions do not have an effective date but, typically, entities are afforded a sufficient amount of time to implement them. Entities will need to apply judgement to determine what might be sufficient time, based on their facts and circumstances.

We expect that if an entity is not ready to include the update disclosures in its 31 December 2024 reporting (including comparatives), it should be prepared to make disclosures similar to those provided about forthcoming MFRS in accordance with paragraphs 30 and 31 of MFRS 108 'Accounting Policies, Changes in Accounting Estimates and Errors'.

Our observation

Typically, changes applied in response to an agenda decision result in voluntary accounting policy changes in accordance with MFRS 108 and are not accounted for as a correction of a prior period error.



Appendix I - Hypothetical examples to illustrate how we see the agenda decision being applied

Example 1 : A multinational retailer

Entity A is a retailer that operates globally and discloses reportable segments by geographic region. The measure reviewed by the CODM is profit before tax. Cost of sales is included in the profit before tax measure reviewed by the CODM, and it is also the largest expense in the statement of profit or loss. Entity A did not have other expense items included in the profit before tax measure that were considered to be material. In its 31 December 2023 financial statements, cost of sales was not reported by segment.

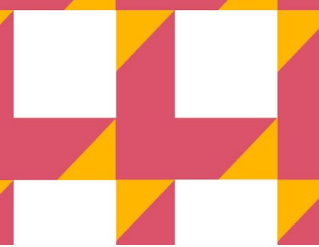
Question: Should entity A report cost of sales by segment?

Answer: We would expect Entity A to add cost of sales by segment to its segment note in the 31 December 2024 financial statements, for the following reasons:

- As the single largest expense and key cost driver for the entity, providing this information by segment would be expected to influence the decisions of financial statement users.
- The magnitude of the item (both quantitatively and qualitatively) supports the conclusion that the expense is material in the context of the financial statements as a whole. Refer to Practice Statement 2 'Making Materiality Judgements' for additional guidance on making materiality judgements.

Our observation

For entities that have a capital intensive business, it is likely that the segment disclosure already includes depreciation and amortisation, because this is specifically required by MFRS 8. However, entities should consider whether there are other specified amounts (such as cost of sales) that need to be added to the disclosure because they are included in the calculation of the segment measure of profit or loss. This includes amounts that are not provided to the CODM for review on a stand-alone basis.



Appendix I - Hypothetical examples to illustrate how we see the agenda decision being applied (continued)

Example 2 : A service company with significant employee costs

Entity B is a service company. The measure reviewed by the CODM is EBITDA. Entity B has significant employee costs which are presented by nature as a single line item on the face of the statement of profit or loss. These employee costs comprise wages, bonuses, share-based payments and pensions. Entity B did not have other expense items included in EBITDA that were considered to be material. In its 31 December 2023 financial statements, employee costs were not reported by segment.

Question: Should entity B report disaggregated employee costs by segment?

Answer: We would expect Entity B to disclose an aggregate amount for employee costs by segment in the 31 December 2024 financial statements, for the following reasons:

- Employee costs are a significant cost driver and material expense for the entity. The information by segment would likely influence the decisions of financial statement users.
- The magnitude of the item (both quantitatively and qualitatively) supports the conclusion that the employee cost expense line item is material in the context of the financial statements as a whole.
- However, the components of the employee costs (for example, wages, bonuses, share-based payments and pensions) might be able to be aggregated due to the similar nature of the expenses and an assessment of whether this disaggregated information would be material from a segment reporting perspective.

Do you need further information on this topic?

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