

Segment and Interim Financial Reporting



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SEGMENT REPORTING AND ACCOUNTING ISSUES

PSAK 5 in 2014 based on IFRS 8 regarding “Operating Segment” is applied for financial statements of an entity and consolidated financial statement of a group with parent entity:

- Whose debt or equity instrument are traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional market), or
- That files, or is in the process of filing, its financial statement with a securities commission or other regulatory organization for the purpose of issuing any class of instrument in the public market.



PSAK 5 defines operating segment as a component of an entity:

- That engage 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)
- Whose operating result 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
- For which discrete financial information is available



INFORMATION ABOUT OPERATING SEGMENT

Ten Percent Quantitative Thresholds

1. The segment's revenue, including both external sales and intersegment sales or transfers, is 10% or more of combined revenues, internal and external of all operating segment.
2. The absolute value of the segment's profit or loss is 10% or more of the greater, in absolute value, of (a) the combined profit of all operating segments that did not report a loss, or (b) the total loss of all operating segments that did not report a loss.
3. The segment's assets are 10% or more of the combined assets of all operating segments.



Illustrated of 10
Percent Test

FIGURE 13-1
Consolidated Financial
Statements for Peerless
Products Corporation
and Subsidiary

| PEERLESS PRODUCTS CORPORATION AND SUBSIDIARY | | |
|---|-------------|---------------------------|
| Consolidated Statement of Income and Retained Earnings | | |
| Year Ended December 31, 20X1 | | |
| <hr/> | | |
| Revenues: | | |
| Sales | | \$572,000 |
| Income from Investment in Barclay | | 32,000 |
| Expenses and Deductions: | | |
| Cost of Goods Sold | | (267,000) |
| Depreciation & Amortization | | (70,000) |
| Other Expenses | | (15,000) |
| Interest Expense | | (30,000) |
| Income to Noncontrolling Interest | | (10,000) |
| Income Taxes | | (62,000) |
| Net Income | | <u>\$150,000</u> |
| Retained Earnings, January 1 | | 300,000 |
| Less: Dividends | | (60,000) |
| Retained Earnings, December 31 | | <u><u>\$390,000</u></u> |
| <hr/> | | |
| PEERLESS PRODUCTS CORPORATION AND SUBSIDIARY | | |
| Consolidated Balance Sheet | | |
| December 31, 20X1 | | |
| <hr/> | | |
| Cash | | \$ 131,000 |
| Accounts Receivable | | 125,000 |
| Inventory | | 165,000 |
| Investment in Barclay Stock | | 184,000 |
| Land | | 215,000 |
| Building & Equipment | \$1,400,000 | |
| Less: Accumulated Depreciation | (770,000) | <u>630,000</u> |
| Total Assets | | <u><u>\$1,450,000</u></u> |
| Accounts Payable | | \$ 200,000 |
| Bonds Payable | | 300,000 |
| Noncontrolling Interest | | 60,000 |
| Common Stock | | 500,000 |
| Retained Earnings | | <u>390,000</u> |
| Total Liabilities & Stockholders' Equity | | <u><u>\$1,450,000</u></u> |



FIGURE 13–2 Worksheet to Analyze Peerless Products and Subsidiary’s Operating Segments

| PEERLESS PRODUCTS CORPORATION AND SPECIAL FOODS INC. | | | | | | | | | |
|--|--------------------|-----------------------|-------------------------|-----------------------|----------------|--------------------------|------------------|---------------------------|------------------|
| Segmental Disclosure Worksheet | | | | | | | | | |
| Item | Operating Segments | | | | | Corporate Administration | Combined | Intersegment Eliminations | Consolidated |
| | Food Products | Plastic and Packaging | Consumer and Commercial | Health and Scientific | Chemicals | | | | |
| Revenue: | | | | | | | | | |
| Sales to unaffiliated customers | 317,000 | 95,000 | 41,000 | 86,000 | 33,000 | | 572,000 | | 572,000 |
| Intersegment sales | 6,000 | 18,000 | 4,000 | | | | 28,000 | (28,000) | |
| Total revenue | 323,000 | 113,000 | 45,000 | 86,000 | 33,000 | | 600,000 | (28,000) | 572,000 |
| Profit: | | | | | | | | | |
| Directly traceable operating costs | (103,000) | (31,000) | (63,000) | (55,000) | (37,000) | | (289,000) | 18,000 | (271,000) |
| Depreciation of segment’s assets | (7,000) | (4,000) | (5,000) | (6,000) | (4,000) | | (26,000) | | (26,000) |
| Allocated depreciation | (3,000) | (1,000) | (2,000) | (3,000) | (1,000) | | (10,000) | | (10,000) |
| Other items: | | | | | | | | | |
| Interest revenue—intersegment | | 12,000 | | | | | 12,000 | (12,000) | |
| Interest expense—to unaffiliates | | (30,000) | | | | | (30,000) | | (30,000) |
| Interest expense—intersegment | (12,000) | | | | | | (12,000) | 12,000 | |
| Segment profit (loss) | 198,000 | 59,000 | (25,000) | 22,000 | (9,000) | | 245,000 | (10,000) | 235,000 |
| General corporate expenses | | | | | | (45,000) | (45,000) | | (45,000) |
| Income from equity investment | | | | | | 32,000 | 32,000 | | 32,000 |
| Income from continuing operations, before taxes | 198,000 | 59,000 | (25,000) | 22,000 | (9,000) | (13,000) | 232,000 | (10,000) | 222,000 |
| Assets: | | | | | | | | | |
| Operating segments: | | | | | | | | | |
| Segment (other than intersegment) | 411,000 | 275,000 | 100,000 | 310,000 | 80,000 | | 1,176,000 | (10,000) | 1,166,000 |
| Intersegment notes | | 100,000 | | | | | 100,000 | (100,000) | |
| Total of operating segments | 411,000 | 375,000 | 100,000 | 310,000 | 80,000 | | 1,276,000 | (110,000) | 1,166,000 |
| General corporate | | | | | | 100,000 | 100,000 | | 100,000 |
| Equity investments | | | | | | 184,000 | 184,000 | | 184,000 |
| Total assets | 411,000 | 375,000 | 100,000 | 310,000 | 80,000 | 284,000 | 1,560,000 | (110,000) | 1,450,000 |
| Total expenditures made during year for long-term assets | | | | | | | | | |
| | 48,000 | 21,000 | 10,000 | 29,000 | 12,000 | | 120,000 | | |



Ten Percent Revenue Test

| Segment | Segment Revenue | Percent of Combined Revenue of \$600,000 | Reportable Segment |
|-------------------------|------------------------|---|---------------------------|
| Food Products | \$323,000 | 53.8% | Yes |
| Plastic and Packaging | 113,000 | 18.8 | Yes |
| Consumer and Commercial | 45,000 | 7.5 | No |
| Health and Scientific | 86,000 | 14.3 | Yes |
| Chemicals | 33,000 | 5.5 | No |
| Total | <u>\$600,000</u> | <u>100.0%*</u> | |

Unrounded percents for segments total to 100 percent.



Ten Percent Profit (Loss) Test

| Segment | Segment Profits | Segment Losses |
|-------------------------|-------------------------|--------------------------|
| Food Products | \$198,000 | |
| Plastic and Packaging | 59,000 | |
| Consumer and Commercial | | \$(25,000) |
| Health and Scientific | 22,000 | |
| Chemicals | | (9,000) |
| Total | <u>\$279,000</u> | <u>\$(34,000)</u> |

| Segment | Profit (Loss) | Percent of Test Amount of \$279,000 | Separately Reportable |
|-------------------------|----------------------|--|------------------------------|
| Food Products | \$198,000 | 71.0% | Yes |
| Plastic and Packaging | 59,000 | 21.1 | Yes |
| Consumer and Commercial | (25,000) | 9.0 | No |
| Health and Scientific | 22,000 | 7.9 | No |
| Chemicals | (9,000) | 3.2 | No |



Assets Test

| Segment | Assets | Percent of Test Amount of \$1,276,000 | Separately Reportable |
|-------------------------|--------------------|--|----------------------------------|
| Food Products | \$ 411,000 | 32.2% | Yes |
| Plastic and Packaging | 375,000 | 29.4 | Yes |
| Consumer and Commercial | 100,000 | 7.8 | No |
| Health and Scientific | 310,000 | 24.3 | Yes |
| Chemicals | 80,000 | 6.3 | No |
| Total | <u>\$1,276,000</u> | <u>100.0%</u> | |



FIGURE 13-3
Summary of
Reportable Industry
Segments: 10 Percent
Tests

| | Food Products | Plastic and Packaging | Consumer and Commercial | Health and Scientific | Chemicals |
|------------------------------|------------------|-----------------------------|-------------------------------|-----------------------------|-----------|
| Revenue test | Yes | Yes | No | Yes | No |
| Operating profit (loss) test | Yes | Yes | No | No | No |
| Assets test | Yes | Yes | No | Yes | No |



Comprehensive Disclosure Test

Seventy-Five Percent Consolidated Revenue Test

Sales to unaffiliated customers by reportable segments:

| | | |
|--|---------------|------------------|
| Food Products | \$317,000 | |
| Plastic and Packaging | 95,000 | |
| Health and Scientific | <u>86,000</u> | |
| Total of reportable segments | | <u>\$498,000</u> |
| Consolidated revenue | | \$572,000 |
| Reportable segments' percentage of consolidated revenue ($\$498,000 \div \$572,000$) | | 87.1% |

Other Consideration

- An upper limit of about 10 segments is used
- Above this, a company should consider aggregating the closely related segments



Reporting Segment Information

1. General Information
2. Amount of each separately reportable segment
3. Measures of segment profit or loss
4. Segment assets
5. Reconciliations to consolidated totals



FIGURE 13–4 Required Footnote Disclosures for Peerless Products Corporation and Subsidiary's Operating Segments

| Footnote X | | | | | |
|---|--------------------|-----------------------|-----------------------|--------------------|-----------|
| Information about the Company's Operations in Different Operating Segments | | | | | |
| Item | Operating Segments | | | | |
| | Food Products | Plastic and Packaging | Health and Scientific | All Others | Combined |
| Revenue to unaffiliated customers | 317,000 | 95,000 | 86,000 | 74,000 | 572,000 |
| Intersegment revenue | 6,000 | 18,000 | | 4,000 | 28,000 |
| Interest revenue—intersegment | | 12,000 | | | 12,000 |
| Interest expense—unaffiliated | | 30,000 | | | 30,000 |
| Interest expense—intersegment | 12,000 | | | | 12,000 |
| Depreciation | 10,000 | 5,000 | 9,000 | 12,000 | 36,000 |
| Segment profit (loss) | 198,000 | 59,000 | 22,000 | (34,000) | 245,000 |
| Segment assets | 411,000 | 375,000 | 310,000 | 180,000 | 1,276,000 |
| Expenditures for segment assets | 48,000 | 21,000 | 29,000 | 22,000 | 120,000 |
| Reconciliation of reportable segment revenue to consolidated revenue | | | | | |
| Total revenues for reportable segments | | | | \$ 522,000 | |
| Other revenues | | | | 78,000 | |
| Elimination of intersegment revenues | | | | (28,000) | |
| Total consolidated revenues | | | | <u>\$ 572,000</u> | |
| Reconciliation of reportable segment profit and loss to consolidated profit or loss | | | | | |
| Total profit and loss for reportable segments | | | | \$ 279,000 | |
| Other profits or loss | | | | (34,000) | |
| Elimination of intersegment profit | | | | (10,000) | |
| General corporate expense | | | | (45,000) | |
| Income from equity investment | | | | 32,000 | |
| Income before income taxes and extraordinary items | | | | <u>\$ 222,000</u> | |
| Reconciliation of reportable segment assets to consolidated assets | | | | | |
| Total assets for reportable segments | | | | \$1,096,000 | |
| Other assets | | | | 180,000 | |
| Elimination of intersegment profits in assets | | | | (10,000) | |
| Intersegment notes | | | | (100,000) | |
| General corporate assets | | | | 100,000 | |
| Equity investments | | | | 184,000 | |
| Consolidated total assets | | | | <u>\$1,450,000</u> | |



IDENTIFYING REPORTABLE SEGMENTS

PSAK 5 state that entity shall report information separately regarding each identifiable operating segment that exceeds the quantitative thresholds.

PSAK 5 also requires entity-wide disclosure on information about product and services, geographical area and major customers.

Company must report revenue from external customers and company must also provide information about the extent of its reliance on its major customers.



INTERIM FINANCIAL REPORTING

PSAK 3 regarding Interim Financial Report:

- Interim financial statement to be prepared in condensed form
- Include a condensed statement of financial position, comprehensive income, changes in equity, cash flows, and selected footnotes and other disclosures for the quarter being reported, as well as comparative data prior periods.



THE FORMAT OF THE INTERIM FINANCIAL REPORT

1. Statement of financial positions
2. Statement of comprehensive income
3. Statement of changes in equity
4. Statement of cash flows
5. Selected explanatory notes



ACCOUNTING ISSUES

1. Discrete versus Integral View of Interim Reporting

The integral theory of interim reporting vs The discrete theory of interim reporting.

2. Accounting Pronouncements on Interim Reporting

PSAK 3 vs PSAK 25



REPORTING STANDARDS FOR INTERIM STATEMENTS OF COMPREHENSIVE INCOME

FIGURE 13–5 Overview of Interim Income Statement Accounting Principles

| | |
|--|---|
| Revenue | Recognize as earned during an interim period on same basis as used for annual reporting. |
| Cost of goods sold | Product costs for interim period recognized on same basis as used for annual reporting, except for interims: <ul style="list-style-type: none"> • Estimated gross profit rates may be used to determine interim cost of goods sold. • Temporary liquidations of LIFO-based inventories are charged to cost of goods sold using expected replacement cost of the items. • Lower-of-cost-or-market valuation method allows for loss recoveries for increases in market prices in later interim periods of the same fiscal year. • Standard cost systems should use the same procedures as for annual reporting except that price variances or volume or capacity variances expected to be absorbed by end of the year should be deferred. |
| All other costs and expenses | Expense as incurred or allocated among interim periods' expenses based on benefits received or other systematic and rational basis. |
| Income taxes | Based on estimated annual effective tax rate with recognition of tax benefits of an operating loss if benefits are assured beyond a reasonable doubt; second and subsequent quarters are based on changes in cumulative amount of tax computed, including changes in estimates. |
| Disposal of a component of the entity, or extraordinary, unusual, infrequently occurring, and contingent items | Recognize in interim period in which they occur. |
| Accounting changes: | |
| 1. Change in accounting principle | Retrospective application to all prechange interim periods reported. |
| 2. Change in an accounting estimate | Apply to current and prospective interim periods only. |
| 3. Change in a reporting entity | Retrospective application to all prechange interim periods reported. |



Illustration of Market Write-Down and Recovery

The following example illustrates the use of the lower-of-cost-or-market (LCM) method for interim reports:

1. At the beginning of its fiscal year, Peerless Products has 10,000 units of inventory on hand with a FIFO cost of \$10 each.
2. It makes no additional purchases during the year.
3. The sales and market values at the end of each quarter during the fiscal year are as follows:

| Quarter | Units Sold in Quarter | Unit Market Values at End of Quarter |
|----------------|------------------------------|---|
| 1 | 2,000 | \$ 7 |
| 2 | 2,000 | 6 |
| 3 | 2,000 | 7 |
| 4 | 2,000 | 11 |



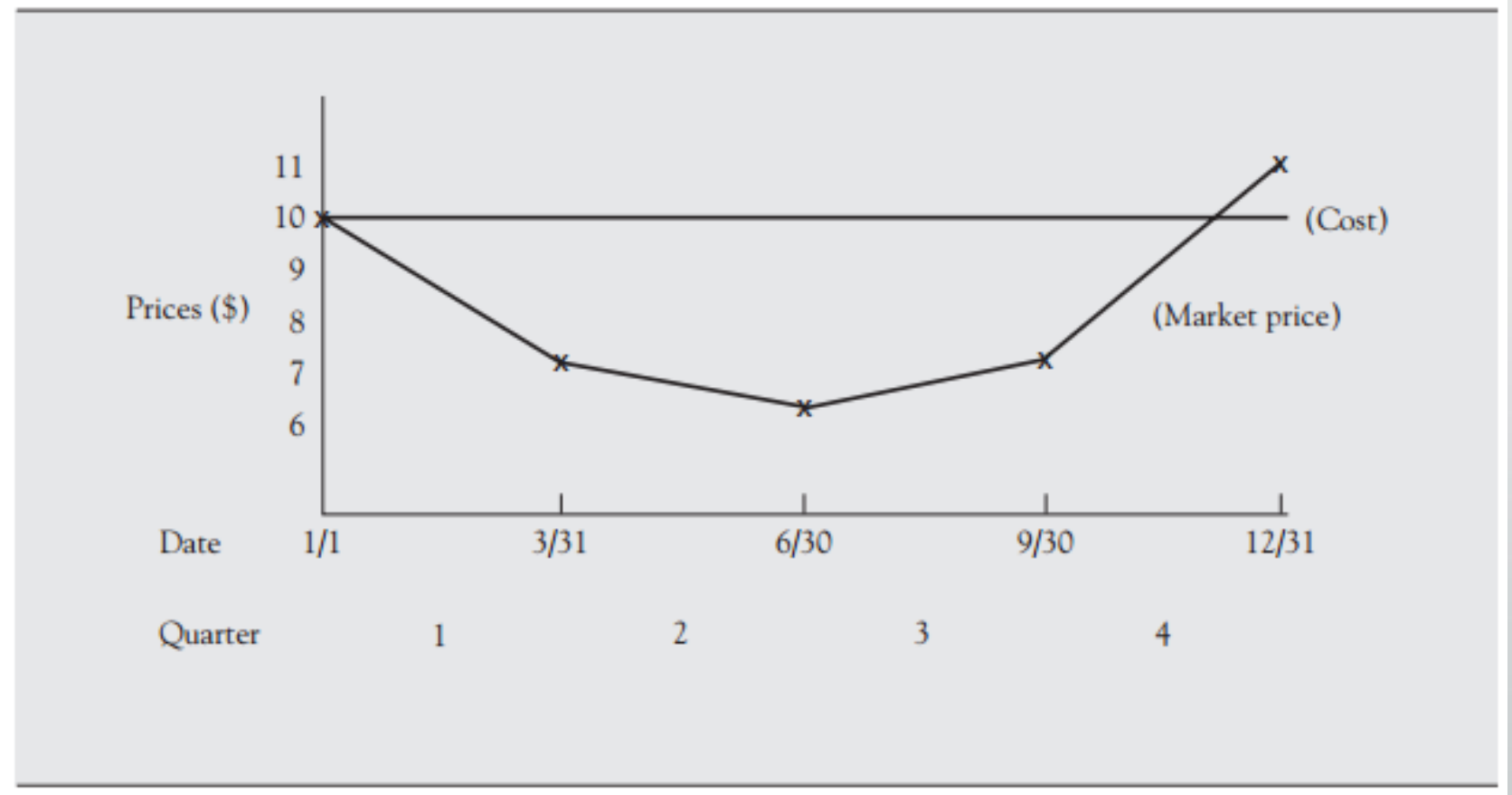
FIGURE 13–6
Interim Lower-of-Cost-or-Market Analysis of the Inventory Account of Peerless Products Corporation

| Quarter | Item | Inventory | | |
|---------|--|----------------|----------------|------------------|
| | | Units | Unit Price | Dollars |
| | Balance, beginning of year | 10,000 | <u>\$10</u> | \$100,000 |
| 1 | Inventory sold, first quarter | <u>(2,000)</u> | \$10 | (20,000) |
| | Adjustment to market: [8,000 units × (\$10 – \$7)] | <u>8,000</u> | <u>(3)</u> | <u>(24,000)</u> |
| | Balance, end of first quarter | 8,000 | <u>\$ 7</u> | \$ 56,000 |
| 2 | Inventory sold, second quarter | <u>(2,000)</u> | \$ 7 | (14,000) |
| | Adjustment to market: [6,000 units × (\$7 – \$6)] | <u>6,000</u> | <u>(1)</u> | <u>(6,000)</u> |
| | Balance, end of second quarter | 6,000 | <u>\$ 6</u> | \$ 36,000 |
| 3 | Inventory sold, third quarter | <u>(2,000)</u> | \$ 6 | (12,000) |
| | Market price recovery: [4,000 units × (\$6 – \$7)] | <u>4,000</u> | <u>1</u> | <u>4,000</u> |
| | Balance, end of third quarter | 4,000 | <u>\$ 7</u> | \$ 28,000 |
| 4 | Inventory sold, fourth quarter | <u>(2,000)</u> | \$ 7 | (14,000) |
| | Market price recovery: [2,000 units × (\$7 – \$10)] | <u>2,000</u> | <u>3</u> | <u>6,000</u> |
| | Balance, end of fourth quarter | <u>2,000</u> | <u>\$10(a)</u> | <u>\$ 20,000</u> |

(a) Note that although market value is \$11, inventory valuation cannot exceed cost.



FIGURE 13-7
Graph of Market
Prices of Inventory





| Quarter | Costs Assigned to Goods Sold | Ending Inventory Write-Down to Market (or loss recovery) | Total |
|---------|------------------------------|--|----------|
| 1 | 2,000 units × \$10 | 8,000 units × \$3 | \$44,000 |
| 2 | 2,000 units × \$7 | 6,000 units × \$1 | 20,000 |
| 3 | 2,000 units × \$6 | (4,000 units × \$1) | 8,000 |
| 4 | 2,000 units × \$7 | (2,000 units × \$3) | 8,000 |

If the reductions in market value in quarters 1 and 2 were considered temporary, no write-downs would need to be recognized and therefore no loss recoveries would be recognized in quarters 3 and 4. The total of the cost of goods sold reported for the interims must reconcile to the amount reported on the annual financial statements. Note that the year-end market price (\$11) is higher than the market price at the beginning of the year (\$10). On the annual statement:

$$8,000 \text{ units} \times \$10 \text{ unit price} = \$80,000$$

On the interim statements:

| | |
|-----------|-----------------|
| Quarter 1 | \$44,000 |
| Quarter 2 | 20,000 |
| Quarter 3 | 8,000 |
| Quarter 4 | 8,000 |
| Total | <u>\$80,000</u> |



All Other Cost and Expenses

The fourth quarter is charged for any remaining balance in the Prepaid Advertising account.

FIGURE 13-8
Accounting for
Advertising Costs That
Benefit More than One
Interim Period

| Date | Quarterly Sales | Debit Advertising Expense | Credit Prepaid Advertising | Balance in Prepaid Advertising |
|--------------|------------------|---------------------------|----------------------------|--------------------------------|
| April 1 | | | | \$20,000 |
| June 30 | \$100,000 | \$ 5,000 ^(a) | \$ 5,000 | 15,000 ^(b) |
| September 30 | 100,000 | 5,000 | 5,000 | 10,000 |
| December 31 | <u>200,000</u> | <u>10,000</u> | <u>10,000</u> | 0 |
| Totals | <u>\$400,000</u> | <u>\$20,000</u> | <u>\$20,000</u> | |

^(a) \$5,000 = $(\$100,000/\$400,000) \times \$20,000$.

^(b) \$15,000 = $\$20,000 - \$5,000$.



Accounting for Income Taxes in Interim Periods

Differences between Book and Taxes Income

Two major category of differences are discussed in PSAK 46
"Accounting for Income Taxes"

1. Permanent or Non Contemporary Differences
2. Temporary Differences



ACCOUNTING CHANGES IN INTERIM PERIODS

1. Changes in an Accounting Policies (Retrospective Application)
2. Changes in an Accounting Estimates (Current and Prospective Application)
3. Errors



THANK YOU



ACCOUNTING CHANGES IN INTERIM PERIODS