



Segment reporting (post-ASU 2023-07)

Handbook

US GAAP

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FASB improves segment disclosures

Segment reporting has consistently been a hot topic for financial statement preparers, auditors, investors and the SEC ever since the FASB first issued guidance on the subject in 1997. That guidance, codified in Topic 280, is designed to provide financial statement users with granular information through the ‘eyes of management’ about a public entity’s business performance.

Despite the FASB’s efforts, the SEC staff has expressed concerns over several years about a lack of compliance. Specifically, the SEC’s concerns are that too few segments are being disclosed and not all required information about reported segments is being presented.

Accounting Standards Update (ASU) 2023-07, which is already effective for certain entities, marks a response by the FASB to user requests to improve segment reporting, notably requiring disclosure of significant segment expenses and increasing the frequency of segment reporting to interim periods.

However, Topic 280 remains challenging to apply because an entity’s internal organizational structure dictates how segment information is compiled and presented. This Handbook discusses these challenges and explains the principles of Topic 280, as amended by ASU 2023-07, through extensive interpretive guidance, examples and observations.

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About this publication

The purpose of this Handbook is to assist you in applying the standard on segment reporting, Topic 280, as amended by ASU 2023-07, and the related SEC regulations. It explains the requirements not only for US entities but also for non-US entities that file financial reports with the SEC.

This Handbook is written as if ASU 2023-07, Segment Reporting (Topic 280) Improvements to Reportable Segment Disclosures, has been adopted. For guidance on applying Topic 280 before adopting this ASU, see KPMG Handbook, [Segment reporting \(pre-ASU 2023-07\)](#). Transition information concerning the ASU is discussed below.

Organization of the text

Each chapter of this Handbook includes excerpts from FASB's Accounting Standards Codification® and overviews of the relevant FASB and SEC requirements for segment disclosures. Our in-depth guidance is explained through Q&As that reflect the questions we encounter in practice. We include examples to explain key concepts.

Our commentary is referenced to the Codification, SEC regulations, Accounting Standards Updates and to other literature, where applicable. The following are examples.

- 280-10-50-11 is paragraph 50-11 of ASC Subtopic 280-10.
- ASU 2014-09.BC340 is paragraph 340 of the basis for conclusions to ASU 2014-09.
- FAS 131.BC57 is paragraph 57 of the basis for conclusions to FASB Statement No. 131, Disclosures about Segments of an Enterprise and Related Information.
- CON 8.QC11 is paragraph QC11 of FASB Concepts Statement No. 8.
- S-X Rule 3-10(a) is Rule 3-10(a) of SEC Regulation S-X.
- S-K Item 101 is Item 101 of SEC Regulation S-K.
- IR&DI is the SEC's International Reporting and Disclosure Issues in the Division of Corporation Finance (Nov. 1, 2004).
- C&DI is the SEC's Compliance & Disclosures Interpretations. These references are hyperlinked to the source material on the SEC's website.
- SEC Rel. 33-8350 is SEC Interpretive Release No. 33-8350.
- FR 501.06a is section 501.06a of the SEC Financial Reporting Codification.
- FRM 13310.1 is section 13310.1 of the SEC Financial Reporting Manual.
- SAB Topic 1.D is SEC Staff Accounting Bulletin Topic 1.D.
- 2023 AICPA Conf is the 2023 AICPA & CIMA Conference on Current SEC and PCAOB Developments. These references are hyperlinked to the source material on the SEC's website where available.

- CAQ 03/2025 is meeting minutes from the March 2025 Center for Audit Quality SEC Regulations Committee.
- TQA 7100.03 is section 7100.03 of the AICPA's Technical Questions and Answers.

ASU 2023-07

In November 2023, the FASB issued ASU 2023-07, Segment Reporting (Topic 280) Improvements to Reportable Segment Disclosures. ASU 2023-07 applies to all public entities that are required to report segment information under Topic 280.

Effective date	Fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024.
Early adoption	Early adoption is permitted.
Transition	Retrospectively to all periods presented in the financial statements, unless retrospective application is impracticable.

October 2025 edition

This edition of the Handbook includes new and updated interpretations based on our continued practical experience with entities applying Topic 280 as amended by ASU 2023-07. Compared to the July 2024 edition, new questions and examples are identified with ** and items that have been significantly updated or revised are identified with #. The [Index of changes](#) identifies all significant changes.

Abbreviations

We use the following abbreviations in this Handbook.

ASC	FASB's Accounting Standards Codification
ASU	Accounting Standards Update
CODM	Chief operating decision maker
EBITDA	Earnings before interest, taxes, depreciation and amortization
FIFO	First-in, first-out
FPI	Foreign private issuer
GAAP	Generally accepted accounting principles
LIFO	Last-in, first-out
MD&A	Management's Discussion and Analysis
PBE	Public business entity
R&D	Research and development

1. Executive summary

This Handbook is written as if ASU 2023-07, Segment Reporting (Topic 280) Improvements to Reportable Segment Disclosures, has been adopted. For guidance on applying Topic 280 before adopting the ASU, see KPMG Handbook, [Segment reporting \(pre-ASU 2023-07\)](#).

Overall objective

Topic 280 requires public entities to disclose information about their operations that typically is not obvious from the financial statements. It essentially allows financial statement users to ‘see through the eyes of management’ to understand how management views the operating results and financial position of the different reportable segments of the entity’s business.

The primary objectives of Topic 280 are to help financial statement users:

See the entity’s operating results and financial position from management’s perspective – disaggregated in a manner that can enhance their ability to assess the entity’s prospects for future cash flows.

Obtain a better understanding of financial performance across the entire entity, including revenues related to products and services and to geographic areas, as well as information about major customers.

Make more informed financial judgments about the entity as a whole.

Although Topic 280 is a ‘disclosure’ Topic, which leverages existing management information, complying with its requirements can involve a great deal of effort. An entity’s financial results and financial position are disaggregated by reportable segment, and identifying reportable segments is a multi-step process.

Step 1	Identify the CODM (chief operating decision maker)
Step 2	Identify and aggregate operating segments
Step 3	Determine reportable segments
Step 4	Disclose required information for each reportable segment

Scope

Topic 280 requires a public entity to disclose segment information in the notes to its financial statements.

A business entity is a public entity under Topic 280 if:

- it has issued debt or equity securities or is a conduit bond obligor for conduit debt securities that are traded in a public market – i.e. a domestic or foreign stock exchange or an over-the-counter market, including local or regional markets;

- it is required to file financial statements with the SEC; and/or
- it provides financial statements for the purpose of issuing any class of securities in a public market.

Nonpublic and not-for-profit entities are not required to adopt Topic 280; however, if they voluntarily adopt it, they are required to fully comply with Topic 280 and include the required segment disclosures for all periods presented.

Type of entity	Segment disclosures
Business entity that is a public entity	Required
— Business entity that is not a public entity – separate (stand-alone) financial statements — Not-for-profit entity	Discretionary but encouraged

Read more: [chapter 2](#)

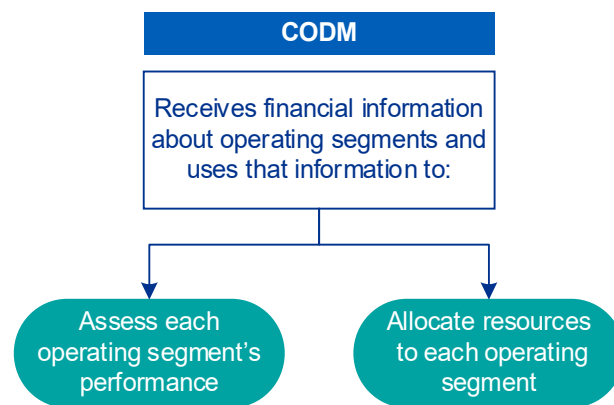
Step 1: Identify the CODM

The first step in applying Topic 280 is to identify the CODM. This concept is key because segment profit or loss and asset disclosures are based on the information provided to or regularly reviewed by the CODM.

The CODM is usually the highest level of management (e.g. the CEO or COO) responsible for the entity's overall resource allocation and performance assessment.

The CODM is a function and not a title. Therefore, the function of the CODM could be performed by more than one person (e.g. an executive committee or a management committee).

An entity cannot have more than one CODM.



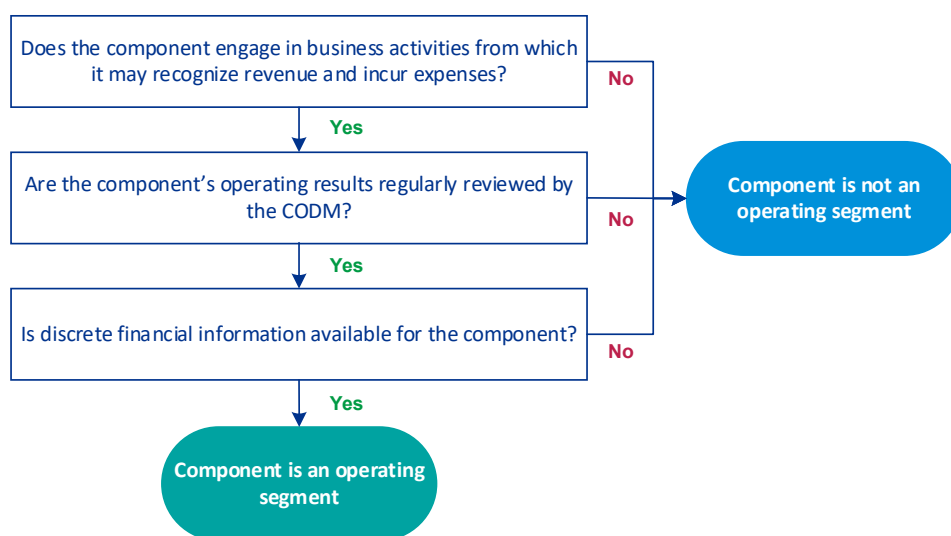
Read more: [chapter 3](#)

Step 2: Identify and aggregate operating segments

An entity evaluates each of its components to determine whether they are operating segments. Operating segments reflect how an entity manages its business (e.g. by products and services or geographically); therefore, they are identified based on the management approach.

Operating segments should be evident from the structure of the entity's internal organization. Financial information is usually reported to the CODM consistent with that structure.

In identifying operating segments, there are three questions to ask about each component of the business.



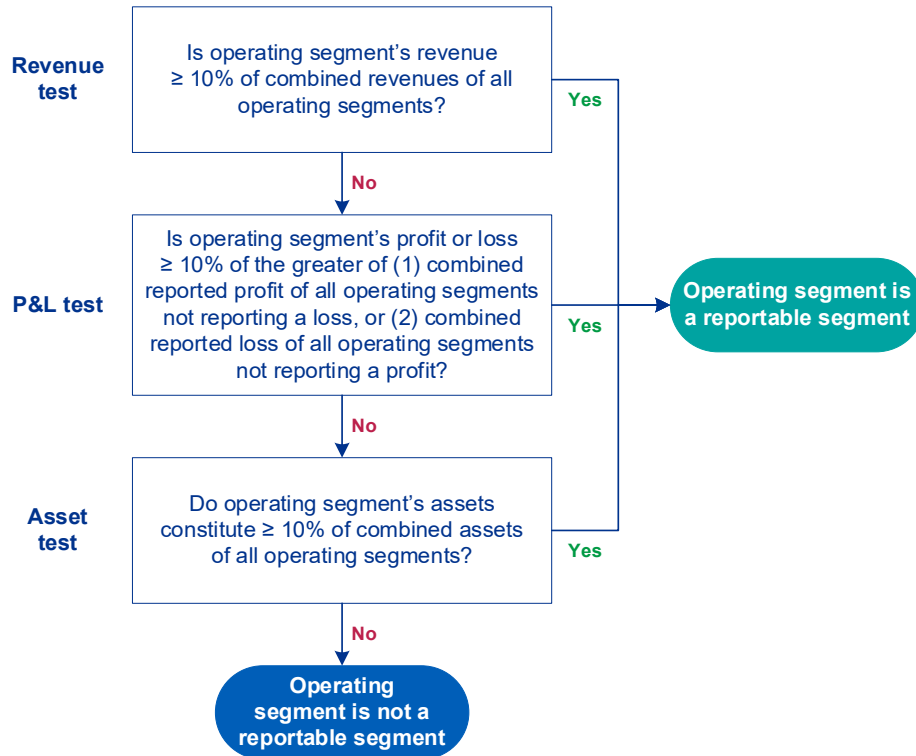
Topic 280 permits operating segments to be aggregated if they have similar economic characteristics and comply with specific aggregation tests. The process of demonstrating similar economic characteristics can be challenging and requires judgment. This is caused by the depth of analysis that is necessary to evaluate economic similarity and the lack of specific guidance in Topic 280 on how to perform this analysis.

The SEC, in its comment letters, regularly inquires about how an entity determines its operating segments and how economic characteristics are considered when operating segments are aggregated.

Read more: [chapter 4](#)

Step 3: Determine reportable segments

Topic 280 requires an entity to disclose information about operating segments that meet quantitative thresholds. An operating segment that meets these thresholds is called a reportable segment.



If the operating segments that meet the reportable segment quantitative thresholds do not represent at least 75% of total consolidated revenue, Topic 280 requires additional operating segments to be treated as reportable segments.

If an operating segment does not meet any of the initial reportable segment quantitative threshold criteria, it is an 'insignificant' operating segment. Depending on the circumstances, insignificant operating segments are either presented as a reportable segment, combined with other insignificant operating segments, or included in an 'all other' category.

Read more: [chapter 5](#)

Step 4: Disclosures

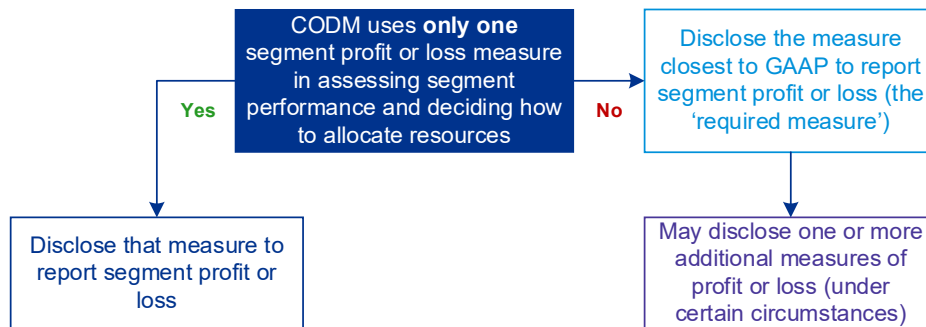
Segment disclosures

Topic 280 requires a public entity, including a public entity that has a single reportable segment, to provide extensive segment disclosures by reportable segment in annual and interim financial statements. There are three categories of required segment disclosures, which are summarized below.

General information	— Factors used to identify reportable segments — Types of products and services that produce revenue for each reportable segment — Title and position of the CODM
----------------------------	---

Information about profit or loss and assets	— Profit or loss and asset measures for each reportable segment (more than one profit or loss measure for a segment permitted with caveats) — Additional quantitative information about profit or loss and assets — Additional qualitative information about profit or loss and assets
Reconciliations	Reconciled to corresponding consolidated amount: — Total reportable segment revenues — Total reportable segment profit or loss — Total reportable segment assets — Total reportable segment amounts for other significant items disclosed

Topic 280 permits an entity, including an entity with a single reportable segment, to report more than one profit or loss measure that is used by the CODM to evaluate segment performance and allocate resources, as long as one of the reported measures is the one that is most consistent with GAAP.



The SEC staff has indicated that:

- additional measures of segment profit or loss that are not determined in accordance with US GAAP would be subject to the SEC's non-GAAP financial measures rules and regulations; and
- when a single reportable segment entity is managed on a consolidated basis, it expects the required measure of segment profit or loss to be consolidated net income.

Registrants should watch for announcements or further guidance from the SEC staff since this guidance may be subject to change.

The additional quantitative information about segment profit or loss and assets includes specified items (e.g. external and intersegment revenues, depreciation and amortization) and significant expenses. To determine which information to disclose, an entity generally needs to assess which information is regularly provided to or regularly reviewed by the CODM. This assessment may require judgment.

Read more: [chapter 6](#)

Entity-wide information

Topic 280 also requires entity-wide information about an entity's revenues and long-lived assets, but only in annual financial statements.

Entity-wide disclosures

- Information about products and services
- Information about geographic areas
- Information about major customers

These disclosures need not be made on an entity-wide basis if they are already provided by segment.

Read more: [chapter 8](#)

Ongoing considerations

A change in the composition of reportable segments, in the way significant segment expenses are identified or in the segment measure used triggers the following reporting and disclosure requirements.

Accounting for changes to segment reporting		
Reporting period of change	Change in composition of segments or identification of significant segment expenses	Change in segment measures
Annual period:	Recast prior periods presented in annual financial statements, if practicable, to conform to current-period presentation.	Disclose nature and effect of the change
Interim period:	Recast prior interim periods and prior annual period presented in interim financial statements, if practicable	Disclose difference in basis of measurement of segment profit or loss – the effect of the change is not required to be disclosed

For changes in the composition of segments or the identification of significant segment expenses, any item for which recasting is not practicable does not need to be recast. Items that do not qualify for the exception are required to be recast. Whether it is practicable to recast an item depends on the individual facts and circumstances for that item; in our experience, use of this exception is rare.

The SEC requires registrants to provide retrospectively revised financial statements that present segment information under the new basis of segmentation. This requirement applies to periodic filings required under the Securities and Exchange Acts (e.g. proxy statements, Forms 10-Q and 10-K) and registration statements (e.g. Form S-1 filings).

Read more: [chapter 7](#)

SEC filings

US companies (domestic filers)

Certain SEC filings (e.g. Form 10-K and Form S-1) require a registrant to include segment information in the following sections.

Description of business	MD&A
Property	Financial statements

The information required by the SEC is based on the same segment structure developed under Topic 280 for the segment disclosures in the financial statements. However, SEC regulations require additional and different information based on this segment structure.

Read more: [chapter 9](#)

Non-US companies (FPIs)

The required segment disclosures in financial statements filed with a Form 20-F by Foreign Private Issuers depend on the basis of accounting used to prepare those financial statements.

- **US GAAP.** Financial statements prepared using US GAAP should already have the required segment disclosures.
- **IFRS® Accounting Standards as issued by the International Accounting Standards Board.** The segment disclosures are sufficient and therefore no additional Topic 280 disclosures are required.
- **Country GAAP.** Additional Topic 280 disclosures may be required.

Similar to domestic filers, FPIs have additional filing requirements for changes in segment structure.

Form 20-F also includes sections other than the financial statements section in which segment information may be presented.

Read more: [chapter 10](#)

Interaction with other Topics

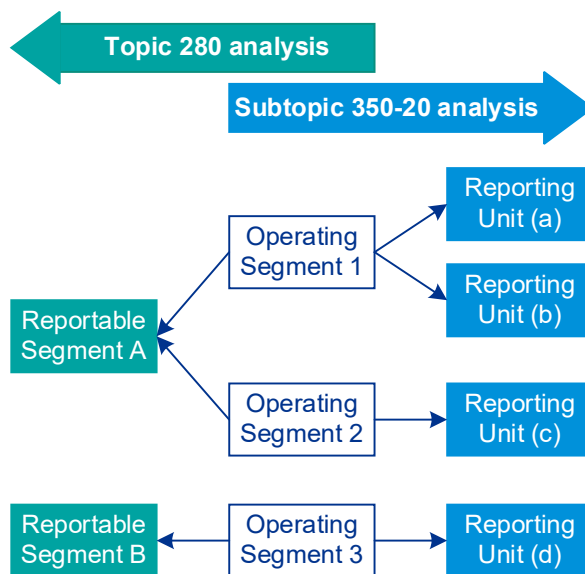
There is an interrelationship between segment reporting and several other Topics.

An entity discloses the following by reportable segment:

- discontinued operations;
- total costs expected to be incurred in connection with an exit or disposal activity;
- goodwill and changes in goodwill;
- the amount of goodwill acquired in a business combination; and
- impairments of long-lived assets and disposals of asset groups.

In addition, revenue is disaggregated and disclosed in categories that depict the nature, amount, timing and uncertainty of revenue and cash flows affected by economic factors. Sufficient information must be disclosed about the relationship between the disaggregated revenue and revenue information for each reportable segment.

Goodwill is assessed for impairment at the reporting unit level, which is defined as an operating segment, or one level below an operating segment. The following diagram illustrates the relationship between reporting units, operating segments and reportable segments. The concepts can be confusing because they both use operating segments as the starting point for analysis.



Read more: [chapter 11](#)

Effects of ASU 2023-07

ASU 2023-07 enhances segment reporting under Topic 280 by expanding the breadth and frequency of segment disclosures. The amendments in ASU 2023-07 include the following key changes.

Topic	After ASU 2023-07	Before ASU 2023-07	Book reference
CODM	Disclose the title and position of the CODM.	No similar requirement.	Section 6.3.40

Topic	After ASU 2023-07	Before ASU 2023-07	Book reference
Segment expenses	Disclose significant segment expenses that are regularly provided to the CODM and included within each reported segment profit or loss measure.	No similar requirement.	Section 6.4.30
	Disclose an amount for other segment items by reportable segment and a description of its composition. The other segment items category is the difference between segment revenue less significant segment expenses and each reported segment profit or loss measure.	No similar requirement.	
Segment profit or loss measure(s)	Option to report multiple measures of a segment's profit or loss, if the CODM uses more than one to assess segment performance and allocate resources. However, at least one of the reported measures (or the single reported measure, if only one is disclosed) must be the measure that is most consistent with GAAP measurement principles.	Only one segment profit or loss measure is disclosed – i.e. the measure that is most consistent with GAAP measurement principles.	Section 6.4.20
	Disclose an explanation of how the CODM uses the reported measure(s) of segment profit or loss in assessing segment performance and allocating resources.	No similar requirement.	Section 6.4.70
Interim reporting	Provide in condensed interim financial statements, all reportable segments profit or loss and assets disclosures currently required annually by Topic 280, as well as those introduced by the ASU.	Provide only limited segment disclosures in condensed interim financial statements	Section 6.9
Single reportable segment entity	Provide all segment disclosures in Topic 280, not just entity-level disclosures.	No specific guidance for single reportable segment entities.	Question 6.2.30

Effective date and transition requirements

Effective date	Fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024.
Early adoption	Early adoption is permitted.
Transition	Retrospectively to all periods presented in the financial statements, unless retrospective application is impracticable.

To apply the ASU's amendments retrospectively, a public entity recasts the segment expense categories and amounts disclosed in comparative periods based on the significant segment expense categories identified and disclosed in the period of adoption, regardless of whether those segment expense categories were significant or regularly provided to the CODM in the comparative periods.

A single reportable segment entity is required to provide all segment disclosures in Topic 280, not just entity-level disclosures (see [section 6.2](#)). Therefore, at the effective date or upon early adoption, a single reportable segment entity must retrospectively apply Topic 280 in its entirety.

2. Scope

Detailed contents

New item added in this edition: **

Item significantly updated in this edition: #

2.1 How the standard works

2.2 Scope of Topic 280

Questions

- 2.2.05 What is considered a 'public entity' under Topic 280?
- 2.2.10 Does Topic 280 apply to financial statements that are not available to the public?
- 2.2.20 Does Topic 280 apply to the financial statements of the guarantor of a registered security?
- 2.2.30 What markets should an entity consider when determining if it is a public entity in the scope of Topic 280?
- 2.2.40 Does Topic 280 apply to the financial statements filed to comply with S-X Rule 3-05 or S-X Rule 3-14, or as target-entity financial statements on Form S-4? **#**
- 2.2.50 Does Topic 280 apply to non-issuer broker dealers?
- 2.2.60 Does Topic 280 apply to employee benefit plans (EBPs) that file with the SEC on Form 11-K? ******
- 2.2.70 Does Topic 280 apply to investment companies that are required to file financial statements with the SEC? ******

2.1 How the standard works

Topic 280 requires disclosure of segment information. The following table explains what entities are required to provide these disclosures and what entities may voluntarily provide them.

Type of entity	Public	Nonpublic
Business entity	Required	Discretionary but encouraged
Not-for-profit	Discretionary but encouraged	Discretionary but encouraged

Entities that voluntarily provide segment disclosures are required to fully comply with Topic 280 and include the required segment disclosures for all periods presented.

2.2 Scope of Topic 280



Excerpt from ASC 280-10

20 Glossary

Public Entity

A business entity or a not-for-profit entity that meets any of the following conditions:

- It has issued debt or equity securities or is a conduit bond obligor for **conduit debt securities** that are traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local or regional markets).
- It is required to file financial statements with the Securities and Exchange Commission (SEC).
- It provides financial statements for the purpose of issuing any class of securities in a public market.

10-1 The objective of requiring disclosures about segments of a **public entity** and related information is to provide information about the different types of business activities in which a public entity engages and the different economic environments in which it operates to help users of financial statements do all of the following: –

- Better understand the public entity's performance
- Better assess its prospects for future net cash flows
- Make more informed judgments about the public entity as a whole.

> Entities

15-2 The guidance in the Segment Reporting Topic applies to all **public entities**, with certain exceptions noted below. Entities other than public entities are also encouraged to provide the disclosures described in this Subtopic.

15-3 The guidance in this Subtopic does not apply to the following entities:

- Parent entities, subsidiaries, joint ventures, or investees accounted for by the equity method if those entities' separate company statements also are consolidated or combined in a complete set of financial statements and both the separate company statements and the consolidated or combined statements are included in the same financial report. However, this Subtopic does apply to those entities if they are public entities and their financial statements are issued separately.
- Not-for-profit entities (regardless of whether the entity meets the definition of a public entity as defined above).
- Nonpublic entities.

Only *business entities* that are *public entities* are required to provide segment disclosures under Topic 280. Other entities are encouraged, but not required, to provide these disclosures. However, if other entities voluntarily provide segment disclosures, they are required to fully comply with Topic 280 and include the required segment disclosures for all periods presented. [\[280-10-15-2\]](#)



Question 2.2.05

What is considered a 'public entity' under Topic 280?

Interpretive response: A business entity is a public entity under Topic 280 if it meets one or more of the following conditions: [\[280-10 Glossary\]](#)

- it has issued debt or equity securities or is a conduit bond obligor for conduit debt securities that are traded in a public market – i.e. a domestic or foreign stock exchange or an over-the-counter market, including local or regional markets;
- it is required to file financial statements with the SEC; and/or
- it provides financial statements for the purpose of issuing any class of securities in a public market.

Although a *not-for-profit entity* can also be a public entity if it meets at least one of the three above conditions, not-for-profit entities are exempt from the requirement to provide segment disclosures under Topic 280. [\[280-10-15-3\(b\)\]](#)

If an entity does not meet the definition of a public entity on its own, its stand-alone financial statements do not need to contain segment disclosures even if they are consolidated or combined with financial statements of a public entity in a financial report. This exemption applies whether the entity is a parent, subsidiary, joint venture or equity method investment of the public entity. However, consolidated financial statements of a public entity have to include segment disclosures of the consolidated entity, even when the consolidated subsidiaries, in their stand-alone financial statements, do not meet the definition of a public entity. [\[280-10-15-3\(a\)\]](#)



Question 2.2.10

Does Topic 280 apply to financial statements that are not available to the public?

Background: Assume Subsidiary Issuer issues securities and both Parent and one or more of Parent's subsidiaries guarantee those securities. Parent provides financial information for Subsidiary Issuer in the notes to its consolidated financial statements instead of in stand-alone audited financial statements of Subsidiary Issuer.

Subsidiary Issuer provides stand-alone audited financial statements to its lenders but does not file these financial statements with the SEC or otherwise use them to issue new securities. Therefore, its stand-alone audited financial statements are not available to the public.

Interpretive response: We believe the scope of Topic 280 is limited to financial statements available to the public. Therefore, Subsidiary Issuer's stand-alone audited financial statements need not include segment disclosures. [\[280-10-15-2 – 15-3\]](#)



Question 2.2.20

Does Topic 280 apply to the financial statements of the guarantor of a registered security?

Interpretive response: Yes, every issuer of a registered security that is guaranteed and every guarantor of a registered security must file the financial statements required for a registrant by Regulation S-X, unless it qualifies for certain exceptions. Because these financial statements of the guarantor are filed with the SEC or otherwise used to issue securities, we believe the guarantor is a public entity as defined by Topic 280 (see [chapter 9](#)). [S-X Rule 3-10(a)]



Question 2.2.30

What markets should an entity consider when determining if it is a public entity in the scope of Topic 280?

Interpretive response: To determine whether its securities are traded in a public market, an entity considers: [TQA 7100.03, 7100.14]

- whether the markets on which its securities are traded, listed or quoted are accessible to the public to execute trades; and
- whether those markets make various data publicly available, such as security listing, bid/ask pricing or trade data (price and volume).

Over-the-counter markets generally are not public markets if they are not accessible to the public or do not publish underlying financial information. However, we believe the OTC Pink Marketplace is a public market because the public has access to it and it publishes underlying financial information. Therefore, entities trading, listing or quoting securities on the OTC Pink Marketplace are in the scope of Topic 280.

In contrast, securities whose purchase is limited to specific investors are not considered accessible to the public, and therefore are not traded in a public market. For example, Rule 144A securities and many municipal securities issued in private placements can be sold only to qualified investors and therefore are not accessible to the public. However, if the issuer were to register those securities, it would likely meet the public entity definition and be in the scope of Topic 280. [TQA 7100.03, 7100.14]



Question 2.2.40#

Does Topic 280 apply to the financial statements filed to comply with S-X Rule 3-05 or S-X Rule 3-14, or as target-entity financial statements on Form S-4?

Interpretive response: It depends. Topic 280 does not apply to the financial statements of an acquired business filed to comply with S-X Rule 3-05 or

financial statements of real estate operations filed to comply with S-X Rule 3-14, unless the acquired business or real estate operation itself meets the definition of a 'public entity', as defined by Topic 280 (see [Questions 2.2.05 and 2.2.30](#)). [\[280-10-15-3\(a\), 105-10 Glossary\]](#)

The definition of a 'public entity' should not be confused with the definition of a 'public business entity', which includes a business entity that is required to file or furnish (or is a voluntary filer of) financial statements with the SEC. The FASB created the term 'public business entity' in 2013 and has used it in some standards issued since then, but the term 'public entity' continues to apply in Topic 280.

Similarly, Topic 280 does not apply to financial statements of a nonpublic target entity included in a Form S-4 or proxy registration statement, if the nonpublic target entity does not meet the 'public entity' definition. This applies regardless of whether the nonpublic target entity, as the legal acquirer, is considered the accounting acquirer or acquiree, because the Form S-4 reporting requirements follow the legal form of the transaction. [\[280-10-15-3\(a\), 105-10 Glossary, FRM 2200.1\]](#)



Question 2.2.50

Does Topic 280 apply to non-issuer broker-dealers?

Interpretive response: Yes. Section 17a-5 of the Securities and Exchange Act of 1934 requires registered broker-dealers to file periodic reports (including quarterly and annual financial statements) with the SEC. Therefore, per item (b) of the definition of a public entity, a broker-dealer is considered a public entity under US GAAP, even when it is a non-issuer. [\[280-10 Glossary\]](#)

During deliberations prior to the issuance of ASU 2023-07, the FASB considered but ultimately rejected creating a different definition of a public entity for purposes of applying Topic 280. [\[ASU 2023-07.BC23\]](#)

In our experience, many broker-dealers are single reportable segment entities that before ASU 2023-07 did not provide segment disclosures. Given the clarifications introduced by the ASU for single reportable segment entities (see [Question 6.2.30](#)), these broker-dealers need to consider whether they should provide additional disclosures under Topic 280.



Question 2.2.60**

Does Topic 280 apply to employee benefit plans (EBPs) that file with the SEC on Form 11-K?

Interpretive response: No. We believe EBPs are not required to include Topic 280 segment disclosures in their financial statements because Topic 280 applies to public entities. Public entities are business entities and we believe EBPs are not considered to be business entities.

When the FASB established the definition of a public business entity, it specifically excluded EBPs from the definition based on EBPs' unique

characteristics and the needs of their financial statement users. Further, FASB Concepts Statement No. 8 (CON 8) distinguishes between EBPs and business entities, indicating the specific disclosure needs of EBP financial statement users. [\[ASU 2013-12.BC38, CON 8.D17, 105-10 Glossary\]](#)



Question 2.2.70**

Does Topic 280 apply to investment companies that are required to file financial statements with the SEC?

Interpretive response: Yes. Topic 280 applies to all entities that meet the definition of a public entity. As confirmed by the SEC staff at the 2024 AICPA & CIMA Conference on Current SEC and PCAOB Developments, this definition includes investment companies that are required to file financial statements under the Investment Company Act of 1940 or the Securities Exchange Act of 1934.

3. Identify the CODM

Detailed contents

3.1 How the standard works

3.2 CODM defined

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- 3.2.20 Committee vs individual

Questions

- 3.2.10 Is the CODM the CEO by default?
- 3.2.20 Can the CODM be an entity's board of directors?
- 3.2.30 Can an individual be both a segment manager and the CODM?
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- 3.2.60 To be the CODM, does the individual or group also need to allocate the resources and make the operating decisions *within* the operating segments?
- 3.2.70 If a group or committee is the CODM, does an entity need to reassess the CODM determination as the group or committee grows in size?
- 3.2.80 Can a segment manager and a higher level executive collectively be the CODM?
- 3.2.90 Does an entity need to determine the CODM and segments for carve-out financial statements or separate financial statements of a subsidiary?

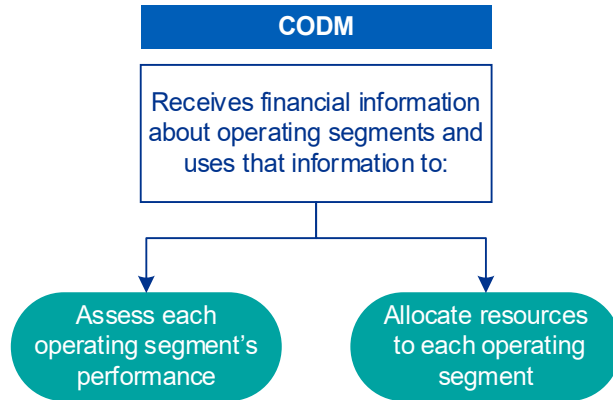
Examples

- 3.2.10 Executive committee as CODM
- 3.2.20 The CEO as CODM
- 3.2.30 Change in the CODM

3.1 How the standard works

Identifying an entity's CODM is the first step in developing segment disclosures because the disclosures are based on how the CODM manages the entity's business.

The CODM is the highest level of management at which the operating results for each operating segment of an entity are assessed and decisions about allocating resources to each operating segment are made.



3.2 CODM defined

3.2.10 Overview



Excerpt from ASC 280-10

> Operating Segments

50-5 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 segments of a public entity. Often the chief operating decision maker of a public entity is its chief executive officer or chief operating officer, but it may be a group consisting of, for example, the public entity's president, executive vice presidents, and others.

50-7 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.

50-8 The chief operating decision maker also may be the segment manager for certain operating segments. A single manager may be the segment manager for more than one operating segment. If the characteristics in paragraphs 280-10-50-1 and 280-10-50-3 apply to more than one set of components of a public entity but there is only one set for which segment managers are held responsible, that set of components constitutes the operating segments.

The CODM represents the function that both assesses an operating segment's performance and determines the resources to be allocated to the operating segment. Because the CODM is a function and not a manager with a specific title, the CODM could be a single person or a group of people. [\[280-10-50-5\]](#)

The CODM should not be confused with a segment manager who has more direct day-to-day control over an operating segment. However, it is possible for a segment manager to also be the CODM. This only occurs if the segment manager regularly reviews the operating segment's discrete financial operations and has the power to assess the operating segment's performance and allocate resources to the operating segment. Generally though, a segment manager is a person or group of people directly accountable to and maintaining regular contact with the CODM. [\[280-10-50-7 – 50-8\]](#)

The identity of a CODM depends on an entity's unique facts and circumstances. Two entities can have management structures that appear very similar, but factual differences about who has what authority within those structures and what the key operating decisions are can lead to the entities reaching different conclusions as to who their respective CODM is.

Examples of key operating decisions that may assist in identifying the CODM include:

- approving operating budget and forecasts;
- entering into significant contracts;
- hiring of key management or executive personnel;

- making significant capital investment decisions; and/or
- changing company-wide strategy.

Section 6.3.40 discusses disclosures related to the CODM title and position.



Question 3.2.10

Is the CODM the CEO by default?

Interpretive response: No. Identifying the CODM in an entity with a complex organizational structure can be difficult. While decisions about overall resource allocation may be made at the highest level of management, we believe an entity should regularly take a fresh look at its CODM determination if it has historically defaulted to the CEO and consider what the key operating decisions are and who is actually making those decisions.

Many entities look to who has ‘ultimate decision-making authority’ when determining the CODM; however, we caution that this term is not included in Topic 280’s definition of a CODM. For example, if the COO is making the key operating and resource allocation decisions, the COO may be the CODM even if they report to the CEO (i.e. the person with the ‘ultimate decision-making authority’).



Question 3.2.20

Can the CODM be an entity’s board of directors?

Interpretive response: Generally, no. Although one role of the board of directors may be to approve the allocation of resources, the CODM normally will be a member of management who both assesses performance and determines the resource allocation submitted to the board of directors for approval.

Although rare, if a board of directors assesses the performance of the operating segments and allocates resources to those operating segments, it could be the CODM. For example, the board of directors of a private equity fund investor that owns a particular entity may have both of these responsibilities. [\[280-10-50-5\]](#)



Question 3.2.30

Can an individual be both a segment manager and the CODM?

Interpretive response: Yes. However, if the CODM reviews information about components of an operating segment – in particular, financial information to assess performance and allocate resources for those components – Topic 280 requires that those components be identified as operating segments.

When the two roles are performed by the same individual, an entity cannot make a distinction between the information that the individual reviews as segment manager versus as CODM.



Question 3.2.40

Can an entity have more than one CODM?

Interpretive response: No. An entity cannot have more than one CODM. But as explained in [section 3.2.20](#), the CODM may be a committee or group of people.



Question 3.2.60

To be the CODM, does the individual or group also need to allocate the resources and make the operating decisions *within* the operating segments?

Interpretive response: No. The CODM function is to assess the performance of the operating segments and allocate resources to those operating segments. The allocation of resources does not need to also include allocating the resources *within* the operating segments; the same applies to making operating decisions. These tasks can be delegated to others – e.g. the segment manager or other lower levels of management, where more detailed disaggregated information is provided and used.

For example, the CODM is responsible for making operating segment level sales strategy decisions and the segment managers are responsible for implementing the strategy (i.e. making implementation decisions) within the operating segments. The segment managers are not the CODM because the strategic operating decisions will not change based on their implementation decisions.

3.2.20 Committee vs individual

The CODM can be a committee or a group (e.g. two or more managers or an executive committee) rather than an individual. Often a group will appear to have the authority to assess performance of the entity's operating segments and allocate resources to those operating segments. However, how the group functions and who has what authority related to the segments needs to be carefully analyzed. The mere existence of an executive committee, management committee or other high-level committee does not mean that one of those committees constitutes the CODM.

An entity should consider the following types of interactions when determining the CODM.

- Interactions between a higher level executive (such as the CEO) and a lower level executive (such as a segment manager). In some cases the two executives collectively may be the CODM (see [Question 3.2.80](#)).
- Interactions between higher level committees and executives and lower level management. In some cases, the facts will indicate that an entire group is the CODM, but depending on how the decisions are being made one member of the group or a person outside the group may be the CODM (see [Examples 3.2.10](#) and [3.2.20](#)).



Question 3.2.70

If a group or committee is the CODM, does an entity need to reassess the CODM determination as the group or committee grows in size?

Interpretive response: Yes. When a group or committee constitutes the CODM, the entity will have to reassess its CODM determination as the group's size increases. As the size of the CODM group increases, the information provided to the group or individuals within the group typically increases.

This information should be analyzed to determine the level at which it is reviewed when assessing performance or allocating resources; this may indicate that the CODM is not the entire group or committee, but rather an individual or different group or committee (or possibly a subset of the group or committee).

In addition, if the information provided to the CODM increases, this may be an indicator of additional operating segments (see [section 4.2](#)).



Question 3.2.80

Can a segment manager and a higher level executive collectively be the CODM?

Interpretive response: Yes. For example, an entity's COO and segment manager can collectively be the CODM if they work together to review the financial performance of the entity's operating segments and make resource allocations to those operating segments.

Although Topic 280 provides for separating the segment manager function from the CODM function, if the segment manager's role is so intertwined with the role of a higher level executive as to be almost indistinguishable, the two collectively should be treated as the CODM.



Example 3.2.10

Executive committee as CODM

ABC Corp.'s CEO, COO and CFO comprise the executive committee. The responsibility of the executive committee is to collectively assess performance

and make resource allocation decisions related to the entity's operating segments. The CEO operates more as a strategic decision maker for the organization as a whole.

The executive committee is the CODM because the committee is the highest level of management that performs these functions.



Example 3.2.20 The CEO as CODM

The CEO, COO and CFO of ABC Corp. comprise an executive committee that works together to gather information for the CEO to assess performance and make resource allocation decisions for the operating segments. The CEO has the authority to override the other members of the executive committee and frequently makes operational and resource allocation decisions unilaterally. The CEO also makes strategic decisions.

Because the CEO makes key operating and resource allocation decisions and the committee supports the CEO in that role, the CEO is the CODM for purposes of Topic 280. The segment financial information provided to and used by the executive committee may (or may not be) the same information used by the CEO as the CODM to evaluate performance and allocate resources. In this example, careful consideration is needed to determine which segment financial information is being used by the CODM.



Example 3.2.30 Change in the CODM

ABC Corp. historically has had two operating segments (see [chapter 4](#)) that are also the reportable segments (see [chapter 5](#)): Domestic and International.

Each operating segment has had its own president who has been considered the segment manager. The financial results of both the Domestic and International operating segments have been reviewed by the Chairman and CEO (the CODM) to assess performance and allocate resources.

As part of an internal reorganization, the Domestic president is promoted to COO and the International president is promoted to President of Global Sales. An executive team is created, comprising the Chairman and CEO, the COO and the President of Global Sales. The executive team reviews the operating results to assess performance and allocate resources for the Domestic and International operating segments.

To monitor the day-to-day operations of both the Domestic and International operating segments, ABC hires two new vice presidents who assume the previous roles of both the legacy Domestic and International presidents.

Subsequent to the internal reorganization, ABC concludes that there has been a change of CODM from the Chairman and CEO to the executive team. This is because the Chairman and CEO is no longer solely responsible for assessing performance and allocating resources.



Question 3.2.90

Does an entity need to determine the CODM and segments for carve-out financial statements or separate financial statements of a subsidiary?

Interpretive response: Yes. For carve-out or subsidiary entities with separate financial statements that are in the scope of Topic 280, the CODM and segments need to be determined specifically for the carve-out or separate entity. The CODM and segments at the carve-out entity or subsidiary level may or may not be the same as the CODM or segments reported in the parent company's consolidated financial statements.

4. Identify and aggregate operating segments

Detailed contents

New item added in this edition: **
Item significantly updated in this edition: #

4.1 How the standard works

4.2 Characteristics of an operating segment

- 4.2.10 Overview
- 4.2.20 Business activities
- 4.2.30 Review of operating results by CODM
- 4.2.40 Discrete financial information
- 4.2.50 Corporate divisions and functional departments

Questions

- 4.2.10 Can an entity operating in one industry assume it has only one operating segment?
- 4.2.20 What additional information might indicate the existence of operating segments?
- 4.2.30 Can subsidiaries be separate operating segments under Topic 280?
- 4.2.40 Can an R&D activity qualify as an operating segment?
- 4.2.50 Does the definition of a business in Topic 805 affect whether an operating segment engages in business activities?
- 4.2.55 What is the meaning of 'regularly'?
- 4.2.60 How should supplemental financial and organizational information reviewed by the CODM be considered?
- 4.2.70 How should an entity evaluate its operating segments when it has a matrix organizational structure?
- 4.2.80 Can an entity consider only the periodic reports the CODM receives when determining whether discrete financial information exists?
- 4.2.90 Can financial information qualify as discrete and sufficient financial information if it includes only revenue information?
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4. Identify and aggregate operating segments

- 4.2.110 Can a corporate headquarters function qualify as an operating segment?

Examples

- 4.2.10 Single-industry entity
- 4.2.20 Start-up phase operations
- 4.2.30 R&D activity
- 4.2.40 Business combination effect on a segment assessment
- 4.2.50 Identifying operating segments – product line vs geography
- 4.2.60 Resegmentation with both geographies and product lines
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- 4.2.80 Financial information not detailed enough
- 4.2.90 Financial information not detailed enough, plus detailed discussions with segment managers
- 4.2.100 Segment assessment based on discrete financial information reviewed by the CODM

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- 4.3.10 Vertically integrated entities
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Questions

- 4.3.10 Is each component in vertically integrated operations a separate operating segment?
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- 4.3.10 Vertically integrated operations
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- 4.4.20 Aggregation – Objective and basic principles
- 4.4.30 Economic similarity
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4. Identify and aggregate operating segments

- 4.4.20 Are the aggregation criteria indicators or tests?
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- 4.4.40 How often should an entity evaluate the aggregation of its operating segments?
- 4.4.50 Is aggregation typically consistent with the objectives and basic principles of Topic 280 if operating segments meet the other two criteria for aggregation?
- 4.4.60 How should the economic similarity criterion be applied? #
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- 4.4.75 Can operating segments meet the economic similarity criterion if there is a temporary disparity in their economic performance measures?
- 4.4.80 Can an equity method investment operating segment meet the economic similarity criterion to be aggregated with other operating segments?
- 4.4.85 Is the evaluation of qualitative characteristics satisfied by purely qualitative analysis? **
- 4.4.90 How does an entity assess whether products and services are similar in nature? #
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- 4.4.110 How does an entity assess the type or class of customer? #
- 4.4.120 What is a regulatory environment?

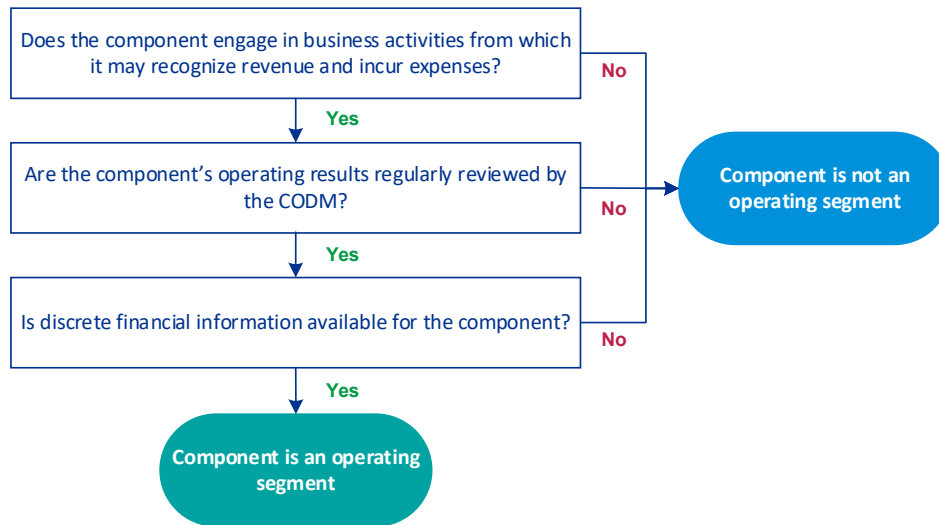
Examples

- 4.4.10 When not to aggregate
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- 4.4.90 Type or class of customer
- 4.4.100 Methods used to distribute products
- 4.4.110 Nature of regulatory environment – similar products
- 4.4.120 Nature of regulatory environment – same products

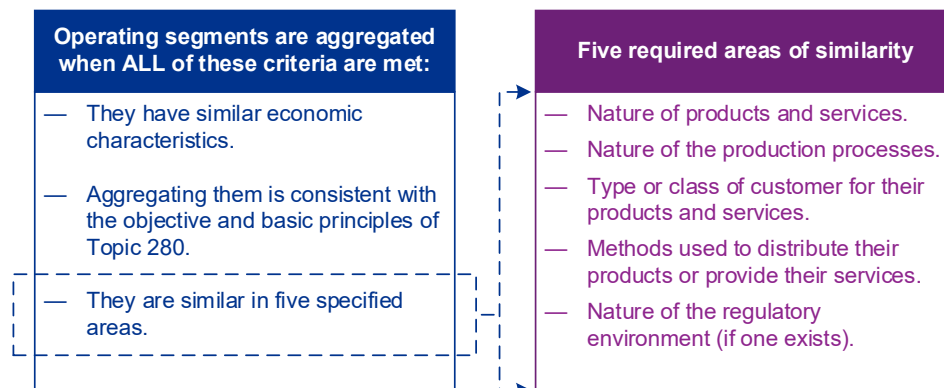
4.1 How the standard works

An entity evaluates each of its components to determine whether they are operating segments. It then determines whether its operating segments (individually or in groups) constitute reportable segments, as discussed in [chapter 5](#).

A 'management approach' is used to identify operating segments, meaning that an entity's operating segments are largely based on how management organizes and operates the business. Under this approach, a component is an operating segment if it has three characteristics, which are depicted in the following decision tree.



Once operating segments are identified, they are subjected to aggregation criteria to determine whether any of them can be combined and considered a single operating segment.



The SEC, in its comment letters, regularly inquires about how an entity determines its operating segments and how economic characteristics are considered when operating segments are aggregated.

4.2 Characteristics of an operating segment

4.2.10 Overview



Excerpt from ASC 280-10

> Operating Segments

50-1 An **operating segment** is a component of a **public entity** that has all of the following characteristics:

- It engages in business activities from which it may recognize revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same public entity).
- Its operating results are regularly reviewed by the public entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance.
- Its discrete financial information is available.

Once an entity has identified its CODM (see [chapter 3](#)), it can then identify its operating segments. A component is an operating segment if it has all of the following characteristics: [\[280-10-50-1\]](#)

- it engages in business activities (see [section 4.2.20](#));
- its operating results are regularly reviewed by the CODM (see [section 4.2.30](#)); and
- its discrete financial information is available (see [section 4.2.40](#)).

The analysis of one characteristic often assists in the analysis of another characteristic, because the objective of segment reporting is to provide users of the financial statements with information to understand how management views the business. Operating segments are identified in substantially the same manner as operating results are reported internally. Therefore, the method for determining what to report under Topic 280 is referred to as the 'management approach' to identifying operating segments.

Operating segments can include start-up operations (see [section 4.2.20](#)), vertically integrated operations (see [section 4.3.10](#)) and unconsolidated businesses (e.g. equity method investments) (see [section 4.3.20](#)).



Question 4.2.10

Can an entity operating in one industry assume it has only one operating segment?

Interpretive response: No. An entity operating in only one industry cannot assume that it has only one operating segment under Topic 280. Operating segments are determined based on how the entity manages its business and not solely on its industry.



Example 4.2.10 Single-industry entity

ABC Corp. considers itself in one industry segment (mining) but presents financial information in its MD&A and press releases using three components: gold, copper and coal. The CODM assesses performance and makes resource allocation decisions separately for each of these components.

Each of the three components is considered an operating segment even though they all are in the mining industry.



Question 4.2.20 What additional information might indicate the existence of operating segments?

Interpretive response: As a general matter, an entity's segment disclosures should be consistent with other information it makes publicly available, including information in its MD&A and press releases, on its website, and discussed during its earnings calls. If there are inconsistencies, the entity may need to revisit its segment disclosures to determine whether they meet the objective and basic principles of Topic 280.

This activity is particularly relevant when evaluating whether a segment's operating results are regularly reviewed by the CODM (the second characteristic of an operating segment – see [section 4.2.30](#)). An entity should consider whether the segment disclosures, based on the reports furnished to the CODM, are in conflict with the CODM's public statements.

In its comment letters, the SEC regularly inquires whether too few segments are being disclosed and whether segment disclosures are sufficiently disaggregated. In remarks at the 2022 AICPA & CIMA Conference on Current SEC and PCAOB Developments, then Deputy Chief Accountant with the Division of Corporation Finance Melissa Rocha emphasized the need to consider the 'total mix of information' reviewed by the CODM. Based on the examples that Rocha provided, registrants should ask themselves the following questions in checking the level at which operating segments have been identified (not exhaustive): [\[2022 AICPA Conf\]](#)

- At what level does the CODM review information and does that align with the operating segments?
- What information is provided to the board of directors?
- What reports are provided on a regular basis?
- What is the organizational structure and how does that inform the information reported?
- On what basis is compensation determined?
- What information is presented on earnings calls and on the company's website?



Question 4.2.30

Can subsidiaries be separate operating segments under Topic 280?

Interpretive response: It depends. Publicly reported subsidiaries or subsidiaries for which stand-alone financial statements are prepared for regulatory purposes often possess the characteristics of an operating segment. However, they may not be an operating segment if the CODM assesses performance and allocates resources at a higher level within the organization, or on a matrix form of the organization.

Therefore, when identifying operating segments, an entity cannot simply conclude that all public subsidiaries or subsidiaries for which stand-alone financial statements are prepared for regulatory purposes are separate operating segments. Instead, it must consider the organizational structure, the financial information regularly reviewed by the CODM and other pertinent information provided – e.g. budgets, forecasts, information provided to the board of directors.

4.2.20 Business activities

**Excerpt from ASC 280-10**

> Operating Segments

50-3 An operating segment may engage in business activities for which it has yet to recognize revenues, for example, start-up operations may be operating segments before recognizing revenues.

The first characteristic of an operating segment is that it engages in business activities from which it may recognize revenues and incur expenses. Those business activities do not have to involve selling goods or services to parties outside of the entity because internal sales also qualify as business activities. Also, a component need not actually recognize revenues to be an operating segment as long as it has the *ability* to recognize revenues. Therefore, this characteristic is broad enough to encompass start-up operations that have begun incurring expenses but have not yet generated revenues. [280-10-50-1(a), 50-3]



Question 4.2.40

Can an R&D activity qualify as an operating segment?

Interpretive response: An R&D activity or function may qualify as an operating segment if there is sufficient and discrete financial information available, and the operating results are reviewed regularly by the CODM. It is not essential for

the R&D activity to actually recognize revenue to qualify as an operating segment, as long as it could produce revenue. [280-10-50-1]



Example 4.2.20 Start-up phase operations

ABC Corp.'s current operations include R&D of drug compounds in the development stage and business activities related to sale of third-party commercialized drugs. The development stage drug compounds are not currently generating revenue; however, discrete financial information about the component is being provided to and used by the CODM. The CODM also uses this information for resource allocations to the R&D component. The CODM reviews separate financial information for the commercialized drugs component.

ABC has the following two components, which are also its operating segments:

- commercial drugs operating segment; and
- development stage drug compounds operating segment.

Therefore, the development stage drug compounds component is an operating segment even though it is in the start-up phase.



Example 4.2.30 R&D activity

The CODM of Manufacturer receives financial information organized by these components:

- Component A, which builds airplane simulators for airlines to train pilots.
- Component B, which builds laser equipment used in construction equipment.
- Component C, which builds chip technology for 3D graphics.
- Component D, which is the R&D department.

Manufacturer has initially determined that Components A, B and C each qualify as an operating segment.

Component D (the R&D department) may also qualify as an operating segment. Manufacturer is in a competitive market driven by technology, and its success is due largely to capitalizing on leading edge R&D efforts. The R&D department has a segment manager who reports financial information to the CODM on a regular basis, and the same information is also provided to the board of directors. Manufacturer does not allocate expenses of the R&D department to any other components within the entity, nor is there an intersegment charge for its activities.

Although no revenues are allocated to the R&D department, Manufacturer could recognize revenues from the department's activities given the nature of Manufacturer's business. Further, the department incurs expenses and its discrete financial information is reviewed by the CODM. Accordingly, Manufacturer concludes that the R&D department is an operating segment.



Question 4.2.50

Does the definition of a business in Topic 805 affect whether an operating segment engages in business activities?

Interpretive response: It depends. The definition of a business is not referred to in Topic 280, but it may be helpful in applying Topic 280's guidance.

Topic 805 defines a business as an integrated set of activities and assets if it has, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. Under Topic 280, the first characteristic of an operating segment is that it engages in business activities from which it may recognize revenues and incur expenses. [805-10-55-3A – 55-6, 55-8 – 55-9, 280-10-50-1(a)]

Although the Topic 805 and Topic 280 considerations involve separate analyses, an entity may find the definition of a business useful when determining whether a component meets the first characteristic of an operating segment. This is because a component that meets the criteria in Topic 805's definition of a business likely engages in business activities from which it may recognize revenues and incur expenses.

4.2.30 Review of operating results by CODM



Excerpt from ASC 280-10

> Operating Segments

50-6 For many public entities, the three characteristics of operating segments described in paragraph 280-10-50-1 clearly identify a single set of operating segments. However, a public entity may produce reports in which its business activities are presented in a variety of different 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 a public 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.

50-9 The characteristics in paragraphs 280-10-50-1 and 280-10-50-3 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 public entities, certain managers are responsible for different product and service lines worldwide, while other managers are responsible for specific geographic 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 components based on products and services would constitute the operating segments.

The second characteristic of an operating segment is that its operating results are regularly reviewed by the CODM who uses that information to assess the performance of the operating segment and to allocate resources to it. [\[280-10-50-1\(b\)\]](#)

This characteristic requires an entity to evaluate the financial information regularly provided to the CODM to determine whether that information enables the CODM to assess a given operating segment's performance and make resource allocation decisions about the operating segment. This task can be difficult when an entity produces reports in which its business activities are presented in a variety of ways because the different reports can suggest different operating segment structures for the entity. Topic 280 refers to this structure as a matrix form of organization. [\[280-10-50-6\]](#)



Question 4.2.55

What is the meaning of 'regularly'?

Interpretive response: The term 'regularly' is used throughout Topic 280 when referring to the frequency with which the CODM:

- reviews operating results of an operating segment – in the context of identifying operating segments; and
- is provided with segment information – in the context of determining which segment profit or loss and asset information to disclose (see [section 6.4](#)).

Topic 280 does not define 'regularly' or specify how entities may interpret its meaning.

At the 2023 AICPA & CIMA Conference on Current SEC and PCAOB Developments, the SEC staff indicated that financial information reviewed by (or provided to) the CODM quarterly would be considered 'regularly' reviewed (or provided). However, regularly could be less frequent than quarterly depending on the facts and circumstances.



Question 4.2.60

How should supplemental financial and organizational information reviewed by the CODM be considered?

Interpretive response: The main objective of segment reporting is to provide financial statement users with information to understand how management views the business. Therefore, it is important that the operating segments accurately reflect how management organizes the business and the CODM assesses performance and makes operating decisions. Because of this, an entity should not place undue reliance on the periodic financial reporting package reviewed by the CODM (i.e. the CODM report). Rather, it should use a variety of information sources and data points when determining how the CODM evaluates operating results. See additional factors to consider in [Question 4.2.70](#). [\[280-10-05-3\]](#)

Nevertheless, the CODM report can be a very important data point – particularly if the CODM receives the report on a quarterly or more frequent basis – unless the reports of other overlapping operating segments more clearly represent the way the business is managed.

In addition to the CODM report, the CODM considers various sources of information in evaluating operating results, such as the organizational structure, the basis on which budgets and forecasts are prepared, and the basis on which executive compensation is determined. An entity also considers press releases and any revenue and profitability information released to analysts, as well as whether the CODM reviews this information to assess performance and allocate resources. None of these sources (including the CODM report) are individually determinative to the analysis. See [Question 4.2.20](#) on information reviewed for determining the operating segments.



Example 4.2.40

Business combination effect on a segment assessment

ABC Corp. is a manufacturer and wholesale distributor of prescription medications and related products throughout the United States, Mexico and Europe. For segment reporting purposes, ABC has historically determined that its executive committee, made up of the CEO and CFO, is the CODM. Two segment managers have reported directly to the CODM and have managed two operating segments, North America (United States and Mexico) and International (Europe).

ABC completes the acquisition of DEF Corp., an operator of health clinics and a service company in the United States. As a result of the acquisition, ABC reorganizes and reassesses its segment reporting. The executive committee continues to be the CODM. However, the organizational structure is revised to eliminate geographic segment management for product distribution and place the entire business under one segment manager of Products. A new segment manager oversees the legacy DEF business as the Services segment. Both segment manager's report directly to the CODM.

After the acquisition, ABC's operating segments are no longer based on geography (North America and International). Rather, the two operating segments are Products and Services.



Question 4.2.70

How should an entity evaluate its operating segments when it has a matrix organizational structure?

Background: Many entities, particularly multinational entities with diverse operations, organize and report financial information to the CODM in more than one way. For example, when an entity uses a matrix organizational structure, the reporting relationships are set up as a grid, or matrix, rather than by only

product or only geography. Financial information in these structures have dual reporting relationships – e.g. to both a functional manager and a product manager.

The following scenarios illustrate two matrix organizational structures.

Scenario 1: By geography and product

ABC Corp. internally reports financial information of its components to the CODM on a geographic basis and also by product. In many circumstances, both types of reports reflect components that could be considered operating segments under the management approach.

Scenario 2: Layers of reporting by geography, function and product

ABC's CODM receives three reports that summarize the same financial information at three different levels of aggregation within a matrix organizational structure: at a geographical, functional and product level. The CODM uses all three reports when assessing ABC's overall performance and deciding how to allocate resources. The reports range from the most detailed, which includes 18 individual components, to the highest summary level, which has three components. Each level report is simply the aggregation of the next more detailed report.

Interpretive response: The appropriate operating segments in a matrix organizational structure are not always obvious. Judgment is necessary in determining the operating segments; therefore, the ultimate decision depends on the entity's facts and circumstances. The following factors should be considered in determining the appropriate operating segments.

- **The nature of the business activities of each component.** Assume in Scenario 1 (information by geographic location and by product) that all of the entity's sales are in the United States. The entity may satisfy the objective of Topic 280 best if its operating segments are defined on a product basis for segment reporting purposes (paragraph 280-10-50-9). However, the entity may also satisfy the objective of Topic 280 by using geographical segments within regions of the United States when all sales are in the United States, because dissimilar geographical segments may exist within the country.

In Scenario 2, if the highest level segment information is represented by components that contain essentially dissimilar business activities, but the next level of detail contains components that contain similar business activities, the latter may better represent the entity's operating segments.
- **The existence of managers responsible for the components.** Typically, an operating segment has a segment manager who is directly accountable and maintains regular contact with the CODM to discuss operating activities, forecasts and financial results. A segment manager is a function, not a specific title (see [section 3.2.10](#)). If the operating segment characteristics apply to more than one type of component of the entity, but there are only certain components for which segment managers are held responsible, those components with segment managers may better indicate the entity's operating segments.
- **Information presented to the board of directors.** The information provided to the entity's board of directors could indicate the level at which

overall performance is assessed and decisions are made about resource allocation. In many entities, one set of data is provided to the board of directors. Because that data set usually indicates how management views the entity's activities, it is a good indicator of the entity's operating segments. If the board of directors receives more than one set of data, the components distinguished by products and services generally would constitute the operating segments for reporting purposes. However, specific facts and circumstances should be analyzed when making this determination. [FAS 131.BC70]

- **Other factors.** An entity should consider how it has historically described its business in other portions of its annual report (e.g. MD&A, president's letter) and in analysts' reports, press releases, minutes of directors' meetings, and on its website, etc. This is because such information could be helpful in understanding how performance is assessed and decisions are made about resource allocation.

Segment information of public entities in the same industry may not be directly comparable because other entities may be organized differently, and the respective CODMs may use different measures of segment financial information to make operating decisions. However, Topic 280 requires certain entity-wide disclosures to provide some comparability among entities (see [chapter 8](#)).



Example 4.2.50

Identifying operating segments – product line vs geography

ABC Corp. has six components: A, B, C, D, E and F. Three of these components (A, B and C) are located in the United States (Michigan) and each manufactures and sells a different product to customers in the United States. The CEO (who is the CODM) assesses performance, makes operating decisions and allocates resources to these components based on financial information presented on a product line basis.

Components D, E and F are located in Germany and are organized to mirror the US operations – i.e. each manufactures and sells its products to customers located in Germany. However, the CODM assesses performance, makes operating decisions and allocates resources based on the financial information presented for Germany as a whole.

ABC concludes that it has four operating segments: Segments A, B and C (which are determined on a product-line basis) and Segment Germany (which comprises components D, E and F and is determined on a geographic basis). There is no requirement to disaggregate information (e.g. product-line basis in Germany) for segment reporting purposes if it is not provided to the CODM in disaggregated form on a regular basis.



Example 4.2.60

Resegmentation with both geographies and product lines

ABC Corp. historically has had five operating segments (four based on geography and one based on a product line). On reorganization, ABC is separated into Foreign and Domestic divisions, which collectively comprise eight regions, and the products and services are now based on three global product lines.

ABC determines that the CEO is the CODM. Reporting to the COO (who reports to the CEO) are two segment managers based on the two divisions (Foreign and Domestic) and three product managers based on the three global product lines.

The CODM and other members of management (including the segment managers) are provided a Monthly Financial Package that includes various financial metrics (e.g. revenues and profits/losses) for the two divisions as well as the three product lines. The Foreign and Domestic financial results include the product lines, and the product lines are assessed on their return of capital deployed. Given the broad audience that receives the Monthly Financial Package, it contains supplemental financial information (such as product line financial metrics) that provides members of management information that is relevant to their roles.

Based on the matrix structure, ABC determines that the business is operated and managed on a geographic basis with the product lines serving as a supporting group to the geographic businesses. This is because the global product lines are measured on their return of capital deployed, while the performance assessment and resource allocation is done on a geographic basis. As a result, ABC concludes that it has two operating segments: Foreign and Domestic.



Example 4.2.70

Resegmentation due to a change in operating model and strategy

Scenario 1: New end-to-end customer solution

ABC Corp.'s historical business model has been to operate under three separate service divisions. These service divisions have operated independently and have been marketed separately from one another.

Upon the hiring of a new CEO, ABC makes a strategic shift to develop a new end-to-end customer solution. As a result, it combines the three legacy service divisions, which consolidates the sales and marketing efforts and operations. ABC also eliminates the role of the segment managers who have historically been responsible for operating activities, financial results and forecasts for oversight of the legacy service divisions.

ABC historically has identified three operating segments, which have been based on the three legacy service divisions. The CODM historically has been

the CEO. But through the development of this new strategy and operating model, ABC no longer organizes its sales, operations and management teams under the previous reporting structure. ABC also has stopped creating the service division level financial data because it believes this data is no longer meaningful, and this information is also no longer discussed in earnings releases or presentations to the board of directors or audit committee.

ABC concludes that the new CEO is the CODM because the CEO continues to review the operating results to assess performance and allocate resources. ABC also concludes that it has only one operating segment. This is based on the strategic shift in ABC's strategy and operating model, the elimination of the segment manager roles, and management of day-to-day operations on a company-wide basis (instead of by service line).

Scenario 2: Net-zero strategy shift

O&G Co's historical business model has been to operate under two separate divisions: upstream and downstream. Following the hiring of a new CEO to guide its net-zero strategy, O&G Co makes a strategic shift to focus on products that support a low-carbon economy, which it believes will be key to its future success.

As a result, O&G Co combines the two legacy divisions ('traditional') and creates two new divisions: renewables and transportation. O&G Co also eliminates the role of the segment managers who have historically been responsible for operating activities, financial results and forecasts for oversight of the legacy divisions.

O&G Co has historically identified two operating segments, which have been based on the two legacy divisions. The CODM historically has been the CEO. However, through the development of this new strategy and operating model, O&G Co no longer organizes its sales, operations and management teams under the previous reporting structure. O&G Co has also stopped creating the legacy division-level financial data because it believes this data is no longer meaningful, and this information is also no longer discussed in earnings releases or presentations to the board of directors or audit committee.

Therefore, O&G Co concludes that the new CEO is the CODM because the CEO continues to review the operating results to assess performance and allocate resources. O&G Co also concludes that it has three operating segments: traditional, renewables and transportation.

See KPMG Handbook, [Climate risk in the financial statements](#), for further considerations related to the potential effects of climate risk on an entity's financial statements.

4.2.40 Discrete financial information



Excerpt from ASC 280-10

> Operating Segments

55-5 A division that recognizes revenues and incurs expenses but does not have any assets associated with it for internal reporting purposes could be considered an operating segment, if, under the specific facts and circumstances being considered, it otherwise meets the definition in paragraph 280-10-50-1. For example, assume Division A of a public entity conducts business with a separate class of customer using assets shared with Division B and Division B allocates expenses associated with those shared assets to Division A, but the assets, themselves, are presented in the internal financial reports of Division B. A public entity may allocate an expense to a segment without allocating the related asset; however, disclosure of that fact is required. Therefore, allocation of assets is not a criterion for the component to be considered an operating segment.

The third characteristic of an operating segment is that the entity produces discrete financial information about the segment that is provided to the CODM on a regular basis. The discrete financial information needs to be in sufficient detail for the CODM to assess the operating segment's performance and make resource allocation decisions. We believe it would be difficult for the CODM to meaningfully use information that does not provide some detail about the operating segment's revenues and expenses. [\[280-10-50-1\(b\)\]](#)

Whether the information is sufficient for this purpose depends on what financial metrics the CODM *actually* uses to assess performance and allocate resources. Therefore, when determining whether an operating segment has discrete financial information, it is helpful to identify what financial metrics the CODM uses to fulfill these responsibilities. [\[280-10-50-1\(c\)\]](#)

For example, the CODM may require detailed information about revenues but only minimal information about expenses. Further, the CODM may not require any information about assets and liabilities, thereby allowing the entity to exclude balance sheet information from a segment's discrete financial information. There is no requirement that a component have allocated assets to be an operating segment. A component can be an operating segment even if the assets it uses to recognize revenue are shared with another component and allocated to that other component. In this case, information provided to the CODM qualifies as discrete financial information if it primarily provides details about revenues to the CODM. [\[280-10-55-5 – 55-6\]](#)



Question 4.2.80

Can an entity consider only the periodic reports the CODM receives when determining whether discrete financial information exists?

Interpretive response: An entity should determine whether the information in periodic reports to the CODM qualifies as discrete financial information. An entity also looks at the totality of information that a CODM receives and considers. Such information could come from a variety of sources – e.g. the periodic CODM report, other printed reports, information systems and materials prepared for meetings with segment managers. Information from all of these sources needs to be aggregated to determine whether the CODM is receiving sufficient information for the entity to conclude that the segment has discrete financial information.



Question 4.2.90

Can financial information qualify as discrete and sufficient financial information if it includes only revenue information?

Interpretive response: It depends. In some cases, the CODM may only receive revenue information about the entity's operating segments that is sufficient to assess performance and to make resource allocation decisions about the operating segments. Whether such information is sufficient for these purposes is based on the entity's specific facts and circumstances.



Example 4.2.80

Financial information not detailed enough

ABC Corp. is a phone services company. Its CODM reviews revenue information for three different services: residential, commercial and voice over internet. However, ABC reports its operating expenses to the CODM on a combined basis only. Because a profit or loss measure by service is not provided, the CODM may lack sufficient information to assess the performance or make resource allocation decisions on the individual services.

Therefore, ABC's entire phone service operations are contained in one operating segment, as opposed to having operating segments for each of the three individual phone services.



Example 4.2.90

Financial information not detailed enough, plus detailed discussions with segment managers

ABC Corp. is a technology company. Its CODM reviews revenue information for four components. Certain operating expenses in the financial information reviewed by the CODM are not allocated among its components with precision.

However, the CODM regularly meets with the segment managers to discuss financial performance, operational issues and revenue forecasts. Additionally, the segment managers create segment-level budgets and forecasts and receive incentive compensation derived from the operating results of the components. The additional financial information prepared by the segment managers is discussed at length in the meetings with the CODM.

ABC determines that the revenue information reviewed by the CODM, combined with the financial information discussed with the segment managers is sufficiently detailed to allow the CODM to assess each component's performance and make resource allocation decisions. Therefore, it concludes discrete financial information exists for each of the four components.



Question 4.2.100

Can an entity conclude that discrete and sufficient financial information does not exist if shared costs are not allocated to an operating segment?

Interpretive response: No. It would be inappropriate for an entity to conclude that discrete financial information is not available because all shared costs are not allocated to the operating segment. The allocation of shared costs is not required to meet the definition of discrete financial information in Topic 280.



Example 4.2.100

Segment assessment based on discrete financial information reviewed by the CODM

ABC Corp. has two operating segments, Medical Products and Industrial Products, each managed by a president who reports directly to the CEO. The CEO is the CODM.

The information compiled and furnished to the CODM by both the President of Medical Products and the President of Industrial Products includes segment-level financial information, including several key performance indicators, as well as a comparison of actual results to profit plans, forecast updates and prior year results. The reports include specifics about key programs and products, but do not include financial results for individual components.

Discrete financial information for lower-level components is available to the President of Medical Products and the President of Industrial Products; however, that information is not provided to the CODM to assess performance

and allocate resources. Because the CODM uses the discrete financial information at the Medical Products and Industrial Products level, ABC identifies Medical Products and Industrial Products as the operating segments.

4.2.50 Corporate divisions and functional departments



Excerpt from ASC 280-10

> Operating Segments

50-4 Not every part of a public entity is necessarily an operating segment or part of an operating segment. For example, a corporate headquarters or certain functional departments may not recognize revenues or may recognize revenues that are only incidental to the activities of the public entity and would not be operating segments. For purposes of this Subtopic, a public entity's pension and other postretirement benefit plans are not considered operating segments.

• > Operating Segments – Corporate Divisions

55-3 A corporate division that recognizes revenues (for example, a treasury operation that recognizes interest income) and incurs expenses could be considered an operating segment, if, under the specific facts and circumstances being considered, it meets the definition in paragraph 280-10-50-1. Some believe that corporate divisions could not be considered operating segments because paragraph 280-10-50-4 indicates that not every part of a **public entity** is necessarily an operating segment or part of an operating segment, for example, a corporate headquarters or certain functional departments that do not recognize revenues or that recognize revenues that are only incidental to the activities of the public entity.

55-4 However, a corporate division that recognizes revenues and that has available discrete financial information and whose operating results are reviewed regularly by the chief operating decision maker should be considered an operating segment. Even if the revenues are considered incidental, this Subtopic does not preclude such a division from being a reportable segment if management believes the additional information may contribute to a better understanding of the public entity.

There are parts of an entity (e.g. functional departments) that may not be operating segments or may not be part of an operating segment. To be an operating segment, a component, corporate division or functional department (e.g. the corporate headquarters) needs to be able to recognize revenue that is not merely incidental to the entity's business activities. Some divisions and departments are not capable of recognizing revenue or their revenue is only incidental because they do not conduct business activities. In contrast, components that conduct business operations but do not recognize revenue (e.g. start-up businesses or R&D operations) can be operating segments (see [section 4.2.20](#)). [280-10-50-4]

Nevertheless, even functional departments can be operating segments if they meet the operating segment characteristics by:

- being able to recognize revenues and incur expenses;
- having available discrete financial information; and
- having their operating results reviewed regularly by the CODM (see [section 4.2.10](#)).

A treasury function that recognizes interest income is an example of a functional department that could be an operating segment. [\[280-10-50-1, 55-4\]](#)



Question 4.2.110

Can a corporate headquarters function qualify as an operating segment?

Interpretive response: Generally, no. The activities of corporate headquarters generally include some or all of the functions in the legal, accounting, information systems and human resources areas. In certain situations, these corporate activities may even be reflected as a separate business unit for internal reporting purposes. However, corporate activities generally do not qualify as operating segments because they are not business activities from which the entity is capable of recognizing revenues.

4.3 Application of operating segment principles

4.3.10 Vertically integrated entities



Excerpt from ASC 280-10

> Operating Segments

50-2 An operating segment shall include components of a public entity that sell primarily or exclusively to other operating segments of the public entity if the public entity is managed that way. Information about the components engaged in each stage of production is particularly important for understanding vertically integrated public entities in certain businesses, for example, oil and gas entities. This information is also important because different activities within the entity may have significantly different prospects for future cash flows.

For a component to be an operating segment, its business activities do not have to be based on transactions with external parties; they can be based solely or partially on transactions with the entity's other components. Therefore, a vertically integrated entity could have several operating segments throughout its supply chain process, most of which sell their output exclusively to other components within the entity. [\[280-10-50-2\]](#)



Question 4.3.10

Is each component in vertically integrated operations a separate operating segment?

Interpretive response: The fact that an entity may have vertically integrated operations does not mean each of the individual operations (components) is a separate operating segment. How components are combined into operating segments depends on how financial information is organized and reported to the CODM. [280-10-50-1(b) – 50-1(c)]

An entity with vertically integrated operations might not allocate revenues to many of its activities within the supply chain process. However, an operating segment only needs to engage in business activities from which it *may* recognize revenues and incur expenses. Therefore, the activity does not need identifiable or allocated revenues to qualify as an operating segment. [280-10-50-1(a)]

Also, transfer prices do not need to be allocated or charged between the separate components, nor do they need to be based on quoted market prices. As a result, the criteria for identifying operating segments for a vertically integrated business are the same as the guidance for all other businesses and components. [FAS 131.BC57–BC70]



Example 4.3.10

Vertically integrated operations

The CODM of ABC Corp. receives financial information for Segment A, which designs, manufactures and markets motorcycles. Segment A contains four separate components (subsidiaries) that:

- design the motorcycles;
- manufacture the necessary components;
- assemble the motorcycles; and
- market the motorcycles to consumers.

Segment A is essentially a vertically integrated operation. There may be discrete financial information at each of the individual component levels, and each component engages in business activities from which it recognizes or may recognize revenue. However, the CODM does not receive discrete financial information of the individual components but rather assesses operating performance and makes resource decisions about Segment A based on the combined results of these components.

Therefore, ABC concludes that the *combined* components of Segment A constitute an operating segment.



Example 4.3.20

Vertically integrated operations – revenues not separately allocated

ABC Corp., an oil and gas producer, has separate operations (components) that include exploration, development, production, refining and marketing. Transfer prices are not charged by the separate components at the various stages of operation, and revenues are not allocated in reports used by the CODM.

The fact that transfer prices are not assessed (and revenues resulting from these transfers are not allocated) among the components does not mean that the components are part of one operating segment. ABC should evaluate all relevant facts to identify the operating segments. See [Questions 4.2.60](#) and [4.2.70](#) for a comprehensive discussion of the types of facts that may be relevant.



Example 4.3.30

Identifying operating segments – supply divisions

ABC Corp. manufactures and sells trucks and truck parts in separate divisions (components). The truck parts are used to manufacture the trucks and are also sold to third parties. ABC has identified its truck manufacturing component as an operating segment.

Even though the parts component provides the parts used to manufacture the trucks, ABC concludes that the parts component is not part of the truck manufacturing segment. Rather, it concludes that the parts component is its own operating segment based on the following facts.

- ABC conducts its parts business through a component separate from the truck manufacturing component with a separate headquarters building and separate management team. The parts component maintains its own set of internal financial statements and reporting documents, which reflects that ABC's parts business recognizes revenues and incurs expenses.
- The CODM regularly reviews the parts component's operating results (in addition to the truck manufacturing component's operating results) to assess performance and make resource allocation decisions. The operating results include a profit contribution by region on a monthly basis.
- The CODM works with ABC's board of directors and executive operating committee to allocate resources to ABC's components, including approving the parts component's annual capital budget and approving the establishment of parts distribution centers. The board of directors receives reports presenting the separate operating results of the parts and truck manufacturing components.
- Although ABC does not allocate many shared costs to its parts component, it maintains discrete financial information, such as internal parts financial statements, a parts profit contribution measure contained in a profit and loss statement and other financial information. See additional discussion of discrete financial information in [section 4.2.40](#).

4.3.20 Equity method investments



Excerpt from ASC 280-10

• > Operating Segments - Equity Method Investees

55-2 An equity method investee could be considered an **operating segment**, if, under the specific facts and circumstances being considered, it meets the definition in paragraphs 280-10-50-1 and 280-10-50-3. An investee accounted for by the equity method could be considered an operating segment even though the investor has no control over the performance of the investee. Paragraph 280-10-50-1(b) provides that an operating segment is one whose operating results are regularly reviewed by the public entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance. Management may regularly review the operating results and performance of an equity method investee for purposes of evaluating whether to retain the investor-investee relationship. This Subtopic does not require that the chief operating decision maker be responsible for making decisions about resources to be allocated within the segment. That is, this Subtopic does not require that the chief operating decision maker be responsible for making decisions at the investee operating level that affect its operations and performance. Therefore, control over the investee is not a criterion for the investee to be considered an operating segment.

An equity method investment could qualify as an operating segment under Topic 280 if it meets the three operating segment criteria under paragraph 280-10-50-1 (see [section 4.2](#)). Unilateral control over the investee's activities or control over its performance is not required to satisfy these criteria. Specifically, Topic 280 does not require that the CODM be responsible for making decisions about resources to be allocated within an equity method investment segment. Instead, the CODM need only be responsible for decisions about resources to be allocated to the equity method investment segment – e.g. whether to make additional investments, or sell the investment. [\[280-10-55-2\]](#)

Additionally, a registrant may be required to file the stand-alone financial statements of an equity method investment with its annual financial statements. Those financial statements are not required to include segment disclosures if the investee does not meet the definition of a public entity as defined in Topic 280 (see [section 2.2](#)). However, if the investee does meet the definition of a public entity, disclosure of segment information is required in the investee's stand-alone financial statements. [\[S-X Rule 3-09\]](#)



Question 4.3.20

How does an entity assess whether an equity method investment is an operating segment?

Interpretive response: The operating segment criteria in paragraph 280-10-50-1 apply when evaluating whether an equity investment or joint venture accounted for under the equity method of accounting is an operating segment.

First criterion: Recognizing revenues and incurring expenses from business activities

To apply this criterion to an equity method investment, an entity considers both external and internal revenues with the investor entity. An investee that conducts business only with the investor entity and does not have any revenues from external parties uses only the revenues from the investor entity when applying this criterion. For additional discussion of how to apply the first criterion, see [section 4.2.20](#).

Second criterion: CODM reviews results, assesses performance and allocates resources

An investor entity's resource allocation is its investment decision, whether that is to hold, sell or invest additional amounts in the equity method investment. This is consistent with paragraph 280-10-55-2, which provides that an entity need not have unilateral control over an investee's performance for the investment to be an operating segment. This means the CODM does not need to be responsible for making decisions about resources to be allocated within the investee's organization, but rather need only be responsible for decisions about resources to be allocated to the investment.

To determine if an investment qualifies as an operating segment, an investor entity should consider whether its CODM is responsible for:

- making resource allocation decisions – i.e. whether to make additional investments, loans or advances to the investee or to sell any portion of its investment in the investee; and
- evaluating the investment's financial performance.

If the primary responsibility for either of these functions resides at a lower level within the investor entity's organization, the investment may not qualify as an operating segment. For additional discussion of how to apply the second criterion, see [section 4.2.30](#).

Third criterion: Discrete financial information

Discrete financial information for the investment needs to be in sufficient detail for the CODM to assess the investment's performance and make resource allocation decisions. In most circumstances, this criterion is met because discrete financial information for the investment is generally made available to the investor entity. For additional discussion of how to apply the third criterion, see [section 4.2.40](#).

4.4 Aggregate operating segments

4.4.10 Overview



Excerpt from ASC 280-10

- > Aggregation Criteria

50-11 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 objective and basic principles of this Subtopic, if the segments have similar economic characteristics, and if the segments are similar in all of the following areas (see paragraphs 280-10-55-7A through 55-7C and Example 2, Cases A and B [paragraphs 280-10-55-33 through 55-36]):

- 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
- e. If applicable, the nature of the regulatory environment, for example, banking, insurance, or public utilities.

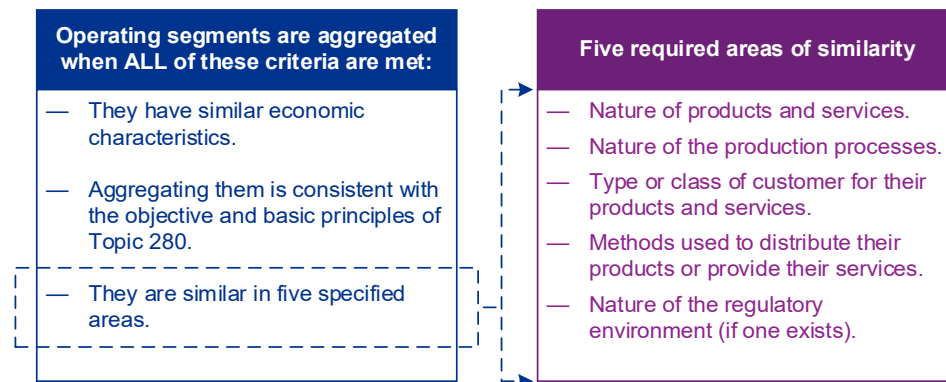
Once an entity identifies its operating segments, it may aggregate operating segments that meet certain criteria. The purpose of aggregation is to treat operating segments with similar economic characteristics as a single operating segment. However, if operating segments do not meet all of the criteria, they are not aggregated. Further, aggregating operating segments is optional, meaning an entity is not required to aggregate similar segments.



Question 4.4.05#

What are the criteria for aggregating operating segments?

Interpretive response: The criteria for aggregating two or more operating segments are as follows: [\[280-10-50-11\]](#)



The SEC staff expects entities to consider the full range of their business activities and the economic environment(s) in which they operate when determining whether operating segments are similar with respect to economic characteristics and qualitative criteria. [\[2015 AICPA Conf\]](#)

The SEC staff continues to focus on the aggregation of operating segments in their filing reviews.



Question 4.4.10

What is the purpose of aggregating operating segments?

Interpretive response: The purpose of the aggregation criteria is simply to reduce reportable information when individual information would otherwise not add significantly to a financial statement user's understanding of the entity. However, the criteria are intended to represent a high threshold to prevent a level of aggregation that would obscure information that is important to financial statement users' understanding of the entity. The ability to meet the criteria is dependent on the entity's specific facts and circumstances. [FAS 131.BC71–BC74]



Question 4.4.20

Are the aggregation criteria indicators or tests?

Interpretive response: An entity applies the aggregation criteria as tests, not indicators.

The aggregation of identified operating segments is appropriate only when all of the aggregation criteria are met. Given that a core objective of Topic 280 is to provide disaggregated information, meeting the aggregation criteria is a high hurdle (as indicated in [Question 4.4.10](#)).

Consider a scenario in which an entity has two segments with similar products, production processes and distribution, and which share a similar customer base. However, one of the operating segments has a second incremental customer base from which it has a material revenue stream.

In this scenario, the 'type or class of customers' similarity criterion is not met. If the aggregation criteria were indicators as opposed to tests, the entity could conclude that the majority of the indicators are met and therefore conclude that aggregation is appropriate. However, because these are tests and not all of the criteria are met, the two operating segments are not aggregated. The aggregation assessments of registrants have been questioned by the SEC through comment letter comments, especially when inconsistencies appear to exist between the aggregation conclusions reported in the financial statements and other publicly available information; this includes information in MD&A and press releases, on the entity's website, and discussed during earnings calls. If there are inconsistencies, an entity may need to revisit its Topic 280 aggregation conclusions.



Question 4.4.30

Can an operating segment be aggregated with other operating segments if it is reported separately to the CODM?

Interpretive response: Generally, yes. Aggregation is optional if all of the aggregation criteria are met. However, a significant amount of judgment is required when applying the aggregation criteria. [280-10-50-11]

Aggregation considerations require a high degree of scrutiny because of the risk of misapplication, which can significantly reduce the extent and transparency of information required to be disclosed. Therefore, it is important to consider whether the objectives and basic principles of Topic 280 are met when operating segments are aggregated but reported separately to the CODM.



Question 4.4.40

How often should an entity evaluate the aggregation of its operating segments?

Interpretive response: Segment aggregation should be evaluated at least annually, and when significant changes in facts or circumstances occur that could affect the entity's ability to meet all of the criteria – e.g. a significant change in the profitability of an operating segment that is aggregated with another operating segment.

As discussed in [chapter 7](#), changes in the structure of an entity's internal organization may cause the composition of its operating and therefore also its reportable segments to change; see [chapter 5](#) for discussion of reportable segments. Therefore, an entity needs to consider the effect or the potential effect, if any, of changes in its internal organization on the application of the aggregation criteria.

An entity should establish appropriate processes and internal controls to be able to identify and appropriately address significant changes that require it to reevaluate the aggregation of its operating segments.

If the entity's structure or products and services have not changed in the interim period, generally the entity would not need to reconsider the aggregation of the operating segments. See [sections 7.2](#) and [7.3](#) for additional considerations when an entity's structure or products and services have changed in the interim period.

4.4.20 Aggregation – Objective and basic principles



Excerpt from ASC 280-10

- > Aggregation Criteria

55-7C Aggregation of segments should be consistent with the objective and basic principles of this Subtopic—to provide information about the different types of business activities in which a public entity engages and the different economic environments in which it operates in order to help users of financial statements better understand the public entity's performance, better assess its prospects for future net cash flows, and make more informed judgments about the public entity as a whole. This Subtopic mentions that segments having similar economic characteristics would be expected to have similar long-term average gross margins. That measure is used, only as an example, because gross margin is a measure of profitability that is less likely to be affected by allocations. Evaluating similar economic characteristics is a matter of judgment that depends on specific facts and circumstances.

One of the aggregation criteria is that aggregation be consistent with the objective and basic principles of Topic 280. [\[280-10-50-11\]](#)

Aggregation is consistent with the basic principles of Topic 280 if it leads to segment disclosures that provide information about the different types of business activities in which the entity engages (e.g. vertically integrated business operations or several different product distribution chains) and the different economic environments in which it operates (e.g. geographical or regulatory). [\[280-10-55-7C\]](#)

The objective of such disclosures is to help financial statement users to: [\[280-10-10-1\]](#)

- obtain a better understanding of performance across the entire entity, including revenues related to products and services, geographic areas in which the entity operates and information about major customers;
- see the entity 'through the eyes of management', thereby enhancing the ability to assess the entity's prospects for future cash flows; and
- make more informed judgments about the entity as a whole.

When aggregating operating segments and assessing whether the objective and basic principles of Topic 280 are met, it is important to consider:

- information such as available industry reports and other analyses reviewed by financial statement users that may provide insight into how a reasonable investor would view the entity; and
- factors such as why financial information is important enough to be reported to a CODM individually, but not important enough to be disclosed to investors individually.



Question 4.4.50

Is aggregation typically consistent with the objectives and basic principles of Topic 280 if operating segments meet the other two criteria for aggregation?

Interpretive response: Generally, yes. We expect that when operating segments meet the other criteria for aggregation, generally the objectives and

basic principles of Topic 280 are met. However, some judgment may be required, in particular when an entity has very few operating segments.

Even if the operating segments are economically similar and meet the qualitative factors in paragraph 280-10-50-11, aggregating them may significantly affect the user's ability to better understand the entity's performance, assess the entity's prospects for future cash flows, or make more informed judgments about the entity as a whole. This might be the case when other analyses or industry information exists that is inconsistent with how a reasonable investor may view the entity. [280-10-50-11, 55-7C]



Example 4.4.10 When not to aggregate

Community Bank has operations in three neighboring states, each of which is an operating segment. While the three operating segments as a group meet the economic similarity criterion (see [section 4.4.30](#)) and meet the qualitative characteristics criterion (see [section 4.4.40](#)) for aggregation, Community Bank also considers whether the basic principles and objectives of Topic 280 are met.

Community Bank determines that aggregating the three operating segments would significantly reduce a financial statement user's ability to better understand its performance and prospects for future cash flows, and the user's decisions about the bank as a whole; therefore, aggregation would not be consistent with the basic principles and objectives of Topic 280.

In this example, Community Bank concludes that it has three operating segments, which is consistent with the reason the CODM has information organized by each operating segment to manage Community Bank's business activities.

4.4.30 Economic similarity



Excerpt from ASC 280-10

• > Aggregation Criteria

55-7A Paragraph 280-10-50-11 states that operating segments are considered to be similar if they can be expected to have essentially the same future prospects. Therefore, the similarity of the economic characteristics should be evaluated based on future prospects and not necessarily on the current indicators only. In other words, if the segments do not currently have similar gross margins and sales trends but the economic characteristics and the other five criteria are met and the segments are expected to again have similar long-term average gross margins and sales trends, the two segments may be aggregated.

55-7B Likewise, if segments generally do not have similar economic characteristics, but in the current year have similar gross margins or sales trends and it is not expected that the similar gross margins or sales trends will

continue in the future, it should not be presumed that the segments should be aggregated for the current-year segment disclosures just because current economic measures are similar.

One of the aggregation criteria is that operating segments be economically similar. [280-10-50-11]

The similarity of economic characteristics is evaluated based on current indicators and future prospects, and therefore may provide a challenge to management when applying the aggregation provisions. This is because of the judgments and depth of analysis necessary to evaluate economic similarity and the lack of specific guidance in Topic 280 on how to perform this analysis.



Question 4.4.60#

How should the economic similarity criterion be applied?

Interpretive response: Topic 280 does not provide much guidance on how to apply the economic similarity criterion. It does state that “segments having similar economic characteristics would be expected to have similar long-term average gross margins.” However, this measure is only mentioned as an example “because gross margin is a measure of profitability that is less likely to be affected by allocations.” [280-10-55-7C]

An entity should also use economic factors other than long-term average gross margins to determine whether two or more operating segments have similar economic characteristics. Those factors should be entity-specific and based on the primary factors the CODM uses in allocating resources to individual segments. Key performance indicators or other measures used in the industry or by the CODM may be more relevant than gross margins.

Useful measures to determine economic similarity may include:

- sales metrics (e.g. sales by square feet, same store sales);
- trends in sales growth and income or loss from operations;
- return on assets;
- levels of capital investments;
- levels of inventory (e.g. inventory turnover);
- operating cash flows; and
- earnings before interest and taxes.

An entity should consider other measures of performance such as EBITDA, and similar measures that are non-GAAP financial measures if they are among the primary quantitative factors that the CODM uses in evaluating performance and allocating resources to individual segments.

When evaluating whether these measures demonstrate economic similarity for each segment, an entity should consider whether they:

- fall within a close range – e.g. an acceptable range for gross margin may be tighter/narrower than an acceptable range for EBITDA, which may incorporate certain one-time charges;
- follow the same trend; and

- move up or down in the same way in response to the same positive and negative factors – e.g. general economic upturns and downturns, changes in interest rates, currency exchange rates or commodity prices.

The SEC staff has indicated in comment letters that it expects an entity to consider all discrete factors affecting the profit or loss measures, and whether these factors (and any other factors affecting revenue, gross margin or other key metrics) are unique to the operating segments and therefore indicative of economic dissimilarity.

This analysis is especially important when there are different revenue streams and models. Such analysis is also expected to consider similarity in qualitative characteristics, as discussed in [section 4.4.40](#). Dissimilarity in qualitative characteristics may be indicative of economic dissimilarity.

Qualitative factors that may be relevant

In addition to quantitative performance indicators, an entity should consider competitive risks (e.g. innovation by a competitor and having the ability to pass on cost increases), operating risks, currency risks, and economic and political conditions associated with each operating segment. Appropriate weight should be given to each of the various factors based on the entity's specific facts and circumstances.



Question 4.4.70

How should the economic similarity analysis be performed?

Interpretive response: An entity should perform and document a comprehensive analysis that includes both the historical and prospective data considerations to support its conclusions about operating segment aggregation.

A timely analysis includes considering historical and prospective gross margin analysis and other economic measures, which demonstrates, at the time the assertion was made, that two or more operating segments met all of the aggregation criteria. The analysis should be consistent with other information the entity addresses or discusses related to its business performance on a disaggregated basis outside of the consolidated financial statements – e.g. MD&A, president's letter, press releases, website and analyst conferences.

For the gross margin measure, aggregation may be inappropriate if the operating segments historically have not experienced similar economic gross margins and convergence is not expected in the near term (see also [Question 4.4.75](#) for temporary disparity in economic performance measures). However, there is no bright line test for assessing economic similarity. Therefore, the range of acceptably similar gross margins may be tighter in businesses with relatively lower gross margins or volatility in profitability.

Further, the likelihood that future gross margins are expected to be similar does not outweigh the dissimilarity of historic gross margins. Management's analysis, and related documentation, should be sufficiently detailed to support the judgments and estimates. As the ranges widen, additional consideration may be necessary to conclude the economic similarity criterion has been met.

With regard to qualitative considerations (see [section 4.4.40](#)), the similarity of qualitative factors such as class of customer and production processes should be evaluated in the context of the entity's business, not of peer companies or the industry as a whole.



Example 4.4.20

Economic similarity consideration

ABC Corp. operates two distinct types of chain restaurants.

- Concept C restaurants are fast casual restaurants. Concept C caters more to the everyday diner requiring a quick meal, and has a gross margin of 15%.
- Concept S restaurants are fine dining restaurants. Concept S caters to a more affluent class of customers and has a gross margin of 65%.

Although both operating segments are restaurants that serve food, Concept C and Concept S restaurants are not economically similar. They serve different food, target a different class of customer and have significantly different gross margins.



Example 4.4.30

Recent acquisition – economic similarity consideration

ABC Corp. recently acquired DEF Corp. Before the acquisition, DEF had one operating segment (Component R – recycled paper). ABC has two existing operating segments, timber products (Segment T) and standard paper (Segment S).

Component R meets the operating segment criteria after the acquisition. ABC wishes to aggregate Segment R with its Segment S. Historically, gross margins of the acquired Component R have been 25% while Segment S's gross margins have been 20%. ABC forecasts that, as the result of synergies through the acquisition, gross margins for Segment S are expected to be 24%. All other aggregation criteria are met. Therefore, ABC concludes it is appropriate to aggregate Segment S with Segment R.

While the difference in historical gross margins could be perceived as significant enough to prevent aggregation, it would not prevent aggregation in this circumstance, considering the additional anticipated synergies. However, ABC needs to continue to evaluate whether the economic similarities exist and confirm that the anticipated synergies arise to make the segments economically similar.



Example 4.4.40

Recent acquisition – aggregation criteria assessment

ABC Corp. designs, manufactures and sells automotive engines. In Q2 Year 1, ABC acquires DEF Corp., which also designs, manufactures and sells a variety of automotive engines. Before the acquisition, ABC determined it had one operating segment while DEF determined that it had two operating segments.

Subsequent to the acquisition and start of the integration process, the combined entity's three operating segments are:

- Legacy ABC Engines;
- Legacy DEF Engines; and
- Software.

The CODM (i.e. the CEO) assesses the performance and allocates resources to each of these operating segments based on discrete financial information.

In determining its operating segments, ABC considers its intention (supported by the board of directors) to integrate DEF's Engines business with the legacy ABC Engines business. This planned integration is consistent with previous acquisitions that were integrated similarly by ABC.

ABC also assesses the aggregation criteria, noting that all criteria are met with the exception of the economic similarities criterion, which is very close to being met. However, upon completing the integration of DEF's Engines business, the economic similarity criteria will clearly be met.

ABC concludes that it has two operating segments (Engines and Software) based on:

- the planned integration;
- the historical track record of integrating similar businesses; and
- the fact that the similarities in the two operating segments support, rather than disconfirm, these two operating segments.



Question 4.4.75

Can operating segments meet the economic similarity criterion if there is a temporary disparity in their economic performance measures?

Interpretive response: Yes. A temporary disparity in the economic performance measures of operating segments does not necessarily mean operating segments fail the economic similarity criterion. If the disparity is expected to be only temporary, economic similarity can still be demonstrated if projections of future operating results suggest that the segments' economic performance measures will realign in the near term (see [Question 4.4.70](#)). When assessing the meaning of 'temporary' and 'near term', it is important to note that the SEC staff has objected to the economic similarity criterion being met in situations where it would take several years for the economic performance measures to align.

Accordingly, a temporary change in a segment's operating performance does not preclude operating segments from meeting the similar economic characteristics criterion and, therefore, being eligible for aggregation (provided all other criteria have been met). This concept is illustrated in [Example 4.4.50](#).
[280-10-55-35 – 55-36]



Example 4.4.50

Temporary anomaly in results – economic similarity consideration

ABC Corp. manufactures and sells sugar and soft drink products. It has four operating segments before aggregation that manufacture and sell white sugar, brown sugar, liquid sugar and soft drinks, respectively.

The white, brown and liquid sugar operating segments meet all of the five criteria for aggregation and have similar economic characteristics. The liquid sugar manufacturing facility experiences a weather catastrophe that temporarily reduces production and affects economic performance; however, it is expected to recover relatively quickly once the manufacturing facility is repaired.

Even though economic performance measures between the three sugar operating segments differ because of the temporary effect from the weather catastrophe, ABC concludes that they are similar because they are expected to have essentially the same future prospects.



Question 4.4.80

Can an equity method investment operating segment meet the economic similarity criterion to be aggregated with other operating segments?

Interpretive response: Generally, no. Although there is no prohibition against aggregating an equity method investment operating segment with other operating segments, we believe it would be very difficult in most industries to satisfy the aggregation criteria in this situation.

Although an equity method investment operating segment may have some similarities with other operating segments, it would be difficult to conclude that the economic similarities criterion is met from the equity method investment pick-up; see [section 4.4.30](#) for economic similarity considerations.

We believe this is the case even if an entity is attempting to aggregate two or more equity method investment operating segments, as it would also be difficult to conclude the economic similarities criterion is met.

4.4.40 Qualitative characteristics

Operating segments need to be similar qualitatively in all of the following areas to be eligible for aggregation: [\[280-10-50-11\]](#)

- nature of products and services;
- nature of production process;
- type or class of customer;
- methods of distribution; and
- nature of the regulatory environment.

These qualitative characteristics are often interrelated.



Question 4.4.85**

Is the evaluation of qualitative characteristics satisfied by purely qualitative analysis?

Interpretive response: No. Although this is a qualitative assessment, the SEC frequently requests that preparers support their analysis of qualitative characteristics through detailed quantitative data. For example, when evaluating the type or class of customer, a preparer is expected to consider the breakdown of revenue by customer type or class. If there is a concentration of revenue in a particular type or class, an entity is expected to consider the reason for such concentration in its analysis.

Nature of products and services



Question 4.4.90#

How does an entity assess whether products and services are similar in nature?

Background: The first qualitative characteristic relates to the nature of products and services for the operating segments. Therefore, for operating segments to be aggregated, their products and services need to be similar in nature. [\[280-10-50-11\(a\)\]](#)

Interpretive response: Similarities and differences in the nature of the products and services offered by each of the operating segments should be carefully considered. Similar products and services should have similar degrees of risk, opportunities for growth and end uses. Products and services may have similar end uses when they have the same customer utility, i.e. can be substituted for each other. When determining whether the nature of products and services is similar, it may be necessary to consider how broadly or narrowly the internal financial reporting and overall operations of an entity are defined. An entity with a relatively narrow product line may not consider two products to be similar, while an entity with a broad product line may consider those same two products to be similar.

Additionally, the analysis should consider conclusions reached for revenue disclosures. Topic 606 (revenue) requires an entity to disclose disaggregated revenue into categories that depict the nature, amount, timing and uncertainty of revenue and cash flows affected by economic factors.

Further, dissimilarities in other qualitative characteristics, including the nature of the production process and labor force (see [Question 4.4.100](#)) and the type or class of customer (see [Question 4.4.110](#)), may also be indicative of dissimilarity in products and services.

For additional discussion of the interaction of Topic 280 and Topic 606, see [section 11.2.50](#).



Example 4.4.60

Nature of products and services

ABC Corp. is a highly diversified company with several retail operating segments. It considers all operating segments involving the sale of consumer products to be similar while its other operating segments involve financial services and road construction. Although the consumer products are different, they share similar degrees of risk, opportunities for growth and end uses compared to the other operating segments.

In contrast, DEF Corp. is an entity that only sells consumer products, and has operating segments involved in home appliances and personal care products. It considers razor blades to be different from toasters. When comparing these products' degrees of risks, opportunities for growth and end uses, from the perspective of an entity that only sells consumer products, these factors may be different for razor blades and toasters.

Regardless, each entity still needs to meet all other aggregation criteria to aggregate the operating segments consisting of its consumer product lines.

Nature of production process



Question 4.4.100#

How does an entity assess whether the nature of production processes is similar?

Background: The second qualitative characteristic relates to the nature of the production process for operating segments. Therefore, for operating segments to be aggregated, their production processes need to be similar in nature. [\[280-10-50-11\(b\)\]](#)

Interpretive response: The production processes of two or more operating segments may be similar if they share (or are able to share) common or interchangeable facilities and employees and use similar raw materials. The amount of capital versus labor intensiveness should also be considered.



Example 4.4.70

Nature of production process is similar

ABC Corp., an automotive supplier, produces two types of seats for a particular customer. Although the seats are manufactured through the same process, one is a bench seat for a van and the other is a bucket seat for a luxury sedan. Both products use similar raw materials, require the same amount of capital and labor intensiveness, can be produced interchangeably by existing employees and facilities, and use the same manufacturing machinery and equipment.

In this example, the production process can be viewed as similar even though the end products are somewhat different. However, the two production operating segments still need to meet all other aggregation criteria for them to be aggregated.



Example 4.4.80

Nature of production process is not similar

ABC Corp. in [Example 4.4.70](#) produces car batteries for the same customer. One of the batteries is for an electronic car and the other is for a gasoline car. The process to produce the lithium-ion batteries for the electric cars is significantly different from the lead-acid batteries for the gasoline cars, with each requiring different raw materials, capital and labor intensiveness.

Although the end products are similar (batteries for cars), the production processes are different and therefore ABC concludes that the production processes are not similar.

Type or class of customer



Question 4.4.110#

How does an entity assess the type or class of customer?

Background: The third qualitative characteristic relates to the type or class of customer for operating segments. Therefore, for operating segments to be aggregated, their type or class of customer needs to be similar in nature. [\[280-10-50-11\(c\)\]](#)

Interpretive response: There are a number of factors to consider when assessing the similarity of type or class of customer:

- industry;
- similarity of marketing or promotion methods;
- geographic areas;
- the nature and use of sales forces; and
- concentrations in particular types or classes of customers.



Example 4.4.90

Type or class of customer

ABC Corp. produces and sells a basic cleaning solution, but in two mixtures. One solution is for home use and the other is for commercial use. It markets the solution for home use directly to consumers through direct response advertising, while it markets the solution for commercial use through a sales representative. Both solutions are distributed from ABC's company-owned retail stores.

Though the nature of the products and production processes may be viewed as similar, it is difficult to conclude that the type or class of customer are similar. It also would be difficult to conclude that the marketing methods are similar (see methods used to distribute products or provide services below).

Methods used to distribute products or provide services

The fourth qualitative characteristic relates to the nature of the methods used to distribute products or provide services (e.g. selling products through retailers as compared to wholesale) for the operating segments. Therefore, for operating segments to be aggregated, their distribution methods and/or methods by which services are provided need to be similar in nature. [280-10-50-11(d)]



Example 4.4.100

Methods used to distribute products

Manufacturer sells its products through: (1) company-owned and branded stores located throughout the US and (2) third-party cellular network carriers.

The VP-Direct Distribution is responsible for all store operations and activities and the VP-Indirect Distribution is responsible for all third-party sales through cellular network carriers. Separate financial information is reported by each VP to the CODM on a regular basis. The CODM assesses performance and makes resource allocation decisions based on the separate financial information.

In this example, Manufacturer concludes that the methods used to distribute products are not similar.

Nature of the regulatory environment



Question 4.4.120

What is a regulatory environment?

Background: The fifth qualitative characteristic relates to the nature of the regulatory environment. Therefore, for operating segments to be aggregated,

their regulatory environments (to the extent they exist) need to be similar.

[280-10-50-11(e)]

Interpretive response: The concept of a regulatory environment is much broader than the concept of being regulated by a government body. Typically, a regulatory body in industries such as banking, insurance or public utilities (e.g. the Office of Thrift Supervision and the Office of the Comptroller of the Currency) provides comprehensive oversight of an entity's operations by issuing detailed rules and regulations for the entity to follow and requiring the entity to routinely provide information about its compliance.

In contrast, an entity that is not subject to oversight by a regulatory body can still operate within a regulatory environment. For example, an entity operates in a regulatory environment when it needs to comply with the government procurement rules and regulations of the Federal Acquisitions Register for its sale of products to a federal government agency even though its operations are not subject to comprehensive oversight by a regulatory body.



Example 4.4.110

Nature of regulatory environment – similar products

ABC Corp. manufactures and sells both vitamins and drugs for treating a rare disease. It has an operating segment for vitamins and another for drugs. The nature of the products, production process, class of customer and distribution of the vitamins and drugs are similar. However, the drugs are subject to the regulations of the Food and Drug Administration while the vitamins are not.

In this example, ABC concludes that it is not appropriate to aggregate the vitamin and drug operating segments.



Example 4.4.120

Nature of regulatory environment – same products

ABC Corp. manufactures and sells fireworks in Alabama and Michigan, and each state represents a separate operating segment based on the separate financial information reviewed by the CODM. The nature of the products, production process, class of customer and distribution of the fireworks are similar in both Alabama and Michigan. However, there are differences in the state regulations (taxes, fees and selling seasons).

Although there are differences in the state regulations between Alabama and Michigan, the nature of the regulation is the same in that it is associated with the controlled sale of fireworks. Therefore, ABC concludes that it may aggregate its operating segments if the other aggregation criteria are met.

5. Determine reportable segments

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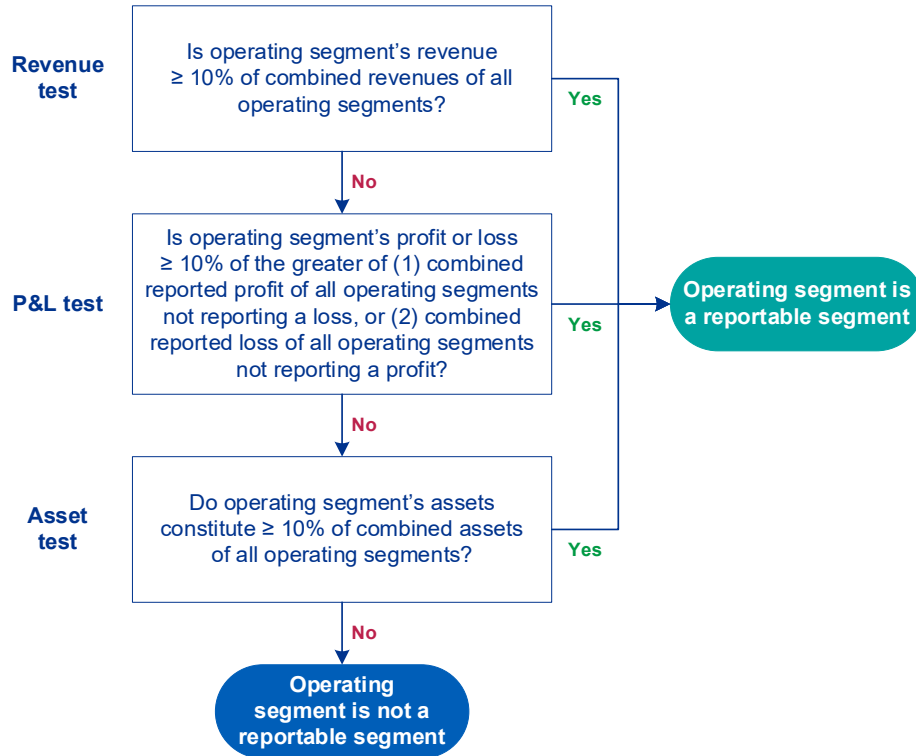
5.4 Practical limit on number of reportable segments

Question

- 5.4.10 How does an entity decrease the number of reportable segments below the practical limit?

5.1 How the standard works

Each operating segment is analyzed under the framework in the following decision tree to determine whether it is a reportable segment. If two or more operating segments have been aggregated (see [section 4.4](#)), they are analyzed as a single operating segment.



These tests contain quantitative thresholds designed to determine whether operating segments are material and therefore need to be individually disclosed under Topic 280 as reportable segments. However, even if an operating segment does not meet the quantitative thresholds, but management believes that segment disclosures about that operating segment would be useful to financial statement users, an entity is encouraged to disclose that operating segment as a reportable segment.

5.2 Quantitative threshold tests



Excerpt from ASC 280-10

- > Reportable Segments

50-10 A public entity shall report separately information about each operating segment that meets both of the following criteria:

- a. Has been identified in accordance with paragraphs 280-10-50-1 and 280-10-50-3 through 50-9 or results from aggregating two or more of those segments in accordance with the following paragraph
- b. Exceeds the quantitative thresholds in paragraph 280-10-50-12.

Paragraphs 280-10-50-13 through 50-18 specify other situations in which separate information about an operating segment shall be reported. Paragraph 280-10-55-26 and Examples 1 and 2 (see paragraphs 280-10-55-27 through 55-45) illustrate how to apply the main provisions in this Subtopic for identifying reportable operating segments.

- > Quantitative Thresholds

50-12 A public entity shall report separately information about an operating segment that meets any of the following quantitative thresholds (see Example 2, Cases C, D, and E [paragraphs 280-10-55-39 through 55-45]):

- a. Its reported revenue, including both sales to external customers and intersegment sales or transfers, is 10 percent 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 percent or more of the greater, in absolute amount, of either:
 1. The combined reported profit of all operating segments that did not report a loss
 2. The combined reported loss of all operating segments that did report a loss.
- c. Its assets are 10 percent 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 readers of the financial statements.

- > Interim Period Information

55-16 Interim information is intended to be an update of the information that was presented in the most recent annual financial statements. Therefore, in the absence of a change in the structure of a public entity's internal organization during an interim period that would cause the composition of its reportable segments to change, generally, a public entity need not apply the quantitative tests in each interim period. However, if facts and circumstances change that would suggest that application of the quantitative tests in an interim period would reveal a reportable segment that was previously not reportable, and management expects that the segment will continue to be of

significance, the segment should be disclosed as a new, separate reportable segment. This conclusion is consistent with the basic principle of interim financial reporting in paragraph 270-10-45-2.

5.2.10 Overview

Segment disclosures are based on reportable segments. A reportable segment is an operating segment (or an aggregated operating segment) that meets quantitative thresholds. [Chapter 4](#) explains how to identify and aggregate operating segments. This chapter explains the quantitative thresholds for an operating segment to be a reportable segment. [\[280-10-50-10\]](#)



Question 5.2.05

How does an entity determine its reportable segments?

Interpretive response: Operating segments that meet any of three quantitative threshold tests are reportable segments. These quantitative threshold tests are based on amounts reported to the CODM. [\[280-10-50-12\]](#)

- **The revenue test.** This test is met if an operating segment's reported revenue is at least 10% of the combined revenue of all operating segments.
- **The profit or loss test.** This test is met if an operating segment's profit or loss is at least 10% of the greater of, in absolute amounts: (1) the combined reported profit of all operating segments that did not report a loss or (2) the combined reported loss of all operating segments that did report a loss.
- **The asset test.** This test is met if an operating segment's assets are at least 10% of the combined assets of all operating segments.

If an operating segment does not meet any of the initial reportable segment quantitative threshold criteria, it is an 'insignificant' operating segment. See [section 5.3](#).



Question 5.2.10

What does the term 'combined' in each of the quantitative threshold tests mean?

Interpretive response: Each of the three quantitative threshold tests uses the term 'combined' (i.e. combined revenues, combined profit or loss and combined assets) to describe an input. In this context, 'combined' means the total amounts for all operating segments – i.e. not the consolidated financial statement amounts. It is before eliminating entries, reconciling items and activities that do not meet the definition of an operating segment (e.g. corporate activities).



Question 5.2.20

Do amounts used in the quantitative threshold tests need to conform to GAAP?

Interpretive response: No. The amounts used in the quantitative threshold tests are the same amounts that are reported internally and used by the CODM to assess the performance of the operating segments and allocate resources to them, even if the segment information is not in conformity with US GAAP or the accounting policies used in the consolidated financial statements. If these amounts are not based on GAAP, they should not be conformed to GAAP when applying the tests. However, we would expect the amount of segment revenue from external customers used in the revenue test to conform with Topic 606 – see [Question 6.4.100](#).

Examples of such situations include when an entity accounts for pension expense on a consolidated basis (i.e. the entity is not required to allocate pension expense to each operating segment), or when management uses EBITDA as its segment profitability measure.

Additionally, certain aspects of GAAP are not intended to be applied at the segment level. Examples include accounting for inventory on a LIFO basis with pools in multiple segments, accounting for income taxes when the entity files a consolidated return, and the measurement of assets acquired and liabilities assumed in a business combination. In addition, Topic 280 does not provide guidance addressing the allocation of joint costs, jointly used assets or jointly incurred liabilities to segments or pricing for intersegment transfers. Therefore, it is generally common to have segment profitability that is not in accordance with GAAP.



Question 5.2.30

How does an entity address changes from prior periods in the measurement methods used to determine reported segment revenue, profit or loss and/or assets?

Interpretive response: The management approach is designed to identify operating segments in substantially the same manner as they are reported internally. Therefore, when management changes its internal reporting measurement methods, the quantitative threshold tests to determine reportable segments may also need to be revisited. For example, an entity that switches from recognizing revenue over time on a percentage of completion method to recognizing revenue at a point in time needs to consider whether the internal reporting change to its method of recognizing revenue at the segment level affects the quantitative threshold tests on revenue and segment profit or loss and therefore affects reportable segments.

In addition, the entity is required to disclose 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 segment profit or loss measure (see [Question 7.3.20](#)).



Question 5.2.40

Do allocated headquarter amounts need to be removed when those amounts are included in the measure reviewed by the CODM?

Interpretive response: No, however the amounts allocated in the measurement must be reasonable. Topic 280 does not directly address acceptable methods of allocation and therefore diversity exists in practice.

We encourage entities to use common sense when determining the allocations. For example, an employee benefit being allocated by employee or salary expense per segment would seem reasonable. However, allocating employee benefits to a segment without employees would not be reasonable.



Question 5.2.45

Are the quantitative tests applied on an interim basis to determine reportable segments?

Interpretive response: Generally, no. Unless the composition of operating segments changes (due to internal reorganization, acquisition, disposition, etc. – see [section 7.2.10](#)) application of the quantitative tests to determine if an operating segment is a reportable segment is not required on an interim basis.

However, the quantitative test must be performed if there is any indication that a previously immaterial segment may exceed one of the quantitative thresholds. An example is when an entity had an internal reorganization during the quarter (or experienced any number of other changes in facts and circumstances) suggesting that an operating segment that had not previously met the quantitative (significance) tests now does. Revised disclosures may be required as a result (see [section 6.9](#)). [280-10-55-16]

5.2.20 The revenue test

An operating segment meets the revenue test if its reported revenue (including both sales to external customers and intersegment sales or transfers) is at least 10% of the combined revenue, internal and external, of all operating segments.

- The numerator in this test is all revenue attributable to the operating segment.
- The denominator is the combined revenue of all identified operating segments.

The term 'all operating segments' used to calculate the denominator refers to the total of all operating segments identified based on the guidance in paragraphs 280-10-50-1 to 50-9 (see [chapter 4](#)). [280-10-50-12(a)]



Question 5.2.50

Is revenue not related to any operating segment included in the revenue test's denominator?

Interpretive response: No. Situations may exist in which insignificant operating segments and other business activities that are not related to an operating segment, such as interest income for nonfinancial services entities, are combined into an 'all other' category (see [section 5.3.60](#)). To the extent that revenues in the 'all other' category are not related to an operating segment (e.g. incidental revenues), these revenues are subtracted from the combined total to obtain the denominator for purposes of determining which operating segments are reportable. In some cases, omitting revenue that relates to a business activity that is not an operating segment from the denominator will cause additional operating segments to become reportable segments.



Question 5.2.60

Must the sum of revenue from all combined operating segments equal consolidated revenue?

Interpretive response: No. The sum of all combined operating segment revenue may not equal consolidated revenue due to intersegment sales and incidental revenues from activities that do not meet the definition of an operating segment.



Example 5.2.10

Applying the revenue test

After identifying its operating segments and applying the aggregation criteria, ABC Corp. has four operating segments. The following is the revenue information used to determine which operating segments qualify as reportable segments under the revenue test.

	External revenues	Intersegment revenues	Total revenues
Segments A, B and C (aggregated)	\$ 4,000	\$ 1,000	\$ 5,000
Segment D	200	2,000	2,200
Segment E	500	100	600
Segment F	700	-	700
Combined	5,400	3,100	8,500
Elimination of intersegment revenue		(3,100)	(3,100)
Consolidated income	\$ 5,400	\$ -	\$ 5,400

The threshold for the revenue test is \$850 ($\$8,500 \times 10\%$). Therefore, aggregated Segments A, B and C and operating Segment D exceed the threshold and are reportable segments. There is no need to apply the profit or loss or asset tests to these operating segments that already are identified as reportable segments from the revenue test, but those tests should be applied to Segments E and F to determine whether they qualify as reportable segments.

5.2.30 The profit or loss test

An operating segment meets the profit or loss test if the absolute amount of its reported profit or loss is at least 10% of the greater of either:

- the combined reported profit of all operating segments that did not report a loss; or
- the combined reported loss of all operating segments that did report a loss.

Profit or loss in this context is the measure of profit or loss the CODM uses to assess operating segment performance and allocate resources. [280-10-50-12(b)]

The intent of this test is to evaluate the size of each operating segment profit or loss compared with a combined profit or loss of all operating segments. This requires an entity to use a consistent measure when applying the profit or loss test even if the CODM uses different measures of profit or loss for different operating segments. [280-10-55-39 – 55-40]



Question 5.2.70

Is profit or loss not related to any operating segment included in the profit or loss test's denominator?

Interpretive response: No. Situations may exist in which insignificant operating segments and other business activities that are not related to an operating segment are combined into an 'all other' category (see [section 5.3.60](#)). To the extent that profits or losses in the 'all other' category are not related to an operating segment (e.g. incidental revenues and expenses), these amounts are subtracted from the combined total to obtain the denominator for purposes of determining which operating segments are reportable (see [Example 5.2.30](#)).

In some cases, this will cause additional operating segments to become reportable segments.



Question 5.2.80

Which profit or loss measure is used when the CODM reviews different measures for different operating segments?

Interpretive response: When applying the profit or loss test, an entity should apply a consistent profit or loss measure (e.g. operating income or profit or loss before taxes) for each segment regardless of whether the measure is consistently used by the CODM.

Topic 280 does not require a particular measure. However, an entity selects the measure used for the majority of operating segments or the measure that is most consistent with the measure used for the corresponding amounts in the entity's consolidated financial statements.



Example 5.2.20

CODM reviews different measures for different operating segments

ABC Corp. has five operating segments. The CODM uses net income for evaluating the performance of two of the operating segments but uses operating income for evaluating the performance of the other three. The 10% profit threshold test is based on either operating income (as the measure used for the majority of operating segments) or net income (as the measure most consistent with the measure used for the corresponding amounts in the entity's consolidated financial statements).

This would not affect the requirement in paragraph 280-10-50-22 to disclose the actual segment profit or loss measure used by the CODM for evaluating each reportable segment – i.e. the amounts disclosed for segment profit or loss would be net income for the first two segments and operating income for the other three (see [section 6.4.20](#)).



Question 5.2.90

Are restructuring charges included in the profit or loss measure used in the profit or loss test if they are not included in the measure used by the CODM?

Interpretive response: No. The segment profit or loss measure included in the quantitative threshold tests should be consistent with the segment profit or loss measure used by the CODM. The measure used by the CODM might not include other financial information that is also provided to the CODM, such as significant restructuring items, other significant noncash items and unusual items. However, such amounts should be disclosed by segment if they otherwise are provided regularly to the CODM, even if not included in the segment profit or loss measure. [Chapter 6](#) discusses disclosure requirements.



Example 5.2.30 Profit or loss test

After identifying its operating segments and applying the aggregation criteria, ABC Corp. has five operating segments. The segment profit or loss measure provided to and used by the CODM is pretax income (loss). The following are the operating segment results.

	Pretax income (loss)
Segment A	\$ 10,800
Segment B	8,100
Segment C	(3,700)
Segment D	2,400
Segment E	(800)
All other	100
Combined	16,900
Reconciling items and eliminations	(1,900)
Consolidated	\$ 15,000

The 'all other' category relates to insignificant incidental revenues and expenses.

Reconciling items and eliminations in this example include corporate expenses and the elimination of intersegment profits.

- The absolute amount of the combined segment profit for all operating segments that did not report a loss is \$21,400 (\$10,800 + \$8,100 + \$2,400 + \$100), and 10% is \$2,140.
- The absolute amount of the combined segment loss for all operating segments that did report a loss is \$4,500 (\$3,700 + \$800), and 10% is \$450.

Because \$2,140 is the greater of the two amounts, this amount is the threshold used in the reportable segment profit or loss test. Therefore, Segments A, B, C and D meet the profit or loss test and are reportable segments. Segment E is a reportable segment if it meets either the revenue or asset test.



Question 5.2.95 What is the effect of aggregated operating segments on the profit or loss test?

Background: Once identified, operating segments can be aggregated for reporting purposes if they meet the aggregation criteria in paragraph 280-10-50-11 (see [section 4.4](#)).

Interpretive response: Management's decision to aggregate operating segments may affect the number of reportable segments determined by

applying the profit or loss test. This is because the quantitative threshold tests are applied after the initial identification and aggregation of operating segments. Therefore, operating segments that have been aggregated are tested against the thresholds on an aggregated basis, while those that have not been aggregated are tested individually. [280-10-55-45]

When profit-or-loss-making operating segments are aggregated, the fact that one segment did not meet the 10% profit or loss test before the aggregation of other segments does not preclude it from being considered a reportable segment subsequent to that initial aggregation. [Example 5.2.40](#) illustrates the effect of aggregation on the profit or loss test.



Example 5.2.40

Aggregation effect on the profit or loss quantitative threshold

This example is adapted from Subtopic 280-10's Example 2, Case E.

ABC Corp. has six operating segments that have the following operating income (loss).

	Operating income (loss)	Operating income (loss) absolute %
Segment A	\$ 2	4%
Segment B	(10)	19%
Segment C	4	7%
Segment D	18	33%
Segment E	18	33%
Segment F	(2)	4%
Consolidated income	\$ 30	

Segments A and C, individually, do not meet any of the other quantitative threshold tests.

Segments B and E meet all of the aggregation criteria, and ABC aggregates them into a single operating segment. See below for the reevaluation of the profit or loss test after the aggregation of Segments B and E.

	Operating income (loss)	Operating income (loss) absolute %
Segment A	\$ 2	6%
Segment B and E	8	23%
Segment C	4	12%
Segment D	18	53%
Segment F	(2)	6%
Consolidated income	\$ 30	

When the quantitative thresholds are then evaluated, Segment C (which previously met none of the quantitative thresholds) now meets the 10% of segment profit or loss threshold and is a reportable segment.

5.2.40 The asset test

An operating segment meets the asset test if its assets are at least 10% of the combined assets of all operating segments. Only those assets included in the segment assets measure reported to the CODM to assess performance and make resource allocation decisions are included in the asset test. Therefore, if the CODM does not receive asset information by segment, the asset test need not be performed. [280-10-50-12(c)]



Question 5.2.100

Are assets not related to any operating segment included in the asset test's denominator?

Interpretive response: No. Situations may exist in which certain assets are included in the 'all other' category because they relate to another business activity that is not an operating segment (see [section 5.3.60](#)). We believe those assets should not be included in the denominator used to perform the asset test.

In some cases, this will cause additional operating segments to become reportable segments.



Example 5.2.50

Asset test

Manufacturer has 10 operating segments. The CODM receives only receivables and inventory information in the segment assets measure it uses to assess performance and make resource allocation decisions.

While it is evident what other assets (e.g. fixed assets) might be identified with each of these specific operating segments, the segment assets measure used to apply the asset test is limited to segment receivables and inventory because other assets are not reported to the CODM.

Manufacturer also discloses the total of receivables and inventory because the CODM receives only receivables and inventory information in the segment assets measure it uses to assess performance and make resource allocation decisions. [Chapter 6](#) discusses the annual disclosure requirements.

5.2.50 Applying quantitative threshold tests to equity method investments

The quantitative threshold tests should be applied to equity method investments that qualify as operating segments.



Question 5.2.110

How are the quantitative threshold tests applied to equity method investments?

Interpretive response:

Revenue test

Generally, the revenue test does not apply to equity method investments. However, if the investment's revenue information is received by the CODM, it should be considered in the revenue test.

Profit or loss test

This calculation should be performed based on the investor entity's equity in the earnings (loss) of the investee compared to the combined earnings (loss) of all operating segments. If a segment profit or loss measure used by the CODM is other than net income, this test should be based on the investor entity's proportionate share of that measure for the investment compared to the combined amount of that measure for all operating segments.

Asset test

This calculation should be performed based on the investor entity's total investment in the investee (including goodwill and loans and advances made to the investee) compared to the combined total amount of the segment assets measure used for all operating segments. However, if the asset information for the investment itself is received and used by the CODM, it should be considered in the asset test.

If the equity method investment operating segment meets any of the quantitative thresholds using this guidance, the investment is a reportable segment. In this case, the equity method investment operating segment would still be a reportable segment even if the reportable segments (excluding the equity method investment reportable segment) represent 75% or more of consolidated revenue (see [section 5.3.30](#)).

5.3 Insignificant operating segments

5.3.10 Overview

An operating segment is considered insignificant if it does not meet any of the initial reportable segment quantitative threshold criteria. There are five potential treatments for an insignificant operating segment.

- Combine with other insignificant operating segments if the conditions in paragraph 280-10-50-13 are met (see [section 5.3.20](#)).

- Classify it as a reportable segment if:
 - the 75% test in paragraph 280-10-50-14 is not met and additional reportable segments need to be identified (see [section 5.3.30](#));
 - it was one in the immediately preceding period and is of significance even though it no longer meets the reportable segment criteria (see [section 5.3.40](#)); or
 - management believes the information about the segment is material (see [section 5.3.50](#)).
- Report it in an 'all other' category (see [section 5.3.60](#)).

5.3.20 Combining insignificant operating segments



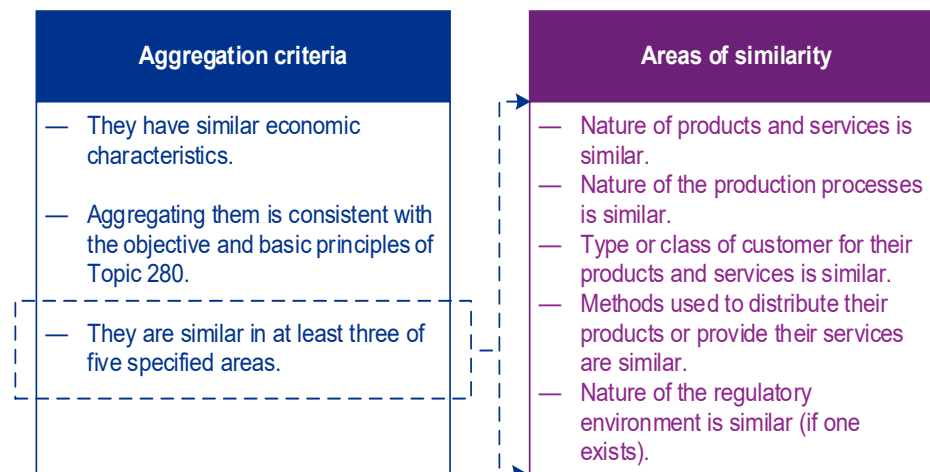
Excerpt from ASC 280-10

• > Quantitative Thresholds

50-13 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 aggregation is consistent with the objective and basic principles of this Topic, the segments have similar economic characteristics, and the operating segments share a majority of the aggregation criteria listed in paragraph 280-10-50-11.

Two or more insignificant operating segments may be combined and presented as a reportable segment if they satisfy a modified aggregation test. [Section 4.4](#) includes the same (but *unmodified*) aggregation test when determining the aggregation of operating segments – which is a step performed before aggregation of insignificant operating segments for reportable segment consideration. The aggregation test is *unmodified* in [section 4.4](#) because *all* of the criteria need to be met for operating segment aggregation.

The following is the *modified* aggregation test for determining whether insignificant operating segments should be combined.



Two or more insignificant operating segments satisfy the modified aggregation test if they meet: [\[280-10-50-13\]](#)

- the first two conditions on the left side of the diagram; and
- the majority, meaning at least three of the five specified areas of similarity on the right side of the diagram.

Insignificant operating segments meeting the modified aggregation test can only be aggregated with other operating segments if those other operating segments are also determined to be insignificant (i.e. do not meet any of the 10% threshold criteria in paragraph 280-10-50-12) and meet the modified aggregation test. [\[280-10-50-13\]](#)



Example 5.3.10

Reportable operating segment and insignificant operating segment

ABC Corp. operates two distinct types of chain restaurants, with different customers, processes and products.

- Concept C restaurants are fast casual restaurants. They represent 160 locations and 91% of the consolidated revenues and profits and 92% of consolidated assets. Concept C caters more for the everyday diner requiring a quick meal, and has a gross margin of 15%.
- Concept S restaurants are fine dining restaurants. They represent 10 locations and the remainder of the consolidated revenues, profits and assets. Concept S caters to a more affluent class of customers and has a gross margin of 65%.

Both Concept C and Concept S restaurants are identified as operating segments because they serve different food, target a different class of customer and have significantly different gross margins (see [section 4.4](#)). Additionally, they are not economically similar.

When applying the reportable segment quantitative threshold tests, Concept C meets the quantitative thresholds to be a reportable segment but Concept S does not. Concept S is therefore an insignificant operating segment presented in the 'all other' category.

In Year 2, to gain market share, ABC opens a new chain of restaurants, Concept Z, which caters to the same type of customers as Concept S restaurants, but has a different overall food concept (casual but expensive farm-to-market). At the Year 2 annual reporting date, there are three Concept Z restaurants with 2% of the consolidated revenues and 2% of the total consolidated assets.

Year 2 operating segments

Concept Z restaurants represent an operating segment. However, the Concept Z operating segment is not aggregated with the Concept S operating segment as part of the *unmodified* aggregation test; this is because of the different overall food concept (see [section 4.4](#)).

Year 2 reportable segments

ABC determines that Concept C restaurants continue to meet the quantitative thresholds to be a separate reportable segment.

The Concept S and Concept Z restaurants do not meet the quantitative thresholds on their own to be reportable segments and therefore are insignificant operating segments. However, Concept S and Concept Z meet the *modified* aggregation test because a majority of the aggregation criteria are met – i.e. the two operating segments have similar economic characteristics, production processes, customers and the methods used to distribute the products. The two operating segments are aggregated even though their overall food concepts are different.

Therefore, ABC has two reportable segments for Year 2:

- one containing the results of Concept C restaurants; and
- one including the aggregated results of insignificant operating segments for Concept S and Concept Z restaurants.

5.3.30 75% test



Excerpt from ASC 280-10

- > Quantitative Thresholds

50-14 If total of external revenue reported by operating segments constitutes less than 75 percent of total consolidated revenue, additional operating segments shall be identified as reportable segments (even if they do not meet the criteria in paragraph 280-10-50-12) until at least 75 percent of total consolidated revenue is included in reportable segments.

The FASB determined that segment disclosures should encompass a significant portion of an entity's total consolidated revenue. As a result, Topic 280 requires an entity to treat one or more insignificant operating segments (i.e. not satisfied by the 10% threshold tests for revenue, profit or loss and assets) as reportable segments if the total external revenue reported by the identified reportable segments is less than 75% of consolidated external revenues. [\[280-10-50-14\]](#)



Question 5.3.10

How does an entity apply the 75% test?

Interpretive response: The 75% test is applied by first considering the amount of revenue that will already be disclosed by the reportable segments identified by the 10% threshold tests for revenue, profit or loss and assets. If at least 75% of the consolidated external revenues will be disclosed as part of those operating segments already determined to be reportable segments, an entity may determine that no further reportable segments need to be identified and

disclosed. However, an entity may determine that further consideration and disclosures are needed based on the overall objective of Topic 280 (see [section 4.4.20](#)).

To meet the 75% test, an entity has flexibility in determining which additional operating segments to treat as reportable segments. The entity need not report the next largest operating segment in terms of revenue, assets or profits. Consideration should be given to reporting the additional segments that will be most useful to financial statement users – consistent with the objective of Topic 280. For example, an entity may select an operating segment that is expected to have the most growth and therefore will likely meet the quantitative thresholds to be a reportable segment in future periods.



Example 5.3.20 The 75% test

This example is adapted from Subtopic 280-10 Example 2, Case D.

ABC Corp. has identified five operating segments that do not have similar economic characteristics. Segment B meets all of the quantitative threshold tests; however, none of the other operating segments individually meet any of the quantitative threshold tests. The revenue from external customers (there are no intersegment transactions) for each of the five operating segments is:

	Revenue
Segment A	\$ 12
Segment B	146
Segment C	8
Segment D	18
Segment E	16
Consolidated external revenues	\$ 200

The total external revenues of operating segment B identified as reportable constitute only 73% of consolidated external revenues, and as a result an additional operating segment must be identified for reporting.

Segment D is the next largest operating segment by percentage of external revenues. However, it is not necessarily required to be identified as a reportable segment to meet the 75% revenue test. In this example, any of the remaining segments may be identified as a reportable segment, because each of the individual Segment A, C, D or E revenue added to Segment B revenue would exceed 75% of consolidated external revenues. ABC should select as reportable the segment that will be most useful to its financial statement users.

5.3.40 Reportable segment in preceding period



Excerpt from ASC 280-10

• > Quantitative Thresholds

50-16 If management judges an operating segment identified as a reportable segment in the immediately preceding period to be 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 280-10-50-12.

50-17 If an operating segment is identified as a reportable segment in the current period due to the quantitative thresholds, prior-period segment data presented for comparative purposes shall be recast to reflect the newly reportable segment as a separate segment even if that segment did not satisfy the criteria for reportability in paragraph 280-10-50-12 in the prior period unless it is impracticable to do so. For purposes of this Subtopic, information is impracticable to present if the necessary information is not available and the cost to develop it would be excessive.

When an operating segment that had been meeting the quantitative thresholds to be a reportable segment does not qualify as a reportable segment in the current year, an entity may continue to treat it as a reportable segment if management deems the segment to be of continuing significance and to provide comparability year over year. [280-10-50-16]

When an operating segment falls below the 10% thresholds and there is a change in the reportable segments, an entity should:

- reevaluate the insignificant operating segments to determine whether the modified aggregation test is met (see [section 5.3.20](#)); and
- ensure that 75% of consolidated external revenues have been reported (see [section 5.3.30](#)).

In contrast, when there is an operating segment that did not meet the quantitative threshold to be a reportable segment in the prior year but does meet it in the current year, the prior year segment information should be recast, unless impracticable to do so (see [chapter 7](#)). [280-10-50-17]



Question 5.3.20

When should an operating segment that was a reportable segment in the immediately preceding period continue to be reported as one?

Interpretive response: An operating segment that historically has been a reportable segment might not exceed any of the quantitative thresholds in the current period. Management should analyze whether this is due to temporary or abnormal circumstances. If so, and management expects it to be a reportable segment in the future, the entity should continue to treat that operating

segment as a reportable segment to ensure interperiod comparability of segment information.

This does not mean that a *normalized* quantitative threshold test should be performed. An operating segment that exceeds one of the quantitative tests because another operating segment dropped below the thresholds as a result of temporary or abnormal circumstances is still a reportable segment.

Similarly, when an operating segment exceeds the quantitative thresholds in the current period but has not previously exceeded and is not expected to exceed the quantitative thresholds in the future, it is still a reportable segment. This is because the quantitative thresholds have been met for the current period, regardless of what is expected for the future for the operating segment.



Example 5.3.30

Historical vs current period quantitative tests

Segment C typically represents 13–15% of total combined operating segment revenue and less than 10% of total combined operating segment profit or loss and total combined operating segment assets.

In the current year, Segment C represents only 7% of total combined operating segment revenue following a six-month employee strike at its major manufacturing facility. Segment C is expected to exceed the revenue quantitative threshold next year.

Although Segment C currently does not exceed any of the quantitative thresholds, it is still a reportable segment in the current period because management expects that it will meet the quantitative revenue test in the following year.

Because Segment C did not meet the revenue test threshold in the current year, it is possible that another operating segment that historically was not a reportable segment meets the revenue threshold in the current year to become a reportable segment. In that case, the entity recognizes both this other operating segment and Segment C as reportable segments.

5.3.50 Material operating segments



Excerpt from ASC 280-10

- > Quantitative Thresholds

50-18A An entity need not aggregate similar segments, and it may present segments that fall below the quantitative thresholds.

50-19 Public entities are encouraged to report information about segments that do not meet the quantitative thresholds if management believes that it is material. Those who are familiar with the particular circumstances of each public entity must decide what constitutes material.

Even if an operating segment does not meet one of the quantitative thresholds, it may still be treated as a reportable segment if management believes it is material. [280-10-50-19]



Question 5.3.30

How does management determine whether an operating segment is material?

Interpretive response: Materiality is a matter of judgment by management of an entity, and deciding which operating segments are material will depend on the entity's specific facts and circumstances. FASB Concepts Statement No. 8 defines materiality as: "Materiality is entity specific. The omission or misstatement of an item in a financial report is material if, in light of surrounding circumstances, the magnitude of the item is such that it is probable that the judgment of a reasonable person relying on the report would have been changed or influenced by the inclusion or correction of the item." [CON 8.QC11]



Example 5.3.40

Operating segment with no revenues

The CODM of ABC Corp. receives financial information organized by the following business components.

- Component A, which builds simulators for airlines to train pilots;
- Component B, which builds laser equipment used in construction equipment;
- Component C, which builds chip technology for 3D graphics; and
- Component D, which is a start-up social media business.

ABC determines that Components A, B, C and D each qualify as an operating segment. Segment D (the social media business) is an operating segment because ABC determines that the social media business is significant (not incidental) to its operations.

The following is ABC's pretax income for Year 1, which is the measure used by the CODM.

	Revenue	Pretax income	Assets
Segment A	\$ 3,200	\$ 110	\$ 10,000
Segment B	200	30	600
Segment C	300	170	1,000
Segment D		(1,800)	-
Combined	3,700	(1,490)	11,600
Reconciling items and elimination	(700)	90	(1,400)
Consolidated income	\$ 3,000	\$ (1,400)	\$ 10,200

Revenue test

The revenue test is applied to Segments A, B and C, but not to Segment D because it has no revenue. Only Segment A has revenues exceeding 10% of combined segment revenue, so it is treated as a reportable segment and ABC performs the profit or loss test on Segments B, C and D.

Profit or loss test

The absolute amount of the combined segment profit of all operating segments that did not report a loss is \$310, and 10% is \$31. The absolute amount of the combined segment loss of all operating segments that did not report a profit is \$1,800, and 10% is \$180. Using the greater of the two amounts (\$180), only Segment D exceeds the 10% profit or loss test and therefore is treated as a reportable segment. ABC performs the asset test on Segments B and C.

Asset test

Neither Segment B nor Segment C meet the asset test because their assets individually are not greater than \$1,160 ($\$11,600 \times 10\%$). Had Segment D not met the profit or loss test, it would not have met the asset test because it has no segment assets measure reported to or used by the CODM.

Conclusion

An initial conclusion might be that only Segments A and D are reportable segments. However, clearly the intent of Topic 280 is to provide meaningful information to financial statement users about the significant operating segments of an entity. Therefore, management may still deem Segment B or C as material, even without meeting any of the quantitative threshold tests and having met the 75% test.

For example, the fact that ABC does not allocate the expenses of the social media business to the other operating segments and that it does not impose an intersegment charge affects the profit or loss test. Considering the significantly different profitability of the segments, it may be appropriate to conclude that information about Segment C would be useful, and material, to financial statement users. Therefore, Segment C could also be a reportable segment.

5.3.60 'All other' category



Excerpt from ASC 280-10

- > Quantitative Thresholds

50-15 Information about other business activities and operating segments that are not reportable shall be combined and disclosed in an all other category separate from other reconciling items in the reconciliations required by paragraphs 280-10-50-30 through 50-31. The sources of the revenue included in the all other category shall be described.

Insignificant operating segments and other business activities that are not incorporated into reportable segments are combined into an 'all other' category.

These activities are not required to be separately described in the segment disclosures; however, the sources of the revenue included in the 'all other' category should be described in the segment disclosures. [280-10-50-15]

The 'all other' category differs from insignificant operating segments (see [section 5.3](#)). The 'all other' category represents those activities that are: [280-10-50-15]

- neither individually reportable nor able to be aggregated or combined with another operating segment; or
- do not meet the definition of an operating segment.



Question 5.3.40

Does the 'all other' category include business components that are not operating segments?

Interpretive response: Yes. An entity may have certain business activities (components) that would otherwise qualify as an operating segment but discrete financial information either does not exist for the activity, or exists but is not regularly reviewed by the CODM. In addition, corporate headquarters or certain functional departments may not recognize revenues or may recognize revenues that are only incidental to the activities of the public entity. Those components should be included in the 'all other' category.



Example 5.3.50

'All other' category

ABC Corp. has five operating segments: A, B, C, D and E. It also has a corporate headquarters component for which discrete financial information does not exist.

Only Segment C exceeds the 10% quantitative thresholds in paragraph 280-10-50-12 to be considered a reportable segment. However, Segments A and B meet the modified aggregation test (see [section 5.3.20](#)) and aggregate into Segment A+B. Segment A+B also exceeds the 10% quantitative thresholds and is considered a reportable segment. The reportable segments of A+B and C combined exceed the 75% revenue test (see [section 5.3.30](#)).

Segments D and E do not have similar economic characteristics allowing them to be aggregated under the modified aggregation test. ABC's management does not believe that separate information about Segments D and E would be useful to financial statement users (see [section 5.3.50](#)), and therefore it does not consider them to be reportable segments.

Lastly, because Segments A+B and C meet the 75% revenue test, ABC is not required to identify additional reportable segments. Therefore, it includes the corporate headquarters component and Segments D and E in the 'all other' category.

5.4 Practical limit on number of reportable segments



Excerpt from ASC 280-10

- > Quantitative Thresholds

50-18 There may be a practical limit to the number of reportable segments that a public entity separately discloses beyond which segment information may become overly detailed. Although no precise limit has been determined, as the number of segments that are reportable in accordance with paragraphs 280-10-50-12 through 50-17 increases above 10, the public entity should consider whether a practical limit has been reached.

Usually there is a practical limit on the number of reportable segments an entity should disclose. This limitation arises from the fact that too many reportable segments can make segment information overly detailed and therefore not useful to financial statement users. Therefore, if applying the reportable segment principles yields a large number of reportable segments, an entity should consider whether it is appropriately applying the objective and principles of Topic 280. Discretion about which reportable segments to include or exclude can be applied only if the other tests (the 75% test, etc.) are also met.

The FASB suggests that an entity consider whether it has reached this practical limit as the number of reportable segments it identifies increases above 10.

[280-10-50-18]



Question 5.4.10

How does an entity decrease the number of reportable segments below the practical limit?

Interpretive response: Topic 280 does not prescribe a specific method to reduce the number of reportable segments below the practical limit. However, we believe the modified aggregation test discussed in [section 5.3.20](#) may be helpful as a starting place to identify a logical method for combining segments.

Under that test, an entity may combine two or more insignificant operating segments when aggregation is consistent with the objective and basic principles of Topic 280, the segments have similar economic characteristics and the segments share a majority of similarities listed in paragraph 280-10-50-11.

6. Segment disclosure requirements

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6.1 How the standard works

There are three categories of required segment disclosures, some of which are only required for annual financial statements, but not condensed interim financial statements. These disclosures are summarized below.

Required disclosures	In annual financial statements	In condensed interim financial statements	See section
General information [280-10-50-21]			
Factors used to identify reportable segments	X		6.3.20
Types of products and services by segment	X		6.3.30
Title and position of the CODM	X		6.3.40
Information about segment profit or loss and assets [280-10-50-22 – 50-29]			
Profit or loss measure, with additional measures permitted under certain conditions	X	X	6.4.20
Significant expenses and other segment items	X	X	6.4.30
Other quantitative profit or loss information	X	X	6.4.40
Asset information, including a segment assets measure and quantitative information about segment assets	X	X	6.4.50
Qualitative measurement disclosures about profit or loss and assets	X		6.4.70
Reconciliations (to corresponding consolidated amount) (280-10-50-30 – 280-10-50-31]			
Total reportable segment revenues	X		6.5
Total reportable segment amount for each profit or loss measure	X	X	6.5
Total reportable segment assets	X		6.5
Total reportable segment amounts for other significant items disclosed, except significant segment expenses and other segment items	X		6.5

ASU 2023-07 clarifies that these disclosure requirements also apply to single reportable segment entities (see [Question 6.2.30](#)).

Disclosures in condensed interim financial statements

Historically, the segment information required in condensed interim financial statements has been very limited. ASU 2023-07 significantly expands the segment information to be disclosed in condensed interim financial statements by requiring:

- disclosure of a reportable segment’s profit or loss and assets information, and
- reconciliation of the total reportable segment amount for each profit or loss measure.

In condensed interim financial statements, a public entity is required to describe differences from the last annual report in the basis of segmentation or in the basis of measurement of segment profit or loss. [\[280-10-50-32\(e\)\]](#)

See [section 6.9](#) for additional information about segment disclosures in interim financial statements.

Entity-wide disclosures

In addition to the segment disclosures, a public entity is also required to make certain entity-wide disclosures for annual reporting only, which are discussed in [chapter 8](#).

6.2 Required disclosures



Excerpt from ASC 280-10

- > Disclosure Requirements

50-20 All public entities, including those public entities that have a single reportable segment, shall disclose all of the following for each period for which an income statement is presented. However, reconciliations of balance sheet amounts for reportable segments to consolidated balance sheet amounts are required only for each year for which a balance sheet is presented. Previously reported information for prior periods shall be recast as described in paragraphs 280-10-50-34 through 50-35. (See paragraphs 280-10-55-15D through 55-15F for additional guidance for public entities that have a single reportable segment.)

Annual financial statement disclosure requirements for all public entities, including single reportable segment entities, fall into the following three categories:

- general information ([section 6.3](#));
- information about segment profit or loss and assets ([section 6.4](#)); and
- reconciliations ([section 6.5](#)).

General information and certain reconciliations are not required in interim condensed financial statements, but all other segment information is required ([section 6.9](#)). [280-10-50-20]



Question 6.2.10

Are segment disclosures expected to be consistent among peers?

Interpretive response: No. Segment disclosures for entities in the same industry can lack comparability because competitors may be organized differently, and therefore their reportable segments likely will be different. Further, the extent of the reportable segment disclosures and the measures of segment assets and operating results may differ depending on which components and measures each entity's CODM reviews.

The FASB acknowledged that comparability can be affected by Topic 280; however, it did not consider comparability to be a key requirement when it developed Topic 280. [FAS 131.BC63–BC65]



Question 6.2.20

Is there discretion in how to comply with a segment disclosure requirement if disclosure could cause competitive harm?

Interpretive response: No. Some public entities have expressed concerns that certain information required to be disclosed could be considered sensitive or could put a public entity at a competitive disadvantage. For example, information disclosed about a reportable segment could affect the public entity's negotiation of a contract with a customer, vendor or employee union. Others have expressed views that nonpublic and some non-US entities, which need not comply with Topic 280, may achieve a competitive advantage.

The FASB was sympathetic to these concerns raised by certain respondents to the Exposure Draft for FASB Statement No. 131 (the legacy standard to Topic 280). However, it decided that a 'competitive harm' exemption was inappropriate because it might be overused and provide a means for broad noncompliance with Topic 280. Instead, it addressed these concerns by:

- eliminating certain disclosure requirements that were initially proposed;
- adding quantitative thresholds for identifying reportable segments;
- modifying the aggregation criteria; and
- changing the second-level disclosure requirements about products, services and geography from a segment basis to an entity-wide basis.

The general intent of the FASB's modifications was to create fewer reportable segments so that any sensitive information is not disclosed, and to allow reportable segment information to be at a higher, less detailed level.



Question 6.2.30

Is a single reportable segment entity required to provide all segment disclosures in Topic 280?

Interpretive response: Yes. ASU 2023-07 clarifies that entities with a single reportable segment are subject to the requirements of Topic 280 in their entirety, on an annual and interim basis. [\[ASU 2023-07.BC24\]](#)

Before ASU 2023-07, Topic 280 explicitly required single reportable segment entities to provide entity-wide disclosures (see [section 8.2](#)). However, it was silent about segment disclosures and related reconciliations. As a result of the ASU, many single reportable segment entities are expected to provide all required segment disclosures in Topic 280 for the first time.

Applying Topic 280 poses unique challenges to single reportable segment entities, such as:

- understanding why the entity is a single reportable segment. This determination is important to identify which segment profit or loss measure to disclose ([Question 6.4.40](#));

- selecting which additional measure(s) of segment profit or loss, if any, may be voluntarily disclosed when the CODM uses multiple measures to assess performance and allocate resources ([Question 6.4.40](#)); and
- avoiding duplicative information, as certain segment profit or loss and asset information required under Topic 280 may represent entity-wide information already provided on the face of the primary financial statements or other notes. If this is the case, the entity may reference the existing information in the segments note rather than duplicating the information. [\[ASU 2023-07.BC32, 2024 AICPA Conf\]](#)

6.3 General information



Excerpt from ASC 280-10

• • > General Information

50-21 A public entity shall disclose the following general information (see Example 3, Case A [paragraph 280-10-55-47]):

- Factors used to identify the public entity's reportable segments, including the basis of organization (for example, whether management has chosen to organize the public entity around differences in products and services, geographic areas, regulatory environments, or a combination of factors and whether operating segments have been aggregated)
- Types of products and services from which each reportable segment derives its revenues.
- The title and position of the individual or the name of the group or committee identified as the chief operating decision maker.

6.3.10 Overview

The general information disclosures are required in annual periods only and comprise three parts.

Required disclosure	In annual financial statements	In condensed interim financial statements	See section
General information [280-10-50-21]			
Factors used to identify reportable segments	X		6.3.20
Types of products and services that produce revenue for each reportable segment	X		6.3.30
Title and position of the CODM	X		6.3.40

This general information essentially provides context to the segment disclosures for financial statement users. These requirements are discussed in the next three sections. [\[280-10-50-21\]](#)

6.3.20 Factors used to identify reportable segments

Because segment disclosures are developed based on the manner in which an entity manages its operations (i.e. the management approach), they are meaningful when financial statement users also have an overall understanding of the entity. Generally, this means explaining how reportable segments are identified in broad terms – e.g. by products and services, geographic areas and/or regulatory environments. [\[280-10-50-21\(a\)\]](#)

Topic 280 contains the following sample disclosure of this information, which illustrates the very broad nature of this disclosure requirement (see full sample disclosure in [section 6.10](#)).



Excerpt from ASC 280-10

• > Example 3: Illustrative Disclosures

• • > Case A: Disclosure of Descriptive Information About Reportable Segments

55-47 The following is an example of the disclosure of descriptive information about a public entity's reportable segments. ...

d. Factors that management used to identify the entity's reportable segments (see paragraph 280-10-50-21(a)).

Diversified Company's reportable segments are strategic business units that offer different products and services. They are managed separately because each business requires different technology and marketing strategies. Most of the businesses were acquired as a unit, and the management at the time of the acquisition was retained.

6.3.30 Types of products and services by segment

Even if reportable segments are not structured by products and services, an entity also explains the types of products and services that produce revenue for each reportable segment. [\[280-10-50-21\(b\)\]](#)

Topic 280 contains a sample disclosure of this information. Specifically, in the following sample disclosure not only are the products and services of each reportable segment identified, but each segment's customer base is mentioned, which technically is not required but provides useful information (see full sample disclosure in [section 6.10](#)).



Excerpt from ASC 280-10

- > Example 3: Illustrative Disclosures

- • > Case A: Disclosure of Descriptive Information About Reportable Segments

55-47 The following is an example of the disclosure of descriptive information about a public entity's reportable segments.

- a. Description of the types of products and services from which each reportable segment derives its revenues (see paragraph 280-10-50-21(b)).

Diversified Company has five reportable segments: auto parts, motor vessels, software, electronics and finance. The auto parts segment produces replacement parts for sale to auto parts retailers. The motor vessels segment produces small motor vessels to serve the offshore oil industry and similar businesses. The software segment produces application software for sale to computer manufacturers and retailers. The electronics segment produces integrated circuits and related products for sale to computer manufacturers. The finance segment is responsible for portions of the company's financial operations including financing customer purchases of products from other segments and real estate lending operations in several states.

6.3.40 Title and position of the CODM

An entity discloses the title and position of the individual or the name of the group or committee identified as the CODM. This is a new requirement introduced by ASU 2023-07 (although some entities historically disclosed this information voluntarily). However, the ASU does not otherwise change how the CODM is identified (see [chapter 3](#)). [280-10-55-47(e)]

Topic 280 contains an example disclosure of this information.



Excerpt from ASC 280-10

- > Example 3: Illustrative Disclosures

- • > Case A: Disclosure of Descriptive Information About Reportable Segments

55-47 The following is an example of the disclosure of descriptive information about a public entity's reportable segments. ...

- e. The title and position of the individual or the group identified as the chief operating decision maker (see paragraph 280-10-50-21(c)).

Diversified Company's chief operating decision maker is the chief executive officer.

6.4 Information about segment profit or loss and assets

6.4.10 Overview

Segment disclosures provide financial statement users with quantitative and qualitative information about each reportable segment's profit or loss and assets. A sample disclosure of this information is reproduced in [section 6.10](#) (see Case B).

Qualitative disclosures about the measurement of profit or loss and assets are required on an annual basis only, unless there is a change in measurement in an interim period. See [section 6.4.70](#).

The following table summarizes which quantitative information is required under which circumstances. When the circumstances are met, the information is required on an annual and interim basis.

Segment information required if:	Reviewed by the CODM	Regularly provided to CODM or included in the segment profit or loss measure or assets measure reviewed by the CODM	Regularly provided to CODM and included in the reported measure(s) of segment profit or loss	See section
Profit or loss information				
Profit or loss measure	X			6.4.20
Significant expenses			X	6.4.30
Other segment items			X	6.4.30
Revenues		X		6.4.40
Interest income and expense		X		6.4.40
Depreciation, depletion, and amortization expense		X		6.4.40
Unusual items		X		6.4.40
Equity in the net income of investees accounted for by the equity method		X		6.4.40
Income tax expense or benefit		X		6.4.40

Segment information required if:	Reviewed by the CODM	Regularly provided to CODM or included in the segment profit or loss measure or assets measure reviewed by the CODM	Regularly provided to CODM and included in the reported measure(s) of segment profit or loss	See section
Significant noncash items		X		6.4.40
Asset information				
Total assets measure	X			6.4.50
Amount of investment in equity method investees		X		6.4.50
Total expenditures for additions to long-lived assets		X		6.4.50



Question 6.4.10#

How is the term 'regularly provided' interpreted?

Background: Topic 280 uses the term 'regularly provided' when requiring entities to report specified amounts for each reportable segment (see [section 6.4.40](#)). Further, ASU 2023-07 amends Topic 280 to use the term 'regularly provided' when requiring an entity to disclose significant segment expenses under the significant expense principle (see [section 6.4.30](#)).

Notably, Topic 280 also uses the term 'regularly reviewed' within the definition of operating segment when referring to the information that a CODM uses to assess performance and allocate resources (see [section 4.2.30](#)). However, the FASB decided to base the significant expense principle in ASU 2023-07 on information that is regularly *provided to*, rather than *reviewed by*, the CODM to align with the same term in segment disclosure requirements. [ASU 2023-07.BC38]

[Question 4.2.55](#) discusses the meaning of 'regularly'.

Interpretive response: Topic 280 does not define the term 'regularly provided' or specify how to interpret its meaning. We believe entities should consider all facts and circumstances and apply judgment when determining what information is provided to the CODM.

A CODM may be provided with segment information that the CODM does not necessarily review or that does not appear to be provided for purposes of the CODM's decision-making (e.g. information produced for regulatory purposes, see [Question 6.4.55](#)). By using information regularly provided to, rather than

regularly reviewed by, the CODM as a starting point for the segment disclosures, Topic 280 intentionally casts a wider net of eligible information. Further, there may be less judgment needed to determine which information is regularly provided to the CODM versus which information is regularly reviewed by the CODM. However, in our experience, this assessment has become increasingly challenging in recent years as technology and data analysis tools affect the landscape of management reporting. For example, electronic reports and dashboards offering the CODM instantaneous access to detailed information may provide additional information to the CODM, potentially resulting in increased segment disclosure.

To identify what information is regularly provided to the CODM, we believe an entity should look comprehensively at management's reporting and forecasting process including, but not limited to information:

- provided to the board of directors and audit committee;
- included in MD&A, in press releases, and on the entity's website;
- discussed during its earnings calls.

We believe an entity should also consider the timing of when the information is provided to the CODM.

When the CODM function comprises a group, we believe information is considered regularly provided to the CODM even if provided only to one member of the group.

6.4.20 Profit or loss measure



Excerpt from ASC 280-10

- • > Information about Profit or Loss and Assets

50-22 A public entity shall report a measure of profit or loss and total assets for each reportable segment. [...]

- • • > Measurement

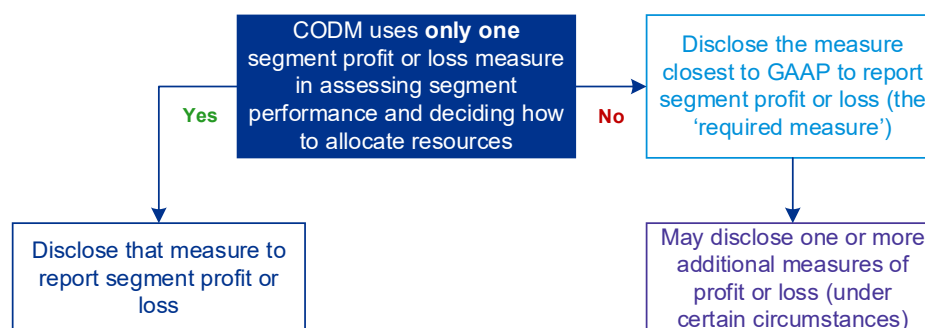
50-28A If the chief operating decision maker uses only one measure of a segment's profit or loss in assessing segment performance and deciding how to allocate resources, segment profit or loss shall be reported at that measure. If the chief operating decision maker uses more than one measure of a segment's profit or loss in assessing segment performance and deciding how to allocate resources, a public entity may report one or more of those additional measures of segment profit. However, at least one of the reported segment profit or loss measures (or the single reported measure, if only one is disclosed) shall be that which management believes is determined in accordance with the measurement principles most consistent with those used in measuring the corresponding amounts in a public entity's consolidated financial statements.

50-28B If a public entity discloses more than one measure of a segment's profit or loss in the current period, it shall report the additional measure or measures for the prior periods in which the measure or measures were

provided to the chief operating decision maker. For example, if a public entity reports an additional measure in the current period for gross profit for a reportable segment, it should disclose gross profit for the reportable segment in the prior comparative periods if gross profit was provided to the chief operating decision maker in those periods. A public entity is not precluded from reporting the additional measure or measures for the prior periods in which the measure or measures were not provided to the chief operating decision maker.

50-28C The disclosure requirements in paragraphs 280-10-50-22 through 50-24, paragraphs 280-10-50-26A through 50-26C, and paragraph 280-10-50-29 apply to each reported measure of a segment's profit or loss. The reconciliation requirement in paragraph 280-10-50-30(a) applies to the total of the reportable segments' revenues to a public entity's consolidated revenues. The reconciliation requirement in paragraph 280-10-50-30(b) applies to the total of the reportable segments' amount for each measure of profit or loss.

As illustrated in the following decision tree, which segment profit or loss measure is disclosed depends on the information used by the CODM to assess segment performance and to decide how to allocate resources, as follows. [280-10-50-28A]



Question 6.4.40 addresses special considerations for single reportable segment entities.

The measure of segment profit or loss closest to GAAP is not considered a non-GAAP financial measure under SEC rules (see Question 6.4.15). However, the SEC staff has expressed the view that additional measures may constitute non-GAAP financial measures (see Question 6.4.30). Section 9.5 further explains how segment measures may be used in MD&A. [C&D 104.01]

In all cases, there are additional disclosure requirements for each reported segment profit or loss measure, including:

- qualitative disclosures, e.g. to describe its composition, any period to period changes to the measure, and how it is used by the CODM (see section 6.4.70);
- reconciliations (see section 6.5).



Question 6.4.15**

May the required measure of segment profit or loss be prepared on a non-GAAP basis?

Interpretive response: Yes. In developing its segment reporting standard, the FASB decided not to require segment information to be provided in accordance with US GAAP. Therefore, the required measure of segment profit or loss may be prepared on a basis other than GAAP, as long as the measure is used by the CODM in assessing segment performance and allocating resources. [280-10-50-28A, FAS 131.BC84]

Further, the required measure does not need to be reconciled to its equivalent GAAP measure; instead, the measure is reconciled to income before income taxes and discontinued operations (see [section 6.5](#)). [280-10-50-30]

The SEC staff has confirmed that because Topic 280 requires the segment measure to be disclosed, it is not a non-GAAP financial measure per the regulatory definition, even when it is prepared on a non-GAAP basis. [Reg G, Reg S-K Item 10(e)(5), 2024 AICPA Conf]

However, see [Questions 6.4.20](#) and [6.4.30](#) for guidance on presenting a non-GAAP measure of segment profit or loss when an entity presents multiple measures.



Question 6.4.20#

What is the required measure when the CODM uses multiple segment profit or loss measures?

Background: The CODM may use multiple profit or loss measures to assess segment performance and allocate resources. These measures may also vary by segment. FASB Example 3 (see [section 6.10.10](#)) illustrates a situation where, for the entity's industrial and services segments, the CODM uses both gross profit and profit or loss from operations before interest and income taxes; for its finance segment, the CODM uses pretax profit or loss. [280-10-55-47]

Interpretive response: When the CODM uses multiple profit or loss measures to assess segment performance and allocate resources, the required measure is the one that management believes is closest to GAAP – i.e. the one most consistent with the principles used to measure the corresponding amounts in the consolidated financial statements. [280-10-50-28A]

Selecting the measure closest to GAAP may require judgment by comparing how each measure is calculated, the nature of the non-GAAP adjustments and how comprehensively each measure incorporates costs (i.e. how cost-inclusive each measure is). For example, we believe that if the CODM regularly reviews these segment profit or loss measures, the required measure generally would be as follows.

- GAAP gross profit versus GAAP operating profit: GAAP operating profit, because it is the most cost-inclusive of the two measures; or
- Adjusted EBITDA versus EBITDA: EBITDA, unless the adjustments to EBITDA result in a measure that is closer to a GAAP measure.

The above also applies to single reportable segment entities (see [Question 6.4.40](#)).

Further, the required measure is determined for each reportable segment. The SEC staff has confirmed that it is acceptable for an entity to disclose different measures of segment profit or loss for different reportable segments, provided that the CODM uses those measures to assess performance and allocate resources to the respective reportable segments.



Question 6.4.30#

What are the circumstances under which additional segment profit or loss measures may be disclosed?

Interpretive response: ASU 2023-07 amends Topic 280 to permit an entity to disclose more than one segment profit or loss measure under the following conditions: [\[280-10-50-28C\]](#)

- the additional measure(s) is used by the CODM to evaluate segment performance and allocate resources; and
- the required measure is also disclosed (see [Question 6.4.20](#)).

The following information is provided for each reported segment profit or loss measure: [\[280-10-50-28C\]](#)

- significant expenses and other segment items included in the measure(s) if regularly provided to the CODM ([section 6.4.30](#));
- other quantitative profit or loss information included in the measure(s) ([section 6.4.40](#));
- a qualitative explanation of how the measure(s) is used by the CODM ([section 6.4.70](#)); and
- reconciliation to consolidated amounts ([section 6.5](#)).

Further, if an entity discloses more than one segment profit or loss measure in the current period, it reports the additional measure(s) for the prior periods in which the measure(s) was provided to the CODM (see [section 7.3.10](#)). [\[280-10-50-28B\]](#)

The above also applies to single reportable segment entities (see [Question 6.4.40](#)).

Interplay between Topic 280 and the SEC's non-GAAP financial measures regulations

At the 2023 AICPA & CIMA Conference on Current SEC and PCAOB Developments, the SEC staff stated that it will consider any additional reported measures of segment profit or loss that are not determined in accordance with GAAP to be non-GAAP financial measures. The staff's view is based on the fact that ASU 2023-07's amendments do not require or expressly permit disclosure of specific additional segment profitability measures (i.e. by requiring or otherwise specifically identifying the additional measures that may be reported).

The SEC regulations that address the disclosure of non-GAAP financial measures are Reg G and Reg S-K Item 10(e). Reg G requires the presentation of non-GAAP financial measures to not be misleading and to be accompanied by and quantitatively reconciled to the most directly comparable GAAP

measure. Reg S-K Item 10(e) prohibits non-GAAP financial measures in the financial statements. However, since that conference, the SEC staff has clarified that it will not object to additional non-GAAP measures of segment profit or loss being included in the notes to the financial statements if they: [2024 AICPA Conf, CAQ 03/2025]

- are regularly reviewed and used by the CODM to assess segment performance and allocate resources; and
- otherwise comply with the requirements under both Topic 280 and the SEC’s non-GAAP financial measures regulations.

Under the SEC regulations, any additional measure of segment profit or loss that is not based on GAAP must be identified as such, cannot be misleading and must be accompanied by all of the required disclosures for non-GAAP financial measures. See [Question 6.4.35](#) for additional considerations.



Question 6.4.32**

Do allocable costs affect whether additional measures of profit or loss are non-GAAP?

Interpretive response: It depends. As discussed in [section 6.4.60](#), an entity may allocate costs to reported segment profit or loss if the amounts are included in the measure provided to the CODM and the amounts are allocated on a reasonable basis. [280-10-50-27]

The SEC has clarified that if a measure of segment profit or loss excludes general costs that have not been allocated to the segment, the measure is not considered to be non-GAAP solely because it excludes the allocable costs. [2024 AICPA Conf]



Question 6.4.35**

How does an entity comply with SEC regulations when disclosing an additional non-GAAP segment profit or loss measure?

Interpretive response: When disclosing non-GAAP financial measures in an SEC filing, the registrant must satisfy certain requirements and include certain disclosures. As explained in [Question 6.4.30](#), these requirements and disclosures also apply to any non-GAAP segment profit or loss measure that an entity elects to disclose in addition to the required measure.

The following guidelines apply when disclosing an additional non-GAAP segment profit or loss measure.

Measure cannot be misleading

Reg G states that a publicly disclosed non-GAAP financial measure must not be misleading. The SEC C&DIs offer further guidance on applying the requirements of Reg G and Reg S-K Item 10(e). Specifically, [Section 100](#) of the C&DIs provides insights and additional considerations on non-GAAP measures that could mislead investors.

In recent years, SEC comments relating to the adherence to non-GAAP measures requirements – especially those concerning potentially misleading measures – have consistently ranked among the most frequent SEC comments. Therefore, assessing whether a specific segment profit or loss measure is not misleading and is fit for inclusion in the notes to the financial statements may require judgment. We believe that a lack of historical objection by the SEC related to the use of particular non-GAAP measures would generally not on its own provide sufficient evidence for reaching such a conclusion.

Measure must be reconciled

Reg G requires the presentation of, and a reconciliation to, the non-GAAP financial measure's most directly comparable GAAP measure, as discussed in [section 6.5](#). Note the differences in the required reconciliation formats between Reg G and Topic 280. [\[C&DI 102.10\(b\)\]](#)

- Reconciliation under Reg G begins with the GAAP financial measure, while reconciliation under Topic 280 begins with the segment measure (on a combined basis for all relevant reportable segments).
- Reconciliation under Reg G reconciles to the closest GAAP measure while Topic 280 reconciles to consolidated income before income taxes and discontinued operations.

Additional presentation and disclosure requirements

In addition to the requirements of Reg G, Reg S-K Item 10(e) and Instruction 2 to Item 2.02 of Form 8-K (via reference to Reg S-K Item 10(e)(1)(ii)) require:

- the comparable GAAP measure to be presented with equal or greater prominence than the non-GAAP measure(s);
- disclosure of the reasons the company's management believes the presentation of the non-GAAP financial measure is useful to investors; and
- to the extent material, a statement of the purpose (if any) for which management uses the non-GAAP financial measure.

Placement of the disclosures required under SEC regulations

The SEC staff has clarified that the Reg G and Reg S-K Item 10(e) reconciliation and disclosures are not required to be provided in the notes to the financial statements. The staff will not object to the accompanying disclosures appearing in either the segment note in the financial statements or in another section of the filing that includes the additional measure of segment profitability, such as MD&A.

If a registrant places the disclosures in a section outside of the financial statements, it should not provide a reference in the financial statements to that section indicating where the required non-GAAP disclosures are located. The reason for this prohibition is two-fold: [\[17 CFR 230.411, 17 CFR 240.12b-23, 2024 AICPA Conf\]](#)

- there is no requirement to do so in Topic 280 or the SEC regulations; and
- disclosure referencing from the financial statements to information outside of the financial statements is prohibited by SEC regulations.

Responsibility of the auditor over additional segment profit or loss measures

At the 2024 AICPA & CIMA Conference on Current SEC and PCAOB Developments the SEC staff clarified that if additional measures of segment profit or loss are included in the notes to the financial statements, auditors are responsible for determining whether the measures are presented in conformity with Topic 280. In addition, any other disclosures provided to satisfy the requirements of Topic 280 are subject to audit.

However, the SEC staff also stated that if additional measures of segment profit or loss are disclosed under Topic 280, the determination of whether those additional measures comply with SEC non-GAAP requirements (i.e. Reg G and Reg S-K Item 10(e)) is not in the scope of the audit opinion. [\[2024 AICPA Conf\]](#)

Removal of additional segment profit or loss measures deemed misleading

The SEC staff clarified that entities should continue to consider whether a non-GAAP measure is misleading or a tailored accounting principle – especially when introducing a new measure or revising a previously disclosed measure – and judgment may be necessary.

Further, the SEC clarified that if an additional segment profit or loss measure is removed because it does not comply with Topic 280 (e.g. it is not used by the CODM to assess segment performance or allocate resources), that would represent the correction of an error under Topic 250. Alternatively, if an additional segment profit or loss measure is disclosed in accordance with Topic 280 but subsequently removed solely because it does not comply with SEC non-GAAP regulations (Reg G or Reg S-K Item 10(e)), that does not represent the correction of an error in accordance with Topic 250. See also section 4 in KPMG Handbook, [Accounting changes and error corrections](#). [\[2024 AICPA Conf\]](#)

See KPMG Issues In-Depth, [Non-GAAP financial measures](#) and [section 9.5.20](#) for further considerations on non-GAAP measures in MD&A.



Example 6.4.10

Multiple segment profit or loss measures used by the CODM

To evaluate segment performance and allocate resources, ABC Corp.'s CODM uses the following profit or loss measures for each of ABC's reportable segments (from least to most cost-loaded measure):

- gross profit;
- adjusted operating income (i.e. operating profit less certain nonrecurring items); and
- operating income.

ABC determines that operating income represents the segment performance measure that is most consistent with measurement principles used in the corresponding amounts in the consolidated financial statements. ABC also determines that its calculation of gross profit is in accordance with GAAP measurement principles, but adjusted operating income is not.

As a result, ABC reports operating income as the required measure, and is permitted to report gross profit as an additional measure. Because adjusted operating income is a non-GAAP financial measure, further analysis of the SEC non-GAAP requirements is required before concluding that it can be reported in the notes to the financial statements. Notably, ABC needs to assess whether the measure would be considered misleading under SEC regulations.



Question 6.4.40#

What segment profit or loss measure(s) does a single reportable segment entity disclose?



Excerpt from ASC 280-10

• • > Reported Measure of Profit or Loss for an Entity That Discloses a Single Reportable Segment

55-15D All public entities, including those public entities that have a single reportable segment, are subject to the requirements of this Topic in its entirety. Paragraph 280-10-50-1(b) states that a characteristic of an operating segment is that it is a component of an entity whose operating results are regularly reviewed by the public entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance. Paragraph 280-10-50-4 states that not every part of a public entity is necessarily an operating segment or part of an operating segment; for example, corporate headquarters or certain functional departments may not be part of an operating segment. The entity should evaluate the guidance in paragraph 280-10-50-4 and the definition of an operating segment when identifying its operating segment (or segments) and determining whether that operating segment (or segments) constitutes all or part of the consolidated entity. For example, when a public entity has a single operating segment that constitutes part, but not all, of the consolidated entity, the chief operating decision maker may regularly review the operating results and performance of the operating segment differently than how management assesses the performance of the consolidated entity. Alternatively, when the single operating segment constitutes all of the consolidated entity, the chief operating decision maker may regularly review the entity-wide operating results and performance.

55-15E A public entity that discloses a single reportable segment should identify the measure or measures (in accordance with paragraph 280-10-50-28A) of a segment's profit or loss that the chief operating decision maker uses in assessing segment performance and deciding how to allocate resources, which may include a profit or loss measure that is not presented on the public entity's consolidated income statement. For example, the chief operating decision maker of a single reportable segment entity may use both net income and earnings before interest, taxes, depreciation, and amortization as the measures of profit or loss for purposes of assessing segment performance and deciding how to allocate resources. However, earnings before interest, taxes,

depreciation, and amortization is not presented on the public entity's consolidated income statement.

55-15F When the chief operating decision maker of a single reportable segment entity uses more than one measure of a segment's profit or loss in assessing segment performance and deciding how to allocate resources, at least one of the reported segment profit or loss measures should be that which management believes is determined in accordance with the measurement principles most consistent with those used in measuring the corresponding amounts in a public entity's consolidated financial statements and reconciled in accordance with paragraphs 280-10-50-30(b) and 280-10-50-32(f). A single reportable segment entity also may report additional performance measures that are used by the chief operating decision maker in assessing segment performance and deciding how to allocate resources in accordance with paragraphs 280-10-50-28A through 50-28B.

Interpretive response: Even if an entity has only one reportable segment, it is subject to all of Topic 280's requirements, which is a departure from the more limited pre-ASU 2023-07 requirements for single reportable segment entities. Therefore, such an entity has to identify the required segment profit or loss measure to disclose and may disclose additional measures if the CODM uses multiple segment profit or loss measures to assess performance and allocate resources. Further, neither the required measure nor additional measures necessarily need to be presented in the entity's consolidated income statement or be GAAP measures – e.g. EBITDA. [\[280-10-55-1D - 55-15E\]](#)

To determine which measure(s) to disclose, it is important to understand why the entity has one reportable segment. This may be because the entity has: [\[280-10-55-15D\]](#)

- one operating segment that constitutes all of the consolidated entity. In this case, the CODM is effectively managing the business on a consolidated basis, and thereby regularly reviewing the entity-wide operating results and performance;
- one operating segment that does not constitute all of the consolidated entity (e.g. corporate headquarters or certain functional departments may not be part of an operating segment); or
- multiple operating segments aggregated into one reportable segment (see [section 4.4](#)).

Single reportable segment entity managed on a consolidated basis

At the 2023 AICPA & CIMA Conference on Current SEC and PCAOB Developments, the SEC staff indicated that when a single reportable segment entity is managed on a consolidated basis, it expects the required measure of segment profit or loss to be consolidated net income. [\[2023 AICPA Conf\]](#)

The SEC staff has since clarified that its view would not differ if the CODM is not the CEO or CFO certifying the Form 10-K or 10-Q. Certifying the Form 10-K or 10-Q is simply one data point indicating that the certifying officer receives and reviews consolidated net income. The SEC staff has stated that it is not aware of a circumstance where a CODM manages a single reportable segment entity on a consolidated basis and does not regularly review a consolidated GAAP measure of profit or loss, such as consolidated net income.

An entity managed on a consolidated basis is permitted to disclose a measure of segment profit or loss other than consolidated net income only as a voluntarily disclosed additional measure of segment profit or loss subject to the requirements and considerations explained in [Questions 6.4.30](#) and [6.4.35](#).

Determining if a single reportable segment entity is managed on a consolidated basis

An entity considers the guidance in paragraph 280-10-50-4 and the definition of an operating segment when identifying its operating segment (or segments) and determining whether that operating segment (or segments) constitutes all or part of the consolidated entity. The guidance helps determine how to distinguish the business activities of the single operating segment from other activities of the entity and whether there is evidence that the entity is managed on a consolidated basis. For example, an entity may need to assess whether a corporate headquarters or certain functional departments should be considered an operating segment. As part of this determination, an entity may want to evaluate how budgets are prepared, resources are allocated and performance is assessed.

The SEC staff has stated that the mere exclusion of a corporate headquarters or certain functional department from a measure of profit or loss reviewed by the CODM is not determinative as to whether an entity is managed on a consolidated basis. Entities should carefully consider all relevant facts and circumstances when reaching a conclusion.

We believe an entity that aggregates multiple operating segments into a single reportable segment is not managed on a consolidated basis.

Other single reportable segment entities

When a single reportable segment entity is not managed on a consolidated basis, the CODM may regularly review the operating results and performance of each operating segment differently than how it assesses the performance of the consolidated entity. [\[280-10-55-15D\]](#)

In this instance, the entity identifies the profit or loss measure(s) that the CODM uses to assess segment performance and allocate resources. The measure closest to GAAP needs to be disclosed (see [Question 6.4.20](#)) and additional measures may be reported if the conditions detailed in [Question 6.4.30](#) are met. [\[280-10-55-15E – 55-15F\]](#)

6.4.30 Significant expenses and other segment items



Excerpt from ASC 280-10

- • > Information about Profit or Loss and Assets

50-26A A public entity shall disclose for each reportable segment the significant expense categories and amounts that are regularly provided to the chief operating decision maker and included in reported segment profit or loss. When determining the segment expense categories and amounts that shall be disclosed, a public entity shall first identify the expenses from the segment

level information that is regularly provided to the chief operating decision maker and then disclose those segment expense categories and amounts that are significant. A public entity shall consider relevant qualitative and quantitative factors when determining whether segment expense categories and amounts are significant. When applying this guidance, a public entity shall evaluate for disclosure a segment expense that is regularly provided to the chief operating decision maker as well as a segment expense that is easily computable from information that is regularly provided to the chief operating decision maker. Paragraphs 280-10-55-15A through 55-15B provide additional guidance on determining whether segment expense amounts can be easily computed for purposes of applying the guidance in this paragraph.

50-26B A public entity shall disclose for each reportable segment an amount for other segment items. The amount for other segment items is the difference between reported segment revenues less the segment expenses disclosed in accordance with paragraph 280-10-50-26A and reported segment profit or loss. A qualitative description of the composition of other segment items also shall be disclosed. Other segment items may include:

- a. The total of a reportable segment's expenses that are included in the reported measure(s) of a segment's profit or loss but are not regularly provided to the chief operating decision maker.
- b. The total of a reportable segment's expenses that are included in the reported measure(s) of a segment's profit or loss but are not disclosed in accordance with paragraph 280-10-50-26A. A public entity is not precluded from separately disclosing an expense that is not significant for one reportable segment but is significant for another of its segments. However, if a segment expense that is not significant is not separately disclosed, it shall be included as part of other segment items.
- c. The total of a reportable segment's gains, losses, or other amounts that also are included in each reported measure of a segment's profit or loss.
- d. The items and amounts required by paragraph 280-10-50-22 when those specified items and amounts are included within the reported measure of segment profit or loss but are not disclosed in accordance with paragraph 280-10-50-26A. For example, a public entity may report net income as the measure of a segment's profit or loss. In that case, if income tax expense by segment is not regularly provided to the chief operating decision maker, it may be included within other segment items. However, income tax expense is still required to be disclosed in accordance with paragraph 280-10-50-22.

50-26C An amount and qualitative description of the composition of other segment items shall be disclosed for each reportable segment even when a public entity does not separately report significant segment expense categories and amounts in accordance with paragraph 280-10-50-26A for one or more of its reportable segments. Additionally, if a public entity does not disclose significant expense categories and amounts for one or more of its reportable segments, it shall explain the nature of the expense information the chief operating decision maker uses to manage operations (see paragraph 280-10-55-15G).

• • > Significant Expense Amounts That Can Be Easily Computed from Information That Is Regularly Provided to the Chief Operating Decision Maker

55-15A The information that is regularly provided to the chief operating decision maker may include segment expense information that is expressed in a form other than actual amounts, for example, as a ratio or an expense as a percentage of revenue. The requirements in paragraph 280-10-50-26A apply to expense amounts that can be easily computed from the information that is regularly provided to the chief operating decision maker.

55-15B For example, if the information that is regularly provided to the chief operating decision maker includes a segment revenue amount and a segment gross margin amount, segment cost of sales can be easily computed from this information. Therefore, if cost of sales is significant, an entity should disclose the category and amount in accordance with paragraph 280-10-50-26A. As another example, the information that is regularly provided to the chief operating decision maker may include a segment revenue amount and segment warranty expense expressed as a percentage of segment revenue. In this example, segment warranty expense can be easily computed from this information. Therefore, if warranty expense is significant, the entity should disclose the category and amount in accordance with paragraph 280-10-50-26A.

• • > Disclosure of Corporate Overhead Expense as a Significant Expense Amount When It Is Regularly Provided to the Chief Operating Decision Maker and Included within the Measure of Segment Profit or Loss

55-15C If the information regularly provided to the chief operating decision maker contains a category and amount for allocated corporate overhead expenses by segment that is included in reported segment profit or loss, a public entity should assess that category and amount for disclosure in accordance with paragraph 280-10-50-26A. For example, an entity would disclose allocated corporate overhead if it is a significant segment expense in accordance with paragraph 280-10-50-26A>

• • > Disclosures When No Significant Expense Categories and Amounts Are Reported for a Reportable Segment

55-15G The chief operating decision maker may be regularly provided with segment expense categories and amounts for one segment and no segment expense categories and amounts for another segment. Alternatively, the chief operating decision maker may not be regularly provided with expense information for any of a public entity's segments. Paragraphs 280-10-50-26A through 50-26C apply to each reportable segment. When no significant expense categories and amounts are disclosed for a reportable segment, a public entity should report an amount and a description of the composition of other segment items in accordance with paragraph 280-10-50-26B and describe the expense information that the chief operating decision maker uses to manage the operations of that segment in accordance with paragraph 280-10-50-26C. For example, when no significant expenses are disclosed for a reportable segment, the public entity may disclose that the chief operating decision maker is regularly provided with only budgeted or forecasted expense information for that segment or uses consolidated expense information. The explanation of the expense information that the chief operating decision maker uses to manage operations is not required when significant expense categories and amounts are disclosed for a reportable segment.

ASU 2023-07 creates a 'significant expense principle', under which an entity is required to disclose the following for each reportable segment and for each reported segment profit or loss measure:

- the significant expense categories and amounts that are regularly provided to the CODM or 'easily computable' from information that is regularly provided to the CODM); [280-10-50-26A]
- an amount and qualitative description of the composition of other segment items. [280-10-50-26B]

Significant segment expenses and other segment items do not have to be reconciled to the reported amounts in the consolidated financial statements (see [section 6.5](#)).

Significant segment expenses

The FASB decided to base the significant expense principle on the information that is regularly *provided* to the CODM on a segment basis to align with the same term in the existing segment disclosure requirements, even if such information is not regularly reviewed by the CODM (see [Question 6.4.10](#)). [ASU 2023-07.BC38]

If an entity does not disclose significant expense categories and amounts under the significant expense principle for one or more of its reportable segments, it discloses the nature of the expense information that the CODM uses to manage operations. For example, this can occur when significant segment expenses are not regularly provided to the CODM. [280-10-50-26C]

Other segment items

The amount for other segment items is the difference between: [280-10-50-26B]

- reported segment revenue (see [section 6.4.40](#)), less
- the significant expenses that are disclosed under the significant expense principle and reported in segment profit or loss.

Examples of other segment items included in each reported segment profit or loss measure include: [280-10-50-26B]

- expenses provided to the CODM that are not significant;
- expenses not provided to the CODM; and
- the total of gains, losses and other segment amounts.

An amount and a qualitative description of the composition of other segment items are disclosed for each reportable segment even when an entity does not separately report significant segment expense categories and amounts. [280-10-50-26C]



Question 6.4.50#

What types of expenses are assessed under the significant expense principle?

Interpretive response: All segment expenses regularly provided to the CODM or 'easily computable' from information that is regularly provided to the CODM

(see [Question 6.4.70](#)) need to be assessed for significance if they are included in the reported measure(s) of a segment's profit or loss (see [section 6.4.20](#)). [280-10-55-26A]

This may include the following: functional expenses (e.g. cost of goods sold), natural expenses (e.g. employee benefits), or a combination. Significant segment expenses are not limited to direct expenses and can include allocated corporate overhead and shared expenses (see [Question 6.4.60](#)).

Significant segment expense categories and amounts are identified from segment-level information. The CODM may be provided with different expense information for each reportable segment due to the nature of its operations. This may lead to disclosing different significant expenses for different reportable segments.

Interaction with other segment disclosure requirements

A separate category of segment disclosures is 'other quantitative profit or loss information' (see [section 6.4.40](#)). That category requires disclosure of specific segment expenses, such as depreciation and amortization, interest expense and income taxes that are either *provided* to the CODM or included in the measure(s) of profit or loss *reviewed* by the CODM. The disclosure of significant segment expenses discussed in this section is in addition to the specific segment expenses required to be disclosed under 'other quantitative profit or loss information'.

As a result of the interaction of these two requirements, an entity may have to disclose certain specific segment expenses even if they are not regularly provided to the CODM, simply because they are included in the measure(s) of a segment's profit or loss reviewed by the CODM. See [Question 6.4.100](#) for interest expense. [ASU 2023-07.BC68]



Question 6.4.52**

Is a single reportable segment entity required to disclose the same significant expenses that are presented in its income statement?

Background: The SEC expects the required measure of segment profit or loss of a single reportable segment entity managed on a consolidated basis to be consolidated net income. See [Question 6.4.40](#).

Interpretive response: No. We believe a single reportable segment entity managed on a consolidated basis is not limited to presenting only significant expenses that appear in the income statement. Such an entity would also consider expenses regularly provided to the CODM (see [Question 6.4.10](#)) in determining whether, based on quantitative and qualitative factors, more detailed expenses than the income statement captions need to be disclosed as significant expenses in the segment note. [280-10-50-26A]



Question 6.4.55**

How is the expense information provided in supplemental financial and regulatory reports assessed under the significant expense principle?

Background: Entities in various industries (e.g. utilities, gaming, banking, transportation) issue regulatory or statutory reports in addition to their financial statements. These reports may contain detailed expense information that is not disclosed in the financial statements. Similarly, some life science entities may be required by the SEC to provide in their filings expense information by research programs.

Interpretive response: We believe expense information communicated to external parties outside of the financial statements forms part of the mix of information that needs to be assessed to determine what information is regularly provided to the CODM and is significant. The following are relevant factors to consider in this assessment.

- The level at which the information is produced – i.e. entity as a whole, segment or a different entity, e.g. a regulated business within the reporting entity. Only expense information at the segment level is subject to possible disclosure under Topic 280; however, entities managed on a consolidated basis (see [Question 6.4.40](#)) may need to assess expense information produced for the consolidated entity.
- The frequency with which the information is produced and its timing.
- Who is responsible for the expense information.
- Whether the expense categories and amounts are included in the reported measure(s) of segment profit or loss.
- The reason(s) for the information being made available externally.



Question 6.4.60

How are corporate overhead expenses assessed under the significant expense principle?

Interpretive response: It depends on whether corporate overhead expenses are allocated to reportable segments.

If the reported measure(s) of a segment's profit or loss (see [section 6.4.20](#)) includes allocated corporate overhead expenses, and if the CODM is provided with separate information about these expenses, the entity assesses that category and amount for significance (see [Question 6.4.80](#)). [280-10-55-15C]

However, unallocated corporate overhead expenses are not analyzed for significance since they typically are not included in the reported measure(s) of a segment's profit or loss. Instead, these amounts are used to reconcile the reported measure(s) to consolidated net income.



Question 6.4.70

How does an entity determine which segment expenses are easily computable?

Background: Information regularly provided to the CODM may include segment expense information that is expressed in a form other than actual amounts (e.g. as a ratio or a percentage of revenue); however, the expense amount can be calculated from the information provided to the CODM.

If the segment expense that is easily computable is significant, the entity is required to disclose the category and amount of the expense. [280-10-55-15A]

Interpretive response: The FASB introduced the concept of ‘easily computable’ to indicate that the significant expense disclosure should be based on the substance of the information regularly provided to the CODM, not its form.

ASU 2023-07 does not define the term easily computable, but the FASB acknowledged that the term introduces some subjectivity about a calculation’s perceived level of difficulty. The FASB provides examples in ASU 2023-07 (see [Example 6.4.20](#)) but notes there may be other ways in which an expense amount is easily computable. [ASU 2023-07.BC42 – BC44]



Example 6.4.20

Easily computable segment expenses

This example is adapted from the FASB example in paragraphs 280-10-55-15B and ASU 2023-07.BC76.

ABC Corp. regularly provides management reports to the CODM that include the following information for its auto and financial operations segments.

Segment information regularly provided to CODM	Segment expense amount easily computable
Auto segment	
— Revenue amount — Gross margin amount	Cost of sales
— Warranty expense expressed as a percentage of segment revenue	Warranty expense
— Advertising expense expressed as a percentage of segment revenue	Advertising expense
Financial operations segment	
— Interest revenue — Net interest margin	Interest expense

If ABC further determines that any of the segment expenses that are easily computable are also significant, it separately discloses these expense categories and amounts.



Question 6.4.80

How does an entity determine which segment expenses are significant?

Interpretive response: Topic 280 does not define the term significant. While this concept is used in other parts of Topic 280, there are specific considerations when assessing significance in the context of segment expenses.

The FASB observed that “if segment expense categories are regularly provided to the CODM on a disaggregated basis and included in the measure of segment profit or loss, investors also would likely find that information useful.” We believe this statement creates a presumption that expenses that are regularly provided to the CODM would be significant unless demonstrated otherwise. [\[ASU 2023-07.BC61\]](#)

To that effect, it is important to note that there is no set quantitative threshold to assess significance. An entity considers all relevant qualitative and quantitative factors. Topic 280 does not specify whether expense significance is evaluated at the segment level or the consolidated level. Instead, the FASB observed that segment information would be significant if the omission of such information would change a user’s understanding about a segment to such a degree that it would change the user’s capital allocation decisions about the entity as a whole, even though an item of a similar magnitude might not be considered significant if it were omitted from the consolidated financial statements. This application of the significance threshold is largely consistent with the views in paragraph 78 of the basis for conclusions of FASB Statement 131. [\[280-10-50-26A, ASU 2023-07.BC59\]](#)

Therefore, we believe the assessment of significance requires judgment, and a holistic consideration of all facts and circumstances. This may include the relative importance of the segment compared to other segments and consolidated financial statements, and the relative importance of the expense category and amount compared to other expenses. Significance may be evidenced through quantitative metrics and/or qualitative analysis, considering the entity’s financial statements, other forms of communication to the board or investors, the entity’s industry and expenses relevant to its peers and stakeholders, and current, past and future trends.

Similar expense categories may be significant for one reportable segment but not for others due to the nature of their operations. [\[280-10-50-26A\]](#)

Further, consistent with the approach used to assess reportable segments (see [section 5.3.40](#)), a segment expense category is presented as long as it is expected to be of continuing significance. We believe a segment expense category identified as significant for one of the periods presented should be disclosed for all periods presented even if it was not significant for all of the periods presented. [\[ASU 2023-07.BC82, 280-10-50-16\]](#)



Question 6.4.82**

May segment expenses be calculated on a non-GAAP basis?

Interpretive response: Yes. Topic 280 does not require significant segment expenses to be calculated in accordance with GAAP. However, the SEC staff noted that other requirements may apply when an entity discloses expenses calculated on a non-GAAP basis. For example, Reg S-X Rule 4-01(a) states that it may be necessary to furnish further material information in addition to required minimum statements to ensure these statements are not misleading in light of the circumstances under which they are made.

In our view, the SEC staff expects robust and transparent disclosure of significant segment expenses calculated on a non-GAAP basis, including a clear labelling of the expenses so that they are not misleading. For example, it may be appropriate to label a segment expense calculated on a non-GAAP basis as 'adjusted' or to explicitly describe items it excludes in its labelling (e.g. cost of goods sold excluding share-based payments), to contrast it with its GAAP equivalent if provided in the income statement. However, we believe it is not necessary to label such an expense as 'non-GAAP' since it is required to be disclosed according to Topic 280.

If the financial statements would be misleading absent additional disclosures, the SEC staff expects the segment note to include detailed disclosure. The level of disclosure should be adapted to the circumstances. We believe this may include:

- a qualitative description of the expense composition and its measurement basis;
- the reason the CODM uses the non-GAAP expense to manage the business; or
- a reconciliation to the equivalent income statement GAAP expense.



Question 6.4.83**

Is an entity permitted to aggregate segment expense categories regularly provided to the CODM?

Interpretive response: No. If an expense category regularly provided to the CODM is significant (see [Question 6.4.80](#)), it is disclosed separately. If the expense category is not significant, it is either included in the 'other segment items' line or disclosed separately. We believe it would not be appropriate to aggregate expense categories that are not significant in a way that is different from the information regularly provided to the CODM.

For example, if the CODM is regularly provided with a decomposition of cost of goods sold by regions – Europe, Asia, North America and South America – for each of its reportable segments, it would not be appropriate to aggregate North and South America into an Americas region expense line.

6.4.40 Other quantitative profit or loss information



Excerpt from ASC 280-10

• • > Information about Profit or Loss and Assets

50-22 [...] A public entity also shall disclose all of 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 (see Example 3, Case B [paragraph 280-10-55-48]):

- a. Revenues from external customers
- b. Revenues from transactions with other operating segments of the same public entity
- c. Interest revenue
- d. Interest expense
- e. Depreciation, depletion, and amortization expense
- f. Unusual items as described in paragraph 220-20-45-1
- g. Equity in the net income of investees accounted for by the equity method
- h. Income tax expense or benefit
- i. Subparagraph superseded by Accounting Standards Update No. 2015-01.
- j. Significant noncash items other than depreciation, depletion, and amortization expense.

A public 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, a public entity may report that segment's interest revenue net of its interest expense and disclose that it has done so. Nonetheless, a public entity shall separately disclose interest expense if it is a significant segment expense in accordance with paragraph 280-10-50-26A.

50-23 Disclosure of interest revenue and interest expense included in reported segment profit or loss is intended to provide information about the financing activities of a segment.

50-24 If a segment is primarily a financial operation, interest revenue probably constitutes most of segment revenues and interest expense will constitute most of the difference between reported segment revenues and reported segment profit or loss. If the segment has no financial operations or only immaterial financial operations, no information about interest is required unless interest expense is a significant segment expense to be disclosed in accordance with paragraph 280-10-50-26A.

• • > Internal Interest Charged Among Segments

55-11 For internal reporting purposes, if interest expense is charged to a segment on advances from another segment and the interest is included in the measure of performance, the amounts of interest expense and interest income shall include the amounts charged internally between the segments.

Paragraph 280-10-50-22 requires disclosure of segment interest if it is included in the measure of segment profit or loss that is reviewed by the chief operating decision maker and, because the internal measure used by the chief operating decision makers includes intra-entity interest, that interest would be part of the measure reported. In addition, paragraph 280-10-50-27 discusses items that are included in segment amounts reported to the chief operating decision maker and therefore included in the segment reported amounts. Under the management approach, the amounts used by management are the amounts that are required to be disclosed; adjusting those amounts for any reason is not permitted. Paragraph 280-10-50-29(a) also requires disclosure of the basis of accounting for transactions between reportable segments.

• • > Depreciation and Amortization Included in Segment Reports

55-12 The chief operating decision maker may evaluate the performance of its segments based on earnings before interest, taxes, depreciation, and amortization. Included in the management reports reviewed by the chief operating decision maker are summaries of depreciation and amortization expense related to each of the segments.

55-13 Since the reports include depreciation and amortization expense these amounts are required to be disclosed for each reportable segment even though the chief operating decision maker does not include these amounts in evaluating performance of the segment. Paragraph 280-10-50-22 requires that a public entity report a measure of profit or loss for each reportable segment. Paragraph 280-10-50-22 requires disclosure of certain other amounts 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. Although, in this case, depreciation and amortization expense is not included in the measure of segment profit or loss that is reviewed by the chief operating decision maker, such amounts are provided to the chief operating decision maker by segment. It is, therefore, assumed that the chief operating decision maker uses this information in evaluating the performance of the public entity's segments and, accordingly, disclosure of depreciation and amortization expense by each reportable segment would be required. This conclusion is based on paragraph 280-10-50-27. This conclusion does not change the requirement that, in this example, the measure of segment profit or loss to be disclosed for each reportable segment be based on the segment earnings before interest, taxes, depreciation, and amortization data that are used by the chief operating decision maker.

55-14 Note that this case deals specifically with earnings before interest, taxes, depreciation, and amortization as the measure of segment profit or loss and depreciation and amortization expense as the information that is excluded from earnings before interest, taxes, depreciation, and amortization but otherwise provided to the chief operating decision maker for purposes of evaluating segment performance. However, this example is applicable to any similar situation. That is, if the amounts of the items required by paragraphs 280-10-50-22 and 280-10-50-25 are included by segment in reports that are regularly provided to the chief operating decision maker, even though they are not included in the measure of segment profit or loss or in the determination of segment assets, as applicable, that is reviewed by the chief operating decision maker, then disclosure of those amounts is required.

55-15 In other words, the segment profit or loss amounts listed in paragraph 280-10-50-22 are required if they are included in the measure of segment profit or loss that is used by the chief operating decision maker or if they are otherwise regularly provided to the chief operating decision maker, even if not included in that measure. Disclosure of those amounts is required even though they may not be included in the measure of segment profit or loss or in the determination of segment assets, as applicable, that is reviewed by the chief operating decision maker.

In addition to the significant expense and other segment items information required under the significant expense principle (see [section 6.4.30](#)), for each reportable segment, an entity discloses specific profit or loss items when either of two conditions are met. [\[280-10-50-22, 55-12 – 55-15\]](#)

- Those items are included in the segment profit or loss measures reviewed by the CODM, regardless of whether they are actually separately provided to the CODM.
- Those items are regularly *provided* to the CODM, regardless of whether they are included in the measure(s) of a segment's profit or loss *reviewed* by the CODM (see [section 6.4.20](#)).

The specific profit or loss items are as follows.

Revenues	Both revenues from external customers and revenues from intracompany transactions are separately disclosed. [280-10-50-22(a) – 50-22(b)]
Interest revenue and expense	Interest revenue generally is disclosed separately from interest expense. (See Question 6.4.90 for discussion).
Internal interest charged among segments	If interest expense is charged to a segment on an advance from another segment and that interest is included in the measure of segment performance, the internally charged amounts of interest expense and interest income are included in the interest disclosed. [280-10-55-11]
Depreciation, depletion and amortization expense	Segment profit or loss measures are often based on EBITDA, but the CODM receives summaries of depreciation and amortization expense related to a segment. If the CODM regularly receives such summaries, information on depreciation and amortization (and depletion if relevant) is required to be disclosed. [280-10-50-22(e), 55-12 – 55-14]
Unusual items	This refers to unusual items reported on the income statement as a separate component of income from continuing operations under Subtopic 220-20. Specifically, unusual items are derived from material events or transactions that an entity considers unusual in nature or that are of a type that occurs infrequently (e.g. litigation settlements or restructuring costs). [280-10-50-22(f), 220-20-45-1]
Equity in the net income of equity method investments	See section 6.6 for discussion. [280-10-50-22(g)]

Income tax expense or benefit	See paragraph 280-20-50-22(h)
Significant noncash items other than depreciation, depletion and amortization expense (e.g. impairments)	This information helps financial statement users estimate an operating segment's cash-generating potential or cash requirements. [280-10-50-22(j), FAS 131.BC94]

Other US GAAP requires additional profit or loss information to be disclosed for each reportable segment. For example, Topic 420 (exit or disposal cost obligations) and Topic 350 (intangibles) require disclosure of certain exit or disposal activity expenses and goodwill impairment by reportable segment (see sections 11.2.10 and 11.2.20). [ASU 2023-07.BC70]



Example 6.4.30 Depreciation expense

Scenario 1: Not separately provided to CODM but included in segment profit or loss measure

The CODM evaluates segment performance based on net income. Depreciation expense is included in the net income measure of segment profit or loss but is not displayed separately in the report received and reviewed by the CODM.

Depreciation expense is separately disclosed because the amount is included in the measure of segment profit or loss used by the CODM.

Scenario 2: Separately provided to CODM but not included in segment profit or loss measure

The CODM evaluates segment performance based on EBITDA. Depreciation expense is regularly provided to the CODM separately.

Depreciation expense is separately disclosed because the amount is regularly provided to the CODM, although it is not included in the EBITDA measure of segment profit or loss used by the CODM.



Question 6.4.90# How are interest revenue and expense disclosed for each reportable segment?

Interpretive response: An entity separately discloses interest revenue and interest expense for each reportable segment if they are regularly provided to the CODM or are otherwise included in the measure(s) of segment profit or loss reviewed by the CODM. This may include interest expense charged intersegment for internal purposes. [280-10-50-22, 55-11]

However, netting a segment's interest revenue and expense is permitted if: [280-10-50-22]

- interest revenue accounts for a majority of a reportable segment's revenue (e.g. the segment is primarily a financial operation); and
- the CODM relies primarily on net interest revenue to assess performance and allocate resources.

If an entity reports interest revenue net of interest expense, it must disclose it has done so. [280-10-50-22]

If a segment has no financial operations or only immaterial financial operations, no information about interest is required. [280-10-50-24]

Interaction with the significant expense principle

Regardless of the above, under the significant expense principle, interest expense is separately disclosed if it is a significant segment expense, as explained in [section 6.4.30](#). For example, this may be the case if the entity is a financial operation and the CODM is regularly provided with segment interest expense or is regularly provided with both interest income and net interest margin. [280-10-50-22]



Question 6.4.100

Should segment revenue from external customers be consistent with Topic 606 requirements?

Interpretive response: Yes. At the 2023 AICPA & CIMA Conference on Current SEC and PCAOB Developments, the SEC staff indicated that because revenue from external customers is a specified amount defined in Topic 606 (revenue), the disclosure of revenues from external customers under Topic 280 should be consistent with the defined amounts in Topic 606. The staff further noted that it has objected to amounts prepared under different measurement methods being referred to as segment revenue in the disclosure, even if they are regularly provided to the CODM. This is because those amounts are not consistent with the Topic 606 requirements about what comprises revenue from external customers.

6.4.50 Asset information



Excerpt from ASC 280-10

- • > Information about Profit or Loss and Assets

50-22 A public entity shall report a measure of profit or loss and total assets for each reportable segment. [...]

50-25 A public entity shall disclose both of the following about each reportable segment if the specified amounts are included in the determination 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 determination of segment assets:

- a. The amount of investment in equity method investees
- b. Total expenditures for additions to long-lived assets other than any of the following (see Example 3, Case B [paragraph 280-10-55-48]):
 1. Financial instruments
 2. Long-term customer relationships of a financial institution
 3. Mortgage and other servicing rights
 4. Deferred policy acquisition costs
 5. Deferred tax assets.

50-26 If no asset information is provided for a reportable segment, that fact and the reason therefore shall be disclosed.

• • • > Measurement

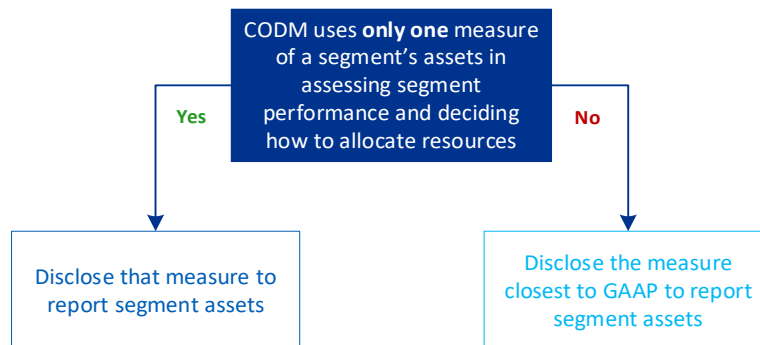
50-28 If the chief operating decision maker uses only one measure of a segment's assets in assessing segment performance and deciding how to allocate resources, segment assets shall be reported at that measure. If the chief operating decision maker uses more than one measure of a segment's assets, the reported measure shall be that which management believes is determined in accordance with the measurement principles most consistent with those used in measuring the corresponding amounts in the public entity's consolidated financial statements.

• • > Operating Segments

55-6 Paragraph 280-10-50-26 explains that, if no asset information is provided for a reportable segment, that fact and the reason therefore shall be disclosed.

Segment disclosures include the total assets measure that is reviewed by the CODM for each reportable segment. Assets that may relate to a reportable segment but that are not included in the measure reviewed by the CODM are excluded from this total assets measure. For additional information about the composition of the total assets measure, see [section 6.4.60](#). [280-10-50-22, 50-27]

The following decision tree indicates how to determine the appropriate total assets measure. Note that an entity can disclose only one asset measure, whereas it can disclose multiple profit and loss measures (see [section 6.4.20](#)). [280-10-50-28]



The measure closest to GAAP means the measure that "management believes is determined in accordance with the measurement principles most consistent with those used in measuring the corresponding amounts in the public entity's consolidated financial statements." [280-10-50-28]

Additional asset disclosures

There are two additional amounts that are separately disclosed by reportable segment if they are regularly provided to the CODM, even if not included in the determination of the segment's total assets measure: [\[280-10-50-25\]](#)

- **equity method investments** (i.e. any equity in the net income of investees accounted for by the equity method), regardless of whether such investments are included in segment assets reviewed by the CODM; and
- **capital expenditures**, more precisely expenditures for additions to a segment's long-lived assets, regardless of whether such assets are included in segment assets reviewed by the CODM. However, expenditures need not be disclosed for financial instruments, a financial institution's long-term customer relationships, servicing rights, deferred policy acquisition costs or deferred tax assets.



Question 6.4.110

Are total assets for each reportable segment disclosed if no asset information is provided to the CODM?

Interpretive response: No. Only those assets that are included in the segment assets measure used by the CODM are reported for the segment. This may include assets allocated to the segment (see [Question 6.4.140](#)). [\[280-10-50-27\]](#)

If there is no asset information provided to the CODM, disclosure of segment assets is not required. However, that fact and the reason for the exclusion of asset information should be disclosed. [\[280-10-50-26\]](#)

Additionally, capital expenditures (as defined in paragraph 280-10-50-25) and equity method investments are still required to be separately disclosed if they are part of the information regularly provided to the CODM, regardless of whether the corresponding long-lived assets or investments are included in segment assets reviewed by the CODM. [\[280-10-50-25, 55-14\]](#)



Question 6.4.120

Are liabilities related to segment assets disclosed?

Interpretive response: No. Liabilities (including those directly related to segment assets) are not required to be included in segment disclosures. While an entity is permitted to include liabilities in its segment disclosures, liabilities generally are incurred centrally, and entities often do not allocate them to segments. [\[FAS 131.BC96\]](#)

6.4.60 Measurement considerations



Excerpt from ASC 280-10

• • • > Measurement

50-27 The amount of each segment item reported shall be the measure reported to the chief operating decision maker for purposes of making decisions about allocating resources to the segment and assessing its performance. Adjustments and eliminations made in preparing a public entity's general-purpose 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 that are included in the measure of the segment's assets that is used by the chief operating decision maker shall be reported for that segment. If amounts are allocated to reported segment profit or loss or assets, those amounts shall be allocated on a reasonable basis.

The segment profit or loss measures (see [section 6.4.20](#)) and the segment total assets measure (see [section 6.4.50](#)) used for disclosure are the same measures reviewed by the CODM. Therefore, the disclosed measures for a reportable segment exclude any revenues, expenses, gains, losses or assets that are not included in the measure reviewed by the CODM, even if they relate to the reportable segment. [\[280-10-50-22, 50-27\]](#)

The composition of these measures is at management's discretion and based on what management believes the CODM needs to assess segment performance and decide how to allocate resources. However, if an entity allocates amounts to reported segment profit or loss or assets, those amounts need to be allocated on a reasonable basis. [\[280-10-50-27\]](#)

To illustrate the above measurement and allocation concepts, an entity may choose to allocate a centralized expense (such as R&D) to operating segments in the profit or loss measure used by the CODM. If it chooses not to allocate a centralized expense to operating segments in this profit or loss measure, then that centralized expense is not included in the disclosed measure. If it chooses to allocate a centralized expense to operating segments, the allocation needs to be reasonable.



Question 6.4.130

What is considered a reasonable allocation of assets, revenues, expenses and gains or losses?

Interpretive response: In any given situation, there may be multiple reasonable ways to allocate an item. The FASB illustrated this concept in the basis for conclusions of its original segment reporting standard by noting that a pension expense allocation based on the number of employees in each segment or the segment's total salary expense could both be reasonable even though they

might produce significantly different segment profit or loss measures. [280-10-50-27, FAS 131.BC88]

In the same basis for conclusions paragraph, the FASB further observed that it would be unreasonable to allocate pension expense to an operating segment that does not offer a pension plan to its employees. Therefore, if some operating segments offer pension plans and others do not but the entity is allocating pension expense to all operating segments, the appropriate remedy would be for the entity to revise the allocation approach or to remove pension expense from the profit or loss measure for all operating segments. [FAS 131.BC88]

However, excluding the pension expense, or other assets, revenues, expenses, gains or losses, from the profit or loss and total assets measures for all operating segments may not be appropriate if these items are directly attributable to a particular operating segment(s).



Question 6.4.140

Are assets, revenues, expenses, gains and losses directly attributable to an operating segment allocated to the operating segment?

Interpretive response: Generally yes, even though Topic 280 does not require them to be. The FASB observed that such an explicit requirement would be an additional modification of the management approach to measurement.

Under the management approach, assets, revenues, expenses, gains and losses that are directly attributed to an operating segment are not included in the segment disclosure unless those items are included in the measure reviewed by the CODM. However, the FASB observed that management would be unlikely to omit those items if they were clearly related to a particular segment. [FAS 131.BC89]



Question 6.4.150

Are asymmetrical allocations permitted?

Interpretive response: Yes. Because the management approach is used to determine the composition of profit or loss and total assets measures, these measures could contain asymmetrical allocations.

For example, depreciation expense for an asset might be allocated without allocating the depreciable asset. In that case, the asymmetry occurs between the profit or loss measure and the total assets measure. Asymmetry may also occur within the same measure. For example, the revenue from an asset could be allocated to a segment's profit or loss measure but not the asset's depreciation expense.

As discussed in [section 6.4.70](#), asymmetrical allocations are separately disclosed. [280-10-50-29(e), FAS 131.BC90]

6.4.70 Qualitative measurement disclosures about profit or loss and assets



Excerpt from ASC 280-10

• • • > Measurement

50-29 A public entity shall provide an explanation of the measurements of segment profit or loss and segment assets for each reportable segment. A public entity shall disclose all of the following (see Example 3, Cases A through C [paragraphs 280-10-55-47 through 55-50 and Example 4, Cases A through B [paragraphs 280-10-55-53 through 55-55]]):

- 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 public entity's consolidated income before income taxes and discontinued operations (if not apparent from the reconciliations described in paragraphs 280-10-50-30 through 50-31). 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 public entity's consolidated assets (if not apparent from the reconciliations described in paragraphs 280-10-50-30 through 50-31). 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 changes from prior periods in the measurement methods used to determine reported segment profit or loss, including significant changes from prior periods to the measurement methods of expenses, the method for allocating expenses to a segment, or changes in the method for allocating centrally incurred expenses, and the effect, if any, of those changes on the measure of segment profit or loss.
- e. The nature and effect of any asymmetrical allocations to segments. For example, a public entity might allocate depreciation expense to a segment without allocating the related depreciable assets to that segment.
- f. How the chief operating decision maker uses the reported measure(s) of segment profit or loss in assessing segment performance and deciding how to allocate resources.

An entity is required to explain the measures of profit or loss, total assets and other quantitative information it discloses (see [sections 6.4.20](#) and [6.4.30](#)). It has significant discretion in how to explain the profit or loss and asset measures; however, it is required to include the following qualitative disclosures as part of its explanation.

Qualitative disclosure	Description
Transactions between reportable segments	The basis of accounting for such transactions is disclosed. For example, an oil and gas company with intersegment oil sales between an upstream and a

Qualitative disclosure	Description
	downstream segment should disclose how it determines its internal sales price. [280-10-50-29(a)]
Differences between disclosed measures for profit or loss and consolidated income	The nature of differences between the disclosed profit or loss measure and consolidated income before income taxes and discontinued operations is disclosed. However, this disclosure need not be made if these differences are evident in the reconciliations (see section 6.5). Examples of these differences include accounting policies and allocation methods for shared costs that are integral to understanding the reported segment information. [280-10-50-29(b) – 50-29(c)]
Changes in measurement method	Any change from prior periods in how the entity determines its profit or loss measure is disclosed, together with any effect of those changes on the profit or loss measure. This includes significant changes to the measurement and allocation methods of expenses, including centrally incurred expenses. [280-10-50-29(d)]
Asymmetrical allocations	The nature and effect of any asymmetrical allocations is disclosed (see Question 6.4.150). [280-10-50-29(e)]
How the CODM uses the reported measure(s)	How the CODM uses the reported measure(s) of segment profit or loss to assess segment performance and allocate resources is disclosed. This is a requirement introduced by ASU 2023-07. [280-10-50-29(f)]

6.5 Reconciliations



Excerpt from ASC 280-10

• • > Reconciliations

50-30 A public entity shall provide reconciliations of all of the following (see Example 3, Cases B and C [paragraphs 280-10-55-48 through 55-50] and Example 4, Case B [paragraph 280-10-55-55]):

- The total of the reportable segments' revenues to the public entity's consolidated revenues.
- The total of the reportable segments' amount for each measure of profit or loss to the public entity's consolidated income before income taxes and discontinued operations. However, if a public entity allocates items such as income taxes to segments, the public entity may choose to reconcile the total of the segments' measures of profit or loss to consolidated income after those items.
- The total of the reportable segments' assets to the public entity's consolidated assets.
- The total of the reportable segments' amounts for every other significant item of information disclosed to the corresponding consolidated amount

(except for the segment disclosures required by paragraphs 280-10-50-26A through 50-26B). For example, a public entity may choose to disclose liabilities for its reportable segments, in which case the public entity would reconcile the total of reportable segments' liabilities for each segment to the public entity's consolidated liabilities if the segment liabilities are significant.

50-31 All significant reconciling items shall be separately identified and described. For example, the amount of each significant adjustment to reconcile accounting methods used in determining segment profit or loss to the public entity's consolidated amounts shall be separately identified and described.

An entity discloses the following reconciliations on an annual and/or interim basis.

Item to reconcile	Corresponding consolidated amount	In annual financial statements	In condensed interim financial statements
Total reportable segment revenues [280-10-50-30(a)]	Revenues	X	
Total reportable segment amount for each profit or loss measure [280-10-50-30(b), 280-10-50-32(f)]	Income before income taxes and discontinued operations. If the entity allocates items such as income taxes to segments, the entity may choose to reconcile the total of the segments' measures of profit or loss to consolidated income after those items.	X	X
Total reportable segment assets [280-10-50-30(c)]	Assets	X	
Total reportable segment amounts for other significant items disclosed, except significant segment expenses and other segment items [280-10-50-30(d)]	Corresponding amount	X	

All significant items that are reconciled to an entity's consolidated amounts are separately identified and described. [280-10-50-31]

Reconciling items usually result from the following.

- **Different accounting policies** are used to determine amounts reported by the operating segment compared to the accounting policies used to prepare

the consolidated financial statements – e.g. FIFO inventory costing for the segment compared to LIFO inventory costing for the group.

- **Allocation methods** – e.g. a cost of capital is computed by the corporate headquarters and is charged to each operating segment. The amount is included in the segment profit or loss measure; however, the consolidated financial statements reflect only actual interest expense.
- **Unallocated amounts** reported by the entity in the consolidated financial statements for consolidated revenue, consolidated income (loss) before income taxes, or consolidated assets that do not qualify for inclusion in the all other category of the segment disclosures.
- **Elimination and consolidation adjustments** – e.g. intersegment revenues and expenses are reconciling items because they are not included in the consolidated financial statements.

If a reconciling item results from a different accounting policy used by a reportable segment compared to that used in preparing the consolidated financial statements, additional disclosures about the accounting policy used by the operating segment are required. [280-10-50-29(b) – 50-29(c)]

Similarly, if a reconciling item results from an asymmetrical allocation method used by the entity, then additional disclosures about the nature and effect of any asymmetrical allocation to the operating segment may be required. [280-10-50-29(e)]

See [section 6.4.70](#) for these additional qualitative measurement disclosure requirements. A sample reconciliation is reproduced in [section 6.10](#) (Case C).



Question 6.5.10**

Are there non-GAAP considerations when reconciling segment information to consolidated information?

Interpretive response: Yes. We believe entities should exercise caution when introducing subtotals and columns in the reconciliation of segment information to consolidated information.

With respect to the reconciliation of total reportable segment profit or loss to consolidated income before income taxes and discontinued operations, the SEC staff has indicated in comment letters that presenting a subtotal or column may create a non-GAAP measure that would be subject to SEC non-GAAP rules (Reg G, Reg S-X Item 10(e)), particularly if the measure is then presented outside of the financial statements. An entity may instead present reconciling items as illustrated in FASB Examples 3 and 4 (reproduced in [sections 6.10.10](#) and [6.10.20](#) respectively). See also [Question 6.4.35](#) for requirements when presenting non-GAAP financial information.



Example 6.5.10 Unallocated corporate expense

ABC Corp. accounts for interest expense on a consolidated basis. ABC does not allocate interest expense to each operating segment or disclose it for each reportable segment.

ABC does not include the interest expense in the 'all other' category (see [section 5.3.60](#)), but instead includes it as a reconciling item and separately discloses it if material.

6.6 Equity method investments disclosures



Excerpt from ASC 280-10

- • > Proportionate Consolidation Used to Measure Performance of an Equity Investee

55-8 In measuring the performance of its equity investees, proportionate consolidation shall be used for reporting segment information if that is the way in which such information is reviewed by the chief operating decision maker. This Subtopic specifies that the amount of each segment item reported shall be the measure reported to the chief operating decision maker for purposes of making decisions about allocating resources to the segment and assessing its performance. If proportionate consolidation is used for segment reporting, this Subtopic also requires disclosure of the accounting policy followed for segment reporting (see paragraph 280-10-50-29(b)), the elimination of the investee's revenues and assets in reconciling to consolidated results (see paragraphs 280-10-50-30 through 50-31), and the investment in and equity income from the investee (see paragraphs 280-10-50-22(g) and 280-10-50-25(a)). Even though the proportionate consolidation method may be used for internal reporting purposes (and thus for external reporting of segment information), that method is not permitted for purposes of preparing general-purpose financial statements in accordance with generally accepted accounting principles (GAAP) except where it is established industry practice (for example, in some oil and gas venture accounting).

If an equity method investment is a reportable segment, the investor entity is required to provide the same segment disclosures for the investment as it does for other reportable segments. This means the segment information the entity discloses about the equity method investment needs to be based on the information the CODM uses to assess the investment's performance and allocate resources to the investment. For example, if the segment information reviewed by the CODM is the full financial information of the investee (e.g. total revenue, total profit or loss), the segment disclosures would be based on the full financial information of the investee. In addition, if the segment information reviewed by the CODM is based on proportionate consolidation of the investee, then the amount of each segment item disclosed needs to be based on the proportionate consolidation amount. Such disclosures are required even though

an equity method investment must be reported in the financial statements using the equity method rather than the proportionate consolidation method. [280-10-55-8]

If the segment disclosures include information based on the proportionate consolidation method, also: [280-10-55-8]

- disclose the accounting policy followed for segment disclosure (i.e. the fact that the investor entity uses proportionate consolidation to determine its segment disclosures);
- eliminate the investee's revenues and expenses in reconciling to the investor entity's consolidated net income; and
- disclose the equity investment in and equity income from the equity method investee.

Even if the investor entity does not use proportionate consolidation to determine its segment disclosures for an equity method investment, it may still be required to disclose its equity investment in and equity income from the investee.

- **Equity income from investee.** The investor entity's equity in the investee's net income is disclosed if it is included in the profit or loss information reviewed by the CODM or is otherwise given to the CODM even if it is not included in the profit or loss measure. [280-10-50-22(g)]
- **Equity investment in investee.** The amount of the investor entity's equity investment in the investee is disclosed if it is included in segment assets reviewed by the CODM or is otherwise given to the CODM even if it is not included in determining segment assets. [280-10-50-25(a)]



Question 6.6.10

Are reconciliation disclosures required between the information reviewed for equity method investments by the CODM and the information recorded in accordance with GAAP?

Interpretive response: It depends. If an equity method investment is a reportable segment, and the CODM receives information that differs from the equity earnings measurement recorded in accordance with GAAP, disclosures of the reconciliation may be required if the difference is significant.

For example, if a CODM uses the proportionate consolidation method (which is not permitted by GAAP) for their review, and the difference is significant, disclosure of the reconciliation to GAAP is required.

6.7 Discontinued operations#



Excerpt from ASC 280-10

- > Operating Segments—Discontinued Operations

55-7 If a reportable segment meets the conditions in paragraphs 205-20-45-1A through 45-1G to be reported in discontinued operations, an entity is not required to also disclose the information required by this Subtopic.

Paragraph 280-10-55-19 addresses whether there is a need to recast previously reported information if there is a disposal of a component that was previously disclosed as a reportable segment.

- > Recasting of Previously Reported Information

55-19 Segment information for prior periods for disposal of a component that was previously disclosed as a reportable segment is not required to be recast. However, if the income statement and balance sheet information for the discontinued component have been reclassified in comparative financial statements, the segment information for the discontinued component need not be provided for those periods. Paragraph 280-10-55-7 addresses disclosure requirements if a component of a public entity that is reported as a discontinued operation is a reportable segment.

An entity is exempt from the segment disclosure requirements for a component that is a discontinued operation under Subtopic 205-20. This exemption applies only if that component is also a reportable segment under Topic 280 (see [section 5.2](#)). Therefore, in determining whether this exemption applies, an entity analyzes its discontinued operations to determine whether those operations constitute a reportable segment. [\[280-10-55-7\]](#)

If a 'component of an entity' is a reportable segment and meets the conditions in Subtopic 205-20 to be reported in discontinued operations, the entity is not required to disclose the information required by Topic 280. This is because Subtopic 205-20 provides the required financial statement disclosures for discontinued operations. If a reportable segment or a component of a reportable segment includes discontinued operations, the discontinued operations are excluded from the reportable segment's disclosure of segment information for the period in which the reportable segment or component is classified as discontinued operations. Reportable segment information of the discontinued operations for prior periods is not required to be recast. [\[280-10-55-7, 55-19\]](#)

See Question 7.2.30 in KPMG Handbook, [Discontinued operations and held-for-sale disposal groups](#).



Question 6.7.10

What if an entity elects to recast comparative period segment information as a result of a discontinued operation in the current year?

Interpretive response: If segment disclosures had been made in prior periods for a component that qualifies in the current period as discontinued operations under Subtopic 205-20, segment disclosures for that component need not be made in the current year.

However, if a discontinued operation is a reportable segment and the entity elects to recast comparative periods, we believe recasting should include a reallocation of costs previously allocated to the discontinued operation to the remaining reportable segments. Allocations of costs to discontinued operations are limited to those costs that are directly related to or to be eliminated as a result of the discontinued operations.

Our position related to allocated costs is the same when a reportable segment (or component thereof) is required to recast comparative periods – e.g. due to changes in the composition of segments as a result of the discontinued operations (see [chapter 7](#)).

6.8 Other presentation matters



Excerpt from ASC 280-10

45-1 This Subtopic does not require that a public entity report segment cash flow. However, paragraphs 280-10-50-22 and 280-10-50-25 require that a public entity report certain items that may provide an indication of the cash-generating ability or cash requirements of an entity's operating segments.

45-2 Nothing in this Subtopic is intended to discourage a public entity from reporting additional information specific to that entity or to a particular line of business that may contribute to an understanding of the entity.

Topic 280 requires an entity to disclose information about its revenues and many of its expenses. Although these disclosed items may provide information about a segment's cash-generating ability or cash requirements, an entity is not required to disclose comprehensive cash flows for a segment. However, it may disclose additional items not required by Topic 280 if it believes such information will assist financial statement users in understanding its business. [\[280-10-45-1 – 45-2\]](#)

6.9 Interim disclosure requirements



Excerpt from ASC 280-10

• • > Interim Period Information

50-32 A public entity shall disclose all of the following about each reportable segment in condensed financial statements of interim periods:

- e. A description of differences from the last annual report in the basis of segmentation or in the basis of measurement of segment profit or loss
- ee. The segment information required by paragraphs 280-10-50-22 through 50-26C and 280-10-50-28A through 50-28B
- f. A reconciliation of the total of the reportable segments' amount for each measure of profit or loss, including the total of the reportable segments' amount for any additional measure of profit or loss disclosed in accordance with paragraph 280-10-50-28A, to the public entity's consolidated income before income taxes and discontinued operations. However, if a public entity allocates items such as income taxes to segments, the public entity may choose to reconcile the total of the segments' measures of profit or loss to consolidated income after those items. Significant reconciling items shall be separately identified and described in that reconciliation.

50-33 Interim disclosures are required for the current quarter and year-to-date amounts. The information in paragraph 280-10-50-32 with respect to the current quarter and the current year-to-date or the last 12 months to date should be furnished together with comparable data for the preceding year.

ASU 2023-07 requires entities to disclose all segment information about profit or loss and assets, including significant segment expenses and other segment items, on an interim basis.

Reconciliations for each segment profit or loss measure to consolidated income before income taxes and discontinued operations are also required on an interim basis. In contrast, reconciliations of total reportable segment revenue, assets, and other significant items to consolidated amounts are not required on an interim basis but are permitted (see [section 6.5](#)). [280-10-50-32(f)]

Interim disclosures also include a description of any changes to the identification of reportable segments or in determining the segment profit or loss measure from the last annual financial statements. [280-10-50-32(e)]



Question 6.9.10

What segment disclosures are required in condensed interim financial statements?

Interpretive response: ASU 2023-07 requires condensed interim financial statements to include all of the reportable segments profit or loss and assets disclosures that historically have been required only annually, as well as the new disclosures introduced by the ASU (see [section 6.4](#)). Certain qualitative

disclosures and reconciliation requirements remain annual only (see [section 6.1](#)).

The following table shows the amended disclosure requirements for condensed interim financial statements.

Disclosures required for condensed interim financial statements
Description of differences from the last annual report in the basis of segmentation or in the basis of measurement of segment profit or loss. [280-10-50-32(e)]
All disclosures relating to a reportable segment's profit or loss and assets, including significant segment expenses and other segment items. [280-10-50-32(ee)]
Reconciliation of the total of the reportable segments' amount for each segment profit or loss measure disclosed, to the public entity's consolidated income before income taxes and discontinued operations. If the entity allocates income taxes to reportable segments, the profit or loss reconciliation is based on consolidated income after income taxes. Similar to the annual period reconciliation, the interim period reconciliation should separately present and describe significant reconciliation items. [280-10-50-32(f)]
Disclosures <u>not</u> required for condensed interim financial statements
General information [280-10-50-22]
Explanation of the measurements of segment profit or loss and segment assets for each reportable segment [280-10-50-29]
Reconciliation of the total of the reportable segments' revenue, assets, and every other significant item of information to corresponding consolidated amounts [280-10-50-30(a), (c)-(d)]



Question 6.9.20

What segment disclosures are required in a complete set of financial statements for an interim period?

Interpretive response: If an entity prepares a complete set of interim financial statements (e.g. in a registration statement) it cannot follow the limited segment disclosure provisions for condensed financial statements. If a complete set of financial statements is presented for an interim period, the full disclosure requirements of Topic 280 apply.

6.10 Comprehensive segment disclosure example

6.10.10 Example entity with multiple reportable segments



Excerpt from ASC 280-10

• > Example 3: Illustrative Disclosures

55-46 Following are specific illustrations of the disclosures that are required by this Subtopic. The formats in the examples are not requirements, but the information should be formatted in the most understandable manner in the specific circumstances. The following Cases are for a hypothetical public entity referred to as Diversified Company that has multiple reportable segments and chooses to disclose more than one measure of a segment's profit or loss that are used by the chief operating decision maker in assessing segment performance and deciding how to allocate resources.

• • > Case A: Disclosure of Descriptive Information About Reportable Segments

55-47 The following is an example of the disclosure of descriptive information about a public entity's reportable segments.

- a. Description of the types of products and services from which each reportable segment derives its revenues (see paragraph 280-10-50-21(b)).

Diversified Company has five reportable segments: auto parts, motor vessels, software, electronics, and finance. The auto parts segment produces replacement parts for sale to auto parts retailers. The motor vessels segment produces small motor vessels to serve the offshore oil industry and similar businesses. The software segment produces application software for sale to computer manufacturers and retailers. The electronics segment produces integrated circuits and related products for sale to computer manufacturers. The finance segment is responsible for portions of the company's financial operations including financing customer purchases of products from other segments and real estate lending operations in several states.

- b. Measures of segment profit or loss and segment assets (see paragraph 280-10-50-29).

The accounting policies of the segments are the same as those described in the summary of significant accounting policies except that pension expense for each segment is recognized and measured on the basis of cash payments to the pension plan. Diversified Company evaluates performance for all of its reportable segments except the finance segment based on both segment gross profit and profit or loss from operations before interest and income taxes. The finance segment's performance is evaluated based on pretax profit or loss.

- bb. How the chief operating decision maker uses the reported measures of the segment's profit or loss (see paragraph 280-10-50-29(f)).

For the auto parts, motor vessels, software, and electronics segments, the chief operating decision maker uses both segment gross profit and

segment profit or loss from operations before interest and income taxes to allocate resources (including employees, property, and financial or capital resources) for each segment predominantly in the annual budget and forecasting process. The chief operating decision maker considers budget-to-actual variances on a monthly basis for both profit measures when making decisions about allocating capital and personnel to the segments. The chief operating decision maker also uses segment gross profit for evaluating product pricing and segment profit or loss from operations before interest and income taxes to assess the performance for each segment by comparing the results and return on assets of each segment with one another and in the compensation of certain employees.

For the finance segment, the chief operating decision maker uses segment pretax profit or loss to allocate resources (including employees, financial, or capital resources) to that segment in the annual budget and forecasting process and uses that measure as a basis for evaluating lending terms for customer loans. The chief operating decision maker also uses segment pretax profit or loss to assess the performance of the finance segment by monitoring the margin between interest revenue and interest expense.

- c. Diversified Company accounts for intersegment sales and transfers as if the sales or transfers were to third parties, that is, at current market prices.
- d. Factors that management used to identify the public entity's reportable segments (see paragraph 280-10-50-21(a)).

Diversified Company's reportable segments are strategic business units that offer different products and services. They are managed separately because each business requires different technology and marketing strategies. Most of the businesses were acquired as a unit, and the management at the time of the acquisition was retained.

- e. The title and position of the individual or the group identified as the chief operating decision maker (see paragraph 280-10-50-21(c)).

Diversified Company's chief operating decision maker is the chief executive officer.

- • > Case B: Information about Reported Segment Revenue, Measures of a Segment's Profit or Loss, Significant Segment Expenses, Measure of a Segment's Assets, and Required Reconciliations

55-48 The following tables illustrate a format for presenting information about reported segment revenue, measures of a segment's profit or loss, significant segment expenses, and measure of a segment's assets (see paragraphs 280-10-50-22, 280-10-50-25, and 280-10-50-26A through 50-26C) for the current reporting period. The tables do not illustrate comparative period disclosures. Diversified Company does not allocate income taxes or unusual items to segments. In addition, not all segments have significant noncash items other than depreciation and amortization in reported profit or loss. The amounts in this Example are assumed to be the amounts in management's reports that are regularly provided to the chief operating decision maker, including interest revenue and interest expense. The following tables also illustrate a format for presenting the reconciliations of reportable segment revenues and measures of profit or loss to Diversified Company's consolidated totals (see paragraph 280-10-50-30(a) through (b)).

	Auto Parts	Motor Vessels	Soft- ware	Electro- nics	Finance	Totals
Revenues from external customers	\$3,000	\$5,000	\$9,500	\$12,000	\$5,000 ^(a)	\$34,500
Intersegment revenues	-	-	3,000	1,500	-	4,500
	3,000	5,000	12,500	13,500	5,000	39,000
<i>Reconciliation of revenue</i>						
Other revenues						1,000 ^(b)
Elimination of intersegment revenues						(4,500)
Total consolidated revenues						\$35,500
Less: ^(c)						
Cost revenue	1,700	3,100	2,000	6,800	-	
Segment gross profit	1,300	1,900	10,500	6,700	- ^(d)	\$20,400
Less: ^(c)						
Research and development expense	-	-	3,300	-	-	-
Nonmanufacturing payroll expense ^(e)	500	900	2,600	2,700	750	
Professional services expense	-	-	1,700	500	800	
Interest expense (finance segment)	-	-	-	-	3,000	
Other segment items ^(f)	700	1,130	2,300	1,600	(50)	
Segment profit/(loss)	100	(130)	600	1,900	500	\$ 2,970
<i>Reconciliation of profit or loss (segment profit/(loss))</i>						
Other profit or loss						100 ^(b)
Interest income (expense), net (excluding finance segment)						1,125 ^(g)
Elimination of intersegment profits						(500)
Unallocated amounts:						
Litigation settlement received						500
Other corporate expenses						(750)
Adjustment to pension expense in consolidation						(250)
Income before income taxes						\$ 3,195
<i>Reconciliation of profit or loss (segment gross profit)</i>						
Total segment gross profit						\$20,400
Segment operating expenses, net (excluding finance segment)						(17,930) ^(h)
Segment profit (finance segment)						500
Other profit or loss						100 ^(b)
Interest income (expense), net (excluding finance segment)						1,125 ^(g)
Elimination of intersegment profits						(500)
Unallocated amounts:						
Litigation settlement received						500
Other corporate expenses						(750)

Adjustment to pension expense in consolidation	(250)
Income before income taxes	\$ 3,195

- (a) The revenue from external customers for the finance segment relates to interest and noninterest income.
- (b) Revenue and profit or loss from segments below the quantitative thresholds are attributable to four operating segments of Diversified Company. Those segments include a small real estate business, an electronics equipment rental business, a software consulting practice, and a warehouse leasing operation. None of those segments has ever met any of the quantitative thresholds for determining reportable segments.
- (c) The significant expense categories and amounts align with the segment-level information that is regularly provided to the chief operating decision maker. Intersegment expenses are included within the amounts shown.
- (d) For the finance segment, the chief operating decision maker uses only pretax profit or loss as the measure to allocate resources and assess segment performance. As a result, segment gross profit is not reported for the finance segment.
- (e) The nonmanufacturing payroll expense does not include amounts capitalized on the balance sheet or included within other expense categories.
- (f) Other segment items for each reportable segment includes:
Auto parts – maintenance and repairs expense, professional services expense, and certain overhead expenses.
Motor vessels – marketing expense, professional services expense, occupancy expense, and certain overhead expenses.
Software – depreciation and amortization expense, travel expense, office supplies expense, and certain overhead expenses.
Electronics – depreciation and amortization expense, marketing expense, occupancy expense, and certain overhead expenses.
Finance – depreciation and amortization expense, property tax expense, certain overhead expenses, and other gains or losses.
- (g) Interest income/(expense), net (excluding finance segment) of \$1,125 comprises (i) consolidated total interest revenue (excluding finance segment) of \$3,825 and (ii) consolidated total interest expense (excluding finance segment) of \$2,700.
- (h) Segment operating expenses, net (excluding finance segment) of \$17,930 includes research and development expense, nonmanufacturing payroll expense, professional services expense, and other segment items for the auto parts, motor vessels, software, and electronics segments.

	Auto Parts	Motor Vessels	Software	Electronics	Finance	Totals
Other segment disclosures (see paragraphs 280-10-50-22 and 280-10-50-25)						
Interest revenue	\$ 450	\$ 800	\$ 1,000	\$ 1,500	\$ 4,000	\$ 7,750
Interest expense	350	600	700	1,100	3,000	5,750
Depreciation and amortization ^(a)	200	100	50	1,500	150	2,000
Other significant noncash items						
Cost in excess of billings on long-term contracts	-	200	-	-	-	200
Segment assets	2,000	5,000	3,000	12,000	57,000	79,000
Expenditures for segment assets	300	700	500	800	600	2,900
(a) The amounts of depreciation and amortization disclosed by reportable segment are included within the other segment expense captions, such as cost of revenue or other segment items.						

• • > Case C: Reconciliations of Reportable Segment Assets and Other Significant Items to the Consolidated Totals

55-49 The following is an example of reconciliations of reportable segment assets and other significant items to the public entity's consolidated totals (see paragraph 280-10-50-30(c) through (d)). The public entity's financial statements are assumed not to include discontinued operations.

Assets

Total assets for reportable segments	\$ 79,000
Other assets	2,000 ^(a)
Elimination of receivables from corporate headquarters	(1,000)
Goodwill not allocated to segments	4,000
Other unallocated amounts	1,000
Consolidated total	<u>\$ 85,000</u>

- (a) Assets from segments below the quantitative thresholds are attributable to four operating segments of Diversified Company.

Other Significant Items			
	Segment Totals	Adjustments	Consolidated Totals
Interest revenue	\$7,750	\$ 75	\$7,825
Interest expense	5,750	(50)	5,700
Expenditures for assets	2,900	1,000	3,900
Depreciation and amortization	2,000	-	2,000
Cost in excess of billing on long-term contracts	200	-	200

55-50 The reconciling item to adjust expenditures for assets is the amount of expenses incurred for the corporate headquarters building, which is not included in segment information. None of the other adjustments are significant.

6.10.20 Example entity with single reportable segment



Excerpt from ASC 280-10

- > Example 4: Illustrative Disclosures—Single Reportable Segment Entity

55-53 The following is an illustration of certain disclosures that are required by this Subtopic for a public entity that has a single reportable segment. The following Cases are for a hypothetical public entity referred to as ABC Company, which has one operating segment. The illustration for ABC Company does not include the entity-wide disclosures required by paragraphs 280-10-50-39 through 50-42.

- • > Case A: Disclosure of Descriptive Information about the Reportable Segment

55-54 The following is an example of the required disclosures about a public entity's reportable segment.

- a. Description of the types of products and services from which the reportable segment derives its revenues (see paragraph 280-10-50-21(b)).

The software segment derives revenues from customers by providing access to cloud computing applications under software-as-a-service arrangements. The most popular cloud computing application is an enterprise resource planning application used primarily by customers to manage functions such as accounting, financial management, project management, and procurement. The service term for the software arrangements is variable, with the median term being approximately five years.

- b. Measure of segment profit or loss and assets (see paragraph 280-10-50-29).

The accounting policies of the software segment are the same as those described in the summary of significant accounting policies.

The chief operating decision maker assesses performance for the software segment and decides how to allocate resources based on net income that also is reported on the income statement as consolidated net income.

The measure of segment assets is reported on the balance sheet as total consolidated assets.

- c. How the chief operating decision maker uses the reported measure of segment profit or loss (see paragraph 280-10-50-29(f)).

The chief operating decision maker uses net income to evaluate income generated from segment assets (return on assets) in deciding whether to reinvest profits into the software segment or into other parts of the entity, such as for acquisitions or to pay dividends.

Net income is used to monitor budget versus actual results. The chief operating decision maker also uses net income in competitive analysis by benchmarking to ABC Company's competitors. The competitive analysis along with the monitoring of budgeted versus actual results are used in assessing performance of the segment and in establishing management's compensation.

- d. ABC Company does not have intra-entity sales or transfers.
e. Factors that management used to identify the public entity's reportable segments (see paragraph 280-10-50-21(a)).

ABC Company has one reportable segment: software. The software segment provides cloud computing services to customers under software-as-a-service arrangements. ABC Company derives revenue primarily in North America and manages the business activities on a consolidated basis. The technology used in the customer arrangements is based on a single software platform that is deployed to and implemented by customers in a similar manner.

- f. The title and position of the individual or the group identified as the chief operating decision maker (see paragraph 280-10-50-21(c)).

ABC Company's chief operating decision maker is the senior executive committee that includes the chief operating officer, chief financial officer, and the chief executive officer.

- • > Case B: Information about Reported Segment Revenue, Segment Profit or Loss, and Significant Segment Expenses

55-55 The following table illustrates a format for presenting information about reported segment revenue, segment profit or loss, and significant segment expenses. The Example does not separately illustrate all of the information required by paragraphs 280-10-50-22 and 280-10-50-25.

	Software Segment
Revenue	\$ 81,800
Less:	
Employee expense	41,000
Contractor expense	15,000
Occupancy and equipment expense	8,400
Hosting and data center expense	1,500

Other professional services expense	750
Customer acquisition expense	800
Other segment items ^(a)	2,500
Depreciation and amortization expense	3,200
Interest expense	600
Income tax expense	2,000
Segment net income	6,050
<i>Reconciliation of profit or loss</i>	
Adjustments and reconciling items	-
Consolidated net income	<u>\$6,050</u>
(a) Other segment items included in Segment net income includes marketing expense, restructuring expense, foreign currency exchange gains and losses, and other overhead expense.	

7. Recasting of previously reported information

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7.1 How the standard works

A change in the composition of reportable segments, in the way significant segment expenses are identified or in the segment measures used triggers the following reporting and disclosure requirements.

Accounting for changes to segment reporting		
Reporting period of change	Change in composition of segments or identification of significant segment expenses	Change in segment measures
Annual period:	Recast prior periods presented in annual financial statements, if practicable, to conform to current-period presentation.	Disclose nature and effect of the change
Interim period:	Recast prior interim periods and prior annual period presented in interim financial statements, if practicable	Disclose difference in basis of measurement of segment profit or loss – the effect of the change is not required to be disclosed

7.2 Recasting due to changes in composition of segments or identification of significant segment expenses



Excerpt from ASC 280-10

• • > Recasting of Previously Reported Information

50-34 If a public entity changes the structure of its internal organization in a manner that causes the composition of its reportable segments to change or the public entity changes the segment information that is regularly provided to the chief operating decision maker in a manner that causes the identification of significant segment expenses to change, the corresponding information for earlier periods, including interim periods, shall be recast unless it is impracticable to do so. Accordingly, a public entity shall recast to conform to the current-period presentation those individual items of disclosure that it can practicably recast but need not recast those individual items, if any, that it cannot practicably recast. In those cases, a public entity shall disclose whether it has recast the corresponding items of segment information for earlier periods.

50-34A For example, a fundamental reorganization of an entity may cause it to be very difficult and expensive to recast segment information and, therefore, it may not be practicable.

50-35 If a public entity has changed the structure of its internal organization in a manner that causes the composition of its reportable segments to change or has changed the segment information that is regularly provided to the chief operating decision maker in a manner that causes the identification of significant segment expenses to change, and if segment information for earlier periods, including interim periods, is not recast to reflect the change, the public entity shall disclose in the year in which the change occurs segment information for the current period under both the old basis and the new basis of segmentation or the old and new significant segment expense categories, respectively, unless it is impracticable to do so.

• • > Recasting of Previously Reported Information

55-17A A public entity may change the segment information that is regularly provided to the chief operating decision maker in a manner that causes the identification of segment expense categories to change when applying paragraph 280-10-50-26A. For example, in the current period, the information regularly provided to the chief operating decision maker is changed to specify an amount for research and development expense by segment that is included in reported segment profit or loss. That information was not regularly provided to the chief operating decision maker in prior periods. Research and development expense by segment should be disclosed in the current period in accordance with paragraph 280-10-50-26A, if significant. The public entity also is required to recast the prior-period segment expense information to conform to current-period presentation unless it is impracticable to do so. If it is impracticable to do so, the public entity should disclose the information described in paragraph 280-10-50-35.

7.2.10 Overview

Segment information for comparative annual and interim periods is recast in current-period financial statements to conform to the current-period presentation: [\[280-10-50-34\]](#)

- in the year of adoption of Topic 280;
- following internal organizational changes that cause composition changes in reportable segments; and
- following changes to the segment information regularly provided to the CODM in a manner that changes the way significant segment expenses are identified.

Changes in the composition of reportable segments or in the way significant segment expenses are identified can occur due to events such as a significant internal reorganization, acquisitions, or implementation of a new financial reporting system. [\[280-10-50-34\]](#)

For interim reporting purposes, an entity discloses any changes in the basis of segmentation from its last annual report (see [Question 6.9.10](#)). [\[280-10-50-32\(e\)\]](#)

There is a practicability exception to this recasting principle, which is discussed in [section 7.2.20](#).

In addition, [section 9.6](#) discusses how to retroactively reflect changes in the composition of segments in SEC filings – including a registration or proxy statement.



Question 7.2.10

What might trigger a change in the composition of operating segments or in reportable segments?

Interpretive response: We believe an entity should continually monitor its significant judgments and related facts and circumstances to determine whether changes in reportable segments are warranted. Examples of changes in reportable segments are changes in the identification or aggregation of operating segments.

Any number of events may cause changes in an entity's circumstances that warrant a change in operating or reportable segments. Examples of such events are a significant internal reorganization, an acquisition, a disposition, a change in internal systems, a change in the information reviewed by the CODM or a change in management. A change in reportable segments may also be warranted if aggregation of operating segments was based on an expectation that certain performance measures would converge over time, but that has not occurred (see [section 4.4](#)).



Question 7.2.15#

What might trigger a change in the identification of significant segment expenses?

Background: ASU 2023-07 requires disclosure of the significant expense categories and amounts that are regularly provided to the CODM and included in the reported segment profit or loss measure(s) (see [section 6.4.30](#)). If the identification of significant segment expenses changes, the corresponding information for earlier periods, including interim periods, needs to be recast unless it is impracticable to do so. [\[280-10-50-34\]](#)

Interpretive response: The identification of significant segment expenses may change over time for the following reasons: [\[280-10-50-34\]](#)

- the segment information that is regularly provided to the CODM has changed, for example in the joint venture fact pattern below; or
- the assessment of whether certain expense categories and amounts regularly provided to the CODM are significant has changed, for example as amounts in an expense category become quantitatively larger.

We believe an entity should continually monitor facts and circumstances that may affect the identification of significant segment expenses and revise its judgments accordingly. Events such as a significant internal reorganization, an acquisition, a disposition, a change in internal systems or a change in management may cause changes in the information regularly provided to the CODM or affect the significance of certain segment expenses.

For example, an entity may enter into a new activity that incurs significant research and development expenses. As a result, the information regularly provided to the CODM may change to specify an amount for research and development expense by segment that is included in reported segment profit or loss measure. If so, and if significant, research and development expense by segment would have to be disclosed in the current period. The entity would also have to recast the prior-period segment expense information to conform to the current-period presentation, unless it is impracticable to do so (see [section 7.2.20](#)).

Entities should carefully evaluate both qualitative and quantitative factors before removing existing disclosures. Relevant factors should be evaluated with regard to the disclosure objective of providing users with information about the CODM's view of segment expenses. As discussed in [Question 6.4.80](#), a segment expense category is presented as long as it is expected to be of continuing significance. Further, we believe a segment expense category identified as significant for one of the periods presented should be disclosed for all periods presented. [\[ASU 2023-07.BC82, 280-10-50-16\]](#)



Question 7.2.20#

Can annual segment disclosures be based on a new organizational structure to be implemented after the balance sheet date but before the financial statements are issued?

Interpretive response: No. The segment disclosures cannot be recast to reflect the new organizational structure until operating results managed on the basis of the structure are presented in the financial statements. Therefore, when disclosing segment information, the entity should use the organizational structure in place as of the end of the last period included in the financial statements. All segments presented in the financial statements should be based on that structure.

However, an entity may consider making voluntary segment disclosures outside of the financial statements (e.g. in MD&A) based on the new structure that was put into place after the balance sheet date, but before the financial statements were issued. These disclosures would not replace the required segment disclosures based on the old organizational structure.

See also [sections 9.6.20](#) and [9.6.30](#) regarding when a registration or proxy statement should reflect the new segment structure.



Question 7.2.30

When should comparative-period segment disclosures be recast for an internal reorganization of operating segments?

Background: Assume that ABC Corp. historically has reported under a two-operating segment model (Segment A and Segment B) with the CODM being the CEO. Within each operating segment are various service/product line components; however, none are deemed separate operating segments.

During Q1 Year 5, ABC internally restructures its operations by moving Product Line C from Segment A to Segment B. This reorganization does not affect ABC's operations; it only changes the composition of ABC's operating segments. This internal reorganization results in a change to the information included in the CODM's reporting package on a prospective basis.

Interpretive response: Topic 280 requires that comparative-period segment disclosures be recast to reflect a change in the composition of operating segments due to an internal reorganization. However, if the internal reorganization is not material, we believe the entity is not expected to recast prior-period segment disclosures. [\[280-10-50-34\]](#)

There is no guidance on when an internal reorganization of operating segments is material. However, we believe the overriding consideration in determining materiality is whether financial statement users will be able to adequately assess the trends in the financial position and operating results of the affected segments if the comparative-period segment disclosures are not recast. If users cannot adequately assess these trends without recasting comparative-period

segment disclosures, the internal reorganization likely is material to those disclosures. Therefore, an entity needs to assess the effect the reorganization has on the financial position and operating results of its operating segments.

Generally, moving a few assets and liabilities between operating segments will not materially affect their positions and operating results. In contrast, when the assets and liabilities moved represent an entire asset group (as defined in Subtopic 360-10 related to the impairment of long-lived assets) or an entire component of the operating segment, generally each operating segment's assets and liabilities and operating results will be materially affected.

In the example in the background, if Product Line C represents an asset group or component of Segment A, ABC likely will need to recast comparative-period segment disclosures so that financial statement users will be able to adequately assess the financial trends in Segments A and B.



Question 7.2.40

When are previously reported interim financial statements revised to reflect a change in reportable segments?

Interpretive response: An entity is not required to revise interim financial information already reported in the current year, for changes in the composition of reportable segments in subsequent interim periods of that year. However, recasting interim period financial information for comparative purposes is required.

For example, if there is a change in reportable segments during Q2 Year 1, the already reported Q1 Year 1 interim financial statements do not need to be recast. However, year-to-date information for Q2 Year 1 and comparative prior periods in the current quarterly interim financial statements are required to reflect the new reportable segments. Further, Q1 Year 1 interim financial information will need to be recast when presented as comparative in Q1 Year 2 interim financial statements. [\[280-10-50-34\]](#)



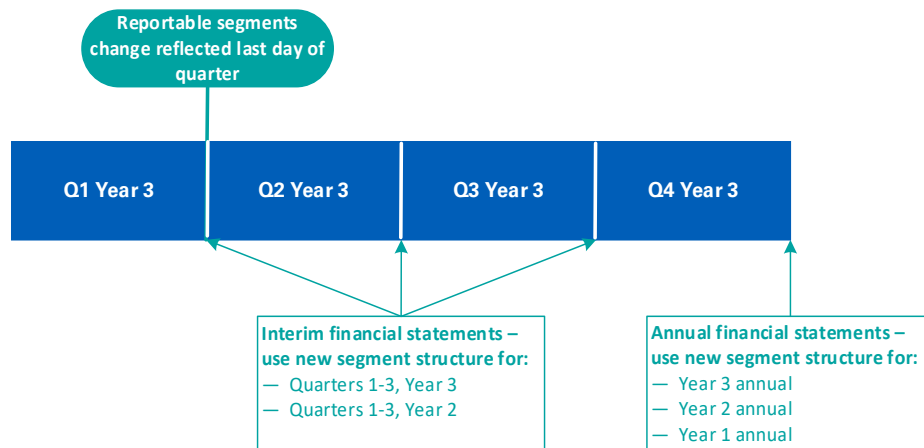
Example 7.2.10

Effect of recasting of segment information on periodic reporting

ABC Corp. changes its internal organization during Q1 Year 3. As a result, its reportable segments change as of March 31, Year 3.

ABC has no further changes to its segment structure for the remainder of Year 3 and does not revise its Year 1 or Year 2 financial statements before it issues its Year 3 annual financial statements.

ABC reflects the segment structure changes in its Q1 and annual financial statements as follows.



7.2.20 Practicability exception

There is a practicability exception to the recasting requirement – any item for which recasting is not practicable does not need to be recast. Whether it is not practicable to recast an item depends on the individual facts and circumstances for that item. Items that do not qualify for this exception are required to be recast. [280-10-50-34]

An entity discloses whether it has recast prior periods due to changes in: [280-10-50-35]

- its reported segments; or
- its identification of significant segment expenses.

Further, if an entity applies the practicability exception and therefore does not recast prior periods, it discloses segment information for the current period using *both* the old and new basis of segmentation or the old and new significant expenses categories, unless it is impracticable to provide the old basis (see [Example 7.2.20](#)) [280-10-50-35]



Question 7.2.50

How is the practicability exception applied?

Interpretive response: For the practicability exception to apply to an item, it does not have to be impossible to recast the item. Instead, there simply needs to be either a high degree of difficulty or significant cost in recasting the item. Topic 280 gives the example of a fundamental reorganization (i.e. a significant enough change that the overall base or core structure is revised) triggering the practicability exception. [280-10-50-34A]

We believe an entity should be able to recast some, if not all, of its previously reported segment data. Circumstances in which recasting is not practicable would be rare.

**Example 7.2.20****Inability to revise segment data**

ABC Corp. completes an internal business reorganization that includes transferring certain operations from one operating segment into multiple operating segments. The reorganization changes the composition of its reportable segments at December 31, Year 3. Due to unusual circumstances, the necessary information to present revised Year 2 or Year 1 information under the new basis is not available and the cost to develop it would be excessive.

ABC is required to present three years of reportable segment information consistent with the periods presented in the income statement. The following reportable segment information is required to be disclosed in the financial statements as of December 31, Year 3.

Basis of information	Year 1	Year 2	Year 3
As of Dec. 31, Year 3	Old basis	Old basis	Old basis and new basis
As of Dec. 31, Year 4	Old basis	Old basis and new basis	Old basis and new basis

ABC continues to disclose reportable segment information on both the old and new basis until the new basis is available for all periods presented. In this example, segment information is presented solely on the new basis starting with the three-year period ended December 31, Year 5.

See also [Question 9.6.20](#). Because we would generally expect a registrant to be able to recast some (if not all) of its previously reported segment data, circumstances in which recasting is not possible would be rare.

7.3 Recasting due to changes in segment measures

**Excerpt from ASC 280-10**

- • > Recasting of Previously Reported Information

50-36 Although recasting is not required to reflect a change in measurement of segment profit and loss, it is preferable to show all segment information on a comparable basis to the extent it is practicable to do so. If prior years' information is not recast, paragraph 280-10-50-29(d) nonetheless requires disclosure of the nature of any changes from prior periods in the measurement methods, including significant changes from prior periods to the measurement methods of expenses, the method for allocating expenses to a segment, or changes in the method for allocating centrally incurred expenses, used to determine reported segment profit or loss and the effect, if any, of those changes on the measure of segment profit or loss.

- > Recasting of Previously Reported Information

55-17 Recasting of prior-period information to conform to current-period presentation is required (if practicable) when there has been a change in the

composition of the segments resulting from changes in the structure of an entity's internal organization or when there has been a change in the segment expense information that is regularly provided to the chief operating decision maker in a manner that causes the identification of significant segment expenses to change. However, recasting of prior-period segment information for a change in measurement methods used to determine reported segment profit or loss is not required by this Subtopic.

55-18 Paragraph 280-10-50-36 explains that although recasting is not required to reflect a change in measurement of segment profit or loss, it would be preferable to show all segment information on a comparable basis to the extent it is practicable to do so. If prior-period information is not recast, paragraph 280-10-50-29(d) nonetheless requires disclosure of the nature of any changes from prior periods in the measurement methods used to determine reported segment profit or loss, including significant changes from prior periods to the measurement methods of expenses, the method for allocating expenses to a segment, or changes in the methods for allocating centrally incurred expenses, and the effect, if any, of those changes on the measure of segment profit or loss.

7.3.10 Overview

Occasionally, an entity may change its internal reporting so that the segment measures provided to and used by the CODM differ from the segment measures previously provided and used.

For example, segment measure changes may result from decisions to revise:

- the basis or types of amounts allocated from nonoperating segment activities (e.g. corporate activities) to the operating segments;
- the internal reporting (segment) accounting policies, including the adoption of accounting policies that result in financial measures not typically in accordance with GAAP. An example is excluding from the profit or loss measure provided to the CODM certain amounts for restructuring or asset impairment charges, or gains (or losses) from the sale of an asset or business; or
- the segment measure used by the CODM to assess performance and allocate resources (see [Example 7.3.10](#))

An entity reports its segment information using the new segment measure(s) in the period the change occurs. How comparative periods are addressed depends on the nature of the change, as follows.

Change in measurement of segment measures	Recasting comparative periods is not required, although it is preferable; however, disclosures in the period of change are required if the comparative periods information is not recast (see section 7.3.20). [280-10-50-36]
Disclosure of new additional measure(s) of segment profit or loss	The additional measure is reported for all prior periods presented if it was provided to the CODM in those periods. An entity is not precluded from disclosing the new additional measure for prior periods when the CODM was

	not provided with that new additional measure (see section 6.4.70). [280-10-50-28B]
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Question 7.3.10

Are annual and interim comparative periods recast for a change in a segment measure?

Interpretive response: Although not required by Topic 280, if an entity changes the measurement of a segment's profit or loss measure, recasting comparative periods to reflect the change is preferable. We believe this guidance also applies to changes to the measurement of a segment's asset measure. [Section 7.3.20](#) addresses required disclosures when comparative periods are not recast. [280-10-50-29(d), 50-36]

For example, in the prior year an entity allocated stock compensation expense to its operating segments by headcount of employees in each operating segment. The entity changes the allocation in the current year to be based on salary expense per operating segment. The entity should consider recasting both annual and interim comparative periods to enhance comparability. In any event, the entity discloses the change in allocation method and the effect of the change.

In our experience, in most cases the new segment measure is changed for the CODM to have better information to assess segment performance and to make resource allocation decisions. In the same vein, the new measure should also assist financial statement users by providing a better understanding of the segment so that they can make more informed decisions about the entity, consistent with the objective of Topic 280.

7.3.20 Required disclosures

A change in segment measures is disclosed differently for annual- versus interim-period financial statements.

- **Annual statements.** In annual financial statements, disclosures for each reportable segment include the nature of any changes from prior periods in the measurement methods used to determine reported segment profit or loss, including:
 - significant changes from prior periods to the measurement methods of expenses;
 - the method for allocating expenses to a segment; and
 - changes in the methods for allocating centrally incurred expenses.

The effect (if any) of the above changes on the segment profit or loss measure is also disclosed (see [section 6.4.70](#)). [280-10-50-29(d)]

- **Interim statements.** If a change in measurement occurs in an interim period, disclosures include a description of the difference from the last annual report in the basis of segmentation or in the basis of measurement of segment profit or loss for each reportable segment. However, the effect of the change need not be disclosed ([section 6.9](#)). [280-10-50-32(e)]



Question 7.3.20

How are the effects of the change in a segment measure disclosed?

Interpretive response: Disclosing the effects of the change in a segment measure includes at a minimum the following items.

- Disclose the nature of the change in measurement method together with the effect, if any, of the change on the segment profit or loss measure. This includes significant changes from prior periods to the measurement methods of expenses, the method for allocating expenses to a segment, or changes in the policies for allocating centrally incurred expenses. [280-10-29(d), 50-36, 55-18]
- If significant, specifically identify and explain the item(s) giving rise to the change in segment measure in the reconciliation of the total combined segment amounts to the amounts in the consolidated financial statements. [280-10-50-36, 55-18]
- If the new segment measure is a financial measure not typically in accordance with GAAP, disclose that the new measure differs from the basis of accounting used to prepare the primary consolidated financial statements. If the measure excludes 'unusual or nonrecurring items', the disclosure of the segment accounting policy should clearly define what constitutes an unusual or nonrecurring item. [280-10-50-29(b), 50-29(c)]
- If the excluded item that causes the segment measure to not be in accordance with GAAP relates to significant noncash items, disclose the amount of this item by segment if it otherwise is regularly provided to the CODM, even if it is not included in the segment measure. The excluded items might be, for example, restructuring or asset impairment charges, or other items listed in paragraphs 280-10-50-22(a) to 50-22(j).
- Disclose how the CODM uses the revised segment profit or loss measure to assess segment performance and decide how to allocate resources. [280-10-50-29(f)]
- In MD&A, disclose the effects of the change or the effects of financial measures not in accordance with GAAP (see [section 9.5.20](#)).



Example 7.3.10

Changes in segment measures

ABC Corp.'s CODM has historically used operating income to evaluate segment performance and allocate resources. Segment operating income was therefore used to determine operating segments and disclosed for each reportable segment.

However, during the current year, the CODM starts reviewing EBITDA instead of operating income. ABC has a significant amount of depreciating and amortizing assets, so the change has a significant effect on the segment measure and therefore the reportable segments.

ABC discloses:

- that it has changed its segment profit or loss measure to EBITDA;
- how the CODM uses EBITDA in assessing segment performance and deciding how to allocate resources;
- which significant expenses (e.g. depreciation and amortization) are excluded from EBITDA that were included in operating profit; and
- the effects to the prior-period reportable segments.

In addition, to improve comparability, ABC voluntarily recasts prior periods to reflect the use of EBITDA as its profit or loss measure.



Question 7.3.30

What is disclosed for a change in a segment measure occurring in an interim period?

Interpretive response: If a change in measurement occurs in an interim period, an entity is required to describe the difference from the last annual report in the basis of measurement of segment profit or loss for each reportable segment. For example, an entity that changed the allocation of pension expense to its operating segments would at a minimum qualitatively disclose this change for each reportable segment. [\[280-10-50-32\(e\)\]](#)

In addition, while not required for interim periods, we believe that when a change in the measure has (or could have) a material effect on the segment results, the effects of the change should also be disclosed in the interim financial statements in the period the change occurs.

In our experience, in most cases management changes a segment measure because the new segment measure provides the CODM with better information to assess segment performance and to make resource allocation decisions. Therefore, disclosure of the effects of this change would also assist financial statement users by providing a better understanding of the segment disclosures so they can make a more informed decision about the entity.

For example, we believe an entity that changes the allocation of pension expense to its operating segments should disclose the quantitative effect of the change for each reporting segment, in addition to a qualitative narrative that there has been a change.



Example 7.3.20

Changes in segment measures – interim period

ABC Corp. is a software company that has two reportable segments. The Product segment sells the software products and the Services segment provides professional and maintenance services. For the first half of Year 2, ABC allocates all corporate costs based on relative revenues of the two operating segments.

During Q3 Year 2, ABC changes its methodology for allocating corporate costs to its operating segments. The CODM considers some of the corporate costs to

be nonoperational (e.g. restructuring and impairment charges and acquisition-related expenses) and therefore determines it would be appropriate to exclude them from the segment measures, as opposed to the practice during the first half of the year of including all of them in the segment measures. Although, as part of the change, ABC excludes certain corporate costs from segment operating profit or loss, they are included in the consolidated operating earnings. The result of the change in allocation method (and therefore the segment measure) causes the amounts of segment profit or losses for each segment to significantly change from prior periods.

During Q3 Year 2, ABC is only required to disclose a description of the difference from its last annual report in the basis of measurement of profit or loss. For example, it would disclose that corporate costs are now being allocated differently to its operating segments and a description of the change. However, to improve comparability, ABC voluntarily recasts comparative-period segment information in its Q3 financial statements to conform to the revised Year 2 presentation.

8. Entity-wide information

Detailed contents

New item added in this edition: **
Item significantly updated in this edition: #

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- 8.4.10 Disclosure of geographic information associated with long-lived assets

8.5 Information about major customers

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- 8.5.10 Is there a practicability exception for disclosing information about major customers?
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8.6 Examples of entity-wide disclosures

Examples

- 8.6.10 Geographical information and major customer
- 8.6.20 Products and services

8.1 How the standard works

Topic 280 requires disclosure of certain entity-wide information if that information is not already presented in the segment disclosures.

General information

- Information about products and services
- Information about geographic areas
- Information about major customers

8.2 Required disclosures



Excerpt from ASC 280-10

• • > Entity-Wide Information

50-38 Paragraphs 280-10-50-40 through 50-42 apply to all public entities subject to this Subtopic including those public entities that have a single reportable segment. Some public entities' business activities are not organized on the basis of differences in related products and services or differences in geographic areas of operations. That is, a public entity's 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, a public entity's segments may hold assets in different geographic areas and report revenues from customers in different geographic areas, or more than one of its segments may operate in the same geographic area. Information required by paragraphs 280-10-50-40 through 50-42 need be provided only if it is not provided as part of the reportable operating segment information required by this Subtopic.

50-39 Entity-wide disclosures are required only for annual reporting.

Entity-wide disclosures are meant to provide supplemental information in annual financial statements about an entity's revenues and long-lived assets even if this information is not used by the CODM to manage the entity. However, these disclosures are not required if the information is already provided in the segment disclosures. Further, this supplemental information is not required in interim financial statements. [\[280-10-50-38 – 50-39\]](#)



Question 8.2.10

Should entity-wide disclosures be based on the financial information compiled for segment disclosures?

Interpretive response: No. The entity-wide disclosures should be based on the same financial information used to produce the annual primary consolidated financial statements – i.e. not based on the *management approach* used to compile information for segment disclosures. Therefore, the revenue reported for these disclosures should agree to consolidated revenue reported in the financial statements. [\[280-10-50-40 – 50-41, 55-21\]](#)



Question 8.2.20

Should comparative-period entity-wide disclosures be revised if there is a change in current-year disclosures?

Interpretive response: Topic 280 does not provide guidance about whether comparative-period amounts in entity-wide disclosures need to be revised if there is a change in the current year. We believe comparative-period information should be revised so that the disclosures from year to year are comparable. For additional discussion of recasting of segment disclosures, see [chapter 7](#).

8.3 Information about products and services

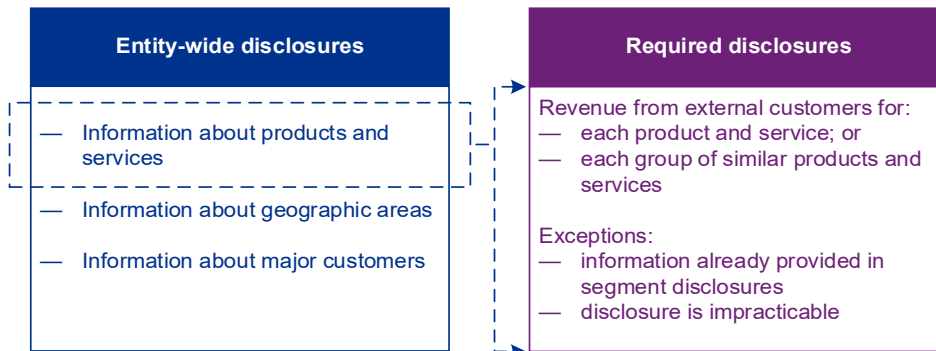


Excerpt from ASC 280-10

• • > Information About Products and Services

50-40 A public entity shall report the revenues from external customers for each product and service or each group of similar products and services unless it is impracticable to do so. The amounts of revenues reported shall be based on the financial information used to produce the public entity's general-purpose financial statements. If providing the information is impracticable, that fact shall be disclosed.

The following diagram summarizes the disclosure requirements for entity-wide information about products and services. [280-10-50-40]





Question 8.3.10

How does an entity determine which products and services are similar?

Interpretive response: Generally, compliance with entity-wide disclosures and determining what is considered ‘similar’ requires judgment. Although there is no guidance on when products or services are similar, an entity should avoid applying an overly broad interpretation of ‘similar’. An entity may also look to the aggregation criteria in paragraph 280-10-50-11 to assist in this determination (see [section 4.4](#)). In our experience, disclosures about product or service revenues are sometimes not disaggregated enough to be useful to financial statement users.



Question 8.3.20

Is entity-wide information about products and services required when segment disclosures are determined by products and services?

Interpretive response: It depends. Even if segment disclosures are determined by products and services, the required entity-wide revenue information may not be evident from those segment disclosures. For example, an entity may be organized on the basis of *related* products and services rather than *similar* products and services, and therefore its individual reportable segments include revenues from a broad range of essentially different products and services. In this situation, supplemental disclosure of revenues by groups of similar products and services on an entity-wide basis is required.

Entity-wide disclosures of products and services are required even when the segment disclosures are organized on a basis consistent with the entity-wide disclosure requirements if the amounts included in the segment disclosures are not GAAP-based. There is an entity-wide disclosure requirement in this instance because the required revenue information that reconciles to the financial statements would not be evident from the reportable segment disclosures.



Question 8.3.30

Is there a materiality threshold for entity-wide disclosures about products and services?

Interpretive response: Topic 280 does not provide a materiality threshold for determining the entity-wide disclosures other than for major customer information (see [section 8.5](#)). However, the general concept of materiality applies to entity-wide disclosures about products and services just as it does to any other item in the financial statements.

While there is no bright-line threshold provided in Topic 280, we believe that 10% of consolidated revenue is a useful guideline in determining whether revenues from products and services are material. We believe the 10%

threshold is a useful guideline even though the 2020 amendments to S-K Item 101 eliminated the quantitative threshold for similar required disclosures under the SEC Regulations. Before these amendments, registrants were required to disclose revenues from each class of similar products and services that represented 10% of total entity revenue when revenues were at least \$50 million and 15% when revenues did not exceed \$50 million.



Question 8.3.40

How is the practicability exception applied?

Interpretive response: The entity-wide product and services disclosure requirement contains a practicability exception. Some entities have expressed concern about providing certain entity-wide disclosures if they are not organized that way and have questioned the usefulness of the information to financial statement users in light of the potential cost of accumulating the data.

Nevertheless, as noted in other areas in Topic 280 that have a practicability exception, meeting this practicability exception is a very high hurdle. Therefore, we expect situations in which an entity determines it is impracticable to provide such information to be rare. [\[280-10-50-40\]](#)



Example 8.3.10

Practicability exception – IT system limitations

ABC Corp. is a multinational global organization that sells different products in many different countries. Each individual country uses its own IT system to track product sales and to produce financial information. Consolidation of each of the countries' financial information is performed manually at ABC's corporate headquarters; however, the information is captured by total revenue and not by individual product. Due to these system limitations, ABC is not able to capture total specific product sales on a consolidated basis.

ABC determines that it is not practicable to disclose its consolidated total product sales and therefore excludes this disclosure. However, it discloses that the exclusion is due to IT system limitations.



Question 8.3.50

How does the Topic 606 disaggregated revenue disclosure interact with the Topic 280 products and services disclosure?

Interpretive response: Topic 606 (revenue) requires an entity to disclose disaggregated revenue into categories that depict the nature, amount, timing and uncertainty of revenue and cash flows affected by economic factors that may be similar to the entity-wide disclosures of products and services, depending on an entity's specific facts and circumstances. For additional

discussion of the interaction of Topic 280 and Topic 606, see [Question 6.4.100](#) and [section 11.2.50](#).

8.4 Information about geographic areas



Excerpt from ASC 280-10

• • > Information About Geographic Areas

50-41 A public entity shall report the following geographic information unless it is impracticable to do so (see Example 3, Case D [paragraph 280-10-55-51]):

- a. Revenues from external customers attributed to the public entity's country of domicile and attributed to all foreign countries in total from which the public entity derives revenues. If revenues from external customers attributed to an individual foreign country are material, those revenues shall be disclosed separately. A public entity shall disclose the basis for attributing revenues from external customers to individual countries.
- b. Long-lived assets other than financial instruments, long-term customer relationships of a financial institution, mortgage and other servicing rights, deferred policy acquisition costs, and deferred tax assets located in the public entity's country of domicile and located in all foreign countries in total in which the public 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 general-purpose financial statements. If providing the geographic information is impracticable, that fact shall be disclosed. A public entity may wish to provide, in addition to the information required by the preceding paragraph, subtotals of geographic information about groups of countries.

• > Entity-Wide Disclosures

55-20 Paragraph 280-10-50-41 provides requirements for entity-wide disclosure of certain information by geographic areas. If revenues attributed to or assets located in an individual foreign country are material, such amounts are required to be disclosed.

55-21 Unlike other provisions of this Subtopic, in which segment information is disclosed on a management approach basis and, therefore, disclosure of certain items is not required if such amounts are not reviewed by or not included in measures that are reviewed by the chief operating decision maker, supplemental geographic disclosures should be disclosed in accordance with paragraph 280-10-50-41.

55-22 Paragraph 280-10-50-41 requires disclosure of revenues from external customers attributed to all foreign countries in total from which the public entity derives revenues and separate disclosure of revenues from external customers attributed to an individual foreign country if material. In determining the revenues attributed to foreign countries, a public entity may allocate revenues from external customers to geographic areas in whatever way it

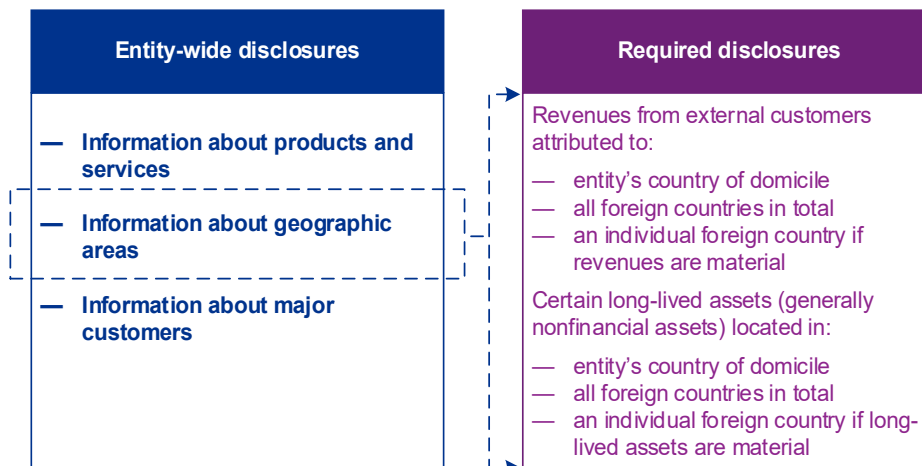
chooses (for example, by selling location, customer location, or the location to which the product is transported, which may differ from the location of the customer), as long as that method is reasonable, consistently applied, and disclosed.

55-23 This Subtopic does not define what is intended to be included in long-lived assets. In addition, the provisions of this Subtopic allow for flexibility and judgment by the preparer. However, the purpose of the entity-wide disclosures is to provide information about risks and uncertainties in certain geographic areas. One of the reasons for requiring disclosure of long-lived assets in geographic areas as opposed to total assets is that long-lived assets are potentially at greater risk because they are difficult to move and are relatively illiquid. *Long-lived assets*, as that phrase is used in paragraph 280-10-50-41, implies hard assets that cannot be readily removed, which would exclude intangibles.

55-24 The geographic information specified by paragraph 280-10-50-41 is required, if material, by country. That paragraph also states, however, that a public entity may always provide, in addition to the information required by this paragraph, subtotals of geographic information about groups of countries, for example, the European Monetary Union.

55-25 With regard to reporting geographic information as discussed in paragraph 280-10-50-41, the degree of interrelationship between the United States and Puerto Rico (as well as non-self-governing U.S. territories such as the Virgin Islands and American Samoa) is such that Puerto Rican operations of U.S. public entities shall be considered domestic operations. Factors such as proximity, economic affinity, and similarities in business environments also indicate this classification for the Puerto Rican operations of U.S. public entities. It should be noted that this Subtopic does not prohibit additional disclosures about Puerto Rican operations that might be useful in analyzing and understanding an entity's financial statements.

The following diagram summarizes the disclosure requirements for entity-wide information about geographic areas. [280-10-50-41]



The purpose of these disclosures is to provide information about risks and uncertainties in certain geographic areas. Therefore, the long-lived asset

component of this disclosure focuses on tangible assets because typically there are greater risks to tangible assets than to many intangible assets – i.e. tangible assets are harder to move and relatively illiquid. [280-10-55-23]



Question 8.4.05**

Are some long-lived assets excluded from the long-lived assets entity-wide disclosure?

Interpretive response: Yes. Topic 280 does not define long-lived assets but instead requires judgment. However, it does exempt the following long-lived assets from this disclosure: [280-10-50-41(b), 55-23]

- intangible assets;
- financial instruments;
- long-term customer relationships of a financial institution;
- mortgage and other servicing rights;
- deferred policy acquisition costs; and
- deferred tax assets.

We believe right-of-use (ROU) assets of lessees recorded under Topic 842 generally should be included in the long-lived assets disclosure because they are in the scope of Topic 360's long-lived assets guidance.



Example 8.4.10

Disclosure of geographic information associated with long-lived assets

ABC Corp. is domiciled in the US and has consolidated long-lived assets of \$1,000. In preparing its entity-wide disclosure of geographic information associated with long-lived assets, ABC excludes the following items to arrive at the consolidated adjusted long-lived asset balance for its disclosure:

— Financial instruments	\$ 100
— Deferred policy acquisition costs	\$ 50
— Deferred tax assets	\$ 75

ABC is not a financial institution with long-term customer relationships and does not have mortgage and other servicing rights.

The consolidated adjusted long-lived asset balance for purposes of the disclosure is \$775 (\$1,000 - (\$100 + \$50 + \$75)). Of this amount, assume that \$550 is located in the US and \$225 is located in foreign countries, none of which are deemed to be individually material.

As a result, ABC's entity-wide disclosure of geographic information associated with long-lived assets includes long-lived assets in the US of \$550 and long-lived assets in foreign countries of \$225.



Question 8.4.10

Is there a particular method required when attributing revenues to individual countries?

Interpretive response: No. Topic 280 provides flexibility concerning the basis on which an entity attributes revenues to individual countries. For example, attribution could be made on the basis of customer location, selling location or location to which products are transported. Topic 280 requires that the method used be reasonable, consistently applied and disclosed. [280-10-55-22]



Question 8.4.20

Is there a materiality threshold for entity-wide disclosures of information about geographic areas?

Interpretive response: Topic 280 states that revenues and assets attributed to the reporting entity's country of domicile and all foreign countries in total should be separately disclosed. If revenues or assets attributed to an individual country are material, those amounts should also be disclosed separately. However, Topic 280 does not provide a materiality threshold for this requirement as it does for disclosure of major customer information (discussed in [section 8.5](#)).

Even though there is no bright-line materiality threshold, we believe any country with revenue from external customers that exceeds 10% of the entity's consolidated revenue should be considered for separate disclosure. We believe this is a reasonable materiality threshold because it is similar to the threshold that was used by the SEC for products and services in S-K Item 101 before the elimination of the quantitative thresholds in the 2020 amendments (see [Question 8.3.30](#)). Nevertheless, an entity should consider separately disclosing foreign country revenue and other amounts that are less than 10% if qualitative reasons make the disclosure useful to financial statement users.

Further, we believe that a similar 10% threshold is reasonable to apply to the disclosure of asset information on a geographic basis.



Question 8.4.30#

If operations of a particular country in a multi-country geographic area are material, can the geographic disclosures be based on the geographic area?

Interpretive response: No, the disclosure requirement is to provide revenue and long-lived asset information for material countries, by country. This requirement is not satisfied by aggregating information of material countries that are in the same geographic area. For example, if revenue for Germany is material, revenue for Germany must be disclosed separately and cannot be aggregated with revenue for France or other material or nonmaterial countries in Europe. However, an entity may supplement the individual country

information with subtotals for groups of countries. For example, it may present a subtotal called 'Europe'.

In contrast, if operations in a multi-country geographic area are material but operations in the individual countries in that area are not material, then no separate disclosures are required for any countries within that larger area.

Further, for an entity domiciled in the US, the requirement to disclose revenue and long-lived assets information attributed to the country of domicile is not satisfied by disclosing information for North America. [\[280-10-50-41, 55-24\]](#)



Question 8.4.40

How is the practicability exception applied?

Interpretive response: The entity-wide geographic area disclosure requirement contains a practicability exception. Some entities have expressed concern about providing certain entity-wide disclosures if they are not organized that way and have questioned the usefulness of the information to financial statement users in light of the potential cost of accumulating the data. Nevertheless, as noted in other areas in Topic 280 that have a practicability exception, this threshold is a very high hurdle. Therefore, we expect situations in which an entity determines it is impracticable to provide such information to be rare. [\[280-10-50-41\]](#)

8.5 Information about major customers

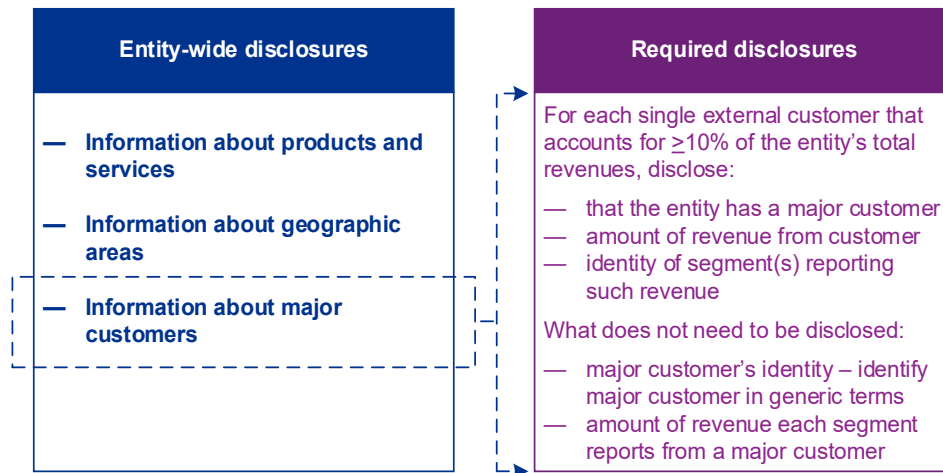


Excerpt from ASC 280-10

• • > Information About Major Customers

50-42 A public 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 percent or more of a public entity's revenues, the public 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 public entity need not disclose the identity of a major customer or the amount of revenues that each segment reports from that customer. For purposes of this Subtopic, a group of entities known to a reporting public entity to be under common control shall be considered as a single customer, and the federal government, a state government, a local government (for example, a county or municipality), or a foreign government each shall be considered as a single customer (see Example 3, Case E [paragraph 280-10-55-52]).

The following diagram summarizes the disclosure requirements for entity-wide information about major customers. [\[280-10-50-42\]](#)



In certain cases, determining who the customer is may not be straightforward and will require judgment. For example, transactions that involve agents, resellers or other intermediaries facilitating sales to an end-user may result in the intermediary being the customer in some situations and the end-user in others. Additionally, the definition of a single customer includes a group of customers under common control. [280-10-50-42]



Question 8.5.10

Is there a practicability exception for disclosing information about major customers?

Interpretive response: No. Unlike disclosures about products and services and geographic areas, there is no practicability exception for disclosures about revenues from major customers.



Question 8.5.20

Are sales to different subsidiaries of a customer combined when considering whether the revenues with a single customer amount to 10%?

Interpretive response: Yes. When an entity sells products to two or more subsidiaries of a customer, it is required to aggregate the total sales to the subsidiaries when determining whether the 10% test is met.



Question 8.5.30

Are sales to different federal, state, and local governments combined sales to a single customer?

Interpretive response: No. Each government should be considered a single customer. Therefore, an entity does not combine different governments when

determining whether government revenues amount to 10% of total revenues. However, to the extent one of the individual government's revenues do amount to 10%, the entity is required to disclose that government as a major customer.

This also would apply to foreign governments, in that they should not be combined to represent sales to a single customer.

8.6 Examples of entity-wide disclosures



Example 8.6.10

Geographical information and major customer

ABC Corp. is a public entity that produces paper goods. It has three segments: timber goods, standard paper and recycled paper. ABC has operations in several geographical locations.

ABC makes the following geographic information disclosures. Because ABC's segments are based on differences in products and services, no additional disclosures of revenue information about products and services are required.

Geographical information

	Revenues	Long-lived assets
United States	\$ 31,000	\$ 19,000
Germany	7,000	4,000
China	5,000	3,000
Other foreign countries	1,000	500
Total	\$ 44,000	\$ 26,500

Major customer

Revenues from one customer in the standard paper segment, represented \$8,000 or 18% of total revenues.



Example 8.6.20

Products and services

ABC Corp. is a public entity that provides telecommunication services. It has three segments: North America, Europe and Asia. ABC has two primary services: voice services and internet services.

Because ABC's segments are not based on products and services, additional disclosures of revenue information by products and services are required. ABC discloses the following.

Products and services

	Voice services	Internet services	Total
North America	\$ 110,000	\$ 58,000	\$ 168,000
Europe	32,000	47,000	79,000
Asia	18,000	34,000	52,000
Total	\$ 160,000	\$ 139,000	\$ 299,000



Excerpt from ASC 280-10

- > Example 3: Illustrative Disclosures
- • > Case D: Geographic Information

55-51 The following illustrates the geographic information required by paragraph 280-10-50-41. Because Diversified Company's segments are based on differences in products and services, no additional disclosures of revenue information about products and services are required (see paragraph 280-10-50-40).

Geographic Information

	Revenues ^(a)	Long-Lived Assets
United States	\$ 19,000	\$ 11,000
Canada	4,200	-
Taiwan	3,400	6,500
Japan	2,900	3,500
Other foreign countries	6,000	3,000
Total	\$ 31,000	\$ 24,000

(a) Revenues are attributed to countries based on location of customer.

- • > Case E: Information About Major Customers

55-52 The following is an example of the information about major customers required by paragraph 280-10-50-42. Neither the identity of the customer nor the amount of revenues for each operating segment is required.

Revenues from one customer of Diversified Company's software and electronics segments represents approximately \$5,000 of the company's consolidated revenues.

9. SEC filings: US companies

Detailed contents

New item added in this edition: **

9.1 How the standard works

9.2 SEC segment disclosures outside of financial statements

9.3 Description of business

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9.3.10 How does the SEC staff view compliance with the MD&A segment disclosure requirements?

9.3.20 Are there specific topics related to the description of a registrant's business that are required to be disclosed?

9.4 Property

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- 9.6.30 How does a registrant revise previously filed financial statements to reflect new segment disclosures when filing a new proxy or registration statement?
- 9.6.40 Does a registrant revise segment information in previously reported quarters when incorporating an interim period by reference into a proxy or registration statement?
- 9.6.45 Do financial statements included in an exempt offering also require revision to reflect a change in segments? **
- 9.6.50 Does a new Form S-8 need to be updated to reflect the effect of a material change in reportable segments?

Examples

- 9.6.05 Revising segment information in connection with a registration statement filing
- 9.6.10 Revising segment information after most recent balance sheet date
- 9.6.20 Revising previously issued annual financial statements when filing a new registration statement early in the year of a change in segments
- 9.6.30 Revising previously issued financial statements when filing a new registration statement late in the year of a change in segments
- 9.6.40 New Form S-8 registration statement
- 9.6.50 Effect on shelf registration statement when interim period financial statements reflect new segmentation basis

9.7 Effect of segment reporting on other SEC filings

9.1 How the standard works

Topic 280 disclosures coincide with other disclosures in SEC filings (e.g. Forms 10-K, S-1) that are outside of the basic financial statements. The SEC requires segment information in the following parts of applicable filings by US registrants.



9.2 SEC segment disclosures outside of financial statements

SEC rules and regulations require disclosure of certain segment-level information outside of the primary annual and interim consolidated financial statements in SEC filings. The SEC segment disclosure requirements are based on the segments determined under Topic 280, but some differences exist. Therefore, public entities that are also SEC registrants may be required to disclose additional information about their segments beyond those required by Topic 280.

In 2020, the SEC issued final rules aimed at modernizing and simplifying certain SEC guidance. These amendments changed the S-K requirements for registrants and are discussed throughout this chapter. [\[SEC Rel. 33-10890; 34-90459, 33-10825; 34-89670\]](#)

9.3 Description of business

Certain SEC filings for US companies (e.g. Forms 10-K and S-1) require a description of the registrant's business. The description of business section is meant to provide an understanding of a registrant's business taken as a whole.

Regulation S-K Item 101 requires a principles-based approach, under which a registrant tailors its description of a business disclosures to its business. Under the principles-based approach, registrants (other than 'smaller reporting companies' as defined in S-X Item 10(f)(1)) may be required to incorporate certain segment information in this description to the extent it is material to an understanding of the business taken as a whole. As discussed in this section, the amount of required information can be extensive and includes both quantitative and narrative information. [\[S-K Item 101\(c\)\]](#)



Question 9.3.10

What does a registrant consider in determining if segment information is material to understanding its business as a whole?

Interpretive response: In making this determination, a registrant considers factors such as the following. [\[S-K Instructions to Item 101\]](#)

Factor	Example
Significance of matter to registrant	Matter with a relatively minor effect on registrant's current business may be deemed important to registrant's future profitability
Pervasiveness of matter	Matter may affect numerous items in the segment information
Effect of matter	Matter may distort the trends reflected in the segment information



Question 9.3.20

Are there specific topics related to the description of a registrant's business that are required to be disclosed?

Interpretive response: No, the principles-based approach in S-K Item 101 does not prescribe specific disclosures. However, to facilitate the principles-based approach, S-K Item 101 includes the following non-exclusive list of disclosure topic examples: [\[S-K Item 101\(c\)\(1\)\]](#)

- revenue-generating activities, products and/or services, and any dependence on revenue-generating activities, key products, services, product families or customers, including governmental customers;
- status of development efforts for new or enhanced products, trends in market demand and competitive conditions;
- resources material to a registrant's business;
- a description of any material portion of the business that may be subject to renegotiation of profits or termination of contracts or subcontracts at the election of the Government; and
- the extent to which the business is or may be seasonal.

While prior amendments to S-K Item 101 eliminated certain prescriptive disclosure requirements, registrants provide disclosure about these topics, as well as any other topics regarding the registrants' business, if they are material to an understanding of their business.



Comparison to US GAAP

Disclosure requirements about products or services differ – S-K Item 101 vs US GAAP

S-K Item 101 vs Topic 280

The requirement under S-K Item 101 to disclose information about products or services is significantly different from the Topic 280 requirement for products and services. The Topic 280 disclosures are entity-wide; however, under SEC regulations, if material to the understanding of the business as a whole, products and services disclosures must be made at the segment level. [280-10-50-40]

In addition, because the SEC requirement is principles-based, the registrant would only disclose this information to the extent it is material to its business taken as a whole.

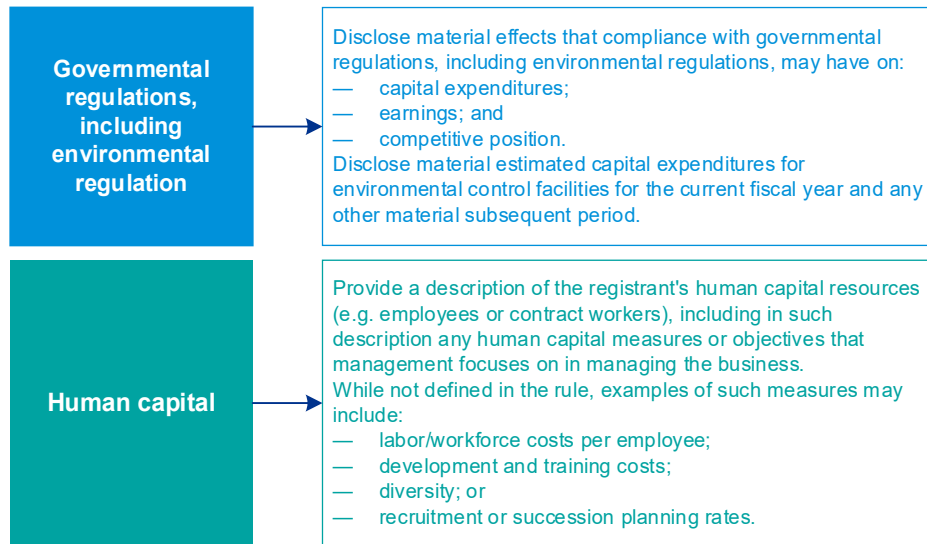
S-K Item 101 vs Topic 606

Topic 606 (revenue) also requires an entity to disclose information about its products and services that may be similar to the information required by the SEC – e.g. type of good or service, geographical region, market or type of customer, type of contract, contract duration, timing of transfer of goods or services and sales channels.

However, the objective of providing segment information required by Topic 280 and the SEC is different from the objective for the disaggregation disclosure in Topic 606. Topic 606 requires disclosures of disaggregated revenue into categories that depict the nature, amount, timing and uncertainty of revenue and cash flows affected by economic factors, which may be different from Topic 280 and the SEC's disclosures (see [section 11.2.50](#)).

Compliance with governmental regulation, including environmental regulations and human capital

S-K Item 101 requires disclosures about a registrant's regulatory environment and human capital resources. These disclosures are required for the registrant's business as a whole; however, a registrant identifies segments for which this information is material. [S-K Item 101(c)(2)]



9.4 Property

Certain SEC filings for US companies (e.g. Forms 10-K and S-1) require a description of the registrant's principal physical properties. A registrant is required to disclose the location and general character of its principal physical properties, to the extent material, in the Property section of a filing. Descriptions may be provided on a collective basis, if appropriate. It is also required to identify the segments that use the described properties. [S-K Item 102]

9.5 MD&A

9.5.10 Segment disclosure requirements

MD&A should include a discussion of segment information or other subdivisions in the registrant's business if it is determined to be helpful to investors in understanding the registrant's business (e.g. by geographic areas). If this discussion is included, it should focus on each relevant, reportable segment or other subdivision of the business, as well as on the registrant as a whole. However, when crafting its MD&A segment discussion, a registrant should avoid unnecessary duplication and immaterial detail, because the Description of Business section and the financial statements included in the SEC filing already contain significant segment information. [S-K Item 303(b), SEC Rel. 33-8350, 34-48960, FR-72.III.B.2]

Although a registrant has wide discretion in determining what segment information to include in its MD&A, the disclosures should be based on the same segment information as determined by Topic 280. However, the SEC staff has provided additional guidance on MD&A in FR 501.06a to help determine the appropriate segment information to disclose in MD&A (discussed further in this section). [FR 501.06a]



Question 9.5.10

How does the SEC staff view compliance with the MD&A segment disclosure requirements?

Interpretive response: The SEC staff has challenged inconsistencies between segments reported in the financial statements and MD&A. In some cases, the staff has required a registrant to revise its MD&A to discuss operations at a disaggregated level that corresponds to at least the level of segment disclosures in the financial statements.

Additional SEC guidance under FR 501.06a

When determining whether a discussion of segment information is necessary to obtain an understanding of the business, a multi-segment registrant preparing MD&A should analyze revenues, profitability and the cash needs of its significant segments. To the extent any segment contributes in a materially disproportionate way to those items, or when discussions on a consolidated basis present an incomplete and misleading picture of the entity, segment discussions should be included. [\[FR 501.06a\]](#)

The following SEC examples describe when disclosing segment information may be appropriate because presenting information on an entity-wide basis may be misleading. [\[FR 501.06a\]](#)

- There are legal or other restrictions on the free flow of funds from one segment, subsidiary or division to others.
- Known trends, demands, commitments, events or uncertainties within a segment are reasonably likely to have a material effect on the business as a whole.
- The ability to dispose of identified assets of a segment may be relevant to the registrant's financial flexibility.



Example 9.5.10

MD&A segment disclosures

This example is adapted from FR 501.06a. It illustrates how to evaluate whether a segment contributes in a materially disproportionate way to revenues and profitability.

Manufacturer has two reportable segments. The two segments contributed to segment profit amounts that were disproportionate to their respective revenues. Manufacturer discusses sales and segment profit trends, factors explaining those trends and, where applicable, known events that will affect future results of operations of each segment.

Net sales by segment						
	Year 3		Year 2		Year 1	
Segments	Millions	% of total	Millions	% of total	Millions	% of total
Segment 1	\$ 585	55	\$ 479	53	\$ 420	48
Segment 2	472	45	433	47	457	52
Total sales	\$ 1,057	100	\$ 912	100	\$ 877	100

Year 3 vs Year 2

Segment 1 sales increased 22% in Year 3 over Year 2. The increase included the effect of acquiring ABC Corp. Excluding this acquisition, sales would have increased by 16% over Year 2. Product Line A sales increased by 18% due to a 24% increase in selling prices, partially offset by lower shipments. Product Line B sales increased by 35% due to a 17% increase in selling prices and a 15% increase in shipment volume.

Segment 2 sales increased 9% due to a 12% increase in selling prices partly offset by a 3% reduction in shipment volume.

Year 2 vs Year 1

Segment 1 sales increased 14% in Year 2. Product Line A sales increased 22%, despite a slight reduction in shipments, because of a 23% increase in selling prices. Product Line B sales declined 5% due mainly to a 7% decrease in selling prices, partially offset by higher shipments.

The 5% decline in Segment 2 sales reflected a 3% reduction in selling prices and a 2% decline in shipments.

The substantial increases in selling prices of Product Line A during Year 3 and Year 2 occurred primarily because of heightened worldwide demand, which exceeded the industry's production capacity. Manufacturer expects these conditions to continue for the next several years and anticipates that shipment volumes of Product Line A will increase as its new production facility reaches commercial production levels in Year 4.

Segment 2 shipment volumes have declined during the past two years primarily because of the discontinuation of certain products that were marginally profitable and did not have significant growth potential.

Profit by segment						
	Year 3		Year 2		Year 1	
Segments	Millions	% of total	Millions	% of total	Millions	% of total
Segment 1	\$ 126	75	\$ 108	68	\$ 67	55
Segment 2	42	25	51	32	54	45
Total sales	\$ 168	100	\$ 159	100	\$ 121	100

Year 3 vs Year 2

Segment 1 profit was \$18 million (17%) higher in Year 3 than in Year 2. This increase included the effects of higher sales prices and slightly improved margins on Product Line A, higher shipments of Product Line B and the acquisition of DEF Corp. Excluding this acquisition, Segment 1 profit would have been 11% higher than in Year 2. Partially offsetting these increases were costs and expenses of \$11 million related to new plant start-up, slightly reduced margins on Product Line B, and a \$9 million increase in R&D expenses.

Segment 2 profit declined \$9 million (18%) due mainly to substantially higher costs in Year 3 resulting from a 23% increase in average raw material costs that could not be fully recovered through sales price increases. Manufacturer expects that Segment 2 margins will continue to decline, although at a lesser rate than in Year 3 as competitive factors limit its ability to recover cost increases.

Year 2 vs Year 1

Segment 1 profit was \$41 million (61%) higher in Year 2 than in Year 1. After excluding the effect of the \$34 million nonrecurring charge for the early retirement program in Year 1, Segment 1 profit in Year 2 was \$18 million (27%) higher than in Year 1. This increase reflected higher prices and a corresponding 21% increase in margins on Product Line A, and a 17% increase in margins on Product Line B due primarily to cost reductions resulting from the early retirement program.

Segment 2 profit declined about \$3 million (6%) due mainly to lower selling prices and slightly reduced margins in Year 2.

Interim considerations



Question 9.5.20

Do the Topic 280 disclosure requirements apply to the selected quarterly financial data required by S-K Item 302?

Interpretive response: No. S-K Item 302 requires a registrant to present selected quarterly financial data if there are one or more material retrospective changes to any quarter in the two most recent years. The interim disclosure requirements do not extend to the selected quarterly financial data required by S-K Item 302. In addition, the selected quarterly financial data is not typically detailed at a level that would be inconsistent with the Topic 280 disclosures. See [Question 6.9.10](#) for the Topic 280 disclosure requirements. [S-K Item 302(a)]

9.5.20 Non-GAAP financial measures

A non-GAAP financial measure is a numerical measure or ratio of a registrant's historical or future financial performance, financial condition or cash flows that

excludes or includes amounts included or excluded, respectively, in a GAAP measure.

See KPMG Issues In-Depth, [Non-GAAP financial measures](#), for general considerations on non-GAAP measures in MD&A.

The measure closest to GAAP is the ‘required measure’ under Topic 280

Topic 280 requires an entity to disclose the segment profit or loss measure (see [section 6.4.20](#)) and the total assets measure (see [section 6.4.50](#)) that is used by the CODM to assess performance and allocate resources. If the CODM uses multiple measures, the required measure is the one determined in accordance with the measurement principles most consistent with GAAP, i.e. the one closest to GAAP (see [Question 6.4.20](#)).

This required measure is not necessarily measured under GAAP principles – e.g. it could be EBITDA, income before restructuring charges or similar measures that are considered non-GAAP. If EBITDA was the sole measure used by the CODM to assess performance and allocate resources, because Topic 280 requires it to be disclosed, it would not be considered a non-GAAP measure (as defined by the SEC in Reg G) when presented in the segment note. The same is true about any other sole measure used by the CODM (see [Question 6.4.15](#)). [\[C&DI 104.01\]](#)

Additional measures of a segment’s profit or loss

ASU 2023-07 permits an entity to report more than one segment profit or loss measure that is used by the CODM to evaluate segment performance and allocate resources, as long as the ‘required measure’ is also disclosed. However, any additional segment profit or loss measures disclosed beyond the required measure that are not determined in accordance with GAAP principles are non-GAAP financial measures and therefore are subject to the SEC’s non-GAAP financial measures rules and regulations (see [Questions 6.4.30](#) and [6.4.35](#)). Under Topic 280, segment measures must be reconciled on a combined basis to the corresponding consolidated amounts reported in the GAAP-based financial statements (see [section 6.5](#)). [\[280-10-50-30\]](#)



Question 9.5.30**

What guidelines apply to non-GAAP segment information presented in MD&A?

Interpretive response: A registrant may want to include in its MD&A a discussion of segment profitability determined consistent with Topic 280. As explained in [Question 6.4.15](#), a segment profit or loss measure disclosed in the segment note to the financial statements that is not prepared under GAAP principles is not necessarily considered a non-GAAP financial measure under SEC regulations. However, even if the segment measure is not considered a non-GAAP financial measure, when used in MD&A the SEC staff expects the MD&A to also include a complete discussion of significant reconciling items applicable to the particular segment being discussed. [\[C&DI 104.02, FR 501.06a\]](#)

Further, in the note to the financial statements that reconciles the segment measures to the consolidated financial statements, a registrant may total the profit or loss for the individual segments as part of the Topic 280 required reconciliation (see [section 6.5](#)). This total segment profit or loss measure is considered a non-GAAP financial measure if included in MD&A. Although this amount is required to be disclosed as part of the Topic 280 reconciliation, it has no authoritative meaning outside of this reconciliation. Therefore, the SEC staff expects the amount to be labeled non-GAAP and to be in compliance with the SEC's non-GAAP financial measures rules and regulations if disclosed outside of the GAAP financial statements. [\[C&DI 104.04\]](#)



Example 9.5.20

Non-GAAP financial measure used in MD&A

ABC Corp. incurs a material charge for a restructuring and an impairment that relates to a specific segment. However, this charge is not included in the segment operating profit or loss measure used by the CODM, which is reported in the segment note in the financial statements as the required measure under Topic 280.

Therefore, when discussing segment performance in MD&A using the measure of profit before restructuring and an impairment, ABC explains the applicable portion of the charges, the segment to which they relate, and the circumstances of ABC incurring the charges.

9.6 Effect of segment reporting changes on SEC filings

9.6.10 Overview

The SEC requirement to provide retrospectively revised financial statements that present segment information under a new basis of segmentation applies to periodic filings required under the Securities and Exchange Acts (e.g. proxy statements, Forms 10-Q and 10-K) and to registration statements (e.g. Form S-1 filings). In comparison, as discussed in [section 7.2](#), Topic 280 generally requires an entity to revise prior-period segment information to correspond with changes to current reportable segments or to provide comparable information (e.g. to reflect the effects of new discontinued operations). [\[280-10-S50-1.7\]](#)

The requirement to file annual financial statements with revised segment information with the SEC depends, in part, on:

- the type of documents a registrant files with the SEC; and
- the timing of a filing that contains *reissued* financial statements.

Certain retrospectively applied events, like changes in segments, that occur after the end of a fiscal year will require a registrant to refile that year's (and previous years') financial statements if those financial statements are reissued after it files financial statements covering the period during which the event occurred. A registrant may not revise previously issued financial statements

until it reports on the period in which the event occurred. Once a registrant reports operating results for the period in which a change in segments occurs, it recasts the comparative period's segment information. While not required by the SEC or Topic 280, disclosures of the future effects of the change in reportable segments may be useful to investors and may be provided as supplemental information. [\[FRM 13310.1\]](#)



Question 9.6.10

Can a new proxy or registration statement cause a registrant to revise prior annual financial statements sooner than otherwise required?

Interpretive response: Yes. The timing of the filing of a new proxy or registration statement may result in a requirement to revise prior audited annual financial statements to reflect the new basis of segmentation sooner than would be required to be filed in a registrant's Form 10-K.

For example, a registrant undergoes a significant internal reorganization that changes the composition of its operating segments. If it is filing a registration statement before filing its Form 10-K for that year, the registration statement may have to include revised prior years' audited annual financial statements if the operating results for the period in which this change occurs have already been publicly released (e.g. through interim financial statements). In contrast, if these operating results have not already been publicly released, there is no requirement to revise the prior years' audited annual financial statements until the next Form 10-K is issued. See [Example 9.6.05](#).

This situation should not be confused with a change in the composition of operating segments after the registrant's fiscal year-end, but before it files Form 10-K (see [Example 9.6.20](#)).



Example 9.6.05

Revising segment information in connection with a registration statement filing

Registrant changes its internal organization on March 15, Year 2, which results in a change in its reportable segments. Registrant's segment disclosures in the Form 10-K for the year ended December 31, Year 1 are based on the segment information as of December 31, Year 1.

- Registrant has filed:
 - Form 10-K for the year ended December 31, Year 1 on March 1, Year 2;
 - Form 10-Q for the interim period ended March 31, Year 2 on May 10, Year 2, which included segment disclosures under the revised organizational structure.
- Registrant is filing a new registration statement on Form S-3 on April 1, Year 2.

Because the operating results that reflect the revised reportable segments have not yet been publicly released by April 1, Year 2, Registrant is not required to revise (in connection with the registration statement filing) its Year 1 annual financial statements to reflect the revised reportable segments. Registrant will revise Year 1 annual financial statements when Year 2 Form 10-K is issued. See [Question 9.6.10](#).

[Examples 9.6.20](#) and [9.6.30](#) illustrate how a registrant must revise prior years' annual financial statements in connection with a registration statement filing when it has already publicly released operating results (e.g. interim financial statements) that reflect the revised reportable segments.



Question 9.6.20

Does the SEC permit a practicability exception to recasting comparative period segment information?

Interpretive response: Yes. However, the SEC staff normally expects that a registrant will be able to recast some (if not all) of its previously reported segment data.



Example 9.6.10

Revising segment information after most recent balance sheet date

Registrant changes its internal organization on January 31, Year 2, which causes its reportable segments to change. Registrant has not yet filed its Form 10-K for the year ended December 31, Year 1.

Registrant's segment disclosures in the Form 10-K for the year ended December 31, Year 1 are based on the prior segment information – i.e. the internal organizational structure that was in place during Year 1. However, Registrant may include supplemental information in the Year 1 Form 10-K outside of the financial statements showing the segment results under the new organizational structure.

When Registrant reports operating results for a period that includes the date of change in reportable segments (i.e. in its Q1 Year 2 Form 10-Q for the January 31, Year 2 change) it presents the new reportable segments and revises the prior-period comparative information (see [Example 7.2.10](#)).

9.6.20 Change in segment reporting before filing new proxy or registration statement

Once interim or annual financial information reflecting the new basis of segmentation is included or incorporated by reference into a new proxy or registration statement – including Form S-1, S-3, and S-4 and Form 10, but not Form S-8 (see [Question 9.6.50](#)) – the corresponding interim or annual financial

statements filed with the SEC (e.g. Form 10-Q and 10-K) also included or incorporated by reference therein should be revised to similarly reflect Topic 280 disclosures under the new basis of segmentation. The registrant's Description of Business and MD&A should be similarly revised (see [sections 9.3 and 9.5](#), respectively). [\[FRM 13310.1\]](#)



Question 9.6.30

How does a registrant revise previously filed financial statements to reflect new segment disclosures when filing a new proxy or registration statement?

Interpretive response: If the annual financial statements are required in a proxy or registration statement that includes subsequent periods under the new basis of segmentation, the revised disclosures should appear in those financial statements. In contrast, if a registrant incorporates previously filed financial statements by reference into the proxy or registration statement, the revised financial statements may be filed via a Form 8-K.

In either case, the registrant should not amend its most recently filed Form 10-K, which included the annual financial statements reflecting the old basis of segmentation, to include the revised financial statements with the new basis of segmentation. This is because the information previously presented in the Form 10-K was not incorrect. [\[FRM 13310.1\]](#)



Question 9.6.40

Does a registrant revise segment information in previously reported quarters when incorporating an interim period by reference into a proxy or registration statement?

Interpretive response: No. If a registrant is incorporating by reference its interim period financial information (Form 10-Q), revised financial statements for the previously reported individual quarters need not be filed as long as the financial statements for both the most current and comparative year-to-date interim period included in the most recent quarterly report incorporated by reference reflect the revised segment disclosure. If a registrant is reproducing interim period financial information in the registration statement on an individual quarterly and year-to-date basis, it should revise all information to provide comparability and to comply with US GAAP.

For example, if a registrant files a Form S-3 that incorporates by reference its most recent Forms 10-K and 10-Q(s) before it is required to present segment information under the new organizational structure in a Form 10-Q, the registrant would not revise the pre-event financial statements in connection with the Form S-3. However, if a Form S-3 incorporates by reference its most recent Forms 10-K and 10-Q(s) after it has filed a Form 10-Q reflecting a

change in segments, retrospective revision of the pre-event financial statements is required.



Example 9.6.20

Revising previously issued annual financial statements when filing a new registration statement early in the year of a change in segments

Registrant changes its internal organization on January 31, Year 4, which causes its reportable segments to change. Registrant:

- has filed its Form 10-K for the year ended December 31, Year 3, which reports segment disclosures under the old organizational structure; and
- files its Form 10-Q for the interim period ended March 31, Year 4 reporting segment disclosures under the new organizational structure.

Registrant files a registration statement on Form S-4 on May 31, Year 4. In connection with this filing, the annual financial statements for the three years (Years 1 – 3) ended December 31, Year 3 include a revised segment note reflecting the organizational structure put in place on January 31, Year 4. In addition, Registrant revises its segment disclosures in the Description of Business and MD&A sections of its Year 3 Form 10-K to reflect the new organizational structure.

Depending on whether the financial statements are included or incorporated by reference in the registration statement, Registrant may either file revised audited financial statements and MD&A on a Form 8-K, if incorporated by reference into the registration statement, or include the revised audited financial statements and MD&A in the registration statement itself. Registrant should not amend its previously filed Form 10-K for the year ended December 31, Year 3 to reflect the revised financial statements.



Example 9.6.30

Revising previously issued financial statements when filing a new registration statement late in the year of a change in segments

Registrant changes its internal organization on September 1, Year 5, which will cause its reportable segments to change. Registrant has filed:

- its Form 10-K for the year ended December 31, Year 4;
- Form 10-Qs for each of the quarterly periods ended March 31 and June 30, Year 5, which include segment disclosures under the old organizational structure.
- its Form 10-Q for the interim period ended September 30, Year 5 including segment disclosures under the new organizational structure.

On December 1, Year 5, Registrant files a new registration statement on Form S-3; this is as opposed to a shelf takedown related to a previously filed and effective Form S-3 (see [section 9.6.30](#)).

The recast Year 4 annual financial statements are filed on a Form 8-K. Quarterly financial statements filed on Form 10-Q for periods ending March 31, and June 30, Year 5 (Q1 and Q2) do not require recasting even though they are incorporated by reference into the registration statement. Instead, the interim-period-to-date segment disclosure presented under the new organizational structure in the Q3 financial statements provides the required revised information.

In contrast, if each quarterly period's financial information is reproduced in the registration statement – rather than incorporated by reference – the segment information in Q1 and Q2 would be revised accordingly.



Question 9.6.45**

Do financial statements included in an exempt offering also require revision to reflect a change in segments?

Interpretive response: It depends. If historical financial statements are included or incorporated by reference in an exempt offering document along with interim period financial statements reflecting the change in segments, we believe the requirement to retrospectively revise historical financial statements applies. [\[FRM 13310.1\]](#)



Question 9.6.50

Does a new Form S-8 need to be updated to reflect the effect of a material change in reportable segments?

Interpretive response: No. Notwithstanding the general guidance related to proxy and registration statements, the SEC staff has historically taken a view that a new Form S-8 need not be updated to reflect the effect of a change in reportable segments occurring after the most recent balance sheet date that is not material.

A Form S-8 is used by companies to register shares offered to employees under the company benefit or incentive plans. If a registrant's management and legal counsel conclude that the change in reportable segments does not represent a material change in the registrant's affairs, the registrant may file a new Form S-8 without updating the segment disclosures in its financial statements to the new basis of presentation used in subsequently filed interim financial statements.

In contrast, if the registrant's management and legal counsel conclude that the change in reportable segments represents a material change in the registrant's

affairs, the registrant should update the segment disclosures in its annual financial statements to the new basis of presentation. [\[FRM Note to Section 13110\]](#)



Example 9.6.40 New Form S-8 registration statement

Registrant changes its internal organization on March 30, Year 5, which will cause its reportable segments to change. It files its Form 10-Q for the quarter ended March 31, Year 5 on April 30, Year 5. It files a new Form S-8 registration statement on May 1, Year 5.

Registrant consults with its legal counsel to conclude whether the change in reportable segments represents a material change in its affairs.

- If deemed material, Registrant will update the segment disclosures in the annual financial statements in the Form 10-K for the year ended December 31, Year 4 to the new basis of presentation when incorporating them by reference into the new Form S-8.
- If not deemed material, Registrant will not update those statements for the change in reportable segments.

9.6.30 Change in segment reporting with existing shelf registration on file

When there is a new basis of segmentation, an issue arises as to whether the registrant needs to revise previously filed financial statements that are incorporated by reference in an outstanding shelf registration statement. Whether revision of such previously filed financial statements is necessary depends on whether the new basis of segmentation is a fundamental change.

The SEC staff typically does not view a change in the composition of operating segments as a fundamental change in the information prescribed in those registration statements. Nevertheless, whenever there is a change in the basis of segmentation, we recommend that the registrant consult legal counsel to determine if the change in segments is a fundamental change to the business.

[\[S-K Item 512\]](#)



Example 9.6.50 Effect on shelf registration statement when interim period financial statements reflect new segmentation basis

Registrant has an effective Form S-3 shelf registration statement on file with the SEC. On March 30, Year 5, Registrant changes its basis of segmentation. The new basis of segmentation is reflected in the interim financial statements for the quarter ended March 31, Year 5 included in Registrant's Form 10-Q, which is filed on April 30, Year 5. Registrant's shelf registration statement is

automatically updated upon the filing of the Form 10-Q. Registrant intends to take down from the shelf on June 1, Year 5.

Registrant consults with its legal counsel to determine whether the change in basis of segmentation represents a fundamental change requiring the filing of revised annual financial statements.

- If it is determined that the change is not fundamental, Registrant need not update the Form S-3 by revising its annual financial statements for the three years ended December 31, Year 4 to reflect the new basis of segmentation. Instead, Registrant may file (typically on Form 8-K) unaudited supplemental segment information prepared under the new basis.
 - If it is determined that the change is fundamental, Registrant follows the same filing guidance applicable to new registration statements.
-

9.7 Effect of segment reporting on other SEC filings

Topic 280 affects the following additional SEC filing that is outside of the basic financial statements.

Supplementary insurance information

Topic 280 affects Schedule III, *Supplementary insurance information*, required by Rule 12-16 as referenced in Rule 07-05. This schedule is required to contain segment detail to support various balance sheet and statement of comprehensive income captions. The segments disclosed should be the same as those presented in the segment disclosures required by US GAAP.

10. SEC filings: non-US companies (FPIs)

Detailed contents

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Examples

- 10.2.10 Reconciliation of basis of accounting used for segment disclosures with Country GAAP used in consolidated financial statements
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10.3 Disclosures in other parts of Form 20-F

- 10.3.10 Overview
- 10.3.20 Item 4: Information about the company
- 10.3.30 Item 5: Operating and financial review and prospects
- 10.3.40 Item 8: Financial information

10.1 How the standard works

An entity's operating segments affect other aspects of SEC filings, specifically those in Form 20-F. Form 20-F is typically used as an annual report by foreign private issuers (FPIs) that have already registered and listed equity shares, or American Depositary Receipts, on US exchanges. The Form is intended to facilitate reporting consistencies between foreign-based entities and overseas domestic registrants.

The required segment disclosures in financial statements filed with a Form 20-F by a FPI depend on the basis of accounting used to prepare those financial statements.

- **US GAAP.** Financial statements prepared using US GAAP should already have the required segment disclosures.
- **IFRS Accounting Standards as issued by the IASB.** The IFRS 8 (operating segments) disclosures are sufficient so no additional Topic 280 disclosures are required.
- **Country GAAP.** Additional Topic 280 disclosures may be required.

Similar to domestic companies, FPIs have additional filing requirements for changes in segment structure.

Form 20-F also includes sections other than the financial statements section in which segment information could be presented.

10.2 Segment disclosures in financial statements

10.2.10 Overview

The required segment disclosures in financial statements filed with a Form 20-F depend on whether those financial statements are prepared under:

- US GAAP;
- IFRS Accounting Standards as issued by the IASB; or
- other.

‘Other’ may represent another basis, such as generally accepted accounting principles as adopted by the country regulator (Country GAAP). When a basis of accounting other than US GAAP or IFRS Accounting Standards as issued by the IASB is used, there are reconciliations to US GAAP that may need to be included in the Form 20-F – referred to as Item 17 and Item 18 reconciliations.

If the financial statements filed with a Form 20-F are in accordance with US GAAP, a segment disclosure reconciliation is not required under Item 17 or Item 18. To avoid having to include the Item 17 and/or Item 18 reconciliations, IFRS financial statements must include an unreserved and explicit statement of compliance with IFRS Accounting Standards as issued by the IASB in the notes, and the auditors’ report must have an opinion that states the financial statements are in accordance with IFRS Accounting Standards as issued by the IASB.

	Reconciliation under Item 17	Reconciliation under Item 18
When it applies	Item 17 reconciliations are used for the following. — Pro forma information pursuant to S-X Article 11. — Non-issuer financial statements provided to comply with S-X Rule 3-05 for acquisitions. — Financial statements of significant equity method investments provided to comply with S-X Rule 3-09. — Non-issuer target company financial statements included in Forms S-4, F-4 and proxy statements.	Item 18 reconciliations are required for financial statements issued with regards to the following. — 1933 Act registration statements. — 1934 Act registration statements on Form 20-F. — Annual reports on Form 20-F.
Compliance requirements	To comply with Item 17, an entity’s financial statements need not comply with US GAAP (e.g. segment reporting) but are required to disclose the following. — The basis of accounting used (US GAAP, IFRS Accounting Standards as issued by the IASB, or Country GAAP). — Material differences between the principles,	To comply with Item 18, an entity’s financial statements need to comply with the following. — All of the required Item 17 disclosures. — Other information required by US GAAP (e.g. segment reporting). — Required provisions of Regulation S-X.

	Reconciliation under Item 17	Reconciliation under Item 18
	practices and accounting methods used in preparing the financial statements and US GAAP. — Quantification of those differences in certain specified formats. Typically this includes a US GAAP reconciliation for net income, shareholders' equity, a US GAAP balance sheet or sufficient information to derive a US GAAP balance sheet, cash flows and EPS.	

10.2.20 Financial statements prepared under US GAAP or IFRS Accounting Standards as issued by the IASB

A FPI is required to file the same financial statements with its Form 20-F as it would have had to file on a Form 10-K if it were a US registrant. However, financial statements prepared using IFRS Accounting Standards as issued by the IASB are deemed to comply with this requirement when:

- the notes include an unreserved and explicit statement that the financial statements are prepared using IFRS Accounting Standards as issued by the IASB; and
- the auditors' report includes an opinion that the financial statements comply with IFRS Accounting Standards as issued by the IASB.

If financial statements prepared under IFRS Accounting Standards as issued by the IASB comply with the segment disclosure requirements under IFRS 8 (operating segments), the FPI need not provide additional segment disclosures.
[\[Form 20-F.Item 18\]](#)



Comparison to IFRS Accounting Standards

The requirements for segment reporting under IFRS 8 and Topic 280 have historically been largely converged. Both apply to public entities – i.e. entities whose debt or equity securities are traded in a public market, or that are in the process of issuing such securities; and both base segment disclosures on a 'management approach'.

The amendments in ASU 2023-07 have created additional differences with IFRS 8. See chapter 5.2 in KPMG Handbook, [IFRS® compared to US GAAP](#), for an overview of the guidance in IFRS 8.

10.2.30 Registrant financial statements prepared under Country GAAP

If an FPI's financial statements are prepared on a basis other than US GAAP or IFRS Accounting Standards as issued by the IASB (i.e. Country GAAP), the FPI is required to provide disclosures required under US GAAP and Regulation S-X, which includes segment disclosures. For purposes of this chapter, references to Country GAAP exclude IFRS Accounting Standards as issued by the IASB.

[Form 20-F, Item 18]



Question 10.2.10

How does a FPI reconcile the Country GAAP basis of accounting used for segment disclosures with the basis of accounting used in its consolidated financial statements?

Interpretive response: As discussed in [section 6.5](#), Topic 280 requires reconciliation of the segment information to the basis of accounting used for the consolidated financial statements, if there are differences. Each significant reconciling item should be identified, described and disclosed in a separate column.

Therefore, a FPI reconciles its segment information to the information in its primary consolidated financial statements under Country GAAP. It is not required to further reconcile the segment information, already reconciled to Country GAAP, to US GAAP. [\[IR&DI.VI.A\]](#)



Example 10.2.10

Reconciliation of basis of accounting used for segment disclosures with Country GAAP used in consolidated financial statements

FPI prepares its financial statements under Country GAAP that is not IFRS Accounting Standards as issued by the IASB. Segment performance is predominantly evaluated by the CODM based on operating profit before interest, income tax, depreciation and amortization. Given that finance costs and income taxes are managed on a centralized basis, these items are not allocated between operating segments for the purposes of the information presented to the CODM and therefore are omitted from the segment disclosures under Country GAAP.

FPI's Country GAAP does not require a reconciliation of the segment information to the consolidated financial statements; however, Topic 280 does require this reconciliation.

Therefore, FPI reconciles each item in a separate column, explaining the differences between the segment reporting, that exclude finance costs and income taxes, to the amounts reported under Country GAAP in the consolidated financial statements.



Question 10.2.20

How does a FPI using US GAAP for its consolidated financial statements reconcile the segment disclosure prepared under Country GAAP with US GAAP?

Interpretive response: Any public entity (e.g. a FPI, or non-US public entity) that prepares its primary consolidated financial statements based on US GAAP, but provides its segment information under Country GAAP, is required to provide a reconciliation of its segment information to US GAAP, because this is the basis of accounting used for its primary consolidated financial statements. [\[Form 20-F.Item 18\]](#)

The nature and amount of each significant difference between the basis of accounting used for segment information (Country GAAP) and US GAAP is determined using the total combined amounts reported for all operating segments compared to the amounts reported in the consolidated financial statements – e.g. a reconciliation of combined metrics for all operating segments reviewed by the CODM to the similar consolidated metrics from the consolidated financial statements. These quantified combined differences are disclosed, but a reconciliation to US GAAP by each reportable segment need not be disclosed.

Although a reconciliation by each reportable segment to US GAAP is not required, Instruction 2 of Item 5 (Operating and Financial Review) or MD&A included in Form 20-F require the discussion of matters related to differences between Country GAAP and US GAAP that affect an understanding of the financial statements as a whole. Therefore, we expect the Form 20-F MD&A to address applicable reconciling items attributable to each reportable segment (including the nature and effects of significant differences from US GAAP) if those items help financial statement users to: (1) better understand the entity's performance; (2) better assess its prospects for future net cash flows; or (3) make more informed judgments about the entity as a whole. [\[IR&DI.VI.A\]](#)

Additionally, Topic 280 requires significant policy differences (including differences between US GAAP and the basis of accounting used to determine the segment information under Country GAAP) to be disclosed in the description of the measurements of segment profit or loss and segment assets for each segment as part of the Item 18 reconciliation under Form 20-F.

[\[280-10-50-29\]](#)

10.2.40 Financial statements of 'other entities'

Foreign and domestic registrants may need to file separate financial statements for the following foreign entities:

- a business acquired or to be acquired; and [\[S-X Rule 3-05\]](#)
- a 50% or less owned entity – i.e. an investment accounted for under the equity method of accounting. [\[S-X Rule 3-09\]](#)

If separate financial statements are not prepared based on US GAAP or IFRS Accounting Standards as issued by the IASB, the SEC requires these separate

financial statements to include reconciliation to US GAAP if the entity's significance level exceeds 30%. For details on the significance test and how to determine the 30%, see Regulation S-X Rule 1-02(w). When the entity exceeds the 30% significance level in relation to a foreign or domestic registrant filing a Form 20-F, the separate financial statements are required to include the US GAAP reconciliation prepared under Item 17 of Form 20-F. [\[Form 20-F.Item 17\]](#)



Question 10.2.30

Do separate financial statements of foreign entities filed in a US registrant's filing have to include segment disclosures?

Interpretive response: It depends. Foreign acquired businesses and equity method investments are subject to the same S-X Rule 3-05 and S-X Rule 3-09 requirements whether they are acquired by a domestic registrant or a foreign registrant.

The SEC staff will generally accept separate financial statements prepared under Country GAAP with an Item 17 and/or Item 18 reconciliation if an acquired business or an equity method investment does not meet the SEC's definition of a 'foreign business'. If this acquired business or equity method investment is also a 'public business entity' (as defined by the SEC – see [Question 2.2.40](#)), segment information determined under Topic 280 is required to be included in its separate financial statements. [\[IR&DI.VI.A\]](#)

If the US registrant's acquired foreign business or foreign equity method investment is a foreign business, even though it may also be a public business entity, segment information determined under Topic 280 need not be included in the separate financial statements. A foreign business is provided relief from this requirement when the acquiree or investee would not reasonably be expected to have US GAAP information or be subject to US reporting requirements. [\[IR&DI.IX.E\]](#)

10.2.50 Presenting Topic 280 disclosures in Form 20-F

If a FPI prepares its consolidated financial statements using US GAAP, IFRS Accounting Standards as issued by the IASB or Country GAAP, it is required to provide segment disclosures under Topic 280 (or for IFRS Accounting Standards as issued by the IASB, under IFRS 8), as opposed to any other basis of presentation. This section addresses some of the issues that arise in providing these disclosures.



Question 10.2.40

Can a FPI presenting segment disclosures under US GAAP use information that complies with Country GAAP if it is used by the CODM?

Interpretive response: Yes. Under the management approach in Topic 280, segment disclosures are based on the accounting used for internal reporting purposes (i.e. for use by the CODM) even if it is not US GAAP. Therefore, a FPI that prepares segment disclosures to comply with US GAAP should present the information using whatever basis of accounting is used for internal management purposes, even if that information is Country GAAP. This includes the profit/loss measures and segment asset measures, which the foreign registrant then reconciles to the corresponding amounts in the consolidated financial statements (see [Questions 10.2.10](#) and [10.2.20](#)). [IR&DI.VI.A]



Example 10.2.20

Segment information based on Country GAAP

FPI prepares its financial statements based on US GAAP but bases its segment disclosures on its Country GAAP. As permitted by Country GAAP, FPI has reversed several significant asset impairments that have affected the financial information used by the CODM to assess performance and allocate resources, and therefore the segment disclosures. Asset impairment reversals are not permitted by US GAAP.

FPI, as required by Topic 280, reconciles the Country GAAP profit or loss segment information to the basis of accounting used for the consolidated financial statements (US GAAP). The asset impairment reversal is a reconciling difference.



Question 10.2.50

Should a FPI use the same basis of accounting used for internal management purposes when applying Topic 280's quantitative tests?

Interpretive response: Yes, when that information is the same information the CODM uses to assess performance and make resource allocation decisions. When a FPI that prepares segment disclosures to comply with Topic 280 is determining its reportable segments, it should use the same basis of accounting used for internal management purposes to apply the three reportable segments quantitative threshold tests and the 75% revenue test (see [sections 5.2](#) and [5.3.30](#), respectively). [IR&DI.VI.A]



Question 10.2.60

How does a FPI disclose a non-GAAP financial measure used in segment disclosures?

Interpretive response: A non-GAAP financial measure disclosed in Form 20-F by a FPI is generally subject to the same provisions of Reg G and S-K Item 10(e) as domestic registrants. However, segment disclosure non-GAAP financial measures (e.g. EBITDA or income before restructuring charges) used by the CODM to assess performance and allocate resources are not considered non-GAAP (as defined by Reg G and S-K item 10(e)) when presented in the segment note (unless the entity elects to report multiple measures of segment profit or loss under Topic 280 – see [section 6.4.20](#)). However, foreign registrants should use caution when including non-GAAP financial measures in the segment disclosures and determine that the measure faithfully represents the measure used by the CODM to assess performance and allocate resources.

If that non-GAAP financial measure is presented outside the segment note in the Form 20-F, it is then subject to Reg G and Reg S-K Item 10(e) requirements. In practice, this non-GAAP financial measure would be treated similarly to any other non-GAAP measure when presented outside the financial statements. See [section 9.5.20](#) and section 5 of KPMG Issues In-Depth, [Non-GAAP financial measures](#).

In addition, the SEC staff expects a FPI to include a discussion of significant reconciling items, which includes discussion of items that reconcile non-GAAP financial measures to those reported in the financial statements.



Question 10.2.70

May a FPI disclose segment information in a currency different from the currency used in its financial statements?

Interpretive response: No. Segment information sometimes is reported internally for use by the CODM in a currency that is different from the currency used in the consolidated financial statements (functional currency versus presentation currency). Segment information should be disclosed using the same presentation currency as the consolidated financial statements, even if a different functional currency is used for internal management reporting.

[\[IR&DI.VI.A\]](#)



Question 10.2.80

May a FPI base its annual segment disclosures on a new organizational structure that will be implemented after the reporting date but before the annual financial statements are issued?

Interpretive response: No. Similar to domestic registrants, if management changes the structure of its organization after the fiscal year-end or intends to

make this change, the new segment information should not be presented in the financial statements in Form 20-F until operating results are reported on the basis of the new management structure (see [Question 7.2.20](#)).

The SEC staff expects the segment information presented to be based on the organizational structure that was actually used to manage the business during the period presented. This expectation applies for the most recent annual period even if the registrant published information in its home jurisdiction for a more recent interim period (i.e. it is not filed with the SEC based on the SEC's age of financial statement requirements) based on its new reportable segments. However, the SEC staff will not object if a foreign registrant also provides supplementary data based on the new segment structure. [\[IR&DI.VI.A\]](#)

10.3 Disclosures in other parts of Form 20-F

10.3.10 Overview

In addition to the financial statements, there are three other parts of Form 20-F in which segment information could be presented:

- information about the company (Item 4);
- operating and financial review and prospects (Item 5); and
- financial information (Item 8).

10.3.20 Item 4: Information about the company

Item 4.B requires a foreign registrant to provide a business overview that at a minimum contains information on eight different aspects of its business. This information may (but is not required to be) provided on the same basis used to determine the registrant's business segments. If the registrant chooses to provide this information by segment, it does not need to determine its segments under US GAAP but instead can use the same basis of accounting it used to prepare its consolidated financial statements. [\[Form 20-F.Item 4.B\]](#)

10.3.30 Item 5: Operating and financial review and prospects

The Operating and Financial Review and Prospects section (also known as the MD&A discussion) is based on the consolidated financial statements included in the filing. However, if a basis of accounting is used other than US GAAP or IFRS Accounting Standards as issued by the IASB, the discussion should include an explanation of differences between the basis of accounting used to prepare the consolidated financial statements and US GAAP that affect the understanding of the financial statements taken as a whole. [\[Form 20-F.Item 5\]](#)

If segment disclosures under Topic 280 provide new information about how management views the entity and its business components, or reveal material trends or relationships not apparent from the Country GAAP segment disclosures, that information should be discussed in MD&A. [\[SAB Topic 1.D, 235-10-S99-5\]](#)

10.3.40 Item 8: Financial information

The Financial Information section includes the consolidated financial statements, and the related notes and schedules required by the comprehensive body of accounting standards pursuant to which the financial statements are prepared. The segment disclosures required by the registrant's basis of accounting are included in this section. However, at times registrants will include all required segment disclosures in the financial statements and include those financial statements in Item 18, with a reference from Item 8 to see Item 18. [\[Form 20-F.Item 8\]](#)

11. Interaction with other Topics and industry guidance

Detailed contents

11.1 Segment reporting interaction with other Topics

11.2 Other Topics

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- 11.2.30 Property, plant and equipment
- 11.2.40 Exit and disposal costs obligations
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- 11.2.10 If an entity recasts comparative periods for a discontinued operation, should it reallocate costs previously allocated to the discontinued operation to other reportable segments?
- 11.2.20 Is the disposal of a reportable segment always reported as discontinued operations?
- 11.2.30 Are reporting units always the same as operating segments?
- 11.2.40 Can an entity assume that its segmental disclosures will meet the disaggregation requirements of Topic 606?
- 11.2.50 Are the entity-wide disclosures required by Topic 280 sufficient when disclosing revenue by geography under Topic 606?
- 11.2.60 How does an entity disclose differences between the disaggregated revenue disclosure and its segment disclosure?

Example

- 11.2.10 Identifying reporting units

11.3 Industry guidance

11.1 Segment reporting interaction with other Topics

Addressed in this chapter	Disclosed by reportable segment?	Disclosure
Discontinued operations (Subtopic 205-20)	✓	Disclose the reportable segment in which the discontinued operation is reported.
Goodwill acquired in a business combination (Topic 805)	✓	Disclose the amount of goodwill acquired in a business combination by reportable segment.
Property, plant and equipment (Subtopic 360-10)	✓	Disclose the reportable segment in which an impairment loss or disposal of an asset or asset group is reported.
Exit and disposal cost obligations (Topic 420)	✓	Disclose the total amount of costs expected to be incurred in connection with an exit activity by reportable segment.
Revenue (Topic 606)	✗ ¹	Disaggregate and disclose revenue into meaningful categories. Disclose sufficient information about the relationship between the disaggregated revenue and revenue information for each reportable segment.
Goodwill and other intangibles (Topic 350)	✓	Disclose goodwill information by reportable segment. Assess goodwill for impairment at the reporting unit level, which is one level below an operating segment.
Note: 1. Revenue disclosed by reportable segment is not required by Topic 606, but it is required by Topic 280.		

11.2 Other Topics

11.2.10 Discontinued operations



Excerpt from ASC 205-20

> Disclosures Required for All Types of Discontinued Operations

50-1 The following shall be disclosed in the notes to financial statements that cover the period in which a discontinued operation either has been disposed of or is classified as held for sale under the requirements of paragraph 205-20-45-1E:

- a. A description of both of the following:
 1. The facts and circumstances leading to the disposal or expected disposal
 2. The expected manner and timing of that disposal.
- b. If not separately presented on the face of the statement where net income is reported (or statement of activities for a not-for-profit entity) as part of discontinued operations (see paragraph 205-20-45-3B), the gain or loss recognized in accordance with paragraph 205-20-45-3C. ...
- d. If applicable, the segment(s) in which the discontinued operation is reported under Topic 280 on segment reporting.

Subtopic 205-20 (discontinued operations) states that the results of operations of a component of an entity (or group of components of an entity) should be reported in discontinued operations if the component:

- has been disposed of; or
- is classified as held for sale or is a business or nonprofit activity that on acquisition is classified as held for sale.

A component of an entity may be a reportable segment or an operating segment, a reporting unit, a subsidiary or an asset group. [205-20-15-2, 45-1A – 45-1G]

If an operating segment has been disposed of or is classified as held for sale and meets the criteria to be reported in discontinued operations, the entity is not required to disclose the information required by Topic 280 for that operating segment. However, Subtopic 205-20 requires disclosure of the reportable segment(s) in which the discontinued operation is included when the disposal does not result in the complete disposal of a segment(s) or when it involves disposal of parts of multiple segments, regardless of whether the operation is a component, operating segment or reportable segment. [280-10-55-7, 205-20-50-1]



Question 11.2.10

If an entity recasts comparative periods for a discontinued operation, should it reallocate costs previously allocated to the discontinued operation to other reportable segments?

Interpretive response: Yes. If segment disclosures had been made in comparative periods for a component that qualifies in the current period as discontinued operations under Subtopic 205-20, segment disclosures for that component need not be made in the current year.

However, if a discontinued operation is a reportable segment and the entity elects to recast comparative periods, we believe the recasting should include a reallocation of costs previously allocated to the discontinued operation to the remaining reportable segments. Allocations of costs to discontinued operations are limited to those costs that are directly related to or to be eliminated as a result of the discontinued operation.

Our position related to allocated costs is the same when a reportable segment or component of a reportable segment is required to recast comparative periods – e.g. due to changes in the composition of segments as a result of the discontinued operation (see [chapter 7](#)).



Question 11.2.20

Is the disposal of a reportable segment always reported as discontinued operations?

Interpretive response: No, it depends on the facts and circumstances. A reportable segment is generally described as any operating segment that exceeds 10% of assets, revenue, or profit or loss that is not aggregated with other operating segments under paragraph 280-10-50-11. [\[280-10-50-10\]](#)

Even though a reportable segment could be as little as 10% of an entity's operations (or less if management believes the information is useful to financial statement users), for many entities individual reportable segments are quantitatively significant and comprise a number of operating segments sharing economic characteristics. In many cases, the disposal of a reportable segment will represent a strategic shift that has (or will have) a major effect on the entity's operations resulting from the discontinued operation, but all facts and circumstances in the specific situation should be considered.

In addition, while the disposal of an entire reportable segment may be considered a strategic shift in many cases, strategic shifts can take place with disposals of multiple components within, or across, reportable segments, lines of business or geographic areas. In those cases, we would expect the disposed components to have one or more common attributes to support the analysis that the disposal in its totality represents a strategic shift. If the disposal of an entire reportable segment did not meet the strategic shift test upon disposal, we believe it would not be considered a change that would require recasting prior period segment information.

11.2.20 Goodwill



Excerpt from ASC 350-20

> Information for Each Period for Which a Statement of Financial Position Is Presented

50-1 The changes in the carrying amount of **goodwill** during the period shall be disclosed, showing separately (see Example 3 [paragraph 350-20-55-24]):

- a. The gross amount and accumulated impairment losses at the beginning of the period
- b. Additional goodwill recognized during the period, except goodwill included in a disposal group that, on acquisition, meets the criteria to be classified as held for sale in accordance with paragraph 360-10-45-9
- c. Adjustments resulting from the subsequent recognition of deferred tax assets during the period in accordance with paragraphs 805-740-25-2 through 25-4 and 805-740-45-2
- d. Goodwill included in a disposal group classified as held for sale in accordance with paragraph 360-10-45-9 and goodwill derecognized during the period without having previously been reported in a disposal group classified as held for sale
- e. Impairment losses recognized during the period in accordance with this Subtopic
- f. Net exchange differences arising during the period in accordance with Topic 830
- g. Any other changes in the carrying amounts during the period
- h. The gross amount and accumulated impairment losses at the end of the period.

Entities that report segment information in accordance with Topic 280 shall provide the above information about goodwill in total and for each reportable segment and shall disclose any significant changes in the allocation of goodwill by reportable segment. If any portion of goodwill has not yet been allocated to a reporting unit at the date the financial statements are issued, that unallocated amount and the reasons for not allocating that amount shall be disclosed.

50-1A Entities that have one or more reporting units with zero or negative carrying amounts of net assets shall disclose those reporting units with allocated goodwill and the amount of goodwill allocated to each and in which reportable segment the reporting unit is included.



Excerpt from ASC 350-30

> Disclosures Related to Impairment Losses

50-3 For each impairment loss recognized related to an intangible asset, all of the following information shall be disclosed in the notes to financial statements that include the period in which the impairment loss is recognized:

- a. A description of the impaired intangible asset and the facts and circumstances leading to the impairment

- b. The amount of the impairment loss and the method for determining fair value
- c. The caption in the income statement or the statement of activities in which the impairment loss is aggregated
- d. If applicable, the segment in which the impaired intangible asset is reported under Topic 280.

The interaction of Topic 280 with Topic 350 (goodwill and other intangibles) relates to disclosures and goodwill impairment testing.

Disclosures

Topic 350 requires an entity to provide information about goodwill and intangibles for each reportable segment, and any changes that have occurred related to allocations to the reportable segments. [350-20-50-1, 50-3]

To the extent an entity has any reporting units with zero or negative carrying amounts of net assets, disclosure of the amount of goodwill allocated to each of those reporting units and the reportable segments to which they relate is required. [350-20-50-1A]

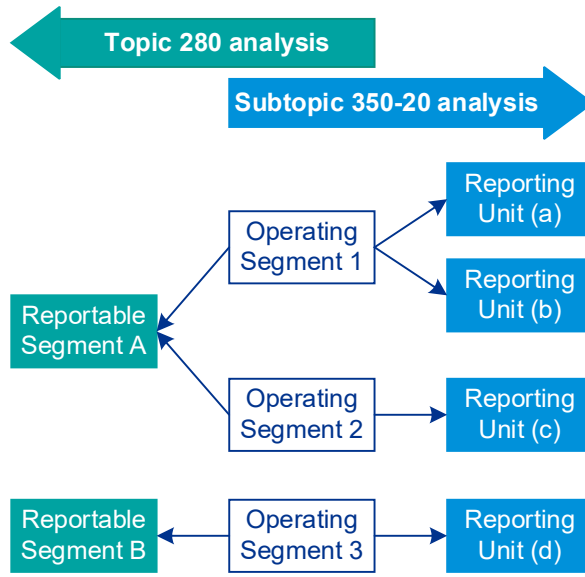
If a company has an impairment loss, the related reportable segment to which it relates is also disclosed. [350-30-50-3(d)]

Impairment testing

Topic 350 requires goodwill to be assessed for impairment at the reporting unit level, which is defined as an operating segment, or one level below an operating segment. Therefore, changes in the identification of operating segments (see [chapter 4](#)) may have a direct impact on the overall goodwill impairment test because the reporting unit structure may be affected in a way that requires goodwill to be reallocated to the new reporting units and tested for impairment. [350-20-35-45]

Even though nonpublic entities are not required to report segment information under Topic 280, if they are not amortizing goodwill, they are required to test it for impairment at the reporting unit level, which uses the guidance in Topic 280 to identify and aggregate operating segments (see [chapter 4](#)). [350-20-15-4, 35-65]

The following diagram illustrates the relationship between reporting units, operating segments and reportable segments. The concepts can be confusing because reporting units and reportable segments both use operating segments as the starting point for analysis.



For more guidance on goodwill impairment testing, see KPMG Handbook, [Impairment of nonfinancial assets](#).



Question 11.2.30

Are reporting units always the same as operating segments?

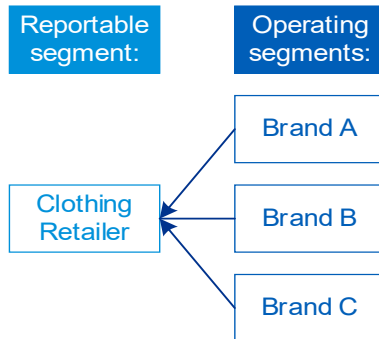
Interpretive response: No. Subtopic 350-20 defines a reporting unit as an operating segment or one level below an operating segment (a 'component'). A component of an operating segment is a reporting unit if the component constitutes a business for which discrete financial information is available and segment management regularly reviews the operating results of that component. However, it would not meet the criteria to be an operating segment if the operating results are not regularly reviewed by the CODM to assess segment performance and make decisions about resource allocation. [\[350-20 Glossary, 350-20-35-34\]](#)

Nevertheless, two or more components of an operating segment should be aggregated and deemed a single reporting unit if the components have similar economic characteristics based on the criteria in paragraph 280-10-50-11, and considering additional factors in paragraph 350-20-55-7 (see section 3.4 of KPMG Handbook, [Impairment of nonfinancial assets](#)). Therefore, although a reporting unit may be an operating segment in some instances, it is not appropriate to always assume that an entity's operating segments are also the reporting units. Additionally, a reporting unit would not be more than one level below the operating segment. [\[350-20 Glossary, 350-20-35-35\]](#)



Example 11.2.10 Identifying reporting units

Retailer has identified three operating segments under Topic 280: Brands A, B and C. Retailer aggregates these operating segments into one reportable segment because they meet the aggregation criteria in paragraph 280-10-50-11 (see [section 4.4](#)).



Reporting units under Topic 350

To identify its reporting units under Subtopic 350-20, Retailer begins with its operating segments and evaluates whether there are reporting units one level below the operating segment level. It does this by identifying components of each operating segment, if any, based on the information that the segment manager reviews (versus the CODM information for Topic 280). If two or more components are determined to have similar economic characteristics based on the criteria in paragraph 280-10-50-11, and considering factors in paragraph 350-20-55-7, those components may be aggregated into one reporting unit.

Within the operating segments, each component in the following discussion meets the definition of a business under Topic 805 and has discrete financial information, which is regularly reviewed by the segment manager (see sections 3.4.20 and 3.4.30 of KPMG Handbook, [Impairment of nonfinancial assets](#)).

Brand A: Men's clothing, Women's clothing, Cosmetics

Retailer concludes that the Men's and Women's divisions are economically similar and therefore aggregates them into one reporting unit, while the Cosmetics division is a separate reporting unit. This conclusion is based on the following reasons.

- The Men's and Women's divisions share production facilities, use similar production processes and share employees. The distribution channels for the two divisions are the same because the two lines of clothing are carried in the same stores.
- The Cosmetics division operates from separate facilities because the products are very different from the other two divisions, with very different gross margins.
- There is some similarity in the distribution channels between the Cosmetics division and the Men's and Women's divisions, but the Cosmetics products also are distributed to stores that do not carry clothing.

Brand B: Women's sportswear, Women's dresses

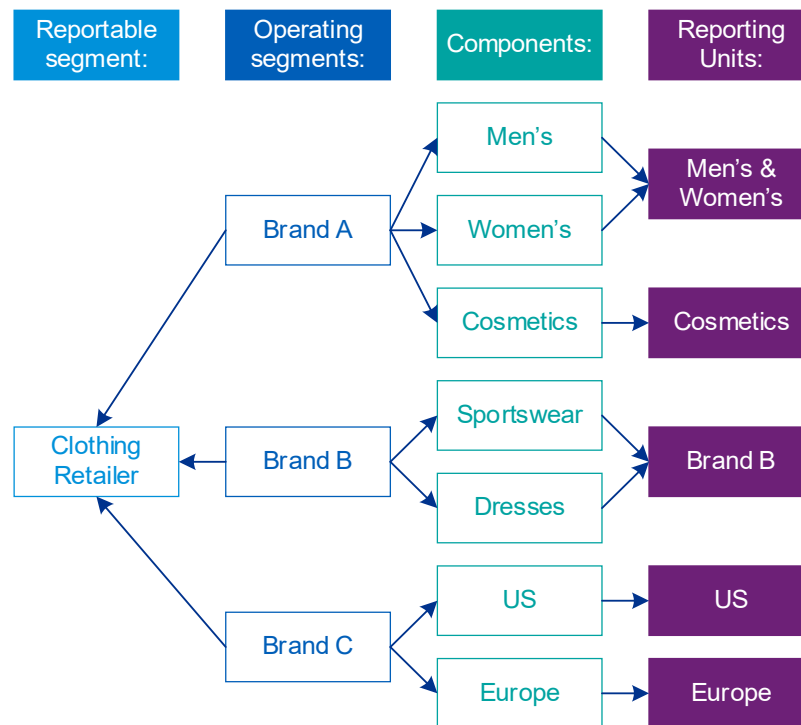
Retailer concludes that the two divisions are economically similar and therefore aggregates them into one reporting unit. This conclusion is reached because the operations of the two divisions are highly integrated and have similar economic characteristics.

Brand C: United States, Europe

Retailer concludes that the two geographic areas are not economically similar and therefore does not aggregate them into one reporting unit. This conclusion is reached because the businesses are operated differently in the two regions, goodwill is recoverable from each component acting separately, and assets and other resources are not shared. Although the components benefit from the same R&D projects, this factor does not outweigh the other considerations.

Conclusion

As a result of its analysis, Retailer has five reporting units.

**11.2.30 Property, plant and equipment****Excerpt from ASC 360-10**

> Impairment of Long-Lived Assets Classified as Held and Used

50-2 All of the following information shall be disclosed in the notes to financial statements that include the period in which an **impairment** loss is recognized: ...

d. If applicable, the segment in which the impaired long-lived asset (asset group) is reported under Topic 280.

> Long-Lived Assets Classified as Held for Sale or Disposed Of

50-3 For any period in which a long-lived asset (**disposal group**) either has been disposed of or is classified as held for sale (see paragraph 360-10-45-9), an entity shall disclose all of the following in the notes to financial statements: ...

f. If applicable, the segment in which the long-lived asset (disposal group) is reported under Topic 280 on segment reporting.

Subtopic 360-10 (property, plant and equipment) requires an entity to disclose the reportable segments to which an impairment or disposal of an asset or asset group relates. [\[360-10-50-2\(d\), 50-3\(f\)\]](#)

11.2.40 Exit and disposal costs obligations



Excerpt from ASC 420-10

50-1 All of the following information shall be disclosed in notes to financial statements that include the period in which an exit or disposal activity is initiated and any subsequent period until the activity is completed: ...

d. For each reportable segment, as defined in Subtopic 280-10, the total amount of costs expected to be incurred in connection with the activity, the amount incurred in the period, and the cumulative amount incurred to date, net of any adjustments to the liability with an explanation of the reason(s) why.

Topic 420 (exit and disposal cost obligations) requires disclosure of:

- the total amount of costs expected to be incurred in connection with an exit or disposal activity;
- the costs incurred in the period; and
- the cumulative-to-date costs incurred for each reportable segment.

These disclosures are required in all periods starting from initiation of the plan to its completion. Additionally, when these costs include a variety of different costs in the scope of Topic 420 (e.g. termination benefits, lease terminations, inventory disposals), we recommend that the disclosure break out these costs by the different types. [\[420-10-50-1\(d\)\]](#)

11.2.50 Revenue from contracts with customers



Excerpt from ASC 606-10

> Disaggregation of Revenue

50-5 An entity shall disaggregate **revenue** recognized from **contracts** with **customers** into categories that depict how the nature, amount, timing, and uncertainty of revenue and cash flows are affected by economic factors. An entity shall apply the guidance in paragraphs 606-10-55-89 through 55-91 when selecting the categories to use to disaggregate revenue.

50-6 In addition, an entity shall disclose sufficient information to enable users of financial statements to understand the relationship between the disclosure of disaggregated revenue (in accordance with paragraph 606-10-50-5) and revenue information that is disclosed for each reportable segment, if the entity applies Topic 280 on segment reporting.

Topic 606 (revenue) requires an entity to disclose revenue disaggregated into meaningful categories that depict the nature, amount, timing and uncertainty of revenue and cash flows affected by economic factors. This disaggregation may be similar to the entity-wide disclosures of products and services required by Topic 280 and the principles-based products and services disclosures required by S-K Item 101 if material to the understanding of an entity's business, depending on the entity's specific facts and circumstances (see [sections 8.3](#) and [9.3](#)).

The entity is required to disclose sufficient information to help understand the relationship between the disclosure of disaggregated revenue and revenue information disclosed for each reportable segment. See section 15.4 of KPMG Handbook, [Revenue recognition](#), for additional discussion. [\[606-10-50-5 – 50-6\]](#)



Question 11.2.40

Can an entity assume that its segmental disclosures will meet the disaggregation requirements of Topic 606?

Interpretive response: No. The objective of providing segment information under Topic 280 is different from the objective for the disaggregation disclosure in Topic 606. Therefore, segment disclosure may not always provide financial statement users with enough information to help them understand the composition of revenue recognized in the period. [\[ASU 2014-09.BC340\]](#)

Specifically, an entity may be required to disclose certain revenue streams below the segment level to satisfy the disclosure objective in Topic 606. For example, an entity's CODM might regularly review a single report by geographic region that combines the financial information about economically dissimilar businesses – i.e. these businesses form one operating segment.

However, if segment management makes performance or resource allocation decisions within the segment based on information that is further

disaggregated or the dissimilarity of those revenue streams is not otherwise apparent, then those economically dissimilar businesses could include revenue that would meet the requirements for disaggregation disclosure under Topic 606. [\[606-10-55-89\]](#)

Nevertheless, if management concludes that the disaggregation level is the same for both Topic 606 and segment revenue under Topic 280, and the revenue disclosures are based on the recognition and measurement guidance in Topic 606, then the segment disclosure does not need to be repeated in the revenue footnote.

This would also apply to the entity-wide disclosures required by Topic 280. As a result, an entity would usually consider holistically the information communicated about revenue, including segment and enterprise-wide disclosures, earnings releases and analyst calls, information on the website, description of the business pursuant to S-K, etc., when identifying the revenue streams included in the disaggregation of revenue disclosure. [\[606-10-55-90, ASU 2014-09.BC340\]](#)



Question 11.2.50

Are the entity-wide disclosures required by Topic 280 sufficient when disclosing revenue by geography under Topic 606?

Interpretive response: Not necessarily. Topic 280 requires a public entity to report revenues from external customers attributed to the entity's country of domicile and to all foreign countries in total. If revenues from an individual foreign country are material, those revenues are disclosed separately. [\[280-10-50-41\(a\)\]](#)

The objective of the disaggregated revenue disclosure is to depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. Therefore, the geographic revenue information disclosed to satisfy the entity-wide disclosure requirement in Topic 280 may not be sufficient to meet the objective and requirements under Topic 606. [\[606-10-50-5, ASU 2014-09.BC340\]](#)

For example, an entity may currently disclose its foreign revenues in total under Topic 280 because no individual foreign country revenues are material. Assume that the EU imposes regulations (or is considering significant regulations) that affect the uncertainty of revenue and cash flows for the entity's business in that region. In that case, the revenue from the EU could represent revenue that would meet the requirements for disaggregation disclosure under Topic 606 based on a qualitative assessment even though no individual country in the EU is determined to be material under Topic 280.



Question 11.2.60

How does an entity disclose differences between the disaggregated revenue disclosure and its segment disclosure?

Interpretive response: It depends. Topic 606 requires an entity to disclose the relationship between the disaggregated revenue and the entity's segment disclosure. Example 41 of Topic 606, reproduced below, illustrates such a reconciliation in a tabular format. However, a tabular presentation is not required and an entity may opt to use a narrative format to disclose the relationship between the disaggregated revenue and the entity's segment disclosure. Some entities may describe this relationship in the revenue footnote, while others may include it in the segment footnote. This disclosure requirement is designed to provide information that enables financial statement users to understand not only the composition of revenue but also how revenue relates to other information provided in the segment disclosure. [606-10-50-6, ASU 2014-09.BC338]



Excerpt from ASC 606-10

• • > Example 41: Disaggregation of Revenue—Quantitative Disclosure

55-296 An entity reports the following segments: consumer products, transportation, and energy, in accordance with Topic 280 on segment reporting. When the entity prepares its investor presentations, it disaggregates revenue into primary geographical markets, major product lines, and timing of revenue recognition (that is, goods transferred at a point in time or services transferred over time).

55-297 The entity determines that the categories used in the investor presentations can be used to meet the objective of the disaggregation disclosure requirement in paragraph 606-10-50-5, which is to disaggregate revenue from contracts with customers into categories that depict how the nature, amount, timing, and uncertainty of revenue and cash flows are affected by economic factors. The following table illustrates the disaggregation disclosure by primary geographical market, major product line, and timing of revenue recognition, including a reconciliation of how the disaggregated revenue ties in with the consumer products, transportation, and energy segments in accordance with paragraphs 606-10-50-6.

Segments	Consumer Products	Transportation	Energy	Total
<u>Primary Geographical Markets</u>	\$ 990	\$ 2,250	\$ 5,250	\$ 8,490
North America	300	750	1,000	2,050
Europe	700	260	-	960
Asia	\$ 1,990	\$ 3,260	\$ 6,250	\$ 11,500
<u>Major Goods/Service Lines</u>				
Office supplied	\$ 600	-	-	\$ 600
Appliances	990	-	-	990
Clothing	400	-	-	400

Motorcycles	-	500	-	500
Automobiles	-	2,760	-	2,760
Solar panels	-	-	1,000	1,000
Power plant	-	-	5,250	5,250
	\$ 1,990	\$ 3,260	\$ 6,250	\$ 11,500
<u>Timing of Revenue Recognition</u>				
Goods transferred at a point in time	\$ 1,990	\$ 3,260	\$ 1,000	\$ 6,250
Services transferred over time	-	-	5,250	5,250
	\$ 1,990	\$ 3,260	\$ 6,250	\$ 11,500

11.2.60 Business combinations



Excerpt from ASC 805-30

> Business Combinations Occurring during a Current Reporting Period or after the Reporting Date but before the Financial Statements Are Issued

50-1 Paragraph 805-10-50-1 identifies one of the objectives of disclosures about a **business combination**. To meet that objective, the **acquirer** shall disclose all of the following information for each business combination that occurs during the reporting period: ...

- e. If the acquirer is required to disclose segment information in accordance with Subtopic 280-10, the amount of goodwill by reportable segment. If the assignment of goodwill to reporting units required by paragraphs 350-20-35-41 through 35-44 has not been completed as of the date the financial statements are issued or are available to be issued (as discussed in Section 855-10-25), the acquirer shall disclose that fact.

Topic 805 (business combinations) requires the disclosure of the amount of goodwill by reportable segment. To the extent that the assignment of goodwill to reporting units as part of a business combination has not been completed as of the date the financial statements are issued or available to be issued, the acquirer should disclose this information. See section 13 of KPMG Handbook, [Business combinations](#), for additional discussion. [\[805-30-50-1\(e\)\]](#)

11.3 Industry guidance

Topic 280 also includes certain industry guidance summarized in the following table.

Industry	Reference	Segment matters addressed by Subtopic
Entertainment – casinos	Subtopic 924-280	Specific guidance for a nonpublic business entity with a casino property that also includes a hotel, restaurant and parking garage.

11. Interaction with other Topics and industry guidance

Industry	Reference	Segment matters addressed by Subtopic
Extractive activities – oil and gas	Subtopic 932-280	Industry-specific segment disclosure requirements for the oil and gas industry (see paragraphs 932-235-50-22 to 50-23).
Healthcare	Subtopic 954-280	Specific guidance for healthcare entities providing information about major customers under paragraph 280-10-50-42.

Topic 280 glossary



Excerpt from ASC 280-10

20 Glossary

Conduit Debt Securities – Certain limited-obligation revenue bonds, certificates of participation, or similar debt instruments issued by a state or local governmental entity for the express purpose of providing financing for a specific third party (the conduit bond obligor) that is not a part of the state or local government's financial reporting entity. Although conduit debt securities bear the name of the governmental entity that issues them, the governmental entity often has no obligation for such debt beyond the resources provided by a lease or loan agreement with the third party on whose behalf the securities are issued. Further, the conduit bond obligor is responsible for any future financial reporting requirements

Operating Segment – A component of a public entity. See Section 280-10-50 for additional guidance on the definition of an operating segment.

Public entity – A business entity or a not-for-profit entity that meets any of the following conditions:

- a. It has issued debt or equity securities or is a conduit bond obligor for **conduit debt securities** that are traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local or regional markets).
- b. It is required to file financial statements with the Securities and Exchange Commission (SEC).
- c. It provides financial statements for the purpose of issuing any class of securities in a public market.

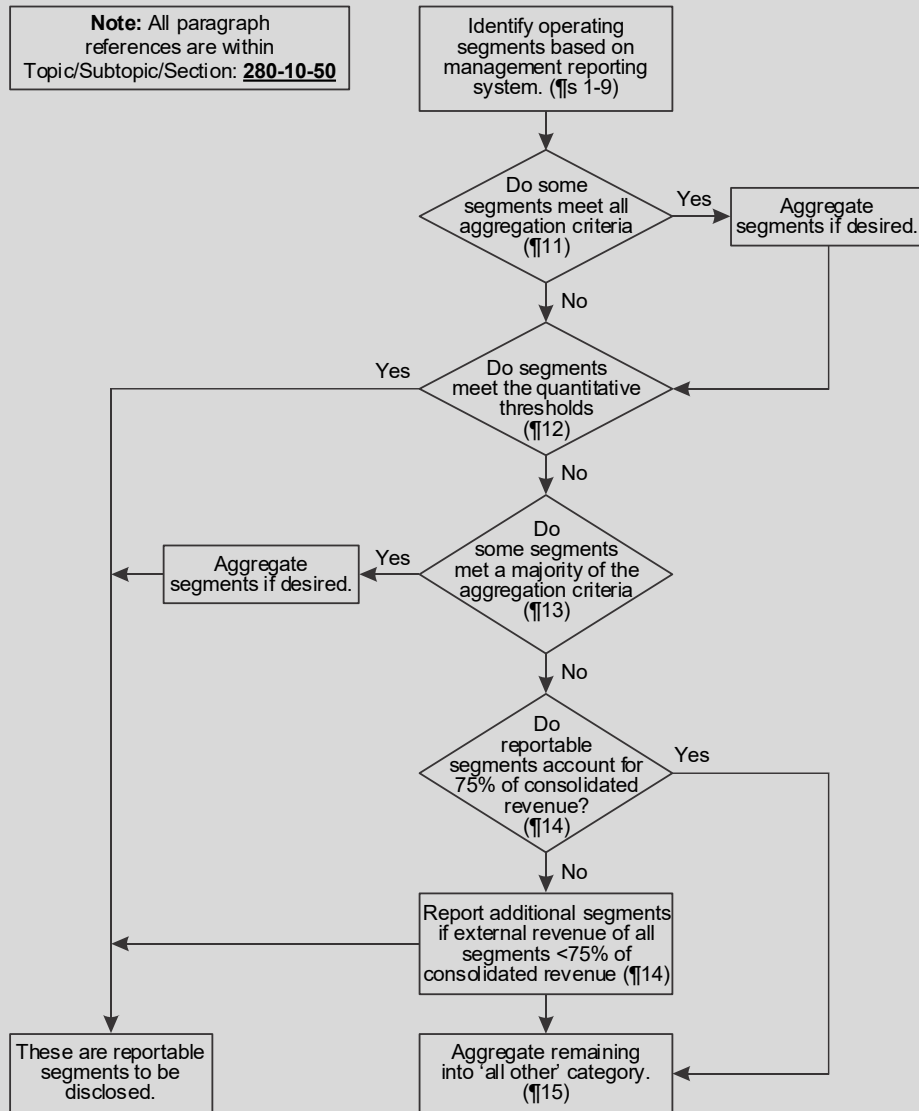
Select Topic 280 illustrations



Excerpt from ASC 280-10

• > Diagram for Identifying Reportable Operating Segments

55-26 The following diagram illustrates how to apply the main provisions for identifying reportable operating segments as defined in this Subtopic. The diagram is a visual supplement to the written standards section. It should not be interpreted to alter any requirements of this Subtopic nor should it be considered a substitute for the requirements.

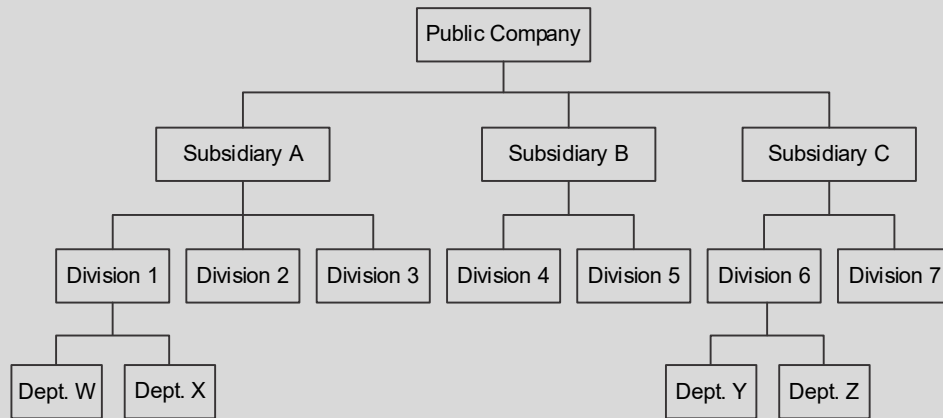




Excerpt from ASC 280-10

- > Example 1: Subsidiary of a Public Entity Has Public Debt and Separate Financial Statements Have Reportable Segments

55-27 Assume that an entity is organized as follows.



55-28 This Example discusses the determination of reportable segments (see paragraph 280-10-50-10) by a public entity when one of its subsidiaries is itself a public entity and includes segment information in its separate financial statements.

55-29 Subsidiary C is itself a public entity because it has public debt outstanding. The segment information for the separate financial statements of Subsidiary C discloses three reportable segments (Dept. Y, Dept. Z, and Division 7).

55-30 In this situation it should not be automatically assumed that the reportable segments of Subsidiary C are also reportable segments within the consolidated financial statements of Public Company. Determining the number of operating segments of a public entity depends on the specific facts and circumstances and should be separately evaluated for each public entity that is required to apply this Subtopic.

- > Example 2: Identifying Reportable Segments

55-31 Assume that an entity has identified six operating segments prior to applying the aggregation criteria. The revenue from external customers (there are no intersegment transactions) for each of the six segments is as follows.

	Revenue
Segment A	\$ 6
Segment B	38
Segment C	4
Segment D	35
Segment E	9
Segment F	8
Consolidated external revenues	\$ 100

55-32 The following Cases illustrate the application of the aggregation (Cases A and B) and quantitative threshold (Cases C, D, and E) criteria for identifying reportable segments.

• • > Case A: Aggregation if Only a Majority of the Aggregation Criteria Is Met

55-33 Segment E is below the 10 percent threshold while Segment D is above the 10 percent threshold. Assume that only a majority of the aggregation criteria is met.

55-34 The aggregation criteria in paragraph 280-10-50-11 (which requires all of the specified criteria to be met) permit aggregation of identified operating segments prior to an evaluation of the significance of the identified operating segments to determine which are reportable. In other words, segments are first identified, then identified segments may be aggregated, if management so chooses, and if the aggregation criteria in that paragraph are met (at this stage all of the specified criteria must be met to be able to aggregate the identified operating segments). Next, an evaluation of the significance of the identified operating segments is performed to determine which are reportable. An operating segment is considered reportable if it meets any one of the threshold criteria. After reportable segments are identified based on the threshold criteria, paragraph 280-10-50-13 permits a public entity to aggregate segments that do not meet the quantitative thresholds (at this stage only a majority of the specified criteria must be met). Therefore, if an operating segment is not a reportable segment because it does not meet any of the 10 percent threshold criteria in paragraph 280-10-50-12 and does not meet all of the aggregation criteria in paragraph 280-10-50-11 with another segment that does meet at least one of the 10 percent threshold criteria, it can only be aggregated with segments that do not meet the 10 percent threshold criteria if a majority of the aggregation criteria are met. In this Case, when only a majority of the criteria is met, Segment E could be aggregated with one or more of Segments A, C, or F but could not be aggregated with Segments B or D. When all of the criteria are met, any segments may be aggregated.

• • > Case B: Economic Performance Measures Differ from the Prior Year

55-35 Assume that Segments A and B meet all of the five criteria for aggregation and have similar economic characteristics; however, this year certain economic performance measures differ. For example, gross margins differ slightly and sales of the segments, which typically move in tandem, trended slightly differently the current year. Those differences were due to inventory problems caused by the entity's suppliers, and it is expected that the margins and sales trends of Segments A and B will again be similar next year.

55-36 Even though economic performance measures differ, under this fact pattern Segment A may be aggregated with Segment B for current-year segment disclosures. Paragraph 280-10-50-11 states that operating segments are considered to be similar if they can be expected to have essentially the same future prospects. Paragraph 280-10-55-7A explains that the similarity of the economic characteristics should be evaluated based on future prospects and not necessarily on the current indicators only.

55-37 Paragraph Not Used

55-38 Paragraph Not Used

• • > Case C: The Chief Operating Decision Maker Uses Different Measures of Segment Profit or Loss for Each Segment

55-39 The intent of the threshold criterion of paragraph 280-10-50-12(b) is to require an evaluation of the magnitude of each segment profit or loss compared with a combined reported profit and loss of all operating segments, assuming profit or loss is determined on a consistent basis. That combined measure of all segment profits and losses should approximate (absent any reconciling items) the consolidated amount.

55-40 In the event that segments are evaluated based on different measures of segment profit or loss, the threshold criterion of paragraph 280-10-50-12(b) should be applied to a consistent measure of segment profit or loss that is determined for internal reporting purposes for each segment, whether or not that measure is consistently used by the chief operating decision maker for purposes of evaluating segment performance. For example, assume that the measure of segment profit or loss used by the chief operating decision maker is a different measure for each segment (for example, if the chief operating decision maker uses net income for purposes of evaluating the performance of Segments A and F but uses operating income for purposes of evaluating the performance of Segments B, C, D, and E). In this Case, the 10 percent of segment profit thresholds should be based on either operating income or net income of the segments. This would not affect the requirement in paragraph 280-10-50-22 to disclose the actual measure of segment profit or loss that is used by the chief operating decision maker for purposes of evaluating each reportable segment (that is, the amounts reported for segment profit or loss would be net income for Segments A and F and operating income for Segments B, C, D, and E) if the public entity discloses only one measure of a segment's profit or loss. This also would not affect the requirement in paragraph 280-10-50-28A if the public entity discloses more than one measure of a segment's profit or loss.

• • > Case D: Segments Identified as Reportable Segments Constitute Less than 75 Percent of Consolidated Revenues

55-41 Because total external revenues of the segments identified as reportable in paragraph 280-10-55-31 only constitute 73 percent of consolidated external revenues (38 percent + 35 percent), an additional segment must be identified for reporting. Segment E is the next largest segment by percentage of external revenues. However, it is not necessarily required to be identified as a reportable segment in order to meet the 75 percent revenue test.

55-42 Paragraph 280-10-50-14 states that additional operating segments need to be identified as reportable segments (even if they do not meet the criteria in paragraph 280-10-50-12) until at least 75 percent of total consolidated revenue is included in reportable segments. Although in many instances it may be most logical that the next largest segment (in terms of revenues) be identified, paragraph 280-10-50-14 does not require that the additional segment or segments identified to satisfy this requirement be the next largest by any parameter. Therefore, in this Case, Segment A, C, E, or F may be identified as a reportable segment.

• • > Case E: Determining Reportable Segments After First Level of Aggregation

55-43 Assume that operating income (loss) of each of the six segments is as follows.

	Operating Income (Loss)
Segment A	\$ 1
Segment B	(5)
Segment C	2
Segment D	9
Segment E	9
Segment F	(1)
Consolidated income	\$ 15

Assume that based on the above information (and an evaluation of revenues and assets) Segments A and C do not meet any of the quantitative threshold criteria. The public entity chooses to apply the aggregation criteria of paragraph 280-10-50-11. Segments B and E meet all of the aggregation criteria and the public entity aggregates them into a single operating segment. When the quantitative thresholds are then evaluated, Segment C (which previously did not meet any of the quantitative thresholds) now meets the 10 percent of segment profit or loss criterion.

55-44 Threshold calculations based on the above assumptions are as follows.

	Prior to Aggregation	Subsequent to Aggregation
Combined reported profits	21.0	16.0
Combined reported losses	(6.0)	(1.0)
Greater absolute amount	21.0	16.0
10 percent threshold	2.1	1.6

55-45 Segment C, which previously did not meet the quantitative thresholds but subsequent to the first level of aggregation meets one of the quantitative thresholds, would be considered a reportable segment. This Subtopic provides the order of the steps that should be performed for purposes of identifying reportable segments. That process is also diagrammed in paragraph 280-10-55-26 and further explained in Example 2, Case A (see paragraphs 280-10-55-33 through 55-34). This Subtopic requires that segments first be identified; then identified segments may be aggregated into a single segment; and then identified segments (as revised for aggregation, if applicable) are measured against the quantitative thresholds to determine if they are reportable. The fact that one segment did not meet the quantitative thresholds prior to the aggregation of other segments, in accordance with paragraph 280-10-50-11, does not preclude it from being considered a reportable segment subsequent to that aggregation.

Index of changes

This index lists the significant additions and changes made in this edition to assist you in locating recently added or updated content. New sections, Questions and Examples added in this edition are identified throughout the Handbook with ** and those items that have been significantly updated or revised are identified with #.

2. Scope

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- 2.2.40 Does Topic 280 apply to the financial statements filed to comply with S-X Rule 3-05 or S-X Rule 3-14, or as target-entity financial statements on Form S-4? #
- 2.2.60 Does Topic 280 apply to employee benefit plans (EBPs) that file with the SEC on Form 11-K? **
- 2.2.70 Does Topic 280 apply to investment companies that are required to file financial statements with the SEC? **

4. Identify and aggregate operating segments

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- 4.4.05 What are the criteria for aggregating operating segments? #
- 4.4.60 How should the economic similarity criterion be applied? #
- 4.4.85 Is the evaluation of qualitative characteristics satisfied by purely qualitative analysis? **
- 4.4.90 How does an entity assess whether products and services are similar in nature? #
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6. Segment disclosure requirements

- 6.7 Discontinued operations #

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- 6.4.10 How is the term 'regularly provided' interpreted? #
- 6.4.15 May the required measure of segment profit or loss be prepared on a non-GAAP basis? **
- 6.4.20 What is the required measure when the CODM uses multiple segment profit or loss measures? #
- 6.4.30 What are the circumstances under which additional segment profit or loss measures may be disclosed? #

- 6.4.32 Do allocable costs affect whether additional measures of profit or loss are non-GAAP? **
- 6.4.35 How does an entity comply with SEC regulations when disclosing an additional non-GAAP segment profit or loss measure? **
- 6.4.40 What segment profit or loss measure(s) does a single reportable segment entity disclose? #
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- 6.4.52 Is a single reportable segment entity required to disclose the same significant expenses that are presented in its income statement? **
- 6.4.55 How is the expense information provided in supplemental financial and regulatory reports assessed under the significant expense principle? **
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- 7.2.15 What might trigger a change in the identification of significant segment expenses? #
- 7.2.20 Can annual segment disclosures be based on a new organizational structure to be implemented after the balance sheet date but before the financial statements are issued? #

8. Entity-wide information

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- 8.4.30 If operations of a particular country in a multi-country geographic area are material, can the geographic disclosures be based on the geographic *area*? #

9. SEC filings: US companies

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- 9.5.30 What guidelines apply to non-GAAP segment information presented in MD&A? **
- 9.6.45 Do financial statements included in an exempt offering also require revision to reflect a change in segments? **

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