



IFRS Adviser Alert

Insights into IFRS 8 *Operating Segments*

January 2023

Executive summary

The Grant Thornton International IFRS team has issued the final two publications in the *Insights into IFRS 8* series:

- *Disclosures for annual financial statements;*
- *Disclosures for interim financial statements.*

For entities that operate in a variety of types of businesses, geographical locations, regulatory or economic environments or markets, high quality management accounts are essential. They enable management to monitor performance, allocate resources and devise business and market strategies. IFRS 8 *Operating Segments* requires much of this management information for publicly listed entities to be published externally, so that investors, analysts and other users of the entities' financial statements can review an entity's operations from the same perspective as management.

The *Insights into IFRS 8* series considers key implementation issues, provides interpretational guidance in certain problem areas and includes several examples illustrating the standard's requirements.

The final two publications in the *Insights into IFRS 8* series are on the following topics:

- *Disclosures for annual financial statements;*
- *Disclosures for interim financial statements.*

Resources

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Insights into IFRS 8

IFRS 8 disclosures for annual financial statements

Segmental information is a way of increasing transparency in financial statements prepared for investors and creditors, especially for areas of the business that are significant and drive the entity's overall business strategy. IFRS 8 'Operating Segments' requires this information that is provided to management to be disclosed in the annual financial statements, so that investors and other users of entities' financial statements can review an entity's operations from the same perspective.

Our 'Insights into IFRS 8' series is designed to illustrate how IFRS 8 should be applied and it provides guidance and insight in some problematic areas. We also include several examples illustrating the Standard's requirements. This article sets out example disclosures of segment information.

Included in this article are illustrative disclosures under IFRS 8 for a fictional entity Illustrative Corporation Ltd and its subsidiaries ('the Group') – a fictional consulting, service and retail entity that has been preparing IFRS consolidated financial statements for several years.

IFRS 8 requires each operating segment item to be disclosed using the same measures reported to the chief operating decision maker (ie based on internal management information).

The illustrative disclosures in this article are based on a fictitious entity described above, and so cannot be viewed as the only acceptable way of providing segment disclosures. It is therefore important to emphasise that segment reporting should always be tailored on the basis of the entity's internal management reporting and it should always be aligned with the core disclosure objectives of the Standard.



An illustrative IFRS 8 accounting policy for segment reporting

- IFRS 8.22(a)-(b) The Group has three operating segments: consulting, service and retail. In identifying these operating segments, management follows the Group's service lines representing its main products and services.
- IFRS 8.27(a) Each of these operating segments is managed separately as each requires different technologies, marketing approaches and other resources. Each operating segment has a divisional manager who is directly accountable to the Group's Chief Executive who has been identified as the Group's chief operating decision maker (CODM). The divisional managers are held responsible for the results of the whole division rather than for each entity in the division. All inter-segment transfers are carried out at arm's length prices based on prices charged to unrelated customers in stand-alone sales of identical goods or services.
- IFRS 8.27(b)-(d) For management purposes, the Group uses the same measurement policies as those used in its financial statements, except for certain items not included in determining the operating profit of the operating segments, as follows:
- post-employment benefit expenses
 - share-based payment expenses
 - research costs relating to new business activities
 - revenue, costs and fair value gains from investment property.
- In addition, corporate assets which are not directly attributable to the business activities of any operating segment are not allocated to a segment. This primarily applies to the Group's headquarters and the Illustrative Research Lab in Greatville.

An illustrative IFRS 8 segment reporting note

- IFRS 8.22(a) Management currently identifies the Group's three service lines as its operating segments (see Note 1). The Group's Chief Operating Decision Maker (CODM) is its chief executive and she monitors the performance of these operating segments as well as deciding on the allocation of resources to them based on divisional level financial reports regularly provided by the relevant division's manager. Segmental performance is monitored using adjusted segment operating results.
- IFRS 8.16 In addition, two minor operating segments are combined below under other segments. The main sources of revenue for this segment is the sale and disposal of used IT equipment that the Group collects from its customers.

Segment information for the reporting period is as follows:

		For the year ended 31 December 20X3				
		Consulting	Service	Retail	Other	Total
		Revenue				
IFRS 8.23(a)	From external customers	110,810	18,140	72,098	3,679	204,727
	Discontinued operations	-	-	9,803	-	9,803
IFRS 8.23(b)	From other segments	231	-	-	-	231
		111,041	18,140	81,901	3,679	214,761
		Segment revenues				
	Changes in inventories	(4,794)	-	(3,129)	-	(7,923)
IFRS 8.23(f)	Costs of materials	(17,368)	(5,442)	(22,040)	(1,398)	(46,248)
IFRS 8.23(f)	Employee benefits expense	(58,164)	(9,694)	(43,799)	(2,154)	(113,811)
IFRS 8.23(e)	Depreciation and amortisation of non-financial assets	(3,922)	(1,104)	(3,273)	(125)	(8,424)
IAS 36.129(a)	Impairment of non-financial assets	(1,669)	-	-	-	(1,669)
IFRS 8.23(f)	Other expenses	(5,911)	(30)	(1,333)	(10)	(7,284)
IFRS 8.23	Segment operating profit	19,213	1,870	8,327	(8)	29,402
IFRS 8.23	Segment assets	75,057	18,326	56,107	2,521	152,011
IFRS 8.23	Segment liabilities	32,494	16,316	28,673	1,185	78,668
		For the year ended 31 December 20X2				
		Consulting	Service	Retail	Other	Total
		Revenue				
IFRS 8.23(a)	From external customers	109,302	17,832	59,310	3,756	190,200
	Discontinued operations	-	-	11,015	-	11,015
IFRS 8.23(b)	From other segments	110	-	-	-	110
		109,412	17,832	70,325	3,756	201,325
		Segment revenues				
	Changes in inventories	(4,123)	-	(2,692)	-	(6,815)
IFRS 8.23(f)	Costs of materials	(17,737)	(5,350)	(18,734)	(1,315)	(43,136)
IFRS 8.23(f)	Employee benefits expense	(58,487)	(9,542)	(38,148)	(2,010)	(108,187)
IFRS 8.23(e)	Depreciation and amortisation of non-financial assets	(3,578)	(596)	(3,084)	(133)	(7,391)
IAS 36.129(a)	Impairment of non-financial assets	(190)	-	-	-	(190)
IFRS 8.23(f)	Other expenses	(9,213)	(100)	(1,761)	(20)	(11,094)
IFRS 8.23	Segment operating profit	16,084	2,244	5,906	278	24,512
IFRS 8.23	Segment assets	58,097	15,100	48,442	1,911	123,550
IFRS 8.23	Segment liabilities	29,763	14,994	29,110	1,095	74,962

The Group's non-current assets (other than financial instruments, investments accounted for using the equity method, deferred tax assets and post-employment benefit assets) are located into the following geographic regions:

IFRS 8.33(a) IFRS 8.33(b)	31 December 20X3	31 December 20X2
Euroland (domicile)	45,991	40,170
United Kingdom	5,749	5,021
USA	5,174	4,519
Other countries	575	502
Total	57,489	50,212

IFRS 8.33(a) Non-current assets are allocated based on their physical location. The above table does not include discontinued operations (disposal groups), for which revenue and assets can be attributed to Euroland.

Revenues from external customers in the Group's domicile, Euroland, as well as its major markets, the United Kingdom and the USA, have been identified on the basis of the customer's geographical location and are disclosed in Note 8.

IFRS 8.34 During 20X3, CU 24,744 or 12% (20X2: CU 21,076 or 11%) of the Group's revenues depended on a single customer in the consulting segment.

The totals presented for the Group's operating segments reconcile to the key financial figures as presented in its consolidated financial statements as follows:

IFRS 8.28(a)	20X3	20X2
Revenues		
Total reportable segment revenues	211,082	197,569
Other segment revenues	3,679	3,756
Discontinued operations	(9,803)	(11,015)
Elimination of intersegment revenues	(231)	(110)
	204,727	190,200
Rental income from investment property	1,066	1,028
Group revenues	205,793	191,228
Profit or loss		
Total reportable segment operating profit	29,410	25,637
Other segment profit	(8)	278
Rental income from investment property	1,066	1,028
Change in fair value of investment property	310	175
Share-based payment expenses	(298)	(466)
Post-employment benefit expenses	(5,799)	(7,273)
Research and development costs	(1,690)	(1,015)
Other income not allocated	676	341
Other expenses not allocated	(304)	(263)
Operating profit of discontinued operations	(73)	(106)
Elimination of intersegment profits	(58)	(27)
Group operating profit	23,232	18,309
Share of profits from equity accounted investments	391	141
Finance costs	(3,869)	(3,993)
Finance income	964	885
Other financial items	943	1,182
Group profit before tax	21,661	16,524

	31 December 20X3	31 December 20X2	
IFRS 8.28(c)	Assets		
	Total reportable segment assets	149,490	121,639
	Other segment assets	2,521	1,911
	Group headquarters	3,925	2,127
	Investment property	12,662	12,277
	Illustrative Research Lab	5,046	2,735
	Other assets	3,364	2,080
	Consolidation	(1,018)	(378)
	Group assets	175,990	142,391

	31 December 20X3	31 December 20X2	
IFRS 8.28(d)	Liabilities		
	Total reportable segment liabilities	77,483	73,867
	Other segment liabilities	1,185	1,095
	Pension and employee obligations	11,853	15,138
	Group liabilities	90,521	90,100

IFRS 8.28 Unallocated operating income and expense mainly consists of research expenditure as well as post-employment benefits expenses. The Group's corporate assets, consisting of its head-quarters, investment properties and research facility, are not allocated to any segment's as-sets.

IFRS 8.32 An analysis of the Group's revenue from external customers for each major product and service category (excluding revenue from discontinued operations) is as follows:

	20X3	20X2	
	Sale of hardware	47,585	39,145
	Sale of software	24,513	20,165
	Other	3,679	3,756
	Sale of goods	75,777	63,066
	After-sales service and maintenance	18,140	17,832
	Consulting	59,837	60,116
	Construction contracts for telecommunication systems	50,973	49,186
	Investment property rental income	1,066	1,028
	Rendering of services	130,016	128,162
	Group revenue	205,793	191,228

This links to management accounts which provide the following information:

Management accounts Year ended 31 December 20X3	Consulting			Retail					
	Large CU	SME CU	Total CU	Euroland CU	UK CU	USA CU	France CU	Spain CU	Total CU
Revenue – continuing operations	35,845	74,965	110,810	57,678	7,210	6,489	540	181	72,098
Inter-group sales	-	231	231	-	-	-	-	-	-
Revenue – discontinued operations	-	-	-	9,803	-	-	-	-	9,803
Total revenue	35,845	75,196	111,041	67,481	7,210	6,489	540	181	81,901
Changes in inventories	(1,551)	(3,243)	(4,794)	(2,578)	(275)	(248)	(21)	(7)	(3,129)
Material costs	(5,618)	(11,750)	(17,368)	(18,160)	(1,940)	(1,746)	(145)	(49)	(22,040)
Employee benefit costs	(18,815)	(39,349)	(58,164)	(36,087)	(3,856)	(3,470)	(289)	(97)	(43,799)
Depreciation and amortisation of non-financial assets	(1,269)	(2,653)	(3,922)	(2,697)	(288)	(259)	(22)	(7)	(3,273)
Impairment of non-financial assets	(540)	(1,129)	(1,669)	-	-	-	-	-	-
Other expenses	(1,912)	(3,999)	(5,911)	(1,098)	(117)	(106)	(9)	(3)	(1,333)
Divisional operation profit	6,140	13,073	19,213	6,861	733	660	55	18	8,327
Segment assets	24,280	50,777	75,057	46,228	4,939	4,445	370	124	56,107
Segment liabilities	10,511	21,983	32,494	23,625	2,524	2,272	189	63	28,673

	Service			IT disposals CU	Service		Total CU
	Maintenance CU	Repairs CU	Total CU		Telephony kit CU	Total CU	
Revenue – continuing operations	15,455	2,695	18,140	1,835	1,844	3,679	204,727
Inter-group sales	-	-	-	-	-	-	231
Revenue – discontinued operations	-	-	-	-	-	-	9,803
Total revenue	15,445	2,695	18,140	1,835	1,844	3,679	214,761
Changes in inventories	-	-	-	-	-	-	(7,923)
Material costs	(4,634)	(809)	(5,442)	(697)	(701)	(1,398)	(46,248)
Employee benefit costs	(8,254)	(1,440)	(9,694)	(1,074)	(1,080)	(2,154)	(113,811)
Depreciation and amortisation of non-financial assets	(940)	(164)	(1,104)	(62)	(63)	(125)	(8,424)
Impairment of non-financial assets	-	-	-	-	-	-	(1,669)
Other expenses	(26)	(4)	(30)	(5)	(5)	(10)	(7,284)
Divisional operation profit	1,592	278	1,870	(4)	(4)	(8)	29,402
Segment assets	15,603	2,723	18,326	1,257	1,264	2,521	152,011
Segment liabilities	13,892	2,424	16,316	591	594	1,185	78,668

Notes to the management accounts

Based on the management accounts pack it may appear the operating segments identified as Consulting, Retail and Service are, in fact, the only reportable segments after the aggregation of the divisional results in each segment. However, as disclosed in the extract of the notes to the financial statements each division has a divisional manager. Such a function is referred to as a segment manager in paragraph 9 of IFRS 8. In this fictional company, these divisional managers were held responsible for the results of the Consulting, Retail and Service divisions as a whole so, in this case, there has been no aggregation of operating segments. However, if there had been then the disclosures required by paragraph 22(aa) of IFRS 8 would have been required including clear disclosure of the economic characteristics that had been considered by management in concluding that the UK and USA operations could be aggregated with the other operations based in Europe.

The two divisions that are also identified as part of a service division are involved in the disposal of IT and telephony products. As neither of these divisions shared all of the characteristics of the main service division as set out in paragraph 12 of the Standard they have been combined to form an 'other' operating segment.

How we can help

We hope you find the information in this article helpful in giving you some insight into IFRS 8. If you would like to discuss any of the points raised, please speak to your usual Grant Thornton contact or visit www.grantthornton.global/locations to find your local member firm.



Insights into IFRS 8

IFRS 8 disclosures for interim financial statements

Understanding how an entity is performing from management's point of view during an interim reporting period can be just as important as the annual disclosures that are required when following IFRS 8 'Operating Segments' – which sets out the minimum disclosure requirements for annual reporting periods.

Our 'Insights into IFRS 8' series is designed to illustrate how IFRS 8 should be applied and it provides guidance and insight in some problematic areas. We also include several examples illustrating the Standard's requirements. This article sets out example disclosures of segment information in a set of condensed interim financial statements.

This article sets out illustrative disclosures required under IFRS 8 and IAS 34 'Interim Financial Reporting' for a fictional entity, Illustrative Corporation Ltd and its subsidiaries (the Group) that presents half-yearly condensed interim financial statements. The form and content of IFRS financial statements of course depend on the reporting entity's activities and transactions. IFRS 8's management approach results in an entity's interim disclosures being as unique as any disclosures that would be made at the end of any annual reporting period. We have illustrated in this article the minimum disclosures required taking into consideration both IFRS 8 and IAS 34.



An illustrative example of interim segment reporting disclosure

IAS 34.16A(g) The Group has three operating segments: consulting, service and retail. In identifying these operating segments, management generally follows the Group's service lines representing its main products and services. These operating segments are monitored by the Group's chief operating decision maker who is the Group's chief executive officer and she makes the strategic decisions on the allocation of resources based on adjusted segment reporting results.

Each of these operating segments is managed separately as each requires different technologies, marketing approaches and other resources. All inter-segment transfers are carried out at arm's length prices based on prices charged to unrelated customers in stand-alone sales of identical goods or services.

In addition, two minor operating segments are combined below under other segments. The main sources of revenue for this segment is the sale and disposal of used IT equipment that the Group collects from its customers.

IAS 34.16A(g)(v) During the six months period to 30 June 20X3, there have been no changes from prior periods in the measurement methods used to determine operating segments and reported segment profit or loss.

IAS 34.16A(g)(i-iv) The revenues and profit generated by each of the Group's operating segments and segment assets and liabilities are summarised as follows:

		Six months to 30 June 20X3				
		Consulting	Service	Retail	Other	Total
Revenue						
IFRS 8.23(a)	From external customers	56,216	21,435	36,576	2,069	116,296
	Discontinued operations	-	-	-	-	-
IFRS 8.23(b)	From other segments	346	-	-	-	346
	Segment revenues	56,562	21,435	36,576	2,069	116,642
IFRS 8.23	Segment operating profit	15,519	2,827	5,421	112	23,879
IFRS 8.23	Segment assets	79,991	34,379	65,965	3,033	183,368
IFRS 8.23	Segment liabilities	33,736	16,711	35,754	1,132	87,333
		Six months to 30 June 20X2				
		Consulting	Service	Retail	Other	Total
Revenue						
IFRS 8.23(a)	From external customers	47,843	7,832	31,129	1,561	88,365
	Discontinued operations	-	-	7,352	-	7,352
IFRS 8.23(b)	From other segments	145	-	-	-	145
	Segment revenues	47,988	7,832	38,481	1,561	95,862
IFRS 8.23	Segment operating profit	10,615	(280)	2,755	(24)	13,066
IFRS 8.23	Segment assets	66,260	16,018	56,049	2,211	140,539
IFRS 8.23	Segment liabilities	40,715	12,006	39,851	1,264	93,836

	Year to 31 December 20X2					
	Consulting	Service	Retail	Other	Total	
	Revenue					
IFRS 8.23(a)	From external customers	110,810	18,140	72,098	3,679	204,727
	Discontinued operations	-	-	9,803	-	9,803
IFRS 8.23(b)	From other segments	231	-	-	-	231
	Segment revenues	111,041	18,140	81,901	3,679	214,761
IFRS 8.23	Segment operating profit	19,213	1,870	8,327	(8)	29,402
IFRS 8.23	Segment assets	75,057	18,326	56,017	2,521	152,011
IFRS 8.23	Segment liabilities	32,494	16,316	28,673	1,185	78,668

IAS 34.16A(g)(vi) The Group's segment operating profit reconciles to the Group's profit before tax as presented in its consolidated financial statements as follows:

	6 months to 30 Jun 20X3	6 months to 30 Jun 20X2	Year to 31 Dec 20X2
	Profit or loss		
	23,767	12,807	29,410
	112	(24)	(8)
	550	498	1,066
	55	125	310
	(268)	(165)	(298)
	(3,150)	(2,850)	(5,799)
	(986)	(1,250)	(1,690)
	502	180	676
	(97)	(165)	(304)
	-	(54)	(73)
	(80)	(87)	(58)
	20,405	9,015	23,232
	50	84	391
	(413)	(1,128)	(3,869)
	1,188	835	964
	669	339	943
	21,899	9,145	21,661

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