

Operating Segments (IFRS 8)

Table of Contents

1. Overview and core principle
2. Scope of IFRS 8
3. Key definitions and concepts
4. Identifying operating segments
5. Reportable segments
6. Measurement of segment information
7. Disclosure requirements
8. Entity wide disclosures
9. Illustrative example — Segment note
10. Common exam and practical issues
11. Twenty Multiple-Choice Questions (with Answers)
12. Comprehensive Question Bank (with Solutions)

1. Overview and core principle

IFRS 8 Operating Segments deals purely with **disclosure**—it does not change how amounts are measured or recognised in the financial statements. Its focus is on **how information is presented and disaggregated** so that users can understand the different business activities of an entity.

Core principle (IFRS 8.1): An entity shall disclose information to enable users of its financial statements to **evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates**.

In other words, IFRS 8 wants financial statement users to see the entity “from the eyes of management”—how management views and monitors the business.

2. Scope of IFRS 8

2.1 Entities to which IFRS 8 applies

IFRS 8 applies to:

- **Separate or individual financial statements** of an entity:
 - **Whose debt or equity instruments are traded in a public market, or**
 - **That files, or is in the process of filing, financial statements with a securities commission or other regulatory organisation** for the purpose of issuing any class of instruments in a public market.
- **Consolidated financial statements** of a group with a parent that meets either of the above conditions.

Key point:

- IFRS 8 is mainly aimed at **listed or publicly traded entities** (or those about to be listed).
- Non-listed entities are not required to apply IFRS 8, but may choose to do so voluntarily.

2.2 Relationship with other standards

- IFRS 8 **replaced IAS 14 Segment Reporting**. The major change was a move from a **risk-and-return approach** to a **management approach**—segments are now based on internal reporting to the chief operating decision maker (CODM).
- **IAS 1, IFRS 18 and IAS 8** still apply for presentation, disclosure and accounting policies, but IFRS 8 governs **segment disclosures**.

3. Key definitions and concepts

3.1 Operating segment

An **operating segment** is a component of an entity:

1. **That engages in business activities** from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity);
2. **Whose operating results are regularly reviewed by the entity's chief operating decision maker (CODM)** to make decisions about resources to be allocated to the segment and assess its performance; and
3. **For which discrete financial information is available.**

Important notes:

- A segment can exist even if it has **not yet earned revenues** (e.g. a start-up division that is incurring development costs).
- Internal reporting is key—if management does not receive separate information about a component, it is unlikely to be an operating segment.
- The definition focuses on **how management actually runs the business**, not on arbitrary external classifications.

3.2 Chief operating decision maker (CODM)

The **CODM** is a function, not necessarily a specific title. It is the person or body that:

- **Allocates resources** to segments; and
- **Assesses performance** of segments.

Examples:

- A **CEO** or **COO** in a smaller entity. In some entities it might be the CFO.
- A **management committee** or **executive board** in a larger group.

The segment information disclosed must be consistent with the information reviewed by the CODM.

3.3 Reportable segment

A **reportable segment** is an operating segment (or aggregation of operating segments) that meets certain **quantitative thresholds** or is considered useful to users and therefore must be separately disclosed. (See Paragraph 5.)

4. Identifying operating segments

4.1 Basis: internal reporting

The starting point is the **internal management reports** that are regularly provided to the CODM. These reports typically show:

- **Revenue** by division, product line, or geography.
- **Segment profit or loss** (often a management measure, not necessarily IFRS profit).
- **Segment assets and sometimes liabilities.**

The entity identifies operating segments by examining:

- **How the business is organised** (e.g. by product, service, geography, customer type).
- **Which components' results are separately reported to the CODM.**

4.2 Examples of operating segments

Example 1 — Product-based structure

A manufacturing group has three divisions:

- **Automotive parts**
- **Industrial machinery**
- **Consumer electronics**

Each division:

- Has its own management team.
- Prepares monthly financial reports (revenues, operating profit, assets) for the CODM.
- Engages in business activities and earns revenues.

These three divisions are **operating segments**.

Example 2 — Geographic structure

A retail group operates in:

- **Africa**
- **Europe**
- **Asia-Pacific**

The CODM receives separate performance reports for each region. Each region is therefore an **operating segment**, even though each region may contain many stores.

Example 3 — Start-up segment

An entity has a new “**Digital Services**” division that is currently incurring development costs and has no external revenue yet. Management receives separate reports for this division. It is still an **operating segment**, because it engages in business activities and its results are reviewed by the CODM.

5. Reportable segments

Not all operating segments must be disclosed separately. IFRS 8 sets out **aggregation criteria** and **quantitative thresholds** to determine which operating segments become **reportable segments**.

5.1 Aggregation of operating segments

Two or more operating segments may be **aggregated** into a single operating segment if:

- They have **similar economic characteristics**; and
- They are similar in each of the following respects:
 - **Nature of products and services**;
 - **Nature of production processes**;
 - **Type or class of customer**;
 - **Methods used to distribute products or provide services**; and
 - **Nature of the regulatory environment** (if applicable).

Aggregation is allowed but must be **justified** and **disclosed**. It cannot be used to hide poor-performing segments.

Example — Aggregation

A company has three segments:

- Segment A: Produces mid-range smartphones.
- Segment B: Produces high-end smartphones.
- Segment C: Produces tablets.

If A and B have similar customers, production processes, distribution channels, and economic characteristics, the entity might aggregate them into a single **“Smartphones”** segment, while C remains a separate **“Tablets”** segment.

5.2 Quantitative thresholds (IFRS 8.13)

An operating segment is a **reportable segment** if it meets any of the following tests:

1. **Revenue test**
 - Segment revenue (including both external and inter-segment revenue) is **10% or more** of the combined revenue of all operating segments.
2. **Profit or loss test**
 - The absolute amount of segment profit or loss is **10% or more** of the greater (in absolute amount) of:
 - The combined reported profit of all operating segments that did not report a loss; or
 - The combined reported loss of all operating segments that reported a loss.

3. Asset test

- Segment assets are **10% or more** of the combined assets of all operating segments.

If a segment meets **any one** of these thresholds, it becomes a **reportable segment**.

5.3 Additional reportable segments

Even if a segment does not meet the quantitative thresholds, management may designate it as reportable if it believes the information would be **useful to users**.

Also, IFRS 8 requires that the **total external revenue** of all reportable segments must be at least **75% of the entity's total external revenue**. If not, additional segments must be identified as reportable (even if they do not meet the 10% tests) until the 75% threshold is reached.

5.4 Practical example — Quantitative thresholds

Assume an entity has five operating segments (A–E). Combined figures:

- Total revenue of all segments: 1 000m
- Total assets of all segments: 5 000m

Segment data:

- Segment A: Revenue 300m, profit 80m, assets 1 500m
- Segment B: Revenue 250m, profit 60m, assets 1 200m
- Segment C: Revenue 200m, loss (40)m, assets 900m
- Segment D: Revenue 150m, profit 20m, assets 800m
- Segment E: Revenue 100m, loss (20)m, assets 600m

Revenue test (10% of 1 000 = 100):

- A (300), B (250), C (200), D (150), E (100) → all ≥ 100 → all pass revenue test.

Profit or loss test:

- Profitable segments: A (80), B (60), D (20) → total profit = 160
- Loss segments: C (40), E (20) → total loss = 60
- Greater absolute amount = 160 → 10% = 16

Segments with absolute profit or loss ≥ 16 :

- A (80), B (60), C (-40), D (20), E (-20) → all pass profit/loss test.

Asset test (10% of 5 000 = 500):

- A (1 500), B (1 200), C (900), D (800), E (600) → all ≥ 500 → all pass asset test.

Result: All five operating segments are **reportable segments**.

6. Measurement of segment information

6.1 Basis of measurement

IFRS 8 requires that the amounts disclosed for each reportable segment be **measured on the same basis as the information provided to the CODM**.

This is often called the **management approach** to measurement.

Key points:

- Segment profit or loss, assets and liabilities are based on **internal reporting policies**, which may differ from IFRS measurement.
- The entity must **explain the measurement basis** and any differences from IFRS amounts.

6.2 Items included in segment profit or loss

IFRS 8 does not prescribe a specific format for segment profit or loss. Instead, it requires disclosure of:

- **Types of income and expense included** in segment profit or loss (e.g. depreciation, interest income/expense, salaries, etc.), if they are regularly reported to the CODM.
- Whether **inter-segment transactions** are included and how they are measured (e.g. transfer prices).

6.3 Reconciliations

Because segment information is based on internal measures, IFRS 8 requires **reconciliations** to the amounts in the financial statements:

- Reconciliation of **total segment revenues** to the entity's **revenue**.
- Reconciliation of **total segment profit or loss** to the entity's **profit or loss before tax** (or another appropriate measure).
- Reconciliation of **total segment assets** to the entity's **assets**.
- Reconciliation of **total segment liabilities** to the entity's **liabilities**, if segment liabilities are reported.

These reconciliations help users understand how internal segment figures link to the IFRS financial statements.

7. Disclosure requirements

IFRS 8's disclosure requirements can be grouped into:

1. **General information about segments**
2. **Information about segment profit or loss, assets and liabilities**
3. **Measurement and reconciliations**
4. **Entity-wide disclosures** (products and services, geographical areas, major customers)

7.1 General information (IFRS 8.20–22)

Entities must disclose:

- **Factors used to identify reportable segments**, including:
 - Whether segments are based on products/services, geography, regulatory environment, etc.
- **A description of each reportable segment**, including:
 - The types of products and services from which the segment derives its revenues.
- The **types of customers** (if relevant).
- The **basis of organisation** (e.g. by product line, geography, etc.).

Example — Descriptive disclosure

The Group's reportable segments are based on internal reports reviewed by the CODM.

The Group has three reportable segments:

- Automotive: manufacture and sale of vehicle components to car manufacturers.
- Industrial: manufacture and sale of machinery to industrial customers.
- Consumer: sale of electronic devices to retail customers.

7.2 Information about segment profit or loss, assets and liabilities (IFRS 8.23–24)

For each reportable segment, the entity must disclose:

- **Revenue** from external customers.
- **Inter-segment revenue** (if reported to the CODM).
- **Segment profit or loss**.
- **Segment assets and segment liabilities** (if these are regularly reported to the CODM).
- Other items if they are included in the measure of segment profit or loss or are regularly provided to the CODM, such as:
 - **Interest revenue and interest expense.**
 - **Depreciation and amortisation.**
 - **Material items of income and expense.**
 - **Share of profit or loss of associates and joint ventures.**
 - **Income tax expense or income.**

7.3 Measurement and reconciliations (IFRS 8.25–28)

Entities must disclose:

- The **basis of measurement** for segment information:
 - How segment profit or loss is measured.
 - How segment assets and liabilities are measured.
 - Whether any items are **allocated** or **not allocated** to segments.
- **Reconciliations:**
 - Total segment revenues → entity revenue.
 - Total segment profit or loss → entity profit or loss before tax (or another measure).
 - Total segment assets → entity assets.
 - Total segment liabilities → entity liabilities (if segment liabilities are reported).

7.4 Restatement of segment information (IFRS 8.29)

If the composition of reportable segments changes (for example, due to reorganisation), the entity must **restate comparative information** unless it is impracticable.

8. Entity-wide disclosures

Entity-wide disclosures apply **even if the entity has only one reportable segment**. They provide additional information about:

1. **Products and services**
2. **Geographical areas**
3. **Major customers**

8.1 Information about products and services (IFRS 8.31–32)

The entity must disclose:

- Revenues from external customers for each **product and service**, or each group of similar products and services.

If the information is not available and the cost to develop it would be excessive, the entity must disclose that fact.

Example

Revenue from external customers is derived from the following products:

- Motor vehicles: R1 200 million
- Spare parts: R300 million
- Financial services: R150 million

8.2 Geographical information (IFRS 8.33)

The entity must disclose:

- **Revenue from external customers**, attributed to:
 - The entity's **country of domicile**; and
 - **All foreign countries** in total, and separately for any individual foreign country that is material.
- **Non-current assets** (excluding financial instruments, deferred tax assets, and post-employment benefit assets), located:
 - In the entity's **country of domicile**; and
 - In **foreign countries**, with separate disclosure for any material foreign country.

8.3 Information about major customers (IFRS 8.34)

If revenues from **a single external customer** amount to **10% or more** of the entity's revenue, the entity must disclose:

- That fact.
- The **total amount of revenue** from each such customer.
- The **segment(s)** that report the revenue.

The identity of the customer does **not** need to be disclosed, but often such customers are governments or large corporates.

Example

The Group has one major customer whose revenue represents 18% of total Group revenue. This revenue is reported in the Automotive and Industrial segments.

9. Illustrative example — Segment note

Below is an exam-style example of how an IFRS 8 segment note might look in practice.

9.1 Background

Diversified Co. operates in three reportable segments:

- **Car parts**
- **Software**
- **Finance**

The COO reviews segment revenue, segment profit, and segment assets.

9.2 Segment information

(a) Description of segments

The Group's operating segments are based on internal reports reviewed by the Chief Operating Officer.

The Group has three reportable segments:

- Car parts: manufacture and sale of replacement parts to car parts retailers.
- Software: development and sale of application software to computer manufacturers and retailers.
- Finance: provision of financing for customer purchases and property lending operations.

(b) Segment revenue and profit (R'million)

<u>Segment</u>	<u>External revenue</u>	<u>Inter-segment revenue</u>	<u>Segment profit</u>
Car parts	500	20	80
Software	300	10	60
Finance	200	–	40
Total	1 000	30	180

(c) Segment assets (R'million)

<u>Segment</u>	<u>Segment assets</u>
Car parts	600
Software	400
Finance	300
Total	1 300

(d) Reconciliations (R'million)

Total segment revenue (external)	1 000
Other revenue not allocated to segments	<u>50</u>
Entity revenue	<u>1 050</u>
 Total segment profit	 180
Unallocated corporate expenses	(30)
Finance cost	(20)
Other income	<u>10</u>
Profit before tax	<u>140</u>
 Total segment assets	 1 300
Unallocated corporate assets	<u>200</u>
Total assets per statement of financial position	<u>1 500</u>

(e) Major customers

Revenue from one external customer of the car parts segment represents 12% of the Group's total revenue.

This example mirrors the style of the implementation guidance illustrations in IFRS 8.

10. Common exam and practical issues

10.1 “Management approach” vs “risk-and-return approach”

- Under IAS 14, segments were based on **business and geographical segments** determined by risks and returns.
- Under IFRS 8, segments are based on **internal reporting to the CODM**.
- Exam questions often test your understanding of this shift and the idea of “through the eyes of management”.

10.2 Internal vs IFRS measurement

- Segment profit may exclude items such as **interest, tax, or foreign exchange gains/losses** if management does not use them in performance evaluation.
- You must always **disclose the measurement basis** and **reconcile** to IFRS amounts.

10.3 Aggregation judgement

- Aggregation requires **similar economic characteristics** and similarity in several qualitative factors.
- Over-aggregation can obscure poor performance; under-aggregation can overwhelm users with too many segments.
- The justification for aggregation should be clear and disclosed.

10.4 Single-segment entities

- Even if an entity has only **one reportable segment**, it must still provide **entity-wide disclosures** about products/services, geography, and major customers.

11. Twenty Multiple-Choice Questions (with Answers)

MCQ 1

Under IFRS 8, operating segments are identified based on:

- A. The legal structure of the entity
- B. The risks and returns model
- C. Internal reports reviewed by the CODM
- D. Industry classification codes

➤ **Answer: C**

MCQ 2

The CODM (Chief Operating Decision Maker) is defined in IFRS 8 as:

- A. The board of directors
- B. The person/group allocating resources and assessing segment performance
- C. The external auditor
- D. The chief financial officer

➤ Answer: B

MCQ 3

Which of the following is NOT a requirement for a component to be an operating segment?

- A. It earns revenue and incurs expenses
- B. Its results are reviewed by the CODM
- C. It has discrete financial information
- D. It must earn external revenue

➤ Answer: D

MCQ 4

Which of the following is a quantitative threshold for determining reportable segments?

- A. 5% of total revenue
- B. 10% of segment revenue, profit/loss, or assets
- C. 15% of total profit
- D. 20% of total assets

➤ Answer: B

MCQ 5

The 75% rule in IFRS 8 requires:

- A. 75% of profit to be disclosed by reportable segments
- B. 75% of assets to be disclosed by reportable segments
- C. 75% of external revenue to be covered by reportable segments
- D. 75% of liabilities to be disclosed by reportable segments

➤ Answer: C

MCQ 6

Segment information must be measured using:

- A. IFRS measurement rules
- B. The entity's tax reporting rules
- C. The management approach
- D. Industry benchmarks

➤ **Answer: C**

MCQ 7

Which of the following must always be disclosed for each reportable segment?

- A. Segment liabilities
- B. Segment revenue
- C. Segment tax expense
- D. Segment cash flows

➤ **Answer: B**

MCQ 8

Entity-wide disclosures are required even when:

- A. The entity has no operating segments
- B. The entity has only one reportable segment
- C. The entity is not publicly traded
- D. The entity has no foreign operations

➤ **Answer: B**

MCQ 9

Which of the following is NOT part of entity-wide disclosures?

- A. Products and services
- B. Geographical information
- C. Major customers
- D. Segment liabilities

➤ **Answer: D**

MCQ 10

A major customer is defined as one generating:

- A. More than 5% of total revenue
- B. More than 10% of total revenue
- C. More than 15% of total revenue
- D. More than 20% of total revenue

➤ **Answer: B**

MCQ 11

Inter-segment transactions must be disclosed:

- A. Only if material
- B. Only if the CODM reviews them
- C. Only if they affect tax
- D. Only if they exceed 10% of revenue

➤ **Answer: B**

MCQ 12

If segment liabilities are NOT reviewed by the CODM:

- A. They must still be disclosed
- B. They must be estimated
- C. They are not required to be disclosed
- D. They must be aggregated

➤ **Answer: C**

MCQ 13

Aggregation of operating segments is permitted when:

- A. Segments share similar economic characteristics
- B. Segments have identical profit margins
- C. Segments operate in the same country
- D. Segments have the same manager

➤ **Answer: A**

MCQ 14

Which of the following must be reconciled to the financial statements?

- A. Segment cash flows
- B. Segment revenue, profit/loss, assets
- C. Segment tax expense
- D. Segment depreciation

➤ **Answer: B**

MCQ 15

Segment profit or loss may include:

- A. Only IFRS-based profit
- B. Only gross profit
- C. Any measure used internally by management
- D. Only operating profit

➤ **Answer: C**

MCQ 16

Which of the following is TRUE regarding segment disclosures?

- A. They must follow IFRS measurement rules
- B. They must follow tax rules
- C. They must follow internal reporting rules
- D. They must follow industry averages

➤ **Answer: C**

MCQ 17

If the composition of segments changes, IFRS 8 requires:

- A. No change to prior-year disclosures
- B. Restatement of comparatives unless impracticable
- C. Disclosure only in the current year
- D. Disclosure only in the notes

➤ **Answer: B**

MCQ 18

Which of the following is **NOT** considered an operating segment?

- A. A start-up division with no revenue yet
- B. A division whose results are reviewed by the CODM
- C. A division with discrete financial information
- D. A department that does not engage in business activities

➤ **Answer: D**

MCQ 19

Segment assets must be disclosed when:

- A. They are regularly reviewed by the CODM
- B. They exceed 10% of total assets
- C. They relate to foreign operations
- D. They relate to major customers

➤ **Answer: A**

MCQ 20

Which of the following is the primary objective of IFRS 8?

- A. To prescribe recognition and measurement rules
- B. To ensure comparability between industries
- C. To help users evaluate the nature and financial effects of business activities
- D. To regulate internal reporting systems

➤ **Answer: C**

12. Comprehensive Question Bank (with Solutions)

SECTION A — Short-Form Questions (Conceptual)

Question 1

Define an operating segment under IFRS 8.

Solution: An operating segment is a component of an entity that:

1. Engages in business activities from which it may earn revenues and incur expenses;

2. Whose operating results are regularly reviewed by the CODM to allocate resources and assess performance;
3. For which discrete financial information is available.

Question 2

What is the “management approach” in IFRS 8?

Solution: Segment identification and measurement are based on **internal reports** reviewed by the CODM, not IFRS measurement rules. IFRS 8 presents the entity “through the eyes of management.”

Question 3

List the three quantitative thresholds for determining reportable segments.

Solution: A segment is reportable if it meets **any** of the following:

- Revenue $\geq$ 10% of total segment revenue
- Profit or loss (absolute amount) $\geq$ 10% of the greater of total profit of profitable segments or total loss of loss-making segments
- Assets $\geq$ 10% of total segment assets

Question 4

What is the purpose of the 75% rule?

Solution: Reportable segments must cover **at least 75% of external revenue**. Additional segments must be disclosed until this threshold is met.

Question 5

Name three items that must be reconciled to the financial statements.

Solution:

- Total segment revenue to entity revenue
- Total segment profit/loss to entity profit/loss
- Total segment assets to entity assets (And segment liabilities *if* reported internally.)

Question 6

What is a major customer under IFRS 8?

Solution: A customer generating **10% or more** of total entity revenue.

Question 7

Do segment liabilities have to be disclosed?

Solution: Only if they are **regularly reviewed by the CODM**.

Question 8

What are entity-wide disclosures?

Solution: Disclosures required even if only one segment exists:

- Products and services
- Geographical areas
- Major customers

Question 9

Can a start-up division with no revenue be an operating segment?

Solution: Yes — revenue is not required. It must engage in business activities and be reviewed by the CODM.

Question 10

What is the CODM?

Solution: The person or group or body responsible for allocating resources and assessing segment performance. It is a **function**, not a job title.

SECTION B — Medium-Form Questions (Applied)

Question 11

An entity has five operating segments. Segment C has revenue of 8% of total segment revenue, profit of 12% of total segment profit, and assets of 6% of total segment assets. Is Segment C reportable?

Solution: Segment C meets the **profit test (12% ≥ 10%)**, so it is reportable even though it fails the revenue and asset tests.

Question 12

Segment D has a loss of R30m. Total profit of profitable segments is R200m. Total loss of loss-making segments is R50m. Is Segment D reportable?

Solution: Profit/loss threshold = $10\% \times \text{greater of } 200 \text{ or } 50 \rightarrow 20$. Segment D's loss = 30 $\geq$ 20 $\rightarrow$ **reportable**.

Question 13

A company reorganises its internal reporting structure, changing segment composition. What must it do under IFRS 8?

Solution: It must **restate comparative segment information**, unless impracticable, and disclose the nature of the change.

Question 14

Segment E's results exclude depreciation because management evaluates performance before depreciation. How must this be disclosed?

Solution: The entity must disclose:

- The measurement basis for segment profit
- The fact that depreciation is excluded
- Any differences between segment measures and IFRS measures
- Reconciliations to IFRS profit

Question 15

An entity has only one operating segment. What disclosures are still required?

Solution: Entity-wide disclosures:

- Products and services revenue
- Geographical revenue and non-current assets
- Major customers

Question 16

Segment F sells goods to Segment G at transfer prices above market value. What must be disclosed?

Solution:

- Inter-segment revenue
- Basis of pricing (transfer pricing policy)
- Whether CODM reviews inter-segment transactions
- Any adjustments in reconciliations

Question 17

Segment H's assets include financial instruments. Must these be included in geographical non-current asset disclosures?

Solution: No — IFRS 8 excludes:

- Financial instruments
- Deferred tax assets
- Post-employment benefit assets from geographical non-current asset disclosures.

Question 18

Segment I operates in two countries. CODM receives only combined segment information. Must the entity disclose segment information by country?

Solution: No — segment disclosures follow internal reporting. However, **entity-wide geographical disclosures** require revenue and non-current assets by country (if material).

Question 19

Segment J is below all 10% thresholds. Total external revenue covered by reportable segments is 70%. Must Segment J be disclosed?

Solution: Yes — the 75% rule requires adding segments until 75% external revenue is covered.

Question 20

Segment K has discrete financial information, but CODM does not review it. Is it an operating segment?

Solution: No — CODM review is essential.

SECTION C — Long-Form Scenario Questions (Advanced)

Question 21 — Scenario

Alpha Group has the following operating segments (all amounts in R'million):

<u>Segment</u>	<u>External Revenue</u>	<u>Inter-segment Revenue</u>	<u>Profit/(Loss)</u>	<u>Assets</u>
A	400	50	60	1 200
B	300	20	40	900
C	150	10	(30)	600
D	100	—	10	300
E	50	—	(5)	200

- Total segment revenue = 1 000
- Total segment assets = 3 200
- Total profit of profitable segments = 110
- Total loss of loss-making segments = 35

Required: Identify the reportable segments.

Solution:

Revenue test ($\geq 10\%$ of 1 000 = 100): A (400), B (300), C (150), D (100) → **pass**. E (50) → **fail**.

Profit/loss test ($\geq 10\%$ of 110 = 11): A (60), B (40), C (30), D (10), E (5). A, B, C → **pass**.
D ($10 < 11$) **fails** → E ($5 < 11$) **fails**

Asset test ($\geq 10\%$ of 3 200 = 320): A (1 200), B (900), C (600) → **pass**. D (300), E (200) → **fail**.

Reportable segments: A, B, C (D is reportable under revenue test only; E fails all tests.)

Check 75% rule: External revenue covered by $A+B+C+D = 400+300+150+100 = 950 \rightarrow 95\% \geq 75\%$ Thus reportable segments = **A, B, C, D**.

Question 22 — Scenario

Beta Ltd has two divisions:

- **Retail** (large, profitable, reviewed monthly by CODM)
- **Online** (new, small, reviewed quarterly by CODM)

Online has no external revenue yet but incurs development costs. CODM receives separate financial reports.

Required: Determine whether Online is an operating segment and whether it must be disclosed.

Solution: Online is an operating segment because:

- It engages in business activities
- CODM reviews its results
- Discrete financial information exists

Disclosure:

- It may or may not be reportable depending on thresholds
- If not reportable, it must still be included in “all other segments”
- Entity-wide disclosures still apply

Question 23 — Scenario

Gamma Group aggregates two segments:

- **Luxury Cars**
- **Sports Cars**

Both share similar customers, production processes, distribution channels, and economic characteristics. CODM reviews them separately, but management believes aggregation is appropriate.

Required: Explain whether aggregation is permitted.

Solution: Aggregation is permitted if:

- Economic characteristics are similar
- Products/services are similar
- Production processes are similar
- Customer types are similar
- Distribution methods are similar
- Regulatory environment is similar

Gamma meets all criteria → aggregation allowed. However, the entity must **disclose the basis and justification** for aggregation.

Question 24 — Scenario

Delta Group reports segment profit excluding interest and tax. CODM evaluates performance using EBITDA. IFRS profit includes interest and tax.

Required: Explain the disclosure requirements.

Solution: Delta must disclose:

- Measurement basis for segment profit (EBITDA)
- Items excluded (interest, tax)
- Differences between segment measures and IFRS measures
- Reconciliation from total segment EBITDA to IFRS profit before tax
- Any unallocated items

Question 25 — Scenario

Epsilon Group has one major customer generating 18% of total revenue. Revenue is split across two segments.

Required: Explain the disclosure requirements.

Solution: Epsilon must disclose:

- Existence of a major customer
 - Total revenue from that customer
 - Segments reporting the revenue
 - Identity of the customer is **not** required.
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