INTRODUCTION


FASB staff members are frequently asked for their personal views on questions about implementing a new standard. This implementation guide summarizes the staff's answers to certain questions received about Statement 131. Those who have not yet had to deal with Statement 131 in financial statements may find these questions and answers useful.

A brief overview of the principal provisions of Statement 131 precedes the questions and answers. Certain questions contain additional background information relevant to the specific question being asked; however, a more detailed understanding of the Statement's provisions may be needed as background for some of the more complex questions.

Overview

Statement 131 recognizes that disclosures about segments of an enterprise and related information provide useful information about the different types of business activities in which an entity engages and the different economic environments in which it operates. Many users of financial statements viewed the *industry approach* to segment information, required by Statement 14, to be ineffective in providing useful disclosure of disaggregated information about an entity. For example, through the years, financial analysts expressed concern about the segment disclosures reported in financial statements. Some complaints focused on the fact that too many entities considered themselves to be in a single segment, quarterly information about segment data was rarely presented (it was not required), and segment information often conflicted with the way results were described in other parts of an annual report.

Statement 131 uses a *management approach* for determining what information should be disclosed. The management approach is based on the way that management organizes the segments within the entity for making operating decisions and assessing performance and is intended to assist users in being able to see an entity "through the eyes of management." Disclosure about certain information about an entity's operating segments, however organized, is required by Statement 131 in both annual and interim financial reports of public companies. Disclosure about an entity's products and services, geographic areas, and major customers is also required, regardless of the way an entity is organized.

Questions and Answers
The following questions and answers are organized according to the topical headings presented in the Statement.

Scope

1. **Q**—If, in accordance with SEC Regulation S-X, Rule 3-09, "Separate Financial Statements of Subsidiaries Not Consolidated and 50 Percent or Less Owned Persons," the separate financial statements of a joint venture or an investee accounted for by the equity method are provided in the annual report of the investor, is segment information required to be provided by the significant equity method investee or joint venture in the financial statements?

   **A**—No. If the significant equity method investee or joint venture is not itself a public company, segment information is not required in the separate financial statements of the investee even if those financial statements are included with financial statements of the public parent. Paragraph 9 of Statement 131 states that "this Statement applies to public business enterprises. . . . This Statement does not apply to parent enterprises, subsidiaries, joint ventures, or investees accounted for by the equity method if those enterprises' '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." The scope of Statement 131, including the requirements for segment information of significant investees, is intended to be consistent with the provisions of Statement 14, as amended by FASB Statement No. 21, Suspension of the Reporting of Earnings per Share and Segment Information by Nonpublic Enterprises. That is, Statement 21 suspended "any requirement to disclose the information specified by . . . Statement No. 14 in a complete set of separately issued financial statements of a subsidiary, corporate joint venture, or other investee that is a nonpublic enterprise" (paragraph 12; footnote reference omitted). However, if the significant equity method investee or joint venture is a public entity, Statement 131 requires that segment information be disclosed in the separate financial statements of the significant equity method investee or joint venture.

   The same analysis also applies to financial statements filed pursuant to SEC Regulation S-X, Rule 3-10, "Financial Statements of Guarantors and Affiliates Whose Securities Collateralize an Issue Registered or Being Registered." That is, if the guarantor or affiliate is a public entity, segment information should be provided in the financial statements of the guarantor or affiliate that are being furnished under Rule 3-10.

Operating Segments

Definition

**Background** (for Questions 2-5)—Paragraph 10 of Statement 131 defines *operating segment* as a component of an enterprise:

a. 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 enterprise),

b. Whose operating results are regularly reviewed by the enterprise's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and

c. For which discrete financial information is available.

2. **Q**—Can an investee accounted for by the equity method, by itself, qualify as an operating segment of the investor?
A—Yes. An equity method investee could be considered an operating segment, if, under the specific facts and circumstances being considered, it meets the definition in paragraph 10 of Statement 131. Some believe that an investee accounted for by the equity method could not be considered an operating segment because the investor has no control over the performance of the investee. However, paragraph 10(b) provides that an operating segment is one "whose operating results are regularly reviewed by the enterprise's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance" (emphasis added). 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. Statement 131 does not require that the chief operating decision maker be responsible for making decisions about resources to be allocated within the segment. That is, Statement 131 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.

3. Q—Can a corporate division that earns revenues (for example, a treasury operation that earns interest income) and incurs expenses qualify as an operating segment?

A—Yes. A corporate division that earns revenues and incurs expenses could be considered an operating segment, if, under the specific facts and circumstances being considered, it meets the definition in paragraph 10 of Statement 131. Some believe that corporate divisions could not be considered operating segments because paragraph 11 states:

"Not every part of an enterprise is necessarily an operating segment or part of an operating segment. For example, a corporate headquarters or certain functional departments may not earn revenues or may earn revenues that are only incidental to the activities of the enterprise and would not be operating segments."

However, a corporate division that earns 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, Statement 131 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 enterprise.

4. Q—Can a component of an entity that earns revenues and incurs expenses but has no assets allocated to it for internal reporting purposes be considered an operating segment? For example, assume Division A of an entity conducts business with a separate class of customers using assets shared with Division B. 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—Yes. A division that earns revenues and incurs expenses but does not have any assets associated with it could be considered an operating segment, if, under the specific facts and circumstances being considered, it otherwise meets the definition in paragraph 10 of Statement 131. Paragraph 90 of Statement 131 states that "an enterprise 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.

If no asset information is provided for a reportable segment, that fact and the reason therefor should be disclosed. Paragraph 31 of Statement 131 also requires disclosure of, among other items:

a. The basis of accounting for any transactions between reportable
The nature of any differences between the measurements of the reportable segments' assets and the enterprise's consolidated assets. 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.

e. The nature and effect of any asymmetrical allocations to segments. For example, an enterprise might allocate depreciation expense to a segment without allocating the related depreciable assets to that segment.

5. Q—Can a discontinued operation be considered an operating segment?

A—Statement 144 retains the basic provisions of Opinion 30 for the presentation of discontinued operations in the income statement but broadens that presentation to include a component of an entity rather than a segment of a business. Paragraph 41 of Statement 144 defines a component of an entity and states that a component may be a reportable segment or an operating segment (as those terms are defined in paragraph 10 of Statement 131), a reporting unit (as the term is defined in FASB Statement No. 142, Goodwill and Other Intangible Assets), a subsidiary, or an asset group (as that term is defined in paragraph 4 of statement 144). Paragraph 41 of Statement 144 requires that the results of operations of a component of an entity that has either been disposed of or is classified as held for sale be reported in discontinued operations if both of the following conditions are met: (a) the operations and cash flows of the component have been (or will be) eliminated from the ongoing operations of the entity as a result of the disposal transaction and (b) the entity will not have any significant continuing involvement in the operations of the component after the disposal transaction. Thus, upon adoption of Statement 144, a component of an entity that is reported as a discontinued operation would be considered an operating segment only if it meets the Statement 131 definition of an operating segment. The results of operations for an operating or reportable segment that has been disposed of or held for sale should be reported as a discontinued operation only if it meets the criteria in paragraph 42 of Statement 144. (The FASB staff believes that an operating or reportable segment that has been disposed of or is held for sale would generally meet the Statement 144 conditions for discontinued operations reporting. One exception, however, is an equity method investment that is, by itself, an operating segment. At its meeting on November 14, 2001, the Board clarified that the disposal of an equity method investment, by itself, should not be reported as a discontinued operation under Statement 144.) [Revised 9/01; 5/03.]

Statement 144 provides the reporting and financial statement disclosure requirements for a component of an entity that is reported as a discontinued operation. If that component is a reportable segment, the FASB staff believes that an entity would not be required to also disclose the information required by Statement 131. [Revised 9/01.]

Segment information for prior periods for disposal of a component that was previously disclosed as a reportable segment is not required to be restated. However, if the income statement and balance sheet information for the discontinued component have been reclassified in comparative financial statements, the FASB staff believes that the segment information for the discontinued component need not be provided for those years. [Revised 9/01.]

Background (for Question 6)—Assume that an entity is organized as follows:
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).

6. Q—In preparing the segment information for Public Company, should Dept. Y, Dept. Z, and Division 7 automatically be considered reportable segments because they are reportable segments for Subsidiary C?

A—No. 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 an entity depends on the specific facts and circumstances and should be separately evaluated for each public entity that is required to apply Statement 131.

Reportable Segments

Background (for Questions 7-10)—Assume that an entity has identified six operating segments prior to applying the aggregation criteria. Segments B and D have been identified as reportable segments based on the 10 percent threshold criteria in paragraph 18 of Statement 131. The revenue from external customers (there are no intersegment transactions) for each of the six segments is as follows:

<table>
<thead>
<tr>
<th>Segment</th>
<th>Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>$6</td>
</tr>
<tr>
<td>B</td>
<td>38</td>
</tr>
<tr>
<td>C</td>
<td>4</td>
</tr>
<tr>
<td>D</td>
<td>35</td>
</tr>
<tr>
<td>E</td>
<td>9</td>
</tr>
<tr>
<td>F</td>
<td>8</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$100</strong></td>
</tr>
</tbody>
</table>

Aggregation Criteria

Additional Background (for Questions 7 and 8)—Paragraph 17 of Statement 131 provides that two or more operating segments may be aggregated into a single operating segment if they have similar economic characteristics and are similar in five other attributes.

7. Q—May Segment E (below the 10 percent thresholds) be aggregated with Segment D (above the 10 percent thresholds) if only a majority of the aggregation criteria are met?

A—No. The aggregation criteria in paragraph 17 of Statement 131 (which requires all of the specified criteria to be met) permits 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 paragraph 17 of Statement 131 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 19 of Statement 131 permits an 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 18 of Statement 131 and does not meet all of the aggregation criteria in paragraph 17 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 example, when only a majority of the criteria are 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.

8. Q—For purposes of this question only, 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 company's suppliers, and it is expected that the margins and sales trends of Segments A and B will again be similar next year. May Segment A be aggregated with Segment B for the current-year segment disclosures?

A—Yes. Segment A may be aggregated with Segment B for current-year segment disclosures. Statement 131 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. As stated in paragraph 17 of Statement 131:

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. [Emphasis added.]

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.

Aggregation of segments should be consistent with the objective and basic principles of Statement 131—to provide information about the different types of business activities in which an enterprise engages and the different economic environments in which it operates in order to help users of financial statements better understand the enterprise's performance, better assess its prospects for future net cash flows, and make more informed judgments about the enterprise as a whole. Statement 131 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.

**Quantitative Thresholds**

**Additional Background** (for Question 9)— Paragraph 18 of Statement 131 provides that an operating segment is reportable if it meets any one of three specified quantitative thresholds relating to its reported revenues, profit or loss, and assets.

9. **Q**—How is the quantitative threshold for segment profit or loss applied when 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)?

**A**—The intent of the threshold criterion of paragraph 18(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. The criteria of paragraph 18 for determining reportable segments were intended to be applied on a basis similar to that required by Statement 14. As stated in paragraph 76 of Statement 131:

> Similar to the requirements in Statement 14, the Board decided to require that any operating segment that constitutes 10 percent or more of . . . revenues, assets, or profit or loss be reported separately and that reportable segments account for at least 75 percent of an enterprise's external revenues. The Board decided to retain that guidance for the quantitative thresholds because it can be objectively applied and because preparers and users of financial statements already understand it. [Emphasis added.]

In the event that segments are evaluated based on different measures of segment profit or loss, the threshold criterion of paragraph 18(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. Therefore, in the example above, 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 27 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). [Revised 5/03]

10. **Q**—Because total external revenues of the segments identified as reportable only constitute 73 percent of consolidated external revenues (38 percent + 35 percent), an additional segment must be identified for reporting. In meeting the 75 percent revenue test, must Segment E (the next largest segment by percentage of external revenues) be identified as a reportable segment?

**A**—No. The next largest segment by percentage of external revenues is not required to be identified as a reportable segment. Paragraph 20 of Statement 131 discusses one of the tests required for identifying reportable segments. That paragraph states:

> 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 18) until at least 75 percent of total consolidated revenue is included in reportable segments.

Statement 131 states that additional operating segments need to be identified as reportable segments (even if they do not meet the criteria in paragraph 18) 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, Statement 131 does not require that the additional segment or segments identified to satisfy this requirement be the next largest by any parameter. Therefore, in the above example, Segment A, C, E, or F may be identified as a reportable segment.

**Background** (for Question 11)—For purposes of this question only, assume that operating income (loss) of each of the six segments is as follows:

<table>
<thead>
<tr>
<th>Operating Income (Loss)</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Segment A</td>
<td>$ 1</td>
</tr>
<tr>
<td>Segment B</td>
<td>(5)</td>
</tr>
<tr>
<td>Segment C</td>
<td>2</td>
</tr>
<tr>
<td>Segment D</td>
<td>9</td>
</tr>
<tr>
<td>Segment E</td>
<td>9</td>
</tr>
<tr>
<td>Segment F</td>
<td>(1)</td>
</tr>
<tr>
<td><strong>Consolidated income</strong></td>
<td><strong>$15</strong></td>
</tr>
</tbody>
</table>

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 entity chooses to apply the aggregation criteria of paragraph 17 of Statement 131. Segments B and E meet all of the aggregation criteria and the 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.

11. **Q**—Would Segment C, which previously did not meet the quantitative thresholds but subsequent to the first level of aggregation (in accordance with paragraph 17) meets one of the quantitative thresholds, be considered a reportable segment?

   **A**—Yes. Segment C would be considered a reportable segment. Statement 131 provides the order of the steps that should be performed for purposes of identifying reportable segments. That process is also diagrammed in paragraph 127 of Statement 131 and further explained in Question 7 of this article. Statement 131 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 17 of Statement 131, does not preclude it from being considered a reportable segment subsequent to that aggregation.

**Disclosures**

**General Information**

12. **Q**—If segments have been aggregated in accordance with either paragraph 17 or paragraph 19 of Statement 131, is an entity required to disclose the fact that segments have been aggregated?

   **A**—Yes. Paragraph 26(a) of Statement 131 requires disclosure of:
Factors used to identify the enterprise's reportable segments, including the basis of organization (for example, whether management has chosen to organize the enterprise around differences in products and services, geographic areas, regulatory environments, or a combination of factors and whether operating segments have been aggregated). [Emphasis added.]

Information about Profit or Loss and Assets Measurement

13. Q—If, in measuring the performance of its equity investees, an entity internally uses the proportionate consolidation method, can that method be used in reporting the results of segments externally?

A—Yes, proportionate consolidation should be used for reporting segment information if that is the way in which such information is reviewed by the chief operating decision maker. Statement 131 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, Statement 131 also requires disclosure of the accounting policy followed for segment reporting (¶ paragraph 31(b)), the elimination of the investee's revenues and assets in reconciling to consolidated results (¶ paragraph 32), and the investment in and equity income from the investee (¶ paragraphs 27(g) and 28(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 (such as in some oil and gas venture accounting) [for] the investor-venturer [to] account in its financial statements for its pro rata share of the assets, liabilities, revenues, and expenses of the venture" (¶ AICPA Accounting Interpretation 2, "Investments in Partnerships and Ventures," of APB Opinion No. 18, The Equity Method of Accounting for Investments in Common Stock).

14. Q—If an entity uses multiple performance measures in evaluating segment performance and allocating resources, including both pre-tax and after-tax measures, how should it determine the most appropriate measure to use externally?

A—¶ Paragraph 30 states that "if the chief operating decision maker uses more than one measure of a segment's profit or loss and more than one measure of a segment's assets, the reported measures shall be those that management believes are determined in accordance with the measurement principles most consistent with those used in measuring the corresponding amounts in the enterprise's consolidated financial statements." ¶ Paragraph 84 states that "the Board decided not to require that segment information be provided in accordance with the same generally accepted accounting principles used to prepare the consolidated financial statements. . . . Preparing segment information in accordance with the generally accepted accounting principles used at the consolidated level would be difficult because some generally accepted accounting principles are not intended to apply at a segment level. Examples include . . . accounting for income taxes in an enterprise that files a consolidated income tax return. . . ."

Because it may not always be practicable to apply GAAP relating to income taxes to the segment level, after-tax segment measures are not typically in accordance with GAAP. Therefore, either measure could be used for reporting segment information, with disclosure of the difference in measurement principles for determining taxes, if an after-tax measure is used. However, if the after-tax measures are determined on the same basis as the consolidated financial statements, the after-tax measure would be the preferable "measure of segment profit or loss" to report.
15. **Q**—Assume that the chief operating decision maker evaluates the performance of its segments based on earnings before interest, taxes, depreciation, and amortization (EBITDA). 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. Must depreciation and amortization expense be disclosed for each of the reportable segments?

**A**—Yes. In this example, depreciation and amortization expense would be required to be disclosed for each reportable segment. ♦ Paragraph 27 of Statement 131 requires that an enterprise report a measure of profit or loss for each reportable segment. Paragraph 27 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 example, 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 entity's segments and, accordingly, disclosure of depreciation and amortization expense by each reportable segment would be required. This conclusion is in accordance with ♦ paragraph 29 of Statement 131, which states 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." In other words, the segment profit or loss amounts listed in paragraph 27 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. 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 EBITDA data that are used by the chief operating decision maker.

Note that this question deals specifically with EBITDA as the measure of segment profit or loss and depreciation and amortization expense as the information that is excluded from EBITDA but otherwise provided to the chief operating decision maker for purposes of evaluating segment performance. The response to this question, however, is applicable to any similar situation. That is, if the amounts of the items required by paragraphs 27 and ♦ 28 are included by segment in reports that are regularly provided to the chief operating decision maker, 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. [Revised 5/03.]

16. **Q**—For internal reporting purposes, assume that interest expense charged from Segment B on advances from Segment B to Segment A is included in the measure of performance of Segment A. Should the amounts of intercompany interest be included in the interest expense and interest income amounts disclosed for Segment A and Segment B, respectively?

**A**—Yes. The amounts of interest expense and interest income for Segment A and Segment B, respectively, should include the amounts charged internally between the segments. ♦ Paragraph 27 of Statement 131 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 intercompany interest, that interest would be part of the measure reported. In addition, ♦ paragraph 29 states that "adjustments and eliminations made in preparing an enterprise'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." 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 31(a) of Statement 131 also requires disclosure of the basis of accounting for transactions between reportable segments.

Interim Period Information

17. Q♦ Paragraph 33 of Statement 131 requires disclosure of certain segment information in interim financial reports. That paragraph does not discuss identification of reportable segments in interim periods. Are entities required to apply the quantitative tests to their operating segments for each interim period when determining their reportable segments for the interim period?

A—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 an entity's internal organization during an interim period that would cause the composition of its reportable segments to change, generally, an 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 10 of APB Opinion No. 28, Interim Financial Reporting, which states:

In general, the results for each interim period should be based on the accounting principles and practices used by an enterprise in the preparation of its latest annual financial statements unless a change in an accounting practice or policy has been adopted in the current year. . . . However, the Board has concluded that certain accounting principles and practices followed for annual reporting purposes may require modification at interim reporting dates so that the reported results for the interim period may better relate to the results of operations for the annual period.

18. Q—are enterprise-wide disclosures required for interim reporting?

A—No. Enterprise-wide disclosures are required only for annual reporting. ♦ Paragraph 33 of Statement 131 requires only the following information for interim segment reporting:

a. Revenues from external customers
b. Intersegment revenues
c. A measure of segment profit or loss
d. Total assets for which there has been a material change from the amount disclosed in the last annual report
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
f. A reconciliation of the total of the reportable segments' measures of profit or loss to the enterprise's consolidated income before income taxes, extraordinary items, discontinued operations, and the cumulative effect of changes in accounting principles. After the effective date of FASB Statement No. 154, Accounting Changes and Error Corrections, voluntary changes in accounting principle will no longer be reported via a cumulative-effect adjustment through the income statement of the period of change.

[Revised 3/05.]

19. Q—are the interim disclosures required only for the current quarter or for the year-to-date
amounts as well?

A—Interim disclosures are required for the current quarter and year-to-date amounts. Statement 131 amends paragraph 30 of Opinion 28 to require disclosure in interim periods of certain information about reportable operating segments. ♦ Paragraph 30 of Opinion 28 states:

When summarized financial data are regularly reported on a quarterly basis, the foregoing information with respect to the current quarter and the current year-to-date or the last twelve months to date should be furnished together with comparable data for the preceding year.

Restatement of Previously Reported Information

19A. Q—Does prior years' segment information need to be restated to reflect a change in measurement of segment profit or loss? [Revised 9/99.]

A—♦ Paragraphs 34-35 of Statement 131 only require restatement (if practicable) when there has been a change in the composition of the segments resulting from changes in the structure of an enterprise's internal organization. Thus, restatement of prior-year segment information for a change in measurement is not required by Statement 131. Although not required, the FASB staff believes it would be 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 restated, ♦ paragraph 31(d) of Statement 131 nonetheless requires disclosure of "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 measure of segment profit or loss." [Revised 9/99.]

Enterprise-Wide Disclosures

Information about Geographic Areas

Background (for Questions 20-23)—♦ Paragraph 38 of Statement 131 provides requirements for enterprise-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. ♦ Paragraphs 104-107 provide the Board's rationale for including those disclosures. Paragraph 104 states:

Analysts said that information about revenues from customers in different geographic areas assists them in understanding concentrations of risks due to negative changes in economic conditions and prospects for growth due to positive economic changes. They said that information about assets located in different areas assists them in understanding concentrations of risks (for example, political risks such as expropriation).

20. Q—Should the supplemental geographic disclosures be based on the "management approach" (that is, using the amounts and measurement principles that management uses to evaluate the performance of an entity's operations in foreign countries)?

A—No. Unlike other provisions of Statement 131, 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 38 of Statement 131. That paragraph states that "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."

21. Q—♦ Paragraph 38 requires disclosure of revenues from external customers attributed to all
foreign countries in total from which the enterprise derives revenues and separate disclosure of revenues from external customers attributed to an individual foreign country if material. How should those revenues be determined?

**A**—An 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. As stated in ♦ paragraph 106 of Statement 131:

*The Board decided to provide flexibility concerning the basis on which enterprises attribute revenues to individual countries rather than requiring that revenues be attributed to countries according to the location of customers. The Board also decided to require that enterprises disclose the basis they have adopted for attributing revenues to countries to permit financial statement users to understand the geographic information provided.*

22. **Q**—♦ Paragraph 38 requires disclosure of long-lived assets in geographic areas. What is meant by the term *long-lived assets*? Would intangible assets be included in that disclosure?

**A**—Statement 131 does not define what is intended to be included in long-lived assets. In addition, the provisions of Statement 131 allow for flexibility and judgment by the preparer. However, the purpose of the enterprise-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 was that long-lived assets are potentially at greater risk because they are difficult to move and are relatively illiquid. Therefore, the FASB staff believes that "long-lived assets," as that phrase is used in paragraph 38, implies hard assets that cannot be readily removed, which would appear to exclude intangibles. [Revised 9/01; 5/03.]

23. **Q**—Subsequent to the introduction of the European Monetary Union (EMU), which is intended to result in a single economic community, will geographic information by individual country still be required for the European countries that participate in the EMU?

**A**—Yes. The geographic information specified by ♦ paragraph 38 of Statement 131 is required, if material, by *country*. Paragraph 38 also states, however, that an entity may always provide, "in addition to the information required by this paragraph, subtotals of geographic information about groups of countries."
Endnotes

1 (Popup - Footnote *)
Q&A 131 Footnote *—At the date of issuance of this implementation guide, Noreen A. McPartland was a practice fellow at the FASB. The positions and opinions in this implementation guide were hers. Revisions to this implementation guide have been made by current members of the FASB staff. Official positions of the FASB are determined only after extensive due process and deliberation.

2 (Popup - Footnote a)
Q&A 131 Footnote a—[Both Statements 14 and 21 were superseded by Statement 131.]

3 (Popup - Footnote 1)
Q&A 131 Footnote 1—Threshold calculations are as follows:

<table>
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<tr>
<th></th>
<th>Prior to Aggregation</th>
<th>Subsequent to Aggregation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Combined reported profits</td>
<td>21.0</td>
<td>16.0</td>
</tr>
<tr>
<td>Combined reported losses</td>
<td>(6.0)</td>
<td>(1.0)</td>
</tr>
<tr>
<td>Greater absolute amount</td>
<td>21.0</td>
<td>16.0</td>
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<tr>
<td>10 percent threshold</td>
<td>2.1</td>
<td>1.6</td>
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</tbody>
</table>