

# GRAP 18

## *Segment reporting*




Accounting Standards Board





# Disclaimer

***The views and opinions expressed in this presentation are those of the individual. Official positions of the ASB on accounting matters are determined only after extensive due process and deliberation.***





# Overview

- What is a segment?
- What accounting problem does GRAP 18 solve?
- What are the key principles of GRAP 18?
- Arrangements for first time adoption?
- Potential implications?



# What is a segment?



# Definitions

- A segment is an activity of an entity:
- a) that generates economic benefits / service potential (incl. relating to transactions between activities of same entity);
  - b) whose results are regularly reviewed by management to make decisions about resources to be allocated to that activity & in assessing its performance; and
  - c) for which separate financial information is available



# Examples # 1 Definition

- Public Entity X identifies the following “units” within the entity:

1. Sale of goods
2. Delivery of services
3. Administration

The entity assesses the units for segment reporting purposes.

# Examples # 1 Definition

Unit	Generate EB / SP	Results regularly reviewed by management	Separate financial information available
1. Sale of goods	✓	✓	✓
2. Delivery of services	✓	✓	✓
3. Administration	✗	✗	✓

Only sale of goods and delivery of services are segments as defined.

Administration does not meet the definition of a segment.

# Definitions (cont.)

What  
if?

Entity has  $>1$  set of activities?

(E.g. different lines of goods & services, across different geographical areas)

- Consider factors to identify if single set:
  - Nature of activities
  - Existence of managers responsible therefore
  - Other information presented to them
- If more than one:
  - May report more than one set separately or as matrix
  - May adopt primary & secondary set with ltd. disclosures of secondary set



# Example # 2 Segment matrix

Public Entity Y identifies two sets of segment information to be appropriate for reporting:

1. Lines of goods/services
2. Geographical location

The entity presents the information in a matrix.

R'mil	Province 1	Province 2	Province 3
Sale of goods	100	80	150
Delivery of services	20	25	15



**What accounting problem  
does GRAP 18 solve?**



# What is the problem?

- Aggregated information in AFS may not provide information about entity's:
  - specific operational objectives
  - major activities
  - resources devoted to & costs of those objectives & activities



Necessary to report disaggregated financial & non-financial info for accountability & decision making



# What are the key principles of GRAP 18?

# What are the key principles?

Activity	Principle
<b>How to report on segments?</b>	<ul style="list-style-type: none"><li>• Separately each segment, or</li><li>• Aggregated</li></ul>
<b>What information should be disclosed?</b>	<ul style="list-style-type: none"><li>• General</li><li>• Surplus / deficit, assets, liabilities</li><li>• Reconciliations</li></ul>
<b>How should information reported be measured?</b>	<ul style="list-style-type: none"><li>• Use the measure reported to management</li></ul>
<b>What are entity-wide disclosures?</b>	<ul style="list-style-type: none"><li>• Information about geographical areas</li></ul>

# Reporting on segments

## Segments that meet definition reported

- Each segment separately; OR
- Aggregate 2 / more segments if:
  - Similar economic characteristics AND
  - Share majority of:
    - Nature of goods / services
    - Type / class of customer / consumer
    - Methods used to distribute goods / services
    - Nature of regulatory environment (if applicable)

OR

- Individually insignificant & practical limit

# Disclosure

Information to enable users to evaluate nature & financial effects of activities & economic environment operates it

General information	Segment surplus / deficit, assets, liabilities, and basis of measurement	Reconciliations
Factors used to identify segments	A measure of surplus / deficit	Total reportable segments' information to entity information for:
Aggregation and basis, if applicable	A measure of assets and liabilities, <b>if</b> reported to management	<ul style="list-style-type: none"><li>- Revenue</li><li>- Surplus / deficit</li><li>- Assets (if applicable)</li><li>- Liabilities (if applicable)</li><li>- Every other material amount disclosed</li></ul>
Types of goods/services	Information on items included in surplus / deficit and segment assets, or otherwise reported to management	

# Measurement

**Measure reported to management to make decisions about allocating resources and assess performance**

- Include adjustments and eliminations in AFS and allocations of revenue & expenses to determine surplus / deficit ONLY IF included in what's used by management
- Similar for assets and liabilities where applicable
- Allocations to segments – reasonable basis
- Management uses one measure = use that measure
- Management uses >1 measure = most consistent with AFS
- Provide explanation of measurement of segment surplus / deficit, assets and liabilities



# Example #3 Measurement

Management of Public Entity Z measures surplus / deficit both on the cash and the accrual basis in assessing segment performance and deciding how to allocate resources.

Management assesses that the measurement principles of the accrual basis are most consistent with those used in measuring the corresponding amounts in the entity's financial statements.

The accrual measure of surplus or deficit is therefore used in the segment report.

# Example #4 Measurement

Public Entity Y has three segments that share a leased asset in their production processes. The hours that each segment uses the asset on a monthly basis are fixed as follows:

Segment 1: 50 hours

Segment 2: 100 hours

Segment 3: 20 hours

Management determines it more appropriate to allocate the lease expense based on the hours each segment uses the asset, rather than allocating the expense equally.

# Measurement

## Restatements

- Entity changes structure of internal organisation causing composition of reportable segments to change
  - Restate corresponding information for earlier periods & disclose that has done Available / cost to develop not excessive
- If not restated = disclose current period segment information on both old and new basis Available / cost to develop not excessive

# Entity-wide disclosures

Applies to all entities, but only if not provided as part of segment report, or reported elsewhere in financial report.

## Geographical areas

- Disclose areas in which operates relevant for decision-making, including foreign countries
- Report following attributable to geographical areas:

- External revenues from exchange and non-exchange transactions
- Total expenditure
- Non-current assets (excl. e.g. financial instruments, post-employment benefit assets)

-> Amounts based on information used for AFS.

Available / cost to  
develop not  
excessive



# What are the arrangements for first time adoption?



# Transitional provisions

- All provisions of GRAP 18 applied on / after effective date, except items not measured i.a.w. applicable Standards as a result of transitional provisions under those Standards
- Comparative segment information need not be presented

# Effective date

1 April 2019

- Trading entities
- Parliament
- Provincial legislatures

1 April 2020

- Municipalities
- Entities under the ownership control of a municipality



# Potential implications?



# Potential implications

- Replaces GRAP 18 issued March 2005 (based on IPSAS)
- Now based on IFRS 8 *Operating Segments*
  - Eliminated requirement to separate primary & secondary segments
  - Simplified measurement requirements
  - Introduced required disclosure on geographical areas

Simplified



# Stakeholder outreach and communication



# Outreach activities

- Continuous promotion of GRAP by improving outreach to stakeholders (workshops, meetings, seminars, SAICA webinars)
- Stakeholders should liaise with ASB when requiring any engagements
- Newsletters & Meeting Highlights
- Handbook

# Translation

- Standards translated into isiZulu, Sesotho and Afrikaans
- The official version is the English language version
- Available on website

# Website

- Overview of changes made to reporting framework for 2018 onwards.
- Three set of Standards:
  - Those entities with a December year-end
  - The Standards applicable for the current year
  - The Standards applicable for the next financial year
- Please register on website if you want to be advised of changes:

<http://www.asb.co.za/GRAP/Subscribe-to-email-alerts>



# Submitting comments

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**THANK YOU**





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