MODERN TRENDS OF EXTERNAL AND INTERNAL SEGMENT FINANCIAL REPORTING

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Summary: Segmental financial reporting is crucial for realizing the lasting competitive advantage of an entity. Modern business conditions require businesses to adapt and enhance the organization's business performance and specifics to survive in the market. In order to increase the efficiency of management and decision-making in large business entities, there is a need to divide or decentralize the business entity. These separate parts - segments produce results and significantly participate in the overall business of the entity to require separate information for each segment separately. Investigation of financial reporting issues by business segments is current, in contemporary business conditions, for external and internal users of financial statements. This paper will identify the term segment as well as the information required to be disclosed by business segment, in accordance with International Financial Reporting Standard 8 - Business Segments, which has replaced International Accounting Standard 14 - Segment Reporting. IFRS 8, in relation to IAS 14, introduced a correspondence between internally reported segments and externally reported segments, because everything that is relevant to internal users of information is considered to be relevant to external users as well. This contributes to a different approach in defining organizational units - business segments and harmonization of external and internal financial statements.

Keywords: financial reporting, decentralization, segments, IFRS 8 - Business segments, harmonization

INTRODUCTION

The financial statements are the result of the collection, analysis and processing of financial data. They are used by different stakeholders to improve understanding of the business of the company and to make timely and accurate business decisions, thereby reducing the risk of doing business. The qualitative traits that are expected from financial reporting for the entire entity are also expected from financial reporting by business segment. Segmental financial reporting is a specific form of financial reporting for the business entity as a whole, with a breakdown of the business entity and disclosure of information about business segments.

Segment reporting is governed by IFRS 8, effective 1 January 2009. Replacing IAS 14 and supplementing some of its deficiencies, such as segment information derived from financial statements of financial statements, and after introduction, from information used by managers to manage IFRS 8 only applies to entities whose business listed on debt or equity instruments on the stock exchange or on business entities that are in the process of applying to enter regulated markets. If an entity does not meet any of the above criteria, the information presented in the financial statements should not be called segment information. Financial reporting by business segments must be timely and of good quality, as it provides greater chances to adequately assess the nature and financial effects of business activities of business segments and the entity as a whole by users of financial statements.

1. SEGMENT REPORTING FRAMEWORK

It is well known that International Accounting Standards are primarily intended for external users of accounting information, such as current and potential investors, government, government institutions, customers, suppliers, banks - creditors, citizens and others. Within the business entity, we come across a different management structure, and managers (top management, middle management and lower management) are emerging as the main users of accounting information.

The financial statements must be such that users can understand and use the information to make economic decisions. Detailed monitoring of business transactions measured through income, expense and asset value at different levels of reporting should meet the ever-growing demands for information. In this context, we also report on individual parts of a business entity, ie by segments.

Segment reporting is a significant area of financial reporting and is governed by the International Financial Reporting Standard 8 - Business Segments (IFRS 8), which replaced International Accounting Standard 14 - Segment Reporting. What were the requirements of IAS 14 and what has changed in segmental financial reporting by applying IFRS 8 in relation to IAS 14 is summarized in Table No.1.

Table 1: Overview of key differences between IFRS 8 and IAS 14

The essence of standards	**IFRS 8**	**IAS 14**
Who applies the standard?	Businesses whose debt or equity instruments are publicly traded, or which submit or are in the process of submitting financial statements to a regulatory organization for the purpose of issuing any class of instruments on the public market.	Businesses that publicly trade securities or are in the process of issuing securities in the public securities market.
What is a business segment?	Business activities that generate revenue and cause expenses, the results of which are regularly reviewed by the chief management and for which specific financial information is available.	Components based on business or geographic features, which participate in risk and return, which differentiate them from other components.
What business segment information is being reported?	Reported information is information that management uses to run a business.	Reported information is the financial information presented in the consolidated financial statements.

What are the metrics based on disclosure of business segments?	Business segment disclosures are based on management information that is reported to the parent management body.	Segment disclosures are based on IFRS compatible financial information.

Source: Ivana Medved PhD Thesis, Improving Segmental Financial Reporting with Contemporary Cost Accounting Approaches, p. 50

This IFRS should be applied to[76]:

(a) separate or separate financial statements of an entity:

(i) whose debt or equity instruments are traded in the public market (domestic or foreign stock exchanges or over-the-counter markets, including local and regional markets), or

(ii) who submits, or is in the process of filing, its financial statements with the Securities and Exchange Commission or other regulatory organization for the purpose of issuing any class of instruments in the public market; i

(b) the consolidated financial statements of the group with the parent company:

(i) whose debt or equity instruments are traded in the public market (domestic or foreign stock exchange or OTC, including local and regional markets), or

(ii) which submits or is in the process of filing consolidated financial statements with the Securities and Exchange Commission or other regulatory organization for the purpose of issuing any class of instruments in the public market.

It is also important to point out that this IFRS regulates who may not disclose information as segment information, which are entities that do not apply IFRS 8.

2. WHAT IS A BUSINESS SEGMENT?

Business segments are an integral part of a business entity that performs various business activities, generates revenue and requires expenses, and for which there is a need for special, separate reporting in the function of better information. The results of their business are analyzed by business decision makers with the purpose of allocating resources and evaluating the business.

So this is part of the subject:

A. carrying out business activities from which it may generate income and expenses, including income and expenses relating to transactions with other constituent parts of the same entity;
B. segment business results are regularly reviewed and reviewed by the business decision maker (CEO or board member most often, and may be a group of CEOs or others, therefore not necessarily management) of a business entity that otherwise makes business decisions, to make resource decisions to be segmented and evaluated for its business and
C. for which separate financial information exists.

Every part of an entrepreneur can also be a business segment if they can generate income on their own, and there are costs and expenses involved. Parts of the business that are not currently earning revenue but expecting it in the future are also referred to as business segments.

IFRS defines the term "chief business decision maker" which actually means a

[76] Federation of Accountants and Auditors of FBiH, "International Financial Reporting Standard 8 - Business Segments", http://www.srr-fbih.org/File/Download?idFi=269

function and not necessarily a member of the management board. It is a function that allocates resources to the business segments of an entity and evaluate their operations. Often an entity's chief business decision maker is its CEO or board member, but it can also be a group of CEOs or others. However, this does not mean that a major business decision maker cannot be a manager of one or more business segments. The segment manager directly responds to the "top business decision maker" with him / her regularly to discuss:

A. Business,
B. financial results, and
C. segment forecasts or plans.

Each business entity that is required to report by segment is required to report separately on the information of each business segment. It is also possible to merge two or more business segments within one entity but in different territorial areas or within one territorial area by business segment.

2.1. SEGMENT REPORTING

A business entity is required to report separately on the information of each business segment. Reporting quality by business segment requires the same qualitative characteristics that are expected from a quality official financial reporting of a business entity. An entity shall provide separate business segment information that meets any of the following quantitative restrictions[77]:

A. Segment revenue reported including sales to external customers and intra-segment sales or transfers is 10 percent or more of total revenue, internal and external, of all business segments.
B. The absolute amount of segment profit or loss shown is 10 percent or more of the absolute value

   - total reported profit of all business segments that did not show loss and

   -shown the total loss of all business segments that reported the loss.

   C. Business segment assets are 10 percent or more of the total assets of all business segments.

If there are segments within a business entity that do not meet these quantitative thresholds for defining a reporting segment and they can be considered reporting segments if management is satisfied that information on all segments will be useful to users of the financial statements. The exact number of optimal reporting segments has not been determined, and if the number of segments is greater than ten, the entity should consider whether the limit of convenience is reached.

2.2. EXTERNAL AND INTERNAL SEGMENT FINANCIAL REPORTING

External segmental financial reporting involves reporting by profit centers, whose managers have the authority to decide the cost, revenue and result, meaning that they have complete business under their control, so it is understandable that they are controlled on the basis of profit results[78] and investment centers, in which managers have the authority to control and decide on costs, revenues and results, as well as the amount and type of investment, so their results are controlled by the rate of return or residual profit.[79] Segmental financial reporting in profit and investment centers is more complex than other areas of responsibility, as it involves reporting on profitability, that is, return on capital

[77] Federation of Accountants and Auditors of FBiH, "International Financial Reporting Standard 8 - Business Segments", http://www.srr-fbih.org/File/Download?idFi=269

[78] Bibuljica H., Neziraj E., (2013), Accounting for Managers, Pejë: Haxhi Zeka Center for Scientific Research and Science, p.100

[79] Op. quotation, p.100

employed (borrowed funds). Financial reporting for profit and investment centers involves, first and foremost, measuring and disclosing the value of inventories, revenues, costs and results. Accordingly, a profit and loss account is prepared at the profit center and at the investment center a profit and loss account and balance sheet.

Internal segment financial reporting is applied to all identified narrow sections of a business entity and is not subject to official normative regulation, but is organized in accordance with the specific business circumstances and needs of the business entity. Internal reporting, formal and substantive, may be identical to formal external reporting, but also in a specific, tailored management need. Thus, in addition to investment and profit centers, internal segmental financial reporting also reports by areas of responsibility such as: cost centers, revenue centers, budgeted expenditure centers. It is possible to report at lower levels within a whole, by products, product groups, large customers, sales channels, markets, regions, etc. Financial reporting of the area of responsibility for internal needs typically involves different types of short-term reports on segment accomplishments and segment manager accomplishments.

Segment financial reporting goals are to meet the information needs of internal and external users of segment accounting information through:

- determination of (un) business success of segments and their contribution to (un) success of the whole business entity
- planning and control of costs, revenues, results, ie monitoring, above all, economy and profitability of segments
- motivating managers and employees to achieve the goals of the business entity through the achievement of the goals of the segments
- fulfillment of requirements related to communication and information between segments and / or segments and the top management of a business entity
- monitoring of the execution and the resulting deviations for the purposes of determining the responsibility for (un) success in the segment business and more.

IFRS 8 - Business Segments, defines the criteria by which business segments are identified, which segments are reported, how the segments are grouped, what information is disclosed, how profit or loss, assets and liabilities are reported, how the measurement is carried out. reconciling, revising previously published information, and how information about products and services, geographical areas and major customers is disclosed.

3. PUBLISHING INFORMATION FROM BUSINESS SEGMENTS

Publication is an integral part of the financial reporting process and is intended to be of good quality to the various users. An entity is required to disclose information that enables users of its financial statements to evaluate the nature and financial performance of the business activities of the business environment in which it operates.

Information to be disclosed when reporting on business segments:

1. General information,
2. Information on profit, loss, assets and liabilities, and then
3. Information on products and services,
4. Information on territorial areas,
5. Significant Customer Information.

Of the general information, the following should be published:

A. the factors on the basis of which the entity determined its reporting segments, and
B. the types of products and services on which each reporting segment generates its revenue.

From information on profit, loss, assets and liabilities, an entity is required to report the profit or loss and the value of the total assets and liabilities of each reporting segment. Also, an entity is required to disclose the following information for each reporting segment in the case of amounts included in the segment profit or segment loss indicator reviewed by the chief decision maker or regularly reported to him / her, although not included in the segment profit or segment loss indicator:

A. revenue from external customers,
B. income from transactions with other business segments of the same entity,
C. interest income,
D. interest expenses,
E. depreciation of tangible and intangible assets,
F. material items of income and expense disclosed in accordance with paragraph 97 of IAS 1 Presentation of Financial Statements,
G. the entity's share in the profit or loss of associates and joint ventures accounted for by the equity method,
H. the cost of income taxes or income and
I. material non-monetary items, except for amortization of tangible and intangible assets. As for interest income, an entity is required to report interest income separately for each reporting segment, unless most of the segment's income is comprised of interest. In doing so, the chief business decision maker relies primarily on net interest income to evaluate the business performance of the segment and make decisions about the resources to be allocated to that segment. In this case, the entity may report the segment's interest income minus interest expense, which it is obliged to disclose. An entity is required to disclose the following amounts for each business segment if they are included in the segmental asset indicator reviewed by the lead business decision maker or regularly reported to them, even if they are not included in the segmental asset indicator:

A. the amount of investments in associates and joint ventures accounted for by the equity method and

B. amounts of increases in non-current assets other than financial instruments, deferred tax assets, post-employment benefit benefits, and rights arising from insurance contracts.

4. MEASURING ITEMS WITHIN THE BUSINESS SEGMENTS

The amount of each segment item that is posted is a benchmark that is presented to the lead decision maker so that he or she can make decisions about allocating resources to the segment and evaluate its business results.

Adjustments and eliminations made in the preparation of an entity's financial statements and the allocation of income, expense, profit or loss are taken into account in determining segmental profit or segmental loss only if they are included in the profit or loss indicator of that segment used by the chief business decision maker. Similarly, the Segment Report shows only those items of assets and liabilities that are included in the segment assets and segment liabilities indicators used by the chief business decision maker. If amounts are allocated to reported segmental profit, or reported segmental loss, segmental assets or segmental liabilities, they are allocated reasonably.

If a major business decision maker uses only one indicator of profit or loss, assets or liabilities of that segment in assessing the operations of a business segment and in deciding how to allocate resources, segment profit or segment loss, then those assets and liabilities are reported by those indicators. If a major business decision maker uses multiple profit or loss indicators, assets and liabilities of a business segment, the reported indicators should be those for which management is satisfied that they are determined in accordance with the measurement principles that are most consistent with the measurement principles used in measuring the corresponding amounts in the financial subject reports.

An entity is required to explain segment profit or loss, segment assets and segment liabilities for each reporting segment and publish at least the following:

A. the accounting basis for all transactions between the reporting segments,
B. the nature of the differences between the profit or loss indicators of the reporting segment and the entity's profit or loss before tax or income and discontinued parts of the business,
C. the nature of the differences between the reporting assets of the reporting segment and the assets of the entity,
D. the nature of the difference between the reporting segment's liabilities and the entity's liabilities,
E. the nature of the differences in the methods used to determine the reporting segment's profit or loss from prior periods and the possible impact of these changes on the segment's profit or loss indicator,
F. the type and impact of each asymmetrically distributed item on reportable segments.

In order to properly measure items in the reporting segment, an entity is required to adjust each of the following items:

A. total revenue of the reporting segment with the entity's revenue,
B. total indicators of reporting segments with the profit or loss of an entity after tax (tax revenue) and discontinued business segments,
C. the total assets of the reporting segments with the assets of the entity,
D. total reporting segment liabilities with the entity's liabilities i
E. the totals of the reporting segments that relate to any other material information published with the matching amount reported for the entity.

In the event of a change in the internal organizational structure that led to a change in the composition of the reporting segments, relevant information for earlier periods, including reporting periods within the reporting year, is restated unless available and the cost of preparing them would not be too high. In doing so, the availability of information and cost estimates are determined for each individual item for publication. Upon changing the composition of the reporting segments, the entity is required to disclose whether it has restated the related items in prior periods.

4. MEASURING BUSINESS PERFORMANCE OF ENTERPRISES AND SEGMENTS

Measuring the business performance of an enterprise from a management accounting perspective is the opposite of measuring an enterprise's performance from a financial accounting perspective. Financial accounting views an enterprise as one organizational unit and generates a profit report for one business year, while management accounting views an enterprise as a business system composed of multiple segments and generates income statements for segments for monthly and quarterly periods. In the circumstances when monthly and quarterly management accounting reports are generated, the monthly enterprise-wide profit statement is actually a synthetic report (sum of all individual reports) of segment profit during that period.

Profit is a measure of return for business owners. Profit increases owner's equity and has a positive effect on other business metrics: liquidity, asset activity and indebtedness. However, the responsibility of segment management to profit at shorter intervals has some limitations. Restrictions relate to revenue and expense control options that are attributed to a segment of a liability center. The greater the degree of control, the greater the responsibility for the results achieved. One of the problems is that very little enterprise cost is solely influenced by one manager (eg raw materials and supplies are procured by central purchasing and cost is in production). Another significant problem in measuring performance at shorter intervals is due to the fact that some expenses are recorded and recorded only at the end of the business year, which can significantly affect the business results in December, and then these costs do not affect the January-November reports during the year. Costs that will be incurred only in December or exceptionally in a month during the year should be planned in equal monthly amounts with respect to past accounting periods.

CONCLUSION

The financial statements of the business entities present the basic information available to external users. This paper presents the role of reporting financial information by segment, that is, the parts of a business entity that is characterized by some elements that make it part of a whole that requires separate reporting. The basic starting point for financial reporting on business performance by narrower business segments (segments) is the organizational structure of the company. Accordingly, the result is monitored and interpreted, first of all, by profit and investment centers and within them by other lower observation segments such as cost centers, revenue centers, and analytics by product, product group, etc., but also by other Observation aspects such as the largest and most significant customers, sales channels, market segments, etc.

However, in order to be treated by a business segment, it must meet certain criteria in terms of income and expenses relating to business events with other entities as well as constituents of the same business entity, whose performance is regularly monitored by the management or other competent body of the business entity for the purpose of evaluation. their business, both individually and for the entire business entity. Business segment can also be considered as activities that will only achieve appropriate results in the future.

The intent of creating business segments is in better quality reporting for business decision makers. It enables, first of all, internal users to better understand the internal results achieved in the previous periods as well as a more realistic approach to assessing the chances and risks in the budgeting and control phase of internal results. Also, segment reporting provides a better basis for judging the total results achieved in the business system as a whole.

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