Comparative Analysis of Government and Corporate Segment Accounting Regulation

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1. Introduction

In Japanese local government, expenditure cuts and fiscal reconstruction is an important issue, so adequate decision-making is required to first.[1] And it is pointed out that selective use of financial information would have the rationality to political decision-making by some researcher. Namely, it is considered that primary interest of councilors is to gain the financial information for political decision-making, for example the decision of funding for a particular project or reduction of resources in policy, program, and project.

As one of the criteria that could contribute to deal with such matters, International Public Sector Accounting Standards Board (IPSASB) issued the IPSAS No. 18, *Segment Reporting* in 2002. It describes that the segments for which information is reported internally to the governing body and the most senior manager of the entity, for the purpose of evaluating the entity's past performance and making decisions about the future allocation of resources, will be adopted for external reporting purposes.

As preceding studies of segment information for the public sector, Grossi & Mori & Bardelli [2014] made the action-based research. They have done the analysis of segment information covering specific policy areas to display financial and non-financial information for the specific municipality. In there, target costing, and inter-organizational cost management in segment information is regarded as useful to the internal decision-making purposes.[2]

Therefore in the following, standards of accounting for the segment information are analyzed, and make a comparison with the standards of corporate segment accounting information. At first, in section 2, overview of the contents and the characteristics of IPSAS No. 18 (described as "IPSAS18" in the following) which defines the segment information for the public sector are indicated. Then next, in section 3, because IPSAS18 is based on IAS No. 14 which defines segment information of business accounting, differentiation between IPSAS18 and IAS No. 14 is revealed. And in section 4, because not IAS No. 14 but IFRS No. 8 has become latest regulation of segment information in corporate accounting, a comparison between IPSAS18 and IFRS No. 8 is made to reveal the important differences.

2. The regulations of Segment Information in IPSAS18

In this section, overview of the contents of the IPSAS18 which defines the segment information for the public sector is revealed. Especially, the characteristics of disclosure and measurement are explained and summarized.

2.1　The Significance of Segmentation in Government

An entity which prepares and presents financial statements under the accrual basis of accounting shall apply IPSAS18 in the presentation of segment information.[3)] In IPSAS18, segment is defined as a distinguishable activity or group of activities of an entity for which it is appropriate to separately report financial information (par. 9). Its purpose is evaluating the entity's past performance in achieving its objectives, and making decisions about the future allocation of resources (par. 9). Moreover, governments control significant public resources, and operate to provide a wide variety of services to their constituents in differing geographical regions (par. 10). Namely, it is established principles for segmentation to understand the entity's past performance and to identify the resources allocated to support the major activities of the entity.

IPSAS18 also indicates that the classifications of activities identified in budget documentation will reflect the segments for which information is reported to the governing body and the most senior manager of the entity (par. 14). This is because information about segments to enable them to discharge their managerial responsibilities and to evaluate the performance of the entity in achieving its objectives in the past, and to make decisions about the allocation of resources by the entity in the future (par. 14).

2.2　Segmentation based on Service and Geography

IPSAS18 defines that the types of segments reported to the governing body and senior manager of an entity are frequently referred to as "service segments" or "geographical segments" (par. 17). An accounting entity analyzes its organizational structure and internal reporting system to identify its service segments and geographical segments. Each of the features is as follows.

2.2.1 Service Segments

A service segment refers to a distinguishable component of an entity that is engaged in providing related outputs or achieving particular operating objectives (par. 17). As to setting service segments, IPSAS18 focused on service lines. Government departments and agencies are usually managed along service lines, because this reflects the way in which major outputs are identified, their achievements monitored, and their resource needs identified and budgeted (par. 18). And in order to determine the resources to allocate to each of outputs or activities, it is likely that reporting externally on the basis of service segments will also satisfy the requirements (par. 18)[4].

More specifically, outputs (goods and services) may be grouped as segments for financial reporting purposes include the primary operating objectives of the entity and the goods, services, and activities that relate to the achievement of each of those objectives, and whether resources are allocated and budgeted on the basis of groups of goods and services (par. 19).

2.2.2 Geographical Segments

IPSAS18 indicates that geographical segment is a distinguishable component that is engaged in providing outputs or achieving particular operating objectives within a particular geographical area (par. 17). So an entity may be organized and report internally to the governing body and the senior manager on a regional basis (par. 20).

Factors that will be considered in determining whether financial information should be reported on a geographical basis include (a) similarity of economic, social, and political conditions in different regions, (b) relationships between the primary objectives of the entity and the different regions, and (c) whether service delivery characteristics and operating conditions differ in different regions, and so on (par. 22).

2.3 Multiple Segmentation

Reporting on the basis of both service segments and geographical segments in the external financial statements to the governing body and senior manager often will provide useful information (par. 23). So in some cases, the segments may be reported separately or as a matrix.

As a comparison with IAS No. 14 (IPSAS18 is based on IAS No. 14), a primary and secondary segment reporting structure may be adopted with only limited disclosures made about secondary segments (par. 23). So IPSAS18 does not require the information about secondary segments except certain minimum disclosures about service or geographical segments.[5)]

2.4　Quantitative Thresholds

IPSAS18 does not specify quantitative thresholds that must be applied in identifying reportable segments.

As to the corporate accounting regulation, a quantitative threshold is defined. IFRS No. 8 describes that an entity shall report separately information about an operating segment that meets (a) its reported revenue is 10 per cent or more of the combined revenue, internal and external, of all operating segments, (b) the absolute amount of its reported profit or loss is 10 per cent or more of the greater, (c) its assets are 10 per cent or more of the combined assets of all operating segments (par. 13).

Also IFRS No. 8 indicates that there may be a practical limit to the number of reportable segments that an entity separately discloses beyond which segment information may become too detailed, and defines that as the number of segments that are reportable in accordance with regulation increases above ten, the entity should consider whether a practical limit has been reached (par. 19).

On the other hand, IPSAS18 is assumed to be a set of many segments than IFRS No. 8, due to the characteristics of public sector. Namely, IPSAS18 is intended to disclose segment information of the important programs and projects regardless of the 10% rules.

2.5　Joint Assets

In IPSASB18, assets that are jointly used by some segments must be allocated to segments if their related revenues and expenses are also allocated to those segments (par. 47). The way in which asset, liability, revenue, and expense items are allocated to segments depends on such factors as the nature of those items, the activities conducted by the segment, and the relative autonomy of that segment (par. 48). For example, an asset is included in segment assets if the related depreciation or amortization is included in measuring segment expense (par. 48).

2.6　Disclosure

IPSASB18 indicates that entity shall disclose segment revenue and segment expense for each segment. Segment revenue from budget appropriation, segment revenue from other external sources, and segment revenue from transactions with other segments shall be separately reported (par. 52).

For specific disclosure, IPSASB18 prescribes that entity shall disclose the total carrying amount of segment assets and liabilities for each segment (pars. 53-54). Also entity shall disclose the total cost incurred during the period to acquire segment assets that are expected to be used during more than one period for each segment (par. 55).

2.7 Summary of Section

As described above, in IPSAS18, "Segment" is defined as a distinguishable activity of an entity for which it is appropriate to separately report financial information. And "Segment" for which information is reported internally to the manager, for the purpose of evaluating the performance and for making decisions about the future allocation of resources, will be adopted for external reporting purposes.

And the feature of the provisions can be summarized as shown in the table below.

Characteristics	Contents
Service and Geography Segmentation	■The service segment is a component that is engaged in providing related outputs. ■The geographical segment is component that is engaged in providing outputs within a particular geographical area.
Quantitative Thresholds	■IPSAS18 does not specify "quantitative thresholds" that are applied in identifying reportable segments (regardless of the 10% rules).
Joint Assets	■Assets that are jointly used by some segments must be allocated to segments.
Disclosure	■Entity shall disclose segment revenue and segment expense for each segment. ■IPSAS18 doesn't require disclosure of segment result.

3. The Comparison of IAS14 and IPSAS18

In above, the characteristic of the regulations of IPSAS18 has been revealed. It is well known that IPSAS18 is based on IAS14 (revised 1997, so described "IAS14R" in the following) which is the regulation of corporate accounting. In this section, the process of enactment and content of such regulation is confirmed. In addition, the differences with IPSAS18 is revealed and considered the reason why it has occurred (In this section, for quote from IAS14R, it is shown in paragraph number in the text).

3.1　Regulations of IAS14R

3.1.1　Business Segment Approach

IAS14R defines a segment as the “Business segments”, which is a component of an entity that provides a single product or service and which is subject to risks and returns that are different from those of other business segments (par. 9). Therefore, business segment approach is an approach which eliminates the arbitrary segmentation of managers in order to perform the segmentation based on the inherent risk and return in business activities.[6)]

And IAS14R also defines the other segment as the “geographical segments”, which is a component of an entity that provides products and services within a particular economic environment and that is subject to risks and returns that are different from those of components operating in other economic environments (par. 9).[7)] Geographical segments may be based either on where the entity’s assets are located or on where its customers are located (par. 14).

To identify reportable segments, entity must grasp its organizational structure and internal reporting system. IAS14R prescribes that segmentation in internal financial reports prepared for the board of directors and chief executive officer should determine segments for external financial reporting purposes (par. 26). And only if internal segments are not along either product/service or geographical lines is further disaggregation appropriate (par. 26).

3.1.2　Element of Segment Reporting

In IAS14R, element of segment reporting is defined in detail. Segment revenue is a revenue which including intersegment revenue, that is directly attributable or reasonably allocable to a segment (par. 16). Moreover, it is included interest and dividend income and related securities gains only if the segment is a financial segment (par. 16).

Segment expenses is an expenses, which including expenses relating to intersegment transactions, that result from operating activities and are directly attributable or reasonably allocable to a segment. And it is included interest expense and related securities losses only if the segment is a financial segment (par. 16). But then an element which should not include segment expenses is described. There are interest losses on sales of investments or debt extinguishments losses on investments accounted for by the equity method income taxes general corporate administrative and head-office expenses that relate to the entity as a whole (par. 16).

As to information of segment assets and segment liabilities, those operating assets (liabilities) are directly attributed or reasonably allocated to a segment (par. 16).

3.1.3 Primary and Secondary Segments

The entity should determine whether business or geographical segments are to be used for its primary segment reporting format based on whether the entity's risks and returns are affected by the products and services it produces or by the fact that it operates in different geographical areas (pars. 26). The dominant source and nature of risks and returns shall govern whether its primary segment reporting format will be business segments or geographical segments (par. 26).

The basis for identification of the predominant source and nature of risks and differing rates of return facing the entity will usually be the entity's internal organizational and management structure and its system of internal financial reporting to senior management (pars. 26-27).

3.2 Comparison of IPSAS18 and IAS14R

As described above, IPSAS18 was developed based on IAS14R. However in spite of its situation, there are some important differences. Main differences indicated by IPSASB are as follows[8];

- ■As for defining segments, IPSAS18 requires entities to report segments on a basis appropriate for assessing past performance and making decision about the allocation of resources. IAS14R requires business and geographical segments to be reported.
- ■IAS14R requires disclosure of segment result, depreciation, and amortization of segment assets and other significant non-cash expenses. But IPSAS18 does not require the disclosure of segment result.
- ■IPSAS18 does not require the disclosure of information about secondary segments, but encourages certain minimum disclosures about both service and geographical segments.
- ■IPSAS18 does not specify quantitative thresholds that must be applied in identifying reportable segments.

In summary above, IAS14R is an emphasis on risk and returns by providing product or service, and requires disclosure of segment result, depreciation, and so on. Furthermore, IAS14R requires the disclosure of information about secondary segments. The points mentioned above is intended to be primarily a report to the external about the activities performance.

On the other hand, in the segment information of IPSAS18, assessing past performance and making decision about the allocation of resources is expected. Also IPSAS18 does not specify quantitative thresholds. IPSAS18 assumes a large number of segments that should be managed in the public sector. Namely, regardless the fulfillment of 10% rule, detailed segment information is intended.

4. Comparison of IPSAS18 and IFRS8 in Regulations of Segment Information

As described above, the regulation of IPSAS18 which stipulate governmental segment information is based on IAS14R. But in the current, IFRS No. 8 rather than IAS14R has become a main regulation of segment information in corporate accounting. So in this section, it is compared the regulation of IPSAS18 and IFRS8 to reveal the important differences.

4.1 Transition from IAS14R to IFRS8

In 1997, the revision of the segment reporting requirements resulted in the introduction of the “management approach” for identification of segments as well as measurement principles in US. And the revised standard of Financial Accounting Standards Board (FASB), *Disclosures about Segments of an Enterprise and Related Information* (SFAS131) was published.[9]

In previous, International Accounting Standards Committee (IASC) and FASB could not agree on a common oriented. As a result, IAS14 and SFAS131 differed in underlying. But despite of such a situation, the debate had continued with the aim to converge the standards.

Then in October 2002, IASB and FASB declared to a strengthen cooperation for the creation of high quality accounting standards in “The Norwalk Agreement”. And in July 2007, US Securities Exchanges Commission (SEC) was announced a policy to accept IFRS financial statements without any coordination with US-GAAP.

In that background, IASB revised the IAS14R in order to apply the management approach that has been adopted in SFAS131, and IFRS8 was published in November 2006. And in order to achieve conversions in a short period of time, IFRS8 have become almost the same content as SFAS131 except for the necessary changes.

4.2 Difference between IAS14R and IFRS8

As described above, the regulation of IPSAS18 is based not on IFRS8 but on IAS14R. So in this section, the important differences between IFRS8 and IAS14R are manifested.[10]

IFRS8 introduces the "management approach", which means that the defining of segments used for segment reporting prepared for internal management decisions. Segment information is considered as a highly relevant source for political decision maker to get a better understanding of the overall performance of organization.

The main components of the regulations of the IFRS8 are segmentation, disclosure, and measurement.[11] The differences of "segmentation" is that IFRS8 requires identification of operating segments on the basis of internal reports that are regularly reviewed by the entity's chief operating decision maker (CODM). On the other hand, IAS14R requires identification of two sets of segments, one based on related products and services and the other based on geographical areas (primary segments and second segments)

The difference of "disclosure" is that IFRS8 requires the amount reported for each operating segment item to be the measure reported to the CODM for the purposes of allocating resources to the segments and assessing its performance. By contrast, IAS14R requires segment information to be prepared in conformity with the accounting policies adopted for preparing and presenting the financial statements of the consolidated group.

And the difference of "measurement", is that IFRS8 does not define segment revenue, segment expense, segment result, segment assets and segment liabilities, but requires an explanation of how segment profit or loss, segment assets and segment liabilities are measured for each reportable segment.

Namely, as to the point of "operating segment", IFRS8 does not impose to choose primary segment on a product or geographical basis. On the other hand, in IAS14R, one basis of segmentation is primary and the other is secondary for entities. On the regulations of the IAS14R, entity should determine whether business or geographical segments are to be used for its primary segment reporting format based on whether the entity's risks and returns are affected by the products and services it produces or by the fact that it operates in different geographical areas (IAS14R, par. 26)[12]. Also on IAS14R, business segment or geographical segment qualifies as a reportable segment only if a majority of its revenue is earned from sales to external customers. In contrast, no distinction is made in IFRS8 between revenues and expenses relating to transactions with third parties.[13]

As to recognition of the operating segment, IAS14R encouraged the use of management view if they meet the test of similar risks and rewards, the implementation of the new standard just in some cases might produce some differences in the operating segments.[14] On the other hand, IFRS8 does not recognize the operating segments on the basis of risks and rewards.

As to the point of identification of the “disclosure” in IFRS8, operating segment item to be reported to the CODM, for the purposes of allocating resources to the segments and assessing its performance. Therefore additional line items, such as interest revenue and interest expense, are required to be disclosed if they are provided to the CODM. On the other hand, IAS14R specifies the items that must be disclosed for each reportable segment. Moreover, disclosures are required in IFRS8 when an entity receives more than 10% of its revenue from a single customer. In this case, entity must disclose this fact, the total amount of revenue earned from each such customer, and the name of the operating segment that reports the revenue.[15)]

As to the point of identification of the “measurement”, IFRS8 does not define segment revenue, segment expense, segment result, segment assets and segment liabilities, and it seek an explanation of how measure for each reportable segment. So entity must disclose an explanation of how it determined its reportable operating segments, and the basis on which the disclosed amounts have been measured. IFRS8 requires that the amount of each segment item reported is the measure reported to the CODM in internal reports, even if this information is not prepared in accordance with the IFRS accounting policies of the entity.[16)] In contrast, IAS14R requires the segment information to be prepared in conformity with the entity’s accounting policies for preparing its financial statements.

4.3　Comparison of IFRS8 and IPSAS18

In corporate accounting, the criteria of segment information have shifted from IAS14 to IFRS8. But the regulation of IPSAS18 is based not on the IFRS8 but on the IAS14R. Therefore in the following, the important difference between IFRS8 and PSAS18 are clarified.

4.3.1　The Concept for Segmentation

Historically speaking, IASB issued the IFRS8 and introduced “management approach” in it. It is defined that an operating segment is a component of an entity whose operating results are regularly reviewed by the entity’s CODM to make decisions about resources to be allocated to the segment and assess its performance (IFRS8, par. 5).

Also IPSAS18 stipulates that a segment is a distinguishable activity of an entity for which it is appropriate to separately report financial information for the purpose of evaluating the entity’s past performance in achieving its objectives, and making decisions about the future allocation of resources (IPSAS18, par. 9). Therefore, because evaluating the past performance and making decisions about the future allocation of resources are operated by entity's CODM in the regulation of IPSAS18, segmentation concept of it is approximate to IFRS8.

4.3.2 Business and Geographical Segments

However, as another concept of segmentation, IPSAS18 describes that some types of segments reported to the governing body and senior manager of an entity are referred to as service segments or geographical segments (par. 17). Also IAS14R requires business and geographical segments to be reported.

On the other hand, as described above, IFRS8 requires the information reported for each operating segment regularly reviewed by the entity's CODM to make decisions. As to those segments, service segments or geographical segments are not required. Therefore, in this point of segmentation, IPSAS18 is influenced by the regulation of IAS14R.

4.3.3 Disclosure of Segment Result

IAS14R requires disclosure of segment result, depreciation, and amortization of segment assets and other significant non-cash expenses. But IPSAS18 does not require such information.

Connection of this point, IFRS8 also requires disclosure of segment result. According to the regulations, an operating segment has a "segment manager" who is directly accountable to and maintains regular contact with the CODM to discuss financial results.

Generally speaking, performance measurement by precise cost calculation is not required as compared to the company in public sector, so aggressive display of non-cash expenses cannot be sought in IPSAS18.

4.3.4 Disclosure of Secondary Segments

As described above, both IPSAS18 and IFRS8 does not require the disclosure of information about secondary segments, but encourages certain minimum disclosures about both service and geographical segments. IPSAS18 insists that the standard should adopt the view that disclosure of minimum information about both service segments and geographical segments is likely to be useful to users for accountability and decision-making purposes (par. 66).

Therefore, if an entity reports segment information on the basis of the major goods and services the entity provides, it is also encouraged to report segment expense, total carrying amount of segment assets and so on for each geographical segment that is reported internally to the governing body and the senior manager of the entity.

5. Conclusion

In this paper, the main purpose of consideration is to reveal the regulation of governmental segment accounting, and to compare with corporate segment accounting. The difference of IPSAS18 and IAS14R are as follows;

- IPSAS18 requires to report segments on a basis appropriate for assessing past performance and making decision about the allocation of resources. IAS14R requires business and geographical segments.
- IAS14R requires disclosure of segment result, depreciation, and other non-cash expenses. But IPSAS18 does not require these.
- IPSAS18 does not specify quantitative thresholds that are applied in identifying reportable segments.

Namely, because IAS14R is the regulation of corporate accounting, it emphasis on risk and returns by providing product or service, and requires disclosure of segment result, depreciation, and so on. On the other hand, in the segment information of IPSAS18, assessing past performance and making decision about the allocation of resources is expected.

Then next, the difference of IPSAS18 and IFRS8 (the latest segment accounting regulations in corporate accounting) was revealed. The main points are as follows;

- IFRS8 introduces “management approach” which is defined segment where results are reviewed by the manager to make decisions. IPSAS18 also makes segmentation based on the evaluation and decision making by a manager (IPSAS18 doesn’t use the word of “management approach”).
- IFRS8 requires disclosure of segment result, depreciation, and non-cash expenses. But IPSAS18 does not require such information.

In IPSAS18, performance measurement by precise cost calculation is not required and display of non-cash expenses is not sought aggressively.

Note:

1) J. V. Helden describes that the interest of councilors in financial affairs is mainly determined by (1) how much money is needed for a certain project and how to procure it, (2) the trade-off between the reduction of resources and the consequences for policy programs, and so on (Helden [2014]).

2) Grossi et al. [2014], p. 43. And in the interview, interviewee insisted that segment reporting

must answer primarily to internal decision-making (*Ibid,* p. 39).

3) Deloitte Touche Tohmatsu [2012], p. 15.

4) Government is managed internally along service lines because this reflects the way in which major outputs are identified, and where this occurs the internal reporting system reflects a service segment structure (Deloitte Touche Tohmatsu [2012], p. 15).

5) IFA [2012], p. 552.

6) Namely, it is an approach of doing segmentation for each product or service which getting the revenue from external customers (Ito [2012], p. 529).

7) So business segment or geographical segment for which IAS14R requires segment information to be reported is defined as "reportable segment".

8) IFA [2012], p. 552.

9) European Commission [2007], pp. 1-2.

10) In many cases, the structure of operating segments will be the same under IFRS8 as under IAS14, because both defines "reporting segments" as the organizational units for which information is reported to key management personnel for the purpose of performance assessment and future resource allocation (Ernst & Young [2009], p. 4).

11) European Commision [2007], p. 2. Lucchese & Carlo [2012] describes that the most important difference between IFRS8 and IAS14R is the introduction of "management approach" that lead changes in the segment disclosures under three aspects, 1) recognition of the operating segment, 2) evaluation criteria, 3) mandatory accounting items to disclose. This is intended to be consistent with the main components of the regulations of the IFRS8.

12) The basis for identification of the predominant source and nature of risks and differing rates of return facing the entity will usually be the entity's internal organizational and management structure and its system of internal financial reporting to senior management.

13) Ernst & Young [2009], p. 4.

14) Lucchese & Carlo [2012], p. 5.

15) Ernst & Young [2009], p. 5.

16) This may result in differences between the amounts reported in segment information and those reported in the entity's financial statements (Ernst & Young [2009], p. 5).

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