IFRS 8

Operating Segments

The Management Approach to Segment Reporting — Including the Latest Amendments and IFRS 18 Impact

A Digital CFO Solutions Signature Presentation

BD CHATTERJEE

FCA · ACMA · ACS · DipIFR (ACCA UK) | Founder, Digital CFO Solutions

BDCHATTERJEE.COM

ROADMAP

What This Presentation Covers

Five building blocks — from the management approach through to the interim-reporting consequences of IFRS 18.

1. Foundations

The management approach, what qualifies as an operating segment, and the CODM.

2. Identifying Reportable Segments

The 10% quantitative thresholds, aggregation criteria, and the 75% test.

3. Measurement & Disclosure

General information, segment measures, reconciliations, and entity-wide disclosures.

4. Amendments & IFRS 18

Reconciling to the new subtotals, and where segment measures overlap with MPMs.

5. Practical Application

Common pitfalls, IASB activity, and a readiness checklist.

Key Takeaways

A one-page summary to anchor everything covered.

SECTION 1 / 5

PART ONE

Foundations of Segment Reporting

The management approach, what qualifies as an operating segment, and the role of the CODM.

CORE PRINCIPLE

See the Business the Way Management Sees It

IFRS 8 requires an entity to disclose information to help users evaluate the nature and financial effects of its business activities and the economic environments it operates in — using the same segments management uses internally.

1. **The “management approach” replaces a rules-based segment definition**
   Segments are identified based on the internal reports regularly reviewed by the chief operating decision maker, not by industry or geographic templates.

2. **This can produce segments that differ from a competitor's**
   Two entities in the same industry may report different segments if their internal management structures differ — that is a deliberate design feature, not an inconsistency.

3. **Segment information should reconcile to the primary financial statements**
   Even though segment measures may follow internal management reporting conventions, IFRS 8 requires reconciliation back to the entity's IFRS-compliant totals.

DEFINITION

Three Criteria, All Must Be Met

A component of an entity is an operating segment only if it satisfies all three conditions in the definition.

Earns revenue and incurs expenses

Including revenue and expenses from transactions with other components of the same entity.

Results regularly reviewed by the CODM

The component's operating results are reviewed by the chief operating decision maker to assess performance and allocate resources.

Discrete financial information is available

Separate financial information exists for the component, distinct from the rest of the entity.

WHO DECIDES

The Chief Operating Decision Maker Is a Function, Not a Title

The CODM is identified by the function performed — allocating resources and assessing segment performance — not by a specific job title.

Can Be a Person or a Group

Often the chief executive officer, but may be a group — for example, a management committee or executive team that collectively performs the function

The identity depends on facts and circumstances, not a formal organisational chart label

What matters is who allocates resources to, and assesses the performance of, the operating segments

Internal Reports Are the Evidence

The internal reports regularly reviewed by the CODM are the primary evidence of how segments are structured

A single set of reports may serve more than one basis of organisation — IFRS 8 uses the one management actually relies on to run the business

Board-level reporting is not automatically the CODM's report if a different internal report actually drives resource-allocation decisions

SECTION 2 / 5

PART TWO

Identifying Reportable Segments

The 10% quantitative thresholds, aggregation criteria, and the 75% sufficiency test.

THE 10% TESTS

Three Independent Thresholds — Any One Triggers Reportability

An operating segment is reportable if it meets any one of three quantitative thresholds, tested against the appropriate combined totals.

Test	Threshold	Compared Against
Revenue	≥10% of combined revenue, internal and external	Combined revenue of all operating segments
Profit or loss	≥10% of the greater, in absolute amount, of combined profit or combined loss	Combined reported profit of profitable segments vs. combined reported loss of loss-making segments
Assets	≥10% of combined assets	Combined assets of all operating segments

A segment need only clear one threshold to be reportable — it does not need to clear all three.

NUMERICAL ILLUSTRATION 1

Applying the 10% Thresholds Across Five Segments

Combined external + internal revenue across all segments is $500 million. Combined profit of profitable segments is $80 million; combined loss of loss-making segments is $20 million (the greater in absolute terms is $80 million).

Segment	Revenue ($m)	10% of $500m?	Profit/(Loss) ($m)	10% of $80m?	Reportable?
Alpha	220	Yes	45	Yes	Yes
Beta	140	Yes	20	Yes	Yes
Gamma	60	No	15	Yes	Yes
Delta	45	No	(20)	Yes	Yes
Epsilon	35	No	5	No	No

Four of the five segments clear at least one threshold and must be reported. Epsilon clears neither the revenue nor the profit test, so it falls into “all other segments” unless voluntarily reported.

Aggregation Is Permitted, Never Required

Two or more operating segments may be aggregated into a single reportable segment if they have similar economic characteristics and are similar across specified qualitative factors.

Nature of products and services

The segments offer similar products or services.

Nature of production processes

Similar processes are used to produce or deliver those products or services.

Type or class of customer

The segments serve a similar type or class of customer for their products and services.

Distribution methods

Products or services are distributed through similar methods.

Regulatory environment

If applicable, the segments operate under a similar regulatory environment — for example, similar banking or insurance regulation.

THE SUFFICIENCY CHECK

Reportable Segments Must Cover at Least 75% of Revenue

If the total external revenue reported by identified operating segments is less than 75% of the entity's total revenue, additional operating segments must be identified as reportable — even if they do not individually meet a 10% threshold.

Identify segments meeting a 10% test ▶ **Sum their external revenue** ▶ **Compare to 75% of total external revenue** ▶ **Add segments until 75% is reached**

"All Other Segments" Catch-All

Operating segments that do not meet any quantitative threshold, and are not separately reported, are combined and disclosed as "all other segments" — with the sources of that revenue described. There is also a practical limit: if the number of reportable segments exceeds about ten, the entity should consider whether some should be combined.

SECTION 3 / 5

PART THREE

Measurement & Disclosure

General information, segment measures, reconciliations, and entity-wide disclosures.

Explaining How Segments Were Identified

Before any numbers are disclosed, IFRS 8 requires a qualitative explanation of how the reportable segments were determined.

1. **Factors used to identify reportable segments**
   Including the basis of organisation — for example, by product and service, geography, regulatory environment, or a combination.

2. **Types of products and services from which each segment earns revenue**
   A brief description sufficient for users to understand the nature of each segment's business.

3. **Any segments aggregated into a single reportable segment**
   Disclosed alongside the qualitative factors considered when applying the aggregation criteria.

Measured the Way the CODM Sees It — Not IFRS

The amount reported for each segment item is the measure reported to the CODM, even where that measure departs from IFRS recognition and measurement principles.

What Must Be Disclosed for Each Segment

A measure of profit or loss, and total assets, for every reportable segment

Segment liabilities, only if regularly provided to the CODM

Specific items — revenue from external customers, inter-segment revenue, interest revenue/expense, depreciation and amortisation, material non-cash items, tax expense/income, and material income/expense items — if included in the measure reviewed by the CODM, or otherwise regularly provided to the CODM

Explanation of Measurement

An entity must explain the basis of accounting for transactions between segments, the nature of any differences between segment measures and the equivalent entity measures, and the nature and effect of any asymmetrical allocations to segments — for example, allocating depreciation to a segment without also allocating the related asset.

Same Internal-Reporting Logic Applies

Segment assets and liabilities follow the same principle as segment profit or loss — reported as measured for the CODM, with an explanation of any changes in measurement basis from prior periods.

1. **Segment assets are disclosed if regularly reported to the CODM**

   Total assets for each reportable segment, plus the amount of investment in equity-method associates and joint ventures, and additions to certain non-current assets, if reviewed by the CODM.

2. **Segment liabilities are disclosed only if regularly reported to the CODM**

   Unlike segment profit and assets, liabilities are not mandatory unless the CODM regularly reviews that information.

3. **Measurement changes must be explained**

   If the basis of measuring segment profit or loss, assets, or liabilities changes from the prior period, the nature of the change and its effect must be disclosed.

Reconciliations Are Mandatory, Not Optional

IFRS 8 requires reconciliations between segment totals and the corresponding entity amounts — with every material reconciling item separately identified and described.

Total segment revenue

Reconciled to the entity's total revenue.

Total segment profit or loss

Reconciled to the entity's profit or loss before tax and discontinued operations (or the relevant IFRS 18 subtotal — see Recent Amendments).

Total segment assets

Reconciled to the entity's total assets, if segment assets are disclosed.

Total segment liabilities

Reconciled to the entity's total liabilities, if segment liabilities are disclosed.

NUMERICAL ILLUSTRATION 2

Reconciling Segment Profit to Entity Profit Before Tax

Reportable segments' profit measures reflect internal management accounting conventions that differ from IFRS — the reconciliation makes those differences explicit.

Reconciling Item ($'000)	Amount
Total reportable segments' profit or loss	84,600
Elimination of inter-segment profit	(1,200)
Unallocated corporate expenses	(9,800)
Share-based payment expense (not allocated to segments)	(3,100)
Fair value gains not included in segment measure	2,400
Entity's profit before tax	72,900

Each reconciling item is separately identified and described — a single unexplained “other adjustments” line does not satisfy the requirement.

Entity-Wide Disclosures Apply Even to a Single-Segment Entity

These disclosures apply regardless of how many operating segments an entity has — even an entity with only one reportable segment must provide them, unless the information is not available and the cost to develop it would be excessive.

Disclosure	What Is Required
Products and services	Revenue from external customers for each major product and service, or each group of similar products and services
Geographic areas	Revenue from external customers and non-current assets, both split between the entity's domicile country and all foreign countries in total (with material individual countries separately disclosed)
Major customers	Disclosure if revenue from transactions with a single external customer amounts to 10% or more of total entity revenue

The 10% Major Customer Test

A single external customer generating 10% or more of an entity's total revenue must be disclosed, along with the total revenue from that customer and which segment(s) report it.

What Counts as “A Single Customer”

Entities known to the reporting entity to be under common control are treated as a single customer

A group of entities known to be under common control — for example, a government and entities it controls — is also treated as a single customer

The identity of the major customer need not be disclosed — only the fact of the concentration and the revenue amount

Why It Matters to Users

Customer concentration is a significant business risk that segment-only disclosures would not otherwise reveal

Losing a major customer disclosed under this test can materially affect one or more reportable segments simultaneously

This disclosure sits alongside, not instead of, the geographic and product/service entity-wide disclosures

SECTION 4 / 5

PART FOUR

Recent Amendments & the IFRS 18 Impact

Reconciling to the new subtotals, and where segment measures overlap with MPMs.

THE NEW REQUIREMENT

Reconciling to the Restructured Income Statement

IFRS 18, issued April 2024 and effective for annual periods beginning on or after 1 January 2027, makes IFRS 8 a consequential amendment aligning the segment profit reconciliation with the new income statement structure.

What Changes in the Reconciliation

Total segment profit or loss is reconciled to the entity's relevant IFRS 18-specified subtotal — most commonly “operating profit” — rather than a generic pre-tax profit figure

This keeps the segment note consistent with the restructured statement of profit or loss that IFRS 18 introduces

Plan This Alongside the IAS 7 and IAS 34 Changes

The same IFRS 18 transition that moves the IAS 7 cash flow reconciliation to start from “operating profit”, and adds the IAS 34 interim MPM note, also reshapes the IFRS 8 segment reconciliation — finance teams should treat all of these as one integrated 2027 project, not separate work streams.

A NEW OVERLAP TO WATCH

When a Segment Measure Is Also a Management-Defined Performance Measure

IFRS 18 defines management-defined performance measures (MPMs) as subsets of income and expense subtotals used in public communications outside the financial statements — segment measures can fall into this category.

1 **Identify whether a segment profit measure is also communicated externally**

If a segment's profit measure (or a similar total) is used in investor presentations or press releases as a performance indicator, it may meet the MPM definition.

2 **MPM status triggers additional IFRS 18 disclosures**

A full reconciliation to the nearest IFRS-specified subtotal, with income tax and non-controlling interest effects, is required — on top of the IFRS 8 segment note.

3 **The two disclosure regimes are not automatically the same**

IFRS 8's segment reconciliation and IFRS 18's MPM reconciliation serve different purposes and have different mandatory content — review both checklists independently.

THE WIDER AMENDMENT HISTORY

IFRS 8 Has Been Refined Several Times Since 2006

Beyond the IFRS 18 consequential change, several targeted amendments have sharpened specific IFRS 8 requirements.

Amendment	What It Addressed
Aggregation of Operating Segments	Clarified the qualitative factors to be considered, and disclosed, when applying the aggregation criteria
Disclosure of Revenues and Expenses for Reportable Segments	Sharpened the specified items that must be disclosed for each reportable segment when regularly provided to the CODM
Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets	Confirmed that this reconciliation is required whenever segment assets are disclosed, closing a previous ambiguity

SECTION 5 / 5

PART FIVE

Practical Application

Common pitfalls, ongoing IASB activity, and a readiness checklist.

APPLICATION CHALLENGES

Where Segment Reporting Commonly Goes Wrong

Most IFRS 8 errors trace back to substituting a preparer's own judgement for what the CODM actually reviews.

Using an idealised CODM report

Building segments around how the entity “should” be organised, rather than the internal reports actually reviewed.

Skipping the 75% test

Stopping at whichever segments clear a 10% threshold, without checking they cover 75% of external revenue.

Aggregating on convenience, not criteria

Combining segments to reduce disclosure volume without satisfying the similar-economic-characteristics test.

Omitting reconciling item descriptions

Presenting a single unexplained adjustment instead of separately identifying and describing each material item.

Reconciling to the wrong subtotal

Continuing to reconcile to pre-tax profit instead of the applicable IFRS 18 subtotal once the 2027 transition applies.

Missing the major customer test

Overlooking common-control relationships that combine multiple entities into a single “major customer” for the 10% test.

IFRS 8 Remains Under Active IASB Attention

A Post-implementation Review confirmed IFRS 8 generally functions well, while identifying areas that continue to attract standard-setting and interpretation activity.

- The Post-implementation Review of IFRS 8 concluded the management approach works broadly as intended, while flagging comparability and aggregation-disclosure concerns raised by users.
- Targeted amendments on aggregation criteria, reportable-segment revenue and expense disclosures, and the assets reconciliation have followed directly from that review.
- The IFRS Interpretations Committee continues to issue agenda decisions touching IFRS 8, particularly around how the CODM function is identified in group structures — preparers should monitor these alongside the core standard.

READINESS CHECKLIST

Getting Ready for the First 2027 Segment Note Under IFRS 18

A practical sequence for finance teams preparing their segment disclosures through the IFRS 18 transition.

1. **Confirm the CODM's internal reports and segment structure are current**
   Re-document who performs the CODM function and which internal reports evidence the segment structure.

2. **Re-run the 10% thresholds and the 75% sufficiency test**
   Segment reportability should be reassessed each period, not carried forward automatically from the prior year.

3. **Map the segment profit reconciliation to the applicable IFRS 18 subtotal**
   Update reconciliation workpapers to tie to “operating profit” or the relevant subtotal, replacing the former pre-tax profit anchor.

4. **Screen segment measures for MPM status**
   Cross-check every externally communicated segment performance measure against the IFRS 18 MPM definition before the first 2027 reporting period.

BRINGING IT TOGETHER

Key Takeaways

The essentials to carry forward from this session.

The Management Approach Is Central

Segments follow what the CODM actually reviews — not an idealised or industry-standard structure.

Reportability Is a Two-Step Test

Clear a 10% threshold, then confirm reportable segments cover at least 75% of external revenue.

Reconciliations Must Be Explicit

Every material reconciling item is separately identified and described — no unexplained “other” lines.

IFRS 18 Reshapes the Reconciliation Anchor

From 2027, segment profit reconciles to the applicable IFRS 18 subtotal, and segment measures may also trigger MPM disclosures.

ABOUT THE AUTHOR

A Career Built on Making IFRS Understandable

BD

B D Chatterjee

FCA · ACMA · ACS · DipIFR (ACCA UK)

Teacher and Mentor to finance professionals worldwide

B D Chatterjee is a Chartered Accountant and financial thought leader with over 35 years of global experience spanning corporate finance, accounting standards, financial reporting, business valuation and financial due diligence. As a seasoned CFO, he has led finance functions across major corporations and now heads Digital CFO Solutions, a platform delivering institutional-grade IFRS, US GAAP and valuation workbooks alongside fractional CFO services.

Published Author

Author of the Pocketbook of IFRS series and other finance titles.

Guided Thousands

Through IFRS, US GAAP and valuation transitions worldwide.

Institutional-Grade Platforms

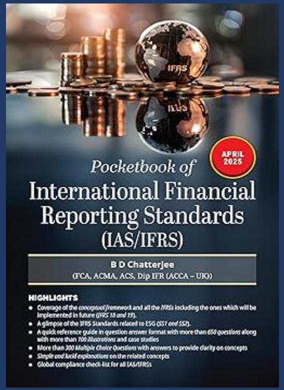
Excel-based CFO workbooks used by finance teams globally.

Digital CFO Solutions

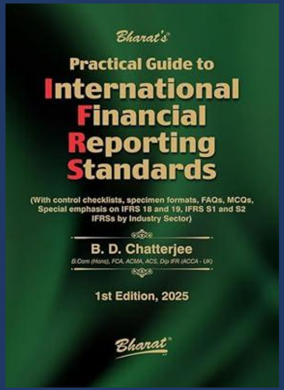
Institutional-grade workbooks, fractional CFO advisory, and published finance literature.

ABOUT THE AUTHOR

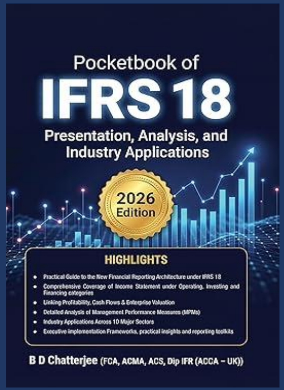
Books by B D Chatterjee — IFRS Library



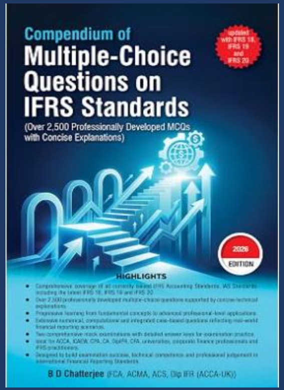
Pocketbook of International Financial Reporting Standards (IAS/IFRS)



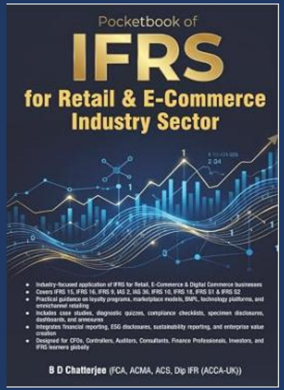
Practical Guide to International Financial Reporting Standards



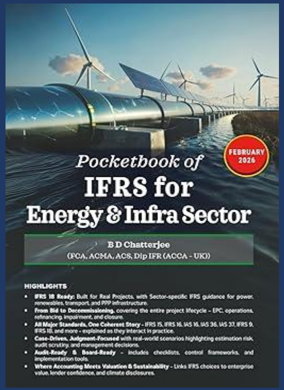
Pocketbook of IFRS 18 — Presentation, Analysis & Industry Applications



Compendium of Multiple-Choice Questions on IFRS Standards



Pocketbook of IFRS for Retail & E-Commerce Industry Sector



Pocketbook of IFRS for Energy & Infra Sector

International Financial Reporting Standards by Industry Sector

Pocketbook of IFRS for FMCG Industry

All titles available on Amazon (print & Kindle) · bdchatterjee.com/books