INTERNATIONAL ACCOUNTING STANDARD I4:
REPORTING FINANCIAL INFORMATION BY SEGMENT
AND ITS AUDIT IMPLICATIONS.

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PREFACE

International Accounting Standard (IAS) I4, Reporting Financial Information by segment, was originally approved by the Malaysian Association of certified Public Accountant (MACPA) for financial statements with accounting period beginning on or after January I983; but adoption of the standard was later postponed and a two years moratium was given. Recently MACPA confirmed that the standard is to be mandatory for financial statements with periods beginning on or after January I985.

Segmental information purports to aid users of financial statements in assessing the prospects and risks of a diversifying enterprise. However, the operation of a business enterprise depends on the cumulative effect of the components of the enterprise working together.

Thus the primary purpose of this paper is to evaluate the requirements of the standard and identify some of the audit issues arising from the issue of international Accounting Standard I4. Besides that, this paper will also look into the evaluation by users and preparers of financial statement and the merits and demerits of segmental reporting of financial statement to the corporate sector.

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I.0 INTRODUCTION

I.I Evolution of segment Reporting

The Origin of segment reporting requirements has been traced to the I964 hearing on economic concentration in American industry by Subcommittee on Antitrust and Monopoly of the senate Committee on the Judiciavy.[I] These hearings were particularly concerned with diversified companies or conglomerates, that is, companies that diversify into difference industries by acquisition or mergers. Testimony from the hearings included a recommendation that the American Securities of Exchange Commission "require corporations to disclose revenues and profit for each of the Operations engaged in".[2]

Reporting requirements for conglomerates became a topic of primary concern throughout the financial community in a short period of time. Business people, financial analysts and accountants alike became interested in the subject and the issue was widely aired at professional business meetings, in business and accounting literature and in news release since many financial statements of multidivisional corporations during that time are prepared on a consolidated basis, that is, the accounting results of various legal segments are aggregated into a set of financial statements encompassing the entire economic entity. Although investors and creditors recognize the importance of consolidated statements in evaluating overall coperate performance, the dis-aggregation of total corporate financial data can also be important in their financial analysis on evaluating risk and return as these two factors are significant in investment and credit decisions.

[I] K. Fred Skousen, "Chronicle of Events Surrounding the segment Reporting Issue," Journal of Accounting Research, 8 (Autumn, I970), p. 294.

[2] Ibid.