

34 BUSINESS ACCOUNTING STANDARD “SEGMENT REPORTING”

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I. GENERAL PROVISIONS

1. The objective of this Standard is to set out how information on segments shall be presented in financial statements. Such information would help its users better understand the entity’s performance, assess the risks and make more informed judgements about the entity in decision-making.

2. This Standard shall be applied by entities that prepare a complete set of financial statements and consolidated financial statements, if they can identify segments.

3. An entity, which voluntarily decides to provide information on segments in its financial statements, shall follow this Standard.

II. KEY DEFINITION

Reportable segment – a business or geographical segment for which information is required to be disclosed by this Standard.

Geographical segment – a distinguishable component of an entity that is engaged in providing products or 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.

Returns – a measure of efficiency of the entity's performance determined by comparing earned profit with a certain selected value - sales revenue, equity, assets, etc.

Segment – a distinguishable component of an entity that is subject to risks and returns that are different from those of other components.

Segment liabilities – liabilities that result from the operating activities of a segment and that are either directly attributable to the segment or can be allocated to the segment on a reasonable basis. Segment liabilities shall exclude income tax liabilities and (or) deferred tax liabilities.

Segment revenue – the relevant portion of sales revenue of the entity (group of entities), which is directly or on a reasonable basis attributable to the segment, presenting separately sales revenue from transactions with external customers and with other segments of the entity (group of entities).

Segment results – the difference between segment revenue and expenses.

Segment expenses – the relevant portion of cost of sales and operating expenses of the entity (group of entities), which is directly or on a reasonable basis attributable to the segment, presenting separately expenses incurred for earning revenue from sales to external customers and to other segments of the entity (group of entities).

Segment assets – assets of the entity (group of entities) that are directly employed in the operating activities of the segment or can be allocated to the segment on a reasonable basis. Segment assets do not include deferred tax assets and (or) excess payment of income tax.

Business risk – a risk of failing to achieve results expected by the entity due to uncertain future events.

Business segment – a distinguishable component of an entity that is engaged in the production of homogeneous or related products, sales of homogeneous or related goods or rendering of homogeneous or related services and that is subject to risks and returns that are different from those of other business components of the entity.

III. BUSINESS AND GEOGRAPHICAL SEGMENTS

4. Examples of factors to be considered in identifying business segments:
 - 4.1. the nature of offered products, goods or services;
 - 4.2. the characteristics of the production process;
 - 4.3. the structure of customers or clients;
 - 4.4. returns on offered products, goods or services;
 - 4.5. business risk related to production, sales of goods or rendering of services;
 - 4.6. methods used to distribute products or goods or to render services;
 - 4.7. legislation regulating the activities of entities.
5. Examples of factors to be considered in identifying geographical segments:
 - 5.1. similarity of economic and political conditions;
 - 5.2. links between operations pursued in different geographical areas;
 - 5.3. business risk in such economic environment;
 - 5.4. returns on offered products, goods or services provided in that economic environment.

IV. IDENTIFYING REPORTABLE SEGMENTS

6. A business or geographical segment shall be treated as a reportable segment, if a majority of its sales revenue is earned from sales to external customers and if it satisfies at least one of the following criteria:

- 6.1. its sales revenue makes up at least 10% of the total sales revenue of the entity (group of entities), including revenue from sales to other segments;
- 6.2. segment results make up at least 10% of the total operating profit (loss) of the entity (group of entities);
- 6.3. segment assets make up at least 10% of the total assets of the entity (group of entities).

7. If sales revenue attributable to reportable segments amounts to less than 75% of the total sales revenue of the entity (group of entities), additional segments shall be selected as reportable segments, even if they do not meet the threshold established in paragraph 6. Additional segments shall be identified until the threshold of 75% of the sales revenue of the entity (group of entities) is achieved.

8. A segment identified as a reportable segment in the immediately preceding reporting period because it satisfied conditions set in paragraph 6 shall continue to be a reportable segment for the current period notwithstanding that its sales revenue, results and assets all no longer exceed the threshold set in paragraph 6, if the management of the entity judges the segment to be of continuing significance.

9. If at the end of the reporting period a segment is identified as a reportable segment because it satisfies conditions set in paragraph 6, prior period segment data that is presented for comparative purposes shall be restated to reflect the newly reportable segment, even if that segment did not satisfy the threshold set in paragraph 6.

V. IDENTIFYING PRIMARY AND SECONDARY SEGMENTS

10. Financial statements shall disclose information about both business and geographical segments, but information disclosure requirements shall differ and depend upon which segments – business or geographical - are chosen as primary and secondary.

11. Segments which have a larger effect on the profit and business risk of the entity (group of entities) shall be primary. If the profit and business risk of the entity (group of entities) are affected predominantly by business segments, they shall be considered as primary segments, and if they are affected by geographical segments – then the latter shall be treated as primary.

12. If the profit and business risk of the entity (group of entities) are strongly affected both by business and geographical segments, the entity shall treat business segments as its primary segments.

13. If the system of internal financial reporting of the entity (group of entities) is based neither on individual goods or services, nor on the economic environment, the entity (group of entities) shall decide at its own discretion whether its business risk and profit is related more to business or geographical segments and which of them shall be treated as primary segments.

VI. SEGMENT ACCOUNTING POLICY

14. Segment accounting policies means accounting policies approved by the entity (group of entities) for presenting segment-related information in separate or consolidated financial statements. These policies shall define the criteria for identifying segments and allocating revenue, expenses, assets and liabilities to those segments.

15. Assets and liabilities, revenue and expenses shall be attributed to segments in the manner chosen by the entity with reference to their substance, type of operations of the segment and its relative autonomy.

16. Assets jointly used by several segments may be allocated to a particular segment only if revenue and expenses related to such assets are also allocated to that segment.

VII. DISCLOSING INFORMATION IN FINANCIAL STATEMENTS

17. Information about each reportable segment in separate or consolidated financial statements shall be disclosed separately. Segments not identified as reportable in the financial statements shall be disclosed together. The indicators of all segments referred to in paragraph 18 of this Standard shall be reconciled with the aggregated information in the separate or consolidated financial statements of the entity (group of entities).

18. In its explanatory notes the entity (group of entities) shall disclose the following information on each primary reportable segment:

18.1. segment revenue of the reporting and previous reporting period, reporting separately revenue from transactions with external customers and revenue from transactions with other segments, if applicable;

18.2. segment expenses of the reporting and previous reporting period, reporting separately cost of sales and operating expenses. Expenses which cannot be reasonably allocated to the identified segments shall be disclosed separately as unallocated expenses.

18.3. segment results of the reporting and previous reporting period;

18.4. the carrying amount of segment assets at the end of the reporting and previous reporting period. Assets which cannot be reasonably allocated to the identified segments shall be disclosed separately as unallocated assets.

18.5. acquisitions and depreciation (amortisation) of non-current tangible and intangible assets attributed to the segment during the reporting period. Acquisitions and depreciation (amortisation) of non-current tangible and intangible assets which cannot be reasonably allocated to the identified segments shall be disclosed separately as unallocated acquisitions and unallocated depreciation (amortisation) of non-current tangible and intangible assets;

18.6. segment liabilities at the end of the reporting and previous reporting period. Liabilities which cannot be reasonably allocated to the identified segments shall be disclosed separately as unallocated liabilities.

19. On each secondary reportable segment in its explanatory notes to financial statements the entity (group of entities) shall disclose segment revenue earned from transactions with external customers during the reporting and previous reporting period.

20. Explanatory notes to financial statements shall disclose segment accounting policies and amendments to such policies.

VIII. FINAL PROVISIONS

21. This Business Accounting Standard shall be effective for financial statements covering periods beginning on or after 1 January 2006. The Standard may be applied in preparing financial statements for 2005.