

**FINANCIAL REPORTING FOR SEGMENTS OF ENTERPRISE
IN THE CONTEXT OF THE EU INTEGRATION PROCESS:
BENEFITS, REQUIREMENTS AND PROBLEMS**

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Abstract. *The paper focuses on the requirements and problems related to the financial reporting for segments of an enterprise in the contemporary dynamic market environment. Special attention has been paid to the significance of segmental financial information and the benefits of segmental reporting. If adequate segmental information is disclosed, external users should be able to understand better the past performance of an enterprise and to assess its future prospects. The efficient use of this information is an essential premise for the successful decision making. It is of exceptional importance that the organization of processes related to the creation of segmental information complies with the important requirement for the benefits of information being greater than the costs made for its generation. The basic qualitative characteristics which segmental information should have in order to be useful in decision making have been examined.*

Key words: *financial reporting, segmental information, decision making, financial statement, business segments, geographic segments, benefits of segmental information, qualitative characteristics of segmental financial information, understandability, relevance, reliability, comparability.*

In the process of European integration the number of widely diversified Bulgarian enterprises operating in different economic fields and geographic areas is constantly increasing. This leads to growing interest in disclosing financial information by segments. This information is exceptionally important for financial statement users as it gives them the opportunity to analyze thoroughly the past development of the enterprise, to consider more accurately which activities have mostly contributed to the results achieved, to assess its future perspectives and to take well-founded economic decisions. The lack of such disaggregated information makes the financial statements less useful for the purposes of forecasting the future activity of the enterprise, for its future financial results, cash flows and the risks related to the same. As different products and services of the enterprise and

its operations in different geographic areas are characterized by different rates of return, risks and possibilities for growth, it would be impossible to assess and analyze them if we use only generalized financial statement information related to the activity and the results of the enterprise in general. The significance of the segmental information disclosed is proved by the results of numerous global researches evidencing that this is one of the most important disclosing for financial statements users. In response to the growing needs for information about the different activities performed by enterprises as well as their operations in different geographic areas, the regulatory bodies in a number of countries continuously increase their requirements regarding segmental information disclosing.

Financial segmental information provided by Bulgarian enterprises in accordance with the principles and requirements set by International Accounting Standard 14 Segmental Reporting is intended to assist financial statement users to understand better the activity of the enterprise over the past period, to assess better the risks and the return as well as to make more grounded evaluation of the enterprise in general. This standard requires the information to be reported for business and geographic segments where the basis for identification of the enterprise segments is its internal organizational structure and its system for internal financial reporting. The enterprise needs to define the segments subject to reporting as well as the primary and the secondary criteria for segmental reporting – reporting for business or geographic segments. The determining principle is whether the major source and the nature of risks and return stem from the different products and services or from the fact that the enterprise performs its activity in different geographic areas and realizes its sales on different markets. In this standard the segments are defined by a terminology which corresponds to the internal decision-making processes for the enterprise management. The business segment is defined as a distinguishable component of a given enterprise and is involved in the provision of an individual product or service or a group of related products or services and is subject to risks and return, different from those of other business segments. The geographic segment is a distinguishable segment of the enterprise and is involved in the provision of a product or service in a different economic environment and is subject to risks and return, different from those of the components functioning in other economic environments.

The internal organizational and management structure of an enterprise as well as its system for internal financial reporting before the Board of Directors and the Chief Executive Officer are usually considered the best evidence for the main source of risks and return and for defining the primary and secondary method for reporting segmental information. Therefore, with the exception of a few cases, the enterprises will submit the segmental information in their financial statements on the same basis as they internally report it before the management, i.e. the basis for specifying segments for the needs of the internal and the external reporting will be the same.

Together with the detailed instructions and directions given by International Accounting Standard 14 Segmental Reporting, the subjective opinions of the enterprise management are of significant importance for the provision and presentation of segmental information. This is related to the philosophy which serves as the basis for standard requirements and more specifically for the method adopted, according to which the segments subject to reporting shall be defined in accordance with the internal management and organizational structure of the enterprise. When taking decisions about identifying the business and geographic segments with different rates of risk and return, the objects of

rather subjective opinions are, for example, grouping the similarities and differences between products and services, differentiation of regions, risk characteristics of markets, potential for development and expected future significance of different segments, where the specific nature of the activity performed by the enterprise plays a major role. It is crucial to bear in mind that these opinions should conform to the purpose of presenting financial segmental information and to the requirements for the qualitative characteristics of financial statements, provided by the International Accounting Standards Board in the General Terms and Conditions for Preparing and Presenting Financial Statements. The basic purpose of segmental information reporting is to assist the financial statement users to understand better the activity of the enterprise and to assess better its past and future development, therefore the enterprise management undertakes the responsibility to define the best segmental reporting method and to provide the most useful information to users. In order to respond to the users' needs and to be useful for the decision-making process, segmental information should have the following main qualitative characteristics: understandability, relevance, reliability and comparability.

Information could not be useful for decision-making by users if they do not understand it. Therefore the enterprise should make efforts to provide information which is not difficult to understand, to present it in a detailed way and with the necessary descriptions, allowing its correct interpretation and creating the right opinion for the activity of different segments.

Segmental information is regarded relevant when it affects the taking of economic decisions by users by helping them assess past, current or future events and confirming and correcting their previous assessments. It is extremely important for the segmental information to be suitable for making forecasts. The forecast and confirmation roles of financial segmental information are interrelated. Information for operations already made can confirm the forecasts and objectives planned but is also important for forecasting future activities of the enterprise.

Segmental information is reliable when it lacks material errors or bias and presents the activity of the enterprise in a reliable way. Reliability also involves thoroughness and neutrality of information. If the selection or presentation of segmental information influences the decisions or opinions of users of information in order to achieve a predetermined result then the neutrality requirement is not met.

Comparability should be combined with relevance and reliability so that the usefulness of accounting information is increased. The possibility to compare segmental information of one and the same enterprise about different periods or segmental information of an enterprise with that of another is of great importance to the people who take decisions.

The requirements set by International Accounting Standard 14 Segmental Reporting aim at providing information having the above mentioned qualitative characteristics. The purpose of using these requirements is to respond to the needs of investors, creditors, contractors and other interested persons for information in order to assess the risks and return related to certain products, services, geographic areas in order to achieve a reasonable level of comparability and to increase the understandability of segmental information.

In reviewing the qualitative characteristics of segmental information we should not forget the major restriction, namely that the benefits from information should exceed the costs for its provision. The accounting standards compilers, enterprises preparing financial statements as well as users of financial statement information need to conform to this restriction. Gathering, processing, classifying and presenting segmental information is

expensive, therefore it is necessary to look for a balance between benefits and costs. One of the major problems in this field is to achieve the best possible combination of the interests of the enterprise and of the external users of information. Some enterprises often state that detailed segmental information reporting requires significant additional efforts and costs and are concerned that in this way confidential information about the enterprise is disclosed to the competition, which carries risks for the enterprise and can affect its competitive positions in a negative way. However, the needs of financial statement users for segmental information are far greater since without it they would not be able to take grounded economic decisions. The burden of preparing segmental disclosures is relieved if the segmental information within the enterprise internal management system for reporting corresponds to the method of defining business and geographic segments for the purposes of external financial reporting. In accordance with that enterprises use their own organizational structures and systems for internal reporting as a basis for identifying the segments subject to reporting.

FINANSIJSKO IZVEŠTAVANJE ZA DELOVE PREDUZEĆA U SMISLU PROCESA INTEGRACIJE U EU: KORISTI, ZAHTEVI I PROBLEMI

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Rad se fokusira na zahtevima i problemima u vezi finansijskog izveštavanja za delove preduzeća u savremenom dinamičnom tržišnom okruženju. Posebna pažnja obraća se na značaj posebnih finansijskih informacija i koristi od pojedinačnog računovodstva. Ukoliko se otkriju adekvatne posebne informacije, spoljni korisnici bi trebalo da bolje razumeju prethodna dostignuća preduzeća i procene buduće perspektive. Efikasna upotreba ovih informacija od ključnog je značaja za uspešno donošenje odluka. Od izuzetnog je značaja da se organizacija procesa u vezi kreiranja posebnih informacija pridržava bitnog zahteva da koristi od informacija budu veći od troškova njihovog obezbeđivanja. Istražuju se osnovne kvalitativne karakteristike koje posebne informacije treba da imaju da bi bile korisne u donošenju odluka.

Ključne reči: finansijsko izveštavanje, posebne informacije, donošenje odluka, finansijski izveštaj, poslovni segmenti, geografski segmenti, koristi od posebnih informacija, kvalitativne karakteristike posebnih finansijskih informacija, razumljivost, relevantnost, pouzdanost, kompatibilnost