

Week 5 - DQ 1

Explain operating segments of an enterprise.

Response #1

Management in the modern business environment is a vital component for constantly assessing and improving the quality of products and processes necessary to realizing profits. No longer simply overseers, managers at every level of the company are intimately engaged with employees and other managers in the effort to create the best quality goods and services at the lowest possible cost.

The production segment of a business enterprise creates the product the business sells. It receives raw materials and manufactures goods that are sold to other business entities or to the general public. The process is constantly being evaluated by employees, managers and engineers to eliminate waste and increase productivity. Maintenance specialists maintain and build the equipment that is used to create the product.

Distribution is a vital segment of modern business. The sales and distribution staff receive orders for product and communicate the information to the production facilities. Goods are then shipped directly to the customer or to a distribution center which stores and ships the product to customers or to individual retail outlets

http://www.ehow.com/facts_7800073_explain-operating-segments-enterprise.html

Response #2

Schroeder, Clark, and Cathey (2011) state, "FASB ASC 280-10-50-1 defines an operating segment as a component of the enterprise" (p. 534). There are three criteria that define the segment, and the three criteria are:

1. A business operates in activities that could result in revenues earned or expenses

2. Operation performances are reviewed by a person familiar with the enterprise in the decision making processes to channel resources to the appropriate segments of the enterprise

3. Individual financial data is available.

The comparisons of segments of an enterprise can be difficult because companies can have different components or allocate costs differently. Structures within an organization can also make enterprise comparisons difficult. The main reason for the rules and definition of segments of an enterprise is because many companies in the past would give limited information about segments of their business or no information at all because of the vagueness in the original standards. The current rules require companies to disclose financial statement information that meets the criteria above.

Price water house coopers identified four key steps for entities and the four steps are:

1. Identify the CODM
2. Identify their business activities (which may not necessarily earn revenue or incur expenses)
3. Determine whether discrete financial information is available for the business activities
4. Determine whether that information is regularly reviewed by the CODM

(price water house coopers, 2008, p. 9).

Note: CODM is the Chief Operating Decision Maker

References

A practical guide to segment reporting (2008). Retrieved from

<http://www.pwc.com/gx/en/ifrs-reporting/pdf/segment-reporting.pdf>

Schroeder, R.G., Clark, M.W. & Cathey, J.M. (2011). Financial accounting theory and analysis: Text readings and cases (10th ed.). Hoboken, NJ: Wiley

Response #3

Operating segments of an enterprise stem from the organization of the company and how management makes operating decisions and assesses performance. According to FASB ASC 280-10-50-1 an operating segment is a part of the enterprise:

- That engages in business activities from which it may earn revenues and incur expenses
- Whose operating results are regularly reviewed by the chief operating decision maker of the enterprise in making decisions about allocating resources to the segment and in assessing segment performance
- For which discrete financial information is available

Response #4

Operating segments are identified as components of an enterprise (large business) about which separate discrete financial information is available for evaluation by the operating decision maker, or decision-making group, in making decisions regarding how to allocate resources and assess performance. In addition and according to SFAS No. 131 operating segments are involved in activities related to the organization from which it may incur expenses or earn revenues. Last, operating segments are defined as those for which discrete financial information is available.