

Statement of Financial Accounting Standards No. 24

Note: This Statement has been completely superseded

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Reporting Segment Information in
Financial Statements That Are Presented
in Another Enterprise's Financial Report

(an amendment of FASB Statement No. 14)

December 1978



Financial Accounting Standards Board
of the Financial Accounting Foundation
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Reporting Segment Information in Financial Statements That Are Presented in Another Enterprise's Financial Report

an amendment of FASB Statement No. 14

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FAS 24: Reporting Segment Information in Financial Statements That Are Presented in Another Enterprise's Financial Report an amendment of FASB Statement No. 14

FAS 24 Summary

If consolidated or combined financial statements are accompanied by a complete set of separate parent company or investee company (or group of investee companies) financial statements, this Statement eliminates the requirement to disclose segment information in the separate financial statements of:

- The parent company or affiliated companies that have been consolidated or combined in that financial report.
- Certain foreign investee companies.
- Investee companies accounted for by the cost or equity method if that segment information is not significant in relation to the consolidated or combined financial statements.

INTRODUCTION AND BACKGROUND INFORMATION

1. The FASB has been asked whether *FASB Statement No. 14*, "Financial Reporting for Segments of a Business Enterprise," requires segment information ¹ to be disclosed in a complete set of parent company financial statements that are presented with the consolidated financial statements of that company. That question was raised apparently because of uncertainty about the intention of the last sentence of paragraph 7 of Statement No. 14, which states:

When a complete set of financial statements that present financial position, results of operations, and changes in financial position in conformity with generally accepted accounting principles is presented for a subsidiary, corporate joint venture, or 50 percent or less owned investee, each such entity is considered to be an enterprise as that term is used in this Statement and thus is subject to its requirements whether those financial statements are issued separately or included in another enterprise's financial report.

The Board expanded this question and also considered the need for segment information in a complete set of financial statements² of a subsidiary, corporate joint venture, or other investee if those financial statements are presented in the parent's or investor's financial report.³

2. *FASB Statement No. 21*, "Suspension of the Reporting of Earnings per Share and Segment Information by Nonpublic Enterprises," suspended the requirement to disclose segment information in a complete set of separately issued financial statements of a subsidiary, corporate joint venture, or other investee that is a nonpublic enterprise (as that term is defined in Statement No. 21).

3. An Exposure Draft of a proposed Statement on "Reporting Segment Information in Financial Statements That Are Presented with Another Enterprise's Financial Report" was issued on July 19, 1978. Thirty-five letters of comment were received in response to the Exposure Draft. Virtually all respondents expressed or implied agreement with the proposal to eliminate the requirement to disclose segment information in the financial statements of a parent company or affiliated companies if those financial statements also are consolidated or combined in other financial statements that are presented in the same financial report. Many respondents also recommended that the Board reduce or eliminate the requirement to disclose segment information in the financial statements of other investees that are presented in the same financial report. The Board considered those recommendations and concluded that the exemption proposed in the Exposure Draft should be expanded in certain respects.

4. The Board has concluded that it can reach an informed decision on the basis of existing information without a public hearing and that the effective date and transition specified in paragraph 6 are advisable in the circumstances.

STANDARDS OF FINANCIAL ACCOUNTING AND REPORTING

Amendment to FASB Statement No. 14

5. The last sentence of paragraph 7 of *FASB Statement No. 14* is deleted and the following sentences and footnotes are added to the end of that paragraph:

If a complete set of financial statements that present financial position, results of operations, and changes in financial position in conformity with generally accepted accounting principles is presented for a parent company, subsidiary, corporate joint venture, or 50 percent or less owned investee, each such entity or a combined group of such entities is considered to be an enterprise as that term is used in this Statement [Statement No. 14] and thus is subject to its requirements if those financial statements are *issued separately*.^{*} However, disclosure of the information that would otherwise be required by this Statement [Statement No. 14] need not be made in a complete set of financial statements that is presented in

another enterprise's financial report (i.e., the primary reporting enterprise):

- a. If those financial statements are also consolidated or combined in a complete set of financial statements and both sets of financial statements are presented in the same financial report, or
- b. If those financial statements are presented for a foreign investee that is not a subsidiary of the primary reporting enterprise⁺ unless that foreign investee's *separately issued* financial statements disclose the information required by this Statement [Statement No. 14], for example, because the investee prepares its *separately issued* financial statements in accordance with United States generally accepted accounting principles, or
- c. If those financial statements are presented in the financial report of an enterprise that is not subject to the requirements of *FASB Statement No. 14* because of the suspension provided by *FASB Statement No. 21*.

Unless exempted above, if a complete set of financial statements for an investee (i.e., subsidiary, corporate joint venture, or 50 percent or less owned investee) accounted for by the cost or equity method is presented in another enterprise's financial report, the information required by this Statement [Statement No. 14] shall be presented for the investee if that information is significant in relation to the financial statements of the primary reporting entity in that financial report (e.g., the consolidated or combined financial statements). To determine the information required by this Statement [Statement No. 14] to be disclosed for an investee in such situations, the percentage tests specified in paragraphs 15, 32, and 39 of this Statement [Statement No. 14] shall be applied as specified in those paragraphs in relation to the financial statements of the primary reporting entity without adjustment for the revenues, operating profit or loss, or identifiable assets of the investee.

*FASB Statement No. 21 suspends the requirements of this Statement [Statement No. 14] for the *separately issued* financial statements of a nonpublic enterprise as defined by that Statement.

⁺The term "foreign investee that is not a subsidiary of the primary reporting enterprise," as used in this Statement [Statement No. 14] refers to an enterprise incorporated or otherwise organized and domiciled in a foreign country if fifty percent or more of that enterprise's voting stock is owned by residents of a foreign country.

Effective Date and Transition

6. This Statement shall be effective January 1, 1979 retroactive to fiscal years beginning after December 15, 1976. Earlier application is encouraged.

<p>The provisions of this Statement need not be applied to immaterial items.</p>

This Statement was adopted by the affirmative votes of five members of the Financial Accounting Standards Board. Messrs. Kirk and Gellein dissented.

Messrs. Kirk and Gellein dissent from the Statement because the exemption in paragraph 5b fails tests of usefulness and evenhandedness. Pursuant to that paragraph, the furnishing of segment information for an enterprise whose financial statements conform with generally accepted accounting principles depends on factors such as the extent to which the enterprise is owned by others, where it is incorporated, where it is domiciled, and where its shareholders reside. Those factors, in the view of Messrs. Kirk and Gellein, are not relevant to the usefulness of financial statements. Further, in their view, it is not evenhanded to single out for exemption a specified class of investees.

Mr. Gellein also disagrees with that aspect of the Statement that applies the tests for segment significance by comparing amounts in the separate financial statements with amounts in the consolidated statements, as reported. He believes it illogical to omit from the denominator of the ratios amounts for the segment being tested. The results may be irrational depending on the mix of industry segments among the enterprises and the extent of interenterprise transfers.

Members of the Financial Accounting Standards Board:

Donald J. Kirk, *Chairman*
Oscar S. Gellein
John W. March
Robert A. Morgan
David Mosso
Robert T. Sprouse
Ralph E. Walters

Footnotes

FAS24, Footnote 1--The term "segment information" as used in this Statement, is the information required to be disclosed by *FASB Statement No. 14* concerning:

- a. The enterprise's operations in different industries.
- b. Its foreign operations and export sales.
- c. Its major customers.

FAS24, Footnote 2--The term "complete set of financial statements," as used in this Statement, refers to a set of financial statements (including necessary footnotes) that present financial position, results of operations, and changes in financial position in conformity with generally accepted accounting principles.

FAS24, Footnote 3--The term "financial report" as used in this Statement, includes any compilation of information that includes one or more complete sets of financial statements, such as in an annual report to stockholders or in a filing with the Securities and Exchange Commission.