

**STATEMENT OF
FINANCIAL ACCOUNTING STANDARD**

SFAS No.

5

INDONESIAN INSTITUTE OF ACCOUNTANTS

REPORTING FINANCIAL INFORMATION BY SEGMENT

Statement of Financial Accounting Standard (SFAS) No.5, Reporting Financial Information By Segment, was adopted by a meeting of the Indonesian Accounting Principles Committee on August 24, 1994 and was ratified by the Executive Committee of the Association of Indonesian Accountants on September 7, 1994.

Compliance with the policies contained in this Statement is not obligatory in the case of immaterial items.

Jakarta, September 7, 1994

Executive Committee
Association of Indonesian Accountants

Indonesian Accounting Principles Committee

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INTRODUCTION

Objective

This statement deals with reporting financial information by segments of an enterprise operating in different industries and/or different geographical areas.

Scope

01 This statement applies to enterprises whose securities are publicly traded. For the purpose of this statement, other economically significant entities, including subsidiaries, are those whose levels of revenues, profits, assets or employment are significant in the countries in which their major operations are conducted.

02 When both parent company and consolidated financial statements are presented, the information called for by this statement need only be presented on the basis of consolidated information. If financial statements of subsidiaries are published, the segmental information is called for at that level.

Definitions

03 The terms used in this Statement are defined as follows:

Enterprise segment is the component of an entity whose activity represents the major operating activity or a group of customers. A segment can be in the form of a subsidiary, a division, a department, and, in some cases, a joint venture or other form. The assets, performance and activity of a segment can be clearly separated physically and operationally from asset performance and other activities in the same entity.

Industry segments are the distinguishable components of an enterprise each engaged in providing a different product or service, or a different group of products or services, primarily to customers outside the enterprise. For example, industry segments can be grouped as the hotel and tourism industry, transportation industry, mining industry or professional services industry.

Geographical segments are the distinguishable components of an enterprise engaged in operations in individual countries or groups of countries within particular geographical areas.

Segment revenue is revenue that is directly attributed to a segment or the relevant portion of revenue that can be allocated on a reasonable basis to a segment. This revenue is derived from transactions with parties outside the enterprise and from other segments of the same enterprises.

Segment expense is expense that is directly attributable to a segment or the relevant portion of an expense that can be allocated on a reasonable basis to the segments.

EXPLANATION

04 Rates of profitability, opportunities for growth, future prospects and risks to investment may vary greatly among industry and geographical segments. Thus, users of financial statements need segment information to assess the prospects and risks of a diversified enterprise which may not be determinable from the aggregated data. The objective of presenting information by segments is to provide users of financial statements with information on the relative size, profit contribution, and growth trend of the different industries and different geographical areas, in which a diversified enterprise operates to enable them to make more informed judgments about the enterprise as a whole.

05 Segmented information is not intended to convey the idea that such segments may be considered as independent businesses or that comparison between similar segments of different enterprises would necessarily be valid.

06 Reporting segment information involves decisions that are based in part on judgment. Such decisions include those about the identification of segments and about the allocation of revenues and expenses to those segments. Information about the basis used in the preparation of segmental reporting enhances the user's understanding of the resulting data.

07 Concern is sometimes expressed that disclosing information about segments may weaken an enterprise's competitive position because more detailed information is made available to competitors, customers, suppliers and others. For this reason, some companies consider it appropriate to allow the withholding of certain segment information where disclosure is deemed to be detrimental to the enterprise. Others believe that this disclosure is no more onerous to the diversified enterprise than is the disclosure of the information required of an enterprise operating in only one industry or geographical area, and that relevant information is often available from other sources. Also, segment analysis provides useful data that enables users to make a better assessment of the past performance and future prospects of the enterprise.

Methods of Reporting Segment Information

Identification of Reporting Segments

08 Industry segments and geographical segments are usual bases for presenting information on operations by segment. An enterprise would provide information on both bases if both are applicable to its operations.

09 Industry segment information is usually presented on the basis of general groupings of related products or services or by types of customer. Geographical segment information is sometimes presented on the basis of the location of operations of the enterprise, on the basis of markets, or on both. An enterprise's domestic operations are generally considered

to be a separate geographical segment. Some countries require separate disclosure of export sales in respect of their domestic operations.

10 For reporting purposes, industry and geographical segments may be determined in many ways. It is the responsibility of management to determine how the enterprises activities are to be grouped for reporting as segments. In making such decisions, management normally takes into account many factors, such as similarities and differences in the enterprise's products and activities, in the profitability, risk and growth of those products and activities, and in the operating and marketing areas and the relative importance of those areas within the enterprise as a whole. The existence of special regulatory requirements and specific industry characteristics such as in the banking and insurance industries may constitute additional factors to be considered in determining segments to be reported.

11 Organizational groupings, such as divisions, subsidiaries or branches, are ordinarily created according to management requirements. Such groupings often correspond with the determinable segments of the enterprise thus facilitating segment reporting. Where this is not the case, segment reporting may require reclassification of data.

12 It is relevant to consider the interrelationships among the enterprise's activities. For example, it may be potentially misleading to report as separate industry segments parts of an enterprise's activities that are significantly integrated or interdependent. The same considerations would not necessarily apply in determining geographical segments to be reported.

13 Some companies consider it appropriate to provide guidelines on how material a segment should be before it is reported separately and to limit the segments to a reasonable number so as to avoid unnecessary complexity. Such guidelines may be 10 percent of consolidated revenue, or operating profit or total assets, although such quantitative guidelines are not the sole factors in identifying segments for reporting.

As consideration and testing of segment basis alternatives there are three segment basis that should be considered:

- (a) for sales to customers who do not have related parties, then revenue streams of above 10 percent should be presented separately;
- (b) If operating profit is a significant matter, then operating profit or operating loss of above 10 percent should be presented separately; and
- (c) If assets employed are significant, then segment assets of above 10 percent of the total of entity assets should be reported separately.

14 Inter-segment sales and other operating inter-segment revenues cannot always determined on an arms-length basis. For this reason, disclosure of the amount of such

revenues and an explanation of the inter-segment pricing basis (such as fair market value, cost or market price less a discount) is useful.

Segment Result

15 The measure of the profitability of a segment is disclosed as the segment result. The segments results are the difference between segment revenues and segment expense and generally reflect operating profit, although other basis are sometimes found to be more appropriate. Interest earned and interest expense are not normally included in segment results unless the segment's operations are primarily of a financial nature. Also taxes on income and minority interest are not usually included in segment result.

16 Where revenues and expenses are not directly attributable to a segment, but a reasonable basis for allocation exists, they may be allocated thereto on that basis. In many enterprises, however, common items such as head office expenses are not allocated to individual segments, because they are shared in such a way that any allocation among the segments is not considered useful.

Segment Assets and Liabilities

17 The disclosure of segment assets gives an indication of the resources employed in generating segment operating results. Such assets include all tangible and intangible assets that can be identified with a particular segment. Assets shared by two or more segments may be allocated between or among those segments if a reasonable basis exists for such allocation. Liabilities are generally not allocated, either because they are considered to relate to the enterprise as a whole, or because they are viewed as giving rise to financing results rather than operating results.

Information Reported

18 The following information for each reported segment is generally considered necessary:

- (a) a description of the activities of each reported industry segment and an indication of the composition of each reported segment by geographical area;
- (b) sales or other operating revenues, distinguishing between revenues derived from customers outside the enterprise and revenue derived from other segments;
- (c) segment results; and
- (d) segment assets employed, expressed either in monetary amounts or as percentages of the consolidated assets total.

The relationship between the sum of the information on individual segments and the aggregated information in the financial statements should be made clear by providing

reconciliation. It may also be useful to disclose other information such as the amount of each segment's income from investments accounted for under the equity method, its minority interest or its extraordinary items. Depreciation, depletion, amortization, research and development, and capital expenditures for the period are sometimes disclosed for each reported segment. Sometimes non-financial information such as the number of employees for each reported segment is also disclosed.

STATEMENT OF FINANCIAL ACCOUNTING STANDARD NUMBER 5**REPORTING FINANCIAL INFORMATION BY SEGMENT**

Statement of Financial Accounting Standard No. 5 consists of paragraphs 19-25. The Statement should be read in the context of paragraphs 1-18.

19 Enterprises whose securities are publicly traded and other economically significant entities including subsidiaries should report the financial information described in paragraphs 20-23 for the industry segments and for the geographical segments which are considered to be significant to the enterprise. When both parent company and consolidated financial statements are presented, segment information needs to be presented only on the basis of the consolidated financial statements.

20 The enterprise should describe the activities of each reported industry segment and indicate the composition of each reported segment by geographical area.

21 For each reported industry and geographical segment, the following financial information should be disclosed:

- (a) sales or other operating revenue, distinguishing between revenues derived from customers outside the enterprise and revenues derived from other segments;
- (b) segment results;
- (c) segment assets employed, expressed either in monetary amounts or as percentages of the consolidated total assets,; and
- (d) the basis of inter-segment pricing.

22 Enterprises should provide a reconciliation between the sum of the information on individual segments and the aggregated information in the financial statements.

23 Changes in identification of segments and changes in accounting practices used in reporting segment information which have a material effect on the segment information should be disclosed. Such disclosure should include a description of the nature of the change, an explanation of the reasons for the change and, where the information is reasonably determinable, the effect of the change.

Transition

24 No comparative figures need to be presented in the first period in respect of which this standard is introduced if such information is not readily available.

Effective Date

25 This statement becomes effective for financial statements covering periods beginning on or after January 1, 1995. Earlier application is encouraged.