

This accounting policy paper is based on IPSAS 18 Segment Reporting, as adopted by the Treasury of the Republic of Cyprus.

# Segment Reporting

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# 1. INTRODUCTION

## 1.1 SEGMENTAL ANALYSIS

### By entity type

- Central Government
- Local Government
- Social Security Funds
- Non-market non-profit institutions controlled by government units
- Public Financial Corporations
- Public Non-financial Corporations

## 1.2 OBJECTIVES

The objective of this accounting policy is to establish principles for reporting financial information by segments. The disclosure of this information will:

- a) Help users of the financial statements to better understand the entity's past performance, and to identify the resources allocated to support the major activities of the entity; and
- b) Enhance the transparency of financial reporting and enable the entity to better discharge its accountability obligations.

The aim of this policy is to provide technical accounting guidance for the preparation of financial statements, so as to enable the financial statements to give a true and fair view. The aforementioned policy is prepared following guidance from all relevant International Public Sector Accounting Standards (IPSASs).

### 1.3 SCOPE

This accounting policy shall be applied in the presentation of segment information.

When consolidated financial statements of the government are presented together with the separate financial statements of the parent entity, segment information shall be presented only on the basis of the consolidated financial statements.

### 1.4 DEFINITIONS

**A Segment** is a distinguishable activity or group of activities of an entity for which it is appropriate to separately report financial information for the purpose of:

- a) evaluating the entity's past performance in achieving its objectives, and
- b) making decisions about the future allocation of resources.

**Segment accounting policies** are the accounting policies adopted for preparing and presenting the financial statements of the consolidated group or entity as well as those accounting policies that relate specifically to segment reporting.

**Segment assets** are those operating assets that are employed by a segment in its operating activities, and that are either directly attributable to the segment or can be allocated to the segment on a reasonable basis.

If a segment's segment revenue includes interest or dividend revenue, its segment assets include the related receivables, loans, investments or other revenue-producing assets.

Segment assets do not include income tax or income tax-equivalent assets that are recognised in accordance with accounting standards dealing with obligations to pay income tax or income tax equivalents.

Segment assets include investments accounted for under the equity method, only if the net surplus (deficit) from such investments is included in segment revenue.

Segment assets are determined after deducting related allowances that are reported as direct offsets in the entity's statement of financial position.

Examples of segment assets include current assets that are used in the operating activities of the segment, property, plant and equipment, assets that are the subject of finance leases, and intangible assets. Segment assets do not include assets used for general entity or head office purposes.

**Segment expense** is an expense resulting from the operating activities of a segment that is directly attributable to the segment, and the relevant portion of an expense that can be allocated on a reasonable basis to the segment, including expenses relating to the provision of goods and services to external parties and expenses relating to transactions with other segments of the same entity. Segment expense does not include:

- a) Interest, including interest incurred on advances or loans from other segments, unless the segment's operations are primarily of a financial nature;
- b) Losses on sales of investments or losses on extinguishment of a debt, unless the segment's operations are primarily of a financial nature;
- c) An entity's share of net deficit or losses of associates, joint ventures or other investments accounted for under the equity method;
- d) Income tax or income tax-equivalent expense that is recognised in accordance with accounting standards dealing with obligations to pay income tax or income tax equivalents; or
- e) General administrative expenses, head office expenses and other expenses that arise at the entity level and relate to the entity as a whole. In cases where costs are incurred at the entity level on behalf of a segment, these costs are segment expenses if they relate to the segment's operating activities and can be directly attributed or allocated to the segment on a reasonable basis.

For a segment's operations that are primarily of a financial nature, interest revenue and interest expense may be reported as a single net amount for segment reporting purposes only if those items are netted in the consolidating or entity financial statements.

**Segment liabilities** are those operating liabilities that result from the operating activities of a segment, and that are either directly attributable to the segment or can be attributed or allocated to the segment on a reasonable basis.

If a segment's segment expense includes interest expense, its segment liabilities include the related interest-bearing liabilities.

Segment liabilities do not include income tax or income tax equivalent liabilities that are recognised in accordance with accounting standards dealing with obligations to pay income tax or income tax equivalents.

Examples of segment liabilities include trade and other payables, accrued liabilities, advances from members of the community for the provision of partially subsidised goods and services in the future, product warranty provisions arising from any commercial

activities of the entity, and other claims relating to the provision of goods and services. Segment liabilities do not include borrowings (unless the segment's operations are primarily of a financial nature), liabilities related to assets that are the subject of finance leases, and other liabilities that are incurred for financing rather than operating purposes.

**Segment revenue** is revenue reported in the entity's statement of financial performance that is directly attributable to a segment, and the relevant portion of entity revenue that can be allocated on a reasonable basis to a segment, whether from budget appropriations or similar, grants, transfers, fines, fees, or sales to external customers or from transactions with other segments of the same entity. Segment revenue does not include:

- a) Interest or dividend revenue, including interest earned on advances or loans to other segments, unless the segment's operations are primarily of a financial nature; or
- b) Gains on sales of investments or gains on extinguishment of debt, unless the segment's operations are primarily of a financial nature.

Segment revenue includes an entity's share of net surplus (deficit) of associates, joint ventures, or other investments accounted for under the equity method, only if those items are included in consolidated or total entity revenue.

Any other terms defined in other accounting policies that have been adopted by the government of the Republic of Cyprus, have the meaning presented in those accounting policies.

## 2. REPORTING BY SEGMENTS

*The entity shall identify as separate segments each distinguishable activity or group of activities for which financial information should be reported, for:*

- a) Evaluating the past performance of the entity in achieving its objectives, and*
- b) Making decisions about the allocation of resources by the entity.*

The consolidated government financial statements shall present segmental information on a consolidated level for the following segments:

- Central government
- Local government (including municipalities and community councils);

- Social Security Funds;
- Non-market non-profit institutions controlled by government units
- Public Financial Corporations
- Public Non-Financial Corporations

Segment revenue, segment expense, segment assets and segment liabilities are determined before balances and transactions between entities within the economic entity are eliminated as part of the consolidation process, except to the extent that such intra-economic entity balances and transactions are between entities within a single segment.

## **3. OTHER SEGMENTAL REPORTING ISSUES**

### **3.1 SEGMENT ACCOUNTING POLICIES**

Segment information shall be prepared in conformity with the accounting policies adopted for preparing and presenting the financial statements of the consolidated group or entity.

The disclosure of additional segment information that is permitted on a basis other than the accounting policies adopted for the consolidated or entity financial statements is permitted, provided that:

- a) The information is relevant for performance assessment and decision-making purposes; and
- b) The basis of measurement for this additional information is clearly described.

### **3.2 JOINT ASSETS**

Assets that are jointly used by two or more segments shall be allocated to segments if, and only if, their related revenues and expenses are also allocated to those segments.

For example, an asset is included in segment assets if, and only if, the related depreciation or amortisation is included in measuring segment expense.

### **3.3 NEWLY IDENTIFIED SEGMENTS**

If a segment is identified as a segment for the first time in the current period, prior period

segment data that is presented for comparative purposes shall be restated to reflect the newly reported segment as a separate segment, unless it is impracticable to do so.

### **3.4 QUALITATIVE CHARACTERISTICS OF SEGMENTAL REPORTING**

Qualitative characteristics are the attributes that make the information provided in financial statements useful to users. The four principal qualitative characteristics are:

- Understandability
- Relevance
- Reliability
- Comparability.

In determining the activities that should be grouped as separate segments and reported in the financial statements for accountability and decision-making purposes, the entity shall take into consideration the qualitative characteristics of financial reporting. These are explained in detail in the accounting policy for the Presentation of Financial Statements (paragraph 2.1.2).

### **3.5 ATTRIBUTING ITEMS TO SEGMENTS**

The definitions of segment revenue, segment expense, segment assets, and segment liabilities include amounts of items that are directly attributable to a segment, and amounts of items that can be allocated to a segment on a reasonable basis. Therefore, it is presumed that amounts that have been identified with segments for internal financial reporting purposes are directly attributable or reasonably allocable to segments for the purpose of measuring the segment revenue, segment expense, segment assets, and segment liabilities.

Public sector entities can generally identify the costs of providing certain groups of goods and services or of undertaking certain activities, as well as the assets that are necessary to facilitate those activities. However, in some cases, it may not be possible to directly attribute revenue, expense, assets, or liabilities to a segment or to allocate those to a segment on a reasonable basis. The unattributed or unallocated revenue, expense, assets, and liabilities shall be reported as an unallocated amount in reconciling the segment disclosures to the aggregate entity amount as required by paragraph 4(6) of this accounting policy.

In case of the existence of a joint arrangement in the form of a joint venture or an investment in an associate, as these are defined in the accounting policy for Investments in Associates and Joint Ventures, segment revenue shall include the segment's share of the equity accounted net surplus (deficit), where the equity accounted surplus (deficit) is included in entity revenue, and it can be directly attributed or reliably allocated to the segment on a reasonable basis.

## 4. DISCLOSURE

1. The entity shall disclose segment revenue and segment expense for each segment. Segment revenue from budget appropriation or similar allocation, segment revenue from other external sources, and segment revenue from transactions with other segments shall be separately reported.
2. The entity shall disclose the total carrying amount of segment assets and segment liabilities, separately, for each segment.
3. The entity shall disclose the total cost incurred during the period to acquire segment assets that are expected to be used during more than one period for each segment.
4. The entity shall disclose for each segment the aggregate of the entity's share of the net surplus (deficit) of associates, joint ventures, or other investments accounted for under the equity method, if substantially all of those associates' operations are within that single segment.
5. If the entity's aggregate share of the net surplus (deficit) of associates, joint venture, or other investments accounted for under the equity method is disclosed by segment, the aggregate investments in those associates and joint ventures shall also be disclosed by segment.
6. The entity shall present a reconciliation between the information disclosed for segments and the aggregate information in the consolidated or entity financial statements. In presenting the reconciliation, segment revenue shall be reconciled to entity revenue from external sources (including disclosure of the amount of entity revenue from external sources not included in any segment's revenue); segment expense shall be reconciled to entity expense; segment assets shall be reconciled to entity assets; and segment liabilities shall be reconciled to entity liabilities.
7. In measuring and reporting segment revenue from transactions with other segments, inter-segmental transfers shall be measured on the basis that they occur. The basis for pricing inter-segment transfers and any change therein shall be disclosed in the financial

statements.

8. Changes in accounting policies adopted for segment reporting that have a material effect on segment information (for example changes in identification of segments and changes in the basis for allocating revenues and expenses to segments) shall be disclosed, and prior period segment information presented for comparative purposes shall be restated, unless it is impracticable to do so. Such disclosure shall include:
- a description of the nature of the change,
  - the reasons for the change,
  - the fact that comparative information has been restated or that it is impracticable to do so, and
  - the financial effect of the change, if it is reasonably determinable.

If the entity changes the identification of its segments and it does not restate prior period segment information on the new basis because it is impracticable to do so, then for the purpose of comparison, the entity shall report segment data for both the old and the new bases of segmentation in the year in which it changes the identification of its segments.

9. If not otherwise disclosed in the financial statements or elsewhere in the annual report, an entity shall indicate:
- the types of goods and services included in each reported service segment;
  - the composition of each reported geographical segment; and
  - if neither a service nor geographical basis of segmentation is adopted, the nature of the segment and activities encompassed by it.

## 5. TRANSITIONAL PROVISIONS

No transitional exemptions are elected to be applied on the adoption of IPSAS 18 “Segment Reporting”.

## 6. EFFECTIVE DATE

This rule shall be effective for annual financial statements covering periods beginning on or after 1 January 2023.

## 7. REFERENCES

This accounting policy is based on the following IPSAS standards:

IPSAS 18 Segment Reporting

IPSAS 33 First – time Adoption of Accrual Basis IPSASs

The Applicability of IPSASs

## 8. APPENDICES

### Appendix 1: INDICATIVE SEGMENTAL REPORTING ANALYSIS

Segment Reporting 20X2	Central Government	Local Government	Social Security Funds	Non-market non-profit institutions controlled by government units	Public Financial Corporations	Public Non- Financial Corporations	Consolidation adjustments	Consolidated
	€	€	€	€	€	€	€	€
<b>INCOME</b>								
Income from external sources								
Appropriation								
Inter-segment transfers								
Finance Income								
Other Income								
<b>TOTAL INCOME</b>								
<b>EXPENSES</b>								
Staff costs								
Depreciation expenses								
Impairment of assets								
Other expenses								
Finance Costs								
Unallocated central expenses								
<b>TOTAL EXPENSES</b>								
Share of surplus / (deficit) in associates								
<b>Surplus / (deficit) for the year</b>								
Non-cash expenses excluding depreciation & amortisation								
Non-cash income								
Capital expenditure								

Segment Reporting 20X1	Central Government	Local Government	Social Security Funds	Non-market non-profit institutions controlled by government units	Public Financial Corporations	Public Non- Financial Corporations	Consolidation adjustments	Consolidated
	€	€	€	€	€	€	€	€
<b>INCOME</b>								
Income from external sources								
Appropriation								
Inter-segment transfers								
Finance Income								
Other Income								
<b>TOTAL INCOME</b>								
<b>EXPENSES</b>								
Employee benefits								
Depreciation								
Net Impairment								
Other expenses								
Finance Costs								
Unallocated central expenses								
<b>TOTAL EXPENSES</b>								
Share of surplus / (deficit) in associates								
<b>Surplus / (deficit) for the year</b>								
Non-cash expenses excluding depreciation & amortisation								
Non-cash income								
Capital expenditure								

Segment Reporting 20X2	Central Government	Local Government	Social Security Funds	Non-market non-profit institutions controlled by government units	Public Financial Corporations	Public Non-Financial Corporations	Consolidation adjustments	Consolidated
	€	€	€	€	€	€	€	€
<b>ASSETS</b>								
Investments in associates and joint ventures								
Non-current Assets								
Current Assets								
Unallocated assets								
<b>TOTAL ASSETS</b>								
<b>LIABILITIES</b>								
Non-current liabilities								
Current liabilities								
Unallocated liabilities								
<b>TOTAL LIABILITIES</b>								

Segment Reporting 20X1	Central Government	Local Government	Social Security Funds	Non-market non-profit institutions controlled by government units	Public Financial Corporations	Public Non-Financial Corporations	Consolidation adjustments	Consolidated
	€	€	€	€	€	€	€	€
<b>ASSETS</b>								
Investments in associates and joint ventures								
Non-current Assets								
Current Assets								
Unallocated assets								
<b>TOTAL ASSETS</b>								
<b>LIABILITIES</b>								
Non-current liabilities								
Current liabilities								
Unallocated liabilities								
<b>TOTAL LIABILITIES</b>								