

Has Business Segment Disclosures under SFAS No. 131 Improved in the Last Ten Years? (2013-2004)

Robert D Bell¹

¹ Accounting and Finance Department, College of Saint Benedict/Saint John's University, United States

Correspondence: Robert D Bell, Accounting and Finance Department, College of Saint Benedict/Saint John's University, United States. E-mail: rbell@csbsju.edu

Received: February 24, 2015

Accepted: March 28, 2015

Online Published: April 5, 2015

doi:10.5430/afr.v4n2p78

URL: <http://dx.doi.org/10.5430/afr.v4n2p78>

Abstract

The purpose of the paper is to determine if business segment disclosures under SFAS No. 131 has improved in the last ten years. The paper analyzes ten years (2013-2004) of segment disclosures of 200 of the *Fortune* 500 listed companies reporting under SFAS No. 131. For each of these ten years, the analysis specifically includes the number of segments reported; the number of companies which changed the name of one or more of their segments; the number of actual line-items reported for each segment; the general category of line-items reported for each segment; the number of geographic areas reported; the names of geographic areas reported; and the names of countries reported. The paper finds that segment disclosure practices have remained virtually unchanged over this ten year period—thus calling into question whether SFAS No. 131 is truly achieving its purposes, as the Financial Accounting Foundation (FAF) stated it is in its January of 2013 post-implementation review (PIR) of SFAS No. 131.

Keywords: Segment disclosure, SFAS No. 131, Separate lines of business, Line of business reporting

1. Introduction

In June of 1997, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 131, *Disclosures about Segments of an Enterprise and Related Information*, to improve the way public companies report financial information about their business segments. SFAS No. 131 became effective for fiscal years beginning after December 15, 1997 and superseded FASB's prior pronouncement on segment reporting disclosure, SFAS No. 14, *Financial Reporting for Segments of a Business Enterprise*.

SFAS No. 131 established standards for the way public companies report information about operating segments in annual financial statements and requires that those companies report selected information about operating segments in interim financial reports issued to shareholders. It also established standards for related disclosures about products and services, geographic areas, and major customers.

SFAS No. 131 was codified by the FASB in Accounting Standards Codification (ASC) 280, *Segment Reporting*, and became effective for interim and annual periods beginning after September 15, 2009.

In January 2013, the Financial Accounting Foundation (FAF) completed a post-implementation review (PIR) of SFAS No. 131 and concluded that SFAS No. 131 generally achieves its purposes. The FAF concluded that SFAS No. 131 provides more information about companies' different business activities than the prior segment reporting standard did, and overall, SFAS No. 131 enhanced the relevance of segment disclosures.

In particular, the FAF's PIR of SFAS No. 131 stated that:

Since companies adopted Statement 131:

- Companies are reporting segment information in interim financial statements, enhancing the timeliness of segment disclosures.
- The amount of disaggregated segment information has increased. Many companies report more segments than they did prior to Statement 131 (although there are indications that some companies might not report a sufficient number of segments).
- The amount and type of information provided about each segment is improved.

2. Review of Literature on Segment Disclosures

Much of the prior research on the effectiveness of SFAS No. 131 focuses on analyzing segment disclosure under SFAS No. 14 compared to disclosure under SFAS No. 131. Berger and Hann [2003] find that SFAS No. 131 increased the number of reported segments and provided more disaggregated information, which resulted in a significant improvement in analysts' ability to forecast earnings.

Herrmann and Thomas [2000] find that when comparing disclosure under SFAS No. 14 to disclosure under SFAS No. 131, two-thirds of the 100 companies in their sample redefined their primary operating segments. They also find an increase in the number of companies providing segment disclosures; companies are disclosing more items for each segment; the proportion of country-level geographic segment disclosure increased, while the proportion of broader geographic area segment disclosures has decreased; the number of companies reporting earnings by geographic area has declined greatly as the item is no longer required to be disclosed for companies reporting under SFAS No. 131 on a basis other than geographic area.

Street, Nichols, and Gray [2000] compares disclosure under SFAS No. 14 to disclosure under SFAS No. 131 to determine if SFAS No. 131 has resulted in (1) a greater number of line-of-business segments, (2) more items of information for each segment, and (3) improved consistency of segment information with other parts of the annual report. They find that the number of segments reported and the consistency of information increased significantly in the year the company adopted SFAS No. 131.

This research differs from prior research by focusing exclusively on reporting of business segment disclosure under SFAS No. 131 over the last ten years (2013-2004). SFAS No. 131 was implemented in 1998 and prior research, as well as the FAF's PIR, largely focuses on enhancements in disclosure from SFAS No. 14 to SFAS No. 131, rather than whether SFAS No. 131 has improved business segment disclosure of the last ten years.

3. Research Questions

To determine whether business segment disclosures under SFAS No. 131 have improved over the last ten years (2013-2004), the current study addresses the following research questions:

- How many segments were reported by companies over each of the previous ten years?
- How many companies changed the name of one or more of their segments over each of the previous ten years?
- How many actual line-items were reported for each segment by companies over each of the previous ten years?
- How many general line-items were reported for each segment by companies over each of the previous ten years?
- How many geographic areas were reported by companies over each of the previous ten years?
- Which specific geographic areas were reported by companies over each of the previous ten years?
- Which specific countries were reported by companies over each of the previous ten years?

4. Sample Selection and Methodology

Segment disclosure was collected from 200 of the *Fortune* 500 listed companies. Initial companies selected for the sample included companies with (1) a December 31 year-end; (2) ten years of reporting on Form 10-K with the U.S. Securities and Exchange Commission's (SEC) Electronic Data Gathering, Analysis, and Retrieval (EDGAR) system; and (3) excluded financial institutions such as traditional banks, investment banks, and mortgage companies. Subsequent research to arrive at 200 companies included companies with 2013 fiscal year-ends falling within 2014 and who file their annual report on Form 10-K with the SEC. This research continued to exclude financial institutions such as traditional banks, investment banks, and mortgage companies.

To determine the number of business segments for each company, research looked to the disclosure required in the notes to the financial statements under Rules 3-03 and 12-16 of Regulation S-X, as well as in the business section under Item 1 of Form 10-K as required by Items 101 and 102 of Regulation S-K.

A list of the 200 companies included in the sample is provided in Appendix A.

5. Findings and Discussion

5.1 How many segments were reported by companies over each of the previous ten years?

Table 1 indicates that the mean and median number of segments disclosed under SFAS No. 131 has remained virtually unchanged over the previous ten years. Companies reported a mean of four segments every year for the past ten years, and a median of three segments per year every year, save for 3 years (2011, 2005 and 2004) when they reported a median of four segments.

Table 1 also provides the specific number of segments disclosed by each of the 200 companies over the previous ten years. Analysis of this table reveals that while there has been some fluctuation and improvement in the specific number of segments reported by companies over the last ten years, the overall number of segments reported has remained virtually unchanged.

Table 1. Specific Number of Segments Disclosed

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Mean	4	4	4	4	4	4	4	4	4	4
Median	3	3	4	3	3	3	3	3	4	4
	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
One	9	9	11	12	13	12	14	17	18	18
Two	39	38	38	40	37	38	35	34	29	30
Three	54	54	51	54	54	56	54	51	53	50
Four	47	47	46	43	41	37	40	40	45	46
Five	30	25	27	25	28	26	23	25	25	24
Six	15	16	17	15	13	16	20	19	18	19
Seven	5	8	6	5	6	9	8	8	6	7
Eight	0	2	1	2	3	1	3	3	2	2
Nine	0	0	2	2	3	2	2	2	2	2
Ten+	1	1	1	2	2	3	1	1	2	2
	200	200	200	200	200	200	200	200	200	200

For example, 18 of the 200 companies provided segment disclosure on only one segment in 2004 (meaning they provided no segment disclosure) whereas that number dropped to 9 companies in 2013. This drop appears to support the argument that SFAS No. 131 has worked to provide more segment disclosure over the past ten years. When looking at the overall trends, however, companies disclosing three or four segments have remained virtually unchanged, and the number of companies disclosing six or more segments have all declined.

Table 2 provides the specific number of segments disclosed by each of the 200 companies over the previous ten years as a percentage of the 200 companies. Analysis of this table reveals that the percentage of companies disclosing three or four segments has remained virtually unchanged. In 2004, 25% of companies in the sample disclosed three segments, and in 2013 that number increased only 2% to 27%. Similarly, in 2004, 23% of companies in the sample disclosed four segments, and in 2013 that number increased only 1% to 24%.

Table 2. Specific Number of Segments Disclosed (as a percentage)

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
One	5%	5%	6%	6%	7%	6%	7%	9%	9%	9%
Two	20%	19%	19%	20%	19%	19%	18%	17%	15%	15%
Three	27%	27%	26%	27%	27%	28%	27%	26%	27%	25%
Four	24%	24%	23%	22%	21%	19%	20%	20%	23%	23%
Five	15%	13%	14%	13%	14%	13%	12%	13%	13%	12%
Six	8%	8%	9%	8%	7%	8%	10%	10%	9%	10%
Seven	3%	4%	3%	3%	3%	5%	4%	4%	3%	4%
Eight	0%	1%	1%	1%	2%	1%	2%	2%	1%	1%
Nine	0%	0%	1%	1%	2%	1%	1%	1%	1%	1%
Ten+	1%	1%	1%	1%	1%	2%	1%	1%	1%	1%
	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

And while companies in the sample reporting only one business segment (meaning no segment disclosure) decreased from 9% in 2004 to 5% in 2013, the percentage of companies reporting six or more segments all declined.

Tables 1 and 2 therefore indicate that SFAS No. 131 is not working because the number of segments disclosed under has remained virtually unchanged over the previous ten years.

5.2 How many companies changed the name of one or more of their segments over each of the previous ten years?

Tables 3 and 4 indicate the number of companies that changed the name of one or more of their segments over each of the previous ten years. Table 4 provides this information on a numbers basis, and Table 5 provides this information on a percentage basis, based on the 200 companies in the sample.

Analysis of Tables 3 and 4 reveals that the number of companies that changed the name of one or more of their segments over each of the previous ten years has remained virtually unchanged. Table 4 shows that 49 companies in the sample 200 companies changed the name of one or more of their segments in 2004, and 53 companies changed the name of at least one of their segments in 2013, with only modest fluctuation over the years. The greatest fluctuation was in 2005 and 2006 where 64 and 65 companies, respectively, changed the name of one or more of their segments.

Table 3. Changed of at Least One Segment Name from Prior Year

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Yes	53	56	54	40	51	55	55	65	64	49
No	147	144	146	160	149	145	145	135	136	151
	200	200	200	200	200	200	200	200	200	200

Table 4 shows that on a percentage basis, however, the number of companies that changed the name of at least one segment has remained virtually unchanged over the past ten years. In 2004, 25% of companies changed the name of one or more of their segments in that year, and in 2013, that number changed by only 2% to 27%, with 76% in 2004 of companies not changing the names of one or more of their segments, and only 2% decline to 74% doing so in 2013.

Table 4. Changed of at Least One Segment Name from Prior Year (as a percentage)

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Yes	27%	28%	27%	20%	26%	28%	28%	33%	32%	25%
No	74%	72%	73%	80%	75%	73%	73%	68%	68%	76%
	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

Tables 3 and 4 indicate that SFAS No. 131 is not working because the number companies that have changed the name of one or more of their segments over each of the previous ten years has remained virtually unchanged.

5.3 How many actual line-items were reported for each segment by companies over each of the previous ten years?

Tables 5 and 6 indicate the actual line-items reported for each segment by companies over each of the previous ten years. Table 5 provides the mean and median actual line-items reported for each segment by companies over each of the previous ten years, and Table 6 provides this information on a percentage basis based on the 200 companies in the sample.

Table 5. Actual Number of Line-Items Disclosed for Each Segment

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Mean	7	7	7	7	7	7	7	7	7	7
Median	6	6	6	6	6	6	6	6	6	6
	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
One	12	10	12	14	14	14	15	16	17	19
Two	7	6	5	5	5	5	4	4	4	5
Three	3	3	3	2	4	3	4	6	5	6
Four	8	10	9	6	5	5	6	6	6	5
Five	45	46	48	50	52	50	47	49	45	45
Six	29	30	32	28	29	31	32	30	35	35
Seven	26	25	24	25	23	17	18	20	22	17
Eight	14	13	13	14	13	17	20	18	15	16
Nine	10	9	11	10	13	17	12	11	11	16
Ten	12	11	9	11	10	9	8	7	9	10
Eleven	12	15	12	9	9	10	11	10	9	4
Twelve	4	3	4	6	5	4	4	4	5	6
Thirteen	8	7	7	8	9	7	4	5	3	3
Fourteen	3	5	5	5	2	2	2	4	4	6
Fifteen	2	1	0	2	1	1	4	2	5	1
Sixteen	2	1	1	1	1	1	3	1	3	2
Seventeen	1	2	2	1	2	2	3	4	0	1
Eighteen	0	1	1	1	1	2	1	1	1	1
Nineteen	0	1	1	1	0	0	0	0	1	1
Twenty+	2	1	1	1	2	3	2	2	0	1
	200	200	200	200	200	200	200	200	200	200

Analysis of Table 5 reveals that the mean and median actual line-items reported for each segment by companies over each of the previous ten years has remained unchanged at a mean of seven and a median of six actual line-items reported. In 2004, 45 companies disclosed five line-items in the notes to their financial statements on their Form 10-K, and in 2013 the number remained the same at 45 companies.

Similarly, Table 6 shows that on a percentage basis, 23% of companies in 2004 disclosed five line-items in the notes to their financial statements on their Form 10-K, and in 2013 the number remained the same at 23%.

Table 6. Actual Number of Line-Items Disclosed for Each Segment (as a percentage)

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
One	6%	5%	6%	7%	7%	7%	8%	8%	9%	10%
Two	4%	3%	3%	3%	3%	3%	2%	2%	2%	3%
Three	2%	2%	2%	1%	2%	2%	2%	3%	3%	3%
Four	4%	5%	5%	3%	3%	3%	3%	3%	3%	3%
Five	23%	23%	24%	25%	26%	25%	24%	25%	23%	23%
Six	15%	15%	16%	14%	15%	16%	16%	15%	18%	18%
Seven	13%	13%	12%	13%	12%	9%	9%	10%	11%	9%
Eight	7%	7%	7%	7%	7%	9%	10%	9%	8%	8%
Nine	5%	5%	6%	5%	7%	9%	6%	6%	6%	8%
Ten	6%	6%	5%	6%	5%	5%	4%	4%	5%	5%
Eleven	6%	8%	6%	5%	5%	5%	6%	5%	5%	2%
Twelve	2%	2%	2%	3%	3%	2%	2%	2%	3%	3%
Thirteen	4%	4%	4%	4%	5%	4%	2%	3%	2%	2%
Fourteen	2%	3%	3%	3%	1%	1%	1%	2%	2%	3%
Fifteen	1%	1%	0%	1%	1%	1%	2%	1%	3%	1%
Sixteen	1%	1%	1%	1%	1%	1%	2%	1%	2%	1%
Seventeen	1%	1%	1%	1%	1%	1%	2%	2%	0%	1%
Eighteen	0%	1%	1%	1%	1%	1%	1%	1%	1%	1%
Nineteen	0%	1%	1%	1%	0%	0%	0%	0%	1%	1%
Twenty+	1%	1%	1%	1%	1%	2%	1%	1%	0%	1%
	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

Tables 5 and 6 indicate that SFAS No. 131 is not working because the actual number of line-items reported for each segment by companies over each of the previous ten years has remained virtually unchanged.

5.4 How many general line-items were reported for each segment by companies over each of the previous ten years?

Tables 7 and 8 indicate the general line-items reported for each segment by companies over each of the previous ten years. Table 7 provides the specific number of general line-items reported for each segment by companies over each of the previous ten years, and Table 8 provides this information on a percentage basis based on the 200 companies in the sample.

The purpose of these two tables is to provide an element of uniformity among the companies in their segment disclosure. For example, some companies breakdown their revenues into several line-items. Tables 7 and 8, therefore, treats all revenue line-items as only one line-item, regardless of how many different line-items a company uses when it breaks down its revenues.

Analysis of Table 7 reveals that the number of companies that disclosed revenues from external customers, interest revenue, total assets, depreciation, and capital expenditures has remained virtually unchanged over the past ten years. For example, 181 of the companies disclosed revenues from external customers in 2004, and in 2013 the number was 189. Likewise, 146 of the companies disclosed net assets in 2004, and in 2013 the number was 148, virtually unchanged.

Table 7. General Categories of Line-Items Disclosed for Each Segment

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Revenues from external customers	189	189	188	186	187	186	186	185	184	181
Revenues from transactions with other segments	62	64	65	64	62	62	63	57	56	53
Earnings	168	170	167	165	165	162	163	161	162	162
Interest Revenue	22	25	22	23	23	28	28	30	30	28
Interest Expense	50	49	45	47	47	51	48	48	50	47
Net Interest	4	3	3	3	3	3	4	2	2	1
Total Assets	148	152	151	149	149	146	143	143	144	146
Net Assets	7	7	7	6	6	6	5	5	5	5
Depletion	6	6	6	6	6	6	6	7	7	8
Depreciation (Separate)	22	19	19	19	20	22	22	22	21	24
Amortization (Separate)	13	11	11	10	12	11	10	9	8	8
Depreciation and amortization (Combined)	136	142	142	143	141	139	139	139	139	129
Capital Expenditure	146	149	148	146	145	145	142	141	138	138
Equity Income	34	35	36	37	38	36	36	32	31	32
Equity Investment	20	22	22	22	22	22	23	23	24	25
Investment and other income	16	18	18	17	17	19	19	19	19	17
Income Tax Expense	34	36	33	34	34	36	39	39	36	36
Income Tax Benefit	5	3	4	4	5	4	5	5	5	6
Unusual Items	0	2	2	1	2	3	4	6	8	8
Special Items	2	2	2	2	1	1	2	1	1	2
Noncash Items	3	2	2	2	2	8	8	8	8	8
Order Backlogs	0	0	0	0	0	1	1	1	1	1
Current Liabilities	1	1	2	3	3	3	3	3	3	3
Pension	2	1	1	2	1	1	1	2	2	2
Change in Net Debt	0	0	0	0	0	0	0	0	0	0
R&D	6	4	5	4	5	6	5	5	5	5

Table 8. General Categories of Line-Items Disclosed for Each Segment (as a percentage)

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Revenues from external customers	95%	95%	94%	93%	94%	93%	93%	93%	92%	91%
Revenues from transactions with other segments	31%	32%	33%	32%	31%	31%	32%	29%	28%	27%
Earnings	84%	85%	84%	83%	83%	81%	82%	81%	81%	81%
Interest Revenue	11%	13%	11%	12%	12%	14%	14%	15%	15%	14%
Interest Expense	25%	25%	23%	24%	24%	26%	24%	24%	25%	24%
Net Interest	2%	2%	2%	2%	2%	2%	2%	1%	1%	1%
Total Assets	74%	76%	76%	75%	75%	73%	72%	72%	72%	73%
Net Assets	4%	4%	4%	3%	3%	3%	3%	3%	3%	3%
Depletion	3%	3%	3%	3%	3%	3%	3%	4%	4%	4%
Depreciation (Separate)	11%	10%	10%	10%	10%	11%	11%	11%	11%	12%
Amortization (Separate)	7%	6%	6%	5%	6%	6%	5%	5%	4%	4%
Depreciation and amortization (Combined)	68%	71%	71%	72%	71%	70%	70%	70%	70%	65%
Capital Expenditure	73%	75%	74%	73%	73%	73%	71%	71%	69%	69%
Equity Income	17%	18%	18%	19%	19%	18%	18%	16%	16%	16%
Equity Investment	10%	11%	11%	11%	11%	11%	12%	12%	12%	13%
Investment and other income	8%	9%	9%	9%	9%	10%	10%	10%	10%	9%
Income Tax Expense	17%	18%	17%	17%	17%	18%	20%	20%	18%	18%
Income Tax Benefit	3%	2%	2%	2%	3%	2%	3%	3%	3%	3%
Unusual Items	0%	1%	1%	1%	1%	2%	2%	3%	4%	4%
Special Items	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%
Noncash Items	2%	1%	1%	1%	1%	4%	4%	4%	4%	4%
Order Backlogs	0%	0%	0%	0%	0%	1%	1%	1%	1%	1%
Current Liabilities	1%	1%	1%	2%	2%	2%	2%	2%	2%	2%
Pension	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%
Change in Net Debt	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
R&D	3%	2%	3%	2%	3%	3%	3%	3%	3%	3%

Similarly, Table 8 shows that on a percentage basis, 91% of companies in 2004 disclosed revenues from external companies, and in 2013 the number remained virtually unchanged at 95%. Likewise, 73% of companies disclosed net assets in 2004, and in 2013 the number was virtually unchanged 74%.

Tables 7 and 8 indicate that SFAS No. 131 is not working because the actual number of general line-items reported for each segment by companies over each of the previous ten years has remained virtual unchanged.

5.5 How many geographic areas were reported by companies over each of the previous ten years?

Tables 9 and 10 indicate the number of geographic areas reported for each segment by companies over each of the previous ten years. Table 9 provides the mean and median number of geographical areas over each of the previous ten years, which is zero (meaning no disclosure of the geographic areas for the segments they report).

Table 9. Number of Geographic Areas Disclosed

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Mean	0	0	0	0	0	0	0	0	0	0
Median	0	0	0	0	0	0	0	0	0	0
	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Zero	106	105	104	103	104	106	106	105	105	111
One	18	20	20	22	22	22	21	24	27	28
Two	17	17	19	19	19	18	18	18	18	16
Three	23	23	23	22	21	24	24	23	21	21
Four	16	17	18	20	21	18	18	18	18	14
Five	14	12	11	9	9	8	9	9	8	8
Six	5	5	3	3	3	3	3	2	2	1
Seven+	1	1	2	2	1	1	1	1	1	1
	200	200	200	200	200	200	200	200	200	200

In addition, Table 9 provides that when companies do in fact provide geographic area disclosure for their segments, providing disclosure of three geographic areas occurred more often than any other number. For example, 21 of the 200 sample companies disclosed 3 geographic areas for the segments they reported in 2004, and 23 companies did the same in 2013.

Table 10 provides this information on a percentage basis based on the 200 companies in the sample. By analyzing Table 10, it is shown that over 50% of companies in the sample provided no disclosure of the geographic areas for the segments they reported for each of the last ten years. Table 10 provides that in 2004 11% of the companies reported 3 geographic areas and that percentage has remained virtually unchanged with 12% of companies reporting 3 geographic areas in 2013.

Table 10. Number of Geographic Areas Disclosed (as a percentage)

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Zero	53%	53%	52%	52%	52%	53%	53%	53%	53%	56%
One	9%	10%	10%	11%	11%	11%	11%	12%	14%	14%
Two	9%	9%	10%	10%	10%	9%	9%	9%	9%	8%
Three	12%	12%	12%	11%	11%	12%	12%	12%	11%	11%
Four	8%	9%	9%	10%	11%	9%	9%	9%	9%	7%
Five	7%	6%	6%	5%	5%	4%	5%	5%	4%	4%
Six	3%	3%	2%	2%	2%	2%	2%	1%	1%	1%
Seven+	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%
	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

Tables 10 and 11 indicate that SFAS No. 131 is not working because the actual number of geographic areas reported for each segment by companies over each of the previous ten years has remained virtual unchanged.

5.6 Which specific geographic areas were reported by companies over each of the previous ten years?

Analysis of Tables 11 and 12 reveals that Europe is the most frequently disclosed geographic area by companies in their segment disclosure and such disclosure has remained consistent for the last ten years. Table 11 provides that in 2004, 50 of the 200 sample companies provided segment reporting disclosure for operations in Europe. This number declined to 39 companies in 2013, but 2013 is lower than the prior nine years. Asia Pacific is the second most reported geographic area, and a combined area consisting of Europe, Middle East, Africa is the third most reported geographic over each of the previous ten years.

Table 11. Geographic Areas Disclosed

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Asia	15	13	12	14	15	14	17	14	12	11
Asia Pacific	30	28	26	24	24	22	21	20	19	18
Europe	39	43	43	45	46	45	47	50	54	50
Europe, Middle East, Africa	20	19	17	16	14	11	9	6	7	6
Latin America	19	17	18	19	21	22	24	24	24	20
North America	23	24	24	24	25	25	26	27	26	23
Pacific	4	4	4	5	5	5	5	5	4	3
South America	8	8	8	7	6	6	6	6	5	4
Western Hemisphere	4	4	5	5	5	4	4	4	4	3

Similarly, Table 12 reveals that in 2004, 25% of the 200 sample companies provided segment reporting disclosure for operations in Europe. This number declined to 20% of the companies in 2013, but 2013 is lower than the prior nine years. Asia Pacific is the second most reported geographic area, and a combined area consisting of Europe, Middle East, Africa is the third most reported geographic over each of the previous ten years.

Table 12. Geographic Areas Disclosed (as a percentage)

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Asia	8%	7%	6%	7%	8%	7%	9%	7%	6%	6%
Asia Pacific	15%	14%	13%	12%	12%	11%	11%	10%	10%	9%
Europe	20%	22%	22%	23%	23%	23%	24%	25%	27%	25%
Europe, Middle East, Africa	10%	10%	9%	8%	7%	6%	5%	3%	4%	3%
Latin America	10%	9%	9%	10%	11%	11%	12%	12%	12%	10%
North America	12%	12%	12%	12%	12%	12%	13%	13%	13%	11%
Pacific	2%	2%	2%	3%	3%	3%	3%	3%	2%	2%
South America	4%	4%	4%	3%	3%	3%	3%	3%	2%	2%
Western Hemisphere	2%	2%	3%	3%	3%	2%	2%	2%	2%	2%

Tables 11 and 12 indicate that SFAS No. 131 is not working because the geographic areas disclosed for each segment by companies over each of the previous ten years has remained virtual unchanged.

5.7 Which specific countries were reported by companies over each of the previous ten years?

Analysis of Tables 13 and 14 reveals that the United States is the most frequently disclosed country by companies in their segment disclosure and such disclosure has remained consistent for the last ten years. Table 13 provides that in 2004, 119 of the 200 sample companies provided segment reporting disclosure for operations in the United States. This number increased to 121 companies in 2013, which is basically the same amount over the prior nine years. Canada is the second most reported country, and Germany is the third most reported country over each of the previous ten years, save for 2012 when Great Britain was the third most reported country.

Similarly, Table 14 reveals that in 2004, 59% of the 200 sample companies provided segment reporting disclosure for operations in the United States. This number increased to 60% of the companies in 2013 and has remained virtually unchanged over the prior nine years. Canada is the second most reported country at 23% in 2004 and 20% in 2013, and Germany is the third most reported country over each of the previous ten years, save for 2012 when Great Britain was the third most reported country.

Table 13. Individual Countries Disclosed

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
United States	121	123	123	124	124	121	123	120	120	119
Canada	40	40	41	42	42	44	46	46	46	45
Great Britain	19	21	19	19	18	19	19	18	18	16
China	19	17	15	12	11	11	9	9	8	8
Germany	21	20	21	22	20	21	21	19	18	18
Japan	17	19	18	15	17	15	17	17	18	17
Brazil	14	13	12	11	10	11	9	10	10	10
Mexico	12	12	11	13	12	12	12	11	11	9
Australia	8	8	8	8	6	6	6	5	6	6
France	11	12	11	11	12	11	13	11	10	9
Singapore	5	5	3	4	5	4	5	5	3	2
Italy	5	7	6	7	7	7	9	6	6	6
Spain	6	7	7	7	6	5	5	4	3	1
Argentina	3	3	3	3	3	4	5	5	5	6
India	5	5	4	4	3	3	2	2	2	0
Indonesia	2	2	1	1	1	1	1	1	1	1
Malaysia	0	0	0	0	0	0	0	0	0	0
Netherlands	5	5	5	3	4	5	5	5	5	4
Russia	3	3	3	3	3	3	2	2	2	1
Other individual countries	83	86	82	78	80	89	88	91	85	80

Table 14. Individual Countries Disclosed (as a percentage)

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
United States	60%	61%	61%	62%	62%	60%	61%	60%	60%	59%
Canada	20%	20%	21%	21%	21%	22%	23%	23%	23%	23%
Great Britain	10%	11%	10%	10%	9%	10%	10%	9%	9%	8%
China	10%	9%	8%	6%	6%	6%	5%	5%	4%	4%
Germany	11%	10%	11%	11%	10%	11%	11%	10%	9%	9%
Japan	9%	10%	9%	8%	9%	8%	9%	9%	9%	9%
Brazil	7%	7%	6%	6%	5%	6%	5%	5%	5%	5%
Mexico	6%	6%	6%	7%	6%	6%	6%	6%	6%	5%
Australia	4%	4%	4%	4%	3%	3%	3%	3%	3%	3%
France	6%	6%	6%	6%	6%	6%	7%	6%	5%	5%
Singapore	3%	3%	2%	2%	3%	2%	3%	3%	2%	1%
Italy	3%	4%	3%	4%	4%	4%	5%	3%	3%	3%
Spain	3%	4%	4%	4%	3%	3%	3%	2%	2%	1%
Argentina	2%	2%	2%	2%	2%	2%	3%	3%	3%	3%
India	3%	3%	2%	2%	2%	2%	1%	1%	1%	0%
Indonesia	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%
Malaysia	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Netherlands	3%	3%	3%	2%	2%	3%	3%	3%	3%	2%
Russia	2%	2%	2%	2%	2%	2%	1%	1%	1%	1%
Other individual countries	41%	43%	41%	39%	40%	44%	44%	45%	42%	40%

Tables 13 and 14 indicate that SFAS No. 131 is not working because the geographic areas disclosed for each segment by companies over each of the previous ten years has remained virtual unchanged.

6. Conclusion

Despite recent findings by the FAF in its January of 2013 PIR, segment disclosures under SFAS No. 131 has remained virtually unchanged the last ten years (2013-2004). More specifically, there has been virtually no change in the number of segments reported; the number of companies which changed the name of one or more of their

segments; the number of actual line-items reported for each segment; the general category of line-items reported for each segment; the number of geographic areas reported; the names of geographic areas reported; and the names of countries reported.

The findings of this research calls into question whether SFAS No. 131 is truly achieving its purposes.

References

- American Institute of Certified Public Accountants (AICPA). (1994). *Improving Business Reporting – A Customer Focus*. Report of the AICPA Special Committee on Financial Reporting (“Jenkins Committee”). New York, NY: AICPA. www.aicpa.org/InterestAreas/FRC/AccountingFinancialReporting/DownloadableDocuments/Jenkins%20Committee%20Report.pdf
- Association for Investment Management and Research (AIMR). (1993). *Financial Reporting in the 1990s and Beyond: A Position Paper of the Association for Investment Management and Research*. Prepared by Peter H. Knutson. Charlottesville, VA: AIMR. Association for Investment Management and Research (AIMR). 2003 AIMR.
- Berger, P. G. & Hann, R. (2003). The Impact of SFAS No. 131 on Information and Monitoring. *Journal of Accounting Research* Vol. 41 No. 2: 163-223. <http://dx.doi.org/10.1111/1475-679X.00100>
- Chen, Tsung-Kang, & Liao, Yi-Ping. (2015). The Economic Consequences of Disclosure Quality under SFAS No. 131. *Accounting Horizons*. Vol. 29 No. 1: 1-22. <http://dx.doi.org/10.2308/acch-50898>
- Doupnik, T. & L. Seese. (2001). Geographic area disclosures under SFAS 131: Materiality and fineness. *Journal of International Accounting, Auditing and Taxation* Vol. 10 No. 2: 117-138. [http://dx.doi.org/10.1016/S1061-9518\(01\)00040-4](http://dx.doi.org/10.1016/S1061-9518(01)00040-4)
- Emmanuel, C.R., & S. J. Gray. (1977). Segmental disclosures and the segment identification problem. *Accounting and Business Research* (Winter): 37-50.
- Financial Accounting Foundation (FAF). (2013). *Post-Implementation Review (PIR) report on FASB Statement No. 131, Disclosures about Segments of an Enterprise and Related Information (codified in Accounting Standards Codification Topic 280, Segment Reporting)*. <http://www.accountingfoundation.org>
- Financial Accounting Standards Board (FASB). (1976). *Financial Reporting for Segments of a Business Enterprise*. Statement of Financial Accounting Standards No. 14. Stamford, CT: FASB. <http://www.fasb.org/pdf/fas14.pdf>
- Financial Accounting Standards Board (FASB). (1997). *Disclosures about Segments of an Enterprise and Related Information*. Statement of Financial Accounting Standards No. 131, as codified in FASB Accounting Standards Codification (ASC) 280, *Segment Reporting*. <http://www.fasb.org/pdf/fas131.pdf>
- Herrmann, D. & W. Thomas. (2000). An Analysis of Segment Disclosures Under SFAS No. 131 and SFAS No. 14. *Accounting Horizons*; Vol. 14 No. 3: 287-302. <http://dx.doi.org/10.2308/acch.2000.14.3.287>
- Horwitz, B. & Kolodny, R. (1980). Segment Reporting: Hindsight After Ten Years. *Journal of Accounting, Auditing & Finance*; Fall80, Vol. 4 Issue 1: 20-35.
- SEC Release No. 33-7620. (January 5, 1999). Final Rule: *Segment Reporting*. <https://www.sec.gov/rules/final/33-7620.txt>
- SEC Release No. 33-7549. (June 25, 1998). Proposed Rule: *Segment Reporting*. <http://www.sec.gov/rules/proposed/33-7549.htm>
- Street, D.L., N.B. Nichols & S.J. Gray. (2000). Segment disclosures under SFAS No. 131: Has Business Segment Reporting Improved? *Accounting Horizons*; Vol. 14 No. 3: 259-285. <http://dx.doi.org/10.2308/acch.2000.14.3.259>
- Tang, R. Y.W. & Zhao J. (1999). A Look at the Segment Reporting Practices of Some Fortune 500 Companies. *Journal of Corporate Accounting & Finance*; Spring 1999, Vol. 10 Issue 3: 127-143. [http://dx.doi.org/10.1002/\(SICI\)1097-0053\(199921\)10:3<127::AID-JCAF12>3.0.CO;2-P](http://dx.doi.org/10.1002/(SICI)1097-0053(199921)10:3<127::AID-JCAF12>3.0.CO;2-P)

Appendix A. Firms Included in the Sample

3M	Cigna	General Cable Corp	Lincoln National	Penske Automotive Group, Inc.	The Dow Chemical Company
Abbott Laboratories	Coca-Cola	General Dynamics	Lockheed Martin	Pepco Holdings, Inc.	The Sherwin-Williams Company
Advance Auto Parts	Colgate-Palmolive	General Electric	Loews Corporation	PetSmart	Thermo Fisher Scientific
Advanced Micro Devices, Inc	Comcast	General Mills	Lowe's	Pfizer Inc.	Time Warner
AES Corporation	Con Edison	Genuine Parts Company	Macy's	Plains All American Pipeline	Timken
AGCO	CVS Caremark	Goodyear Tire and Rubber	ManpowerGroup	PPG Industries	TJX
Alcoa	Corning	Google	Marathon Oil Corporation	PPL	United Continental Holdings
Allstate	Crown Holdings	Halliburton	Marriott	Praxair	United States Steels
Altria Group	Cummins Inc	Harley Davidson	Marsh and McLennan	Precision Castparts	United Technologies
Amazon	CVS Caremark	HCA Holdings	Masco	Public Service Enterprise Group	UnitedHealth Group
American Electric Power	Danaher Corp.	Health Net	McDonalds	Raytheon	Universal Health Services
Anadarko Petroleum	Dean Foods	Henry Schein	MeadWestvaco Corporation	Raytheon	Unum Group
Apple	Delta	Hess Corporation	Merck	Republic Services	UPS
Arrow Electronics	Devon Energy	HollyFrontier Corporation	MGM Resorts International	RR Donnelley	URS
AT&T	Dick's Sporting Goods	Home Depot	Mohawk Industries Inc.	Seaboard Corp.	Valero Energy
AutoNation	Dillards	Honeywell	Mondelez International, Inc.	Sealed Air	Verizon Communications
Avon Products	Dish Network	Humana	Motorola Solutions, Inc.	Sempra Energy	VF Corporation
Ball Corporation	Dover	IBM	Murphy Oil	Smithfield Foods	Visteon
Baxter International	DTE Energy	Illinois Tool Works Inc.	National Oilwell Varco, Inc.	Sprint	W.W. Grainger
Berkshire Hathaway	Eastman Chemical	Ingram Micro	Newell Rubbermaid Inc.	St. Jude Medical Inc.	Wal-Mart
Best Buy	eBay	Ingredion Incorporated	Newmont Mining Corporation	Stanely Black & Decker, Inc.	Waste Management
Boston Scientific	Ecolab	Intel	NextEra Energy	Staples	Whirlpool
C. H. Robinson	EMC Corporation	International Paper	NiSource	Starwood Hotel and Resort	Williams Companies
Cablevision	EMCOR Group Inc.	J. B. Hunt Transportation Services	Nordstrom Inc.	Steel Dynamics	World Fuel Services
Calpine	Energy	Johnson and Johnson	Northrop Grumman	Stryker	Wynn Resorts
Cameron International	EOG Resources	Kellogg	Nucor Corporation	SuperValu	Xcel Energy
Caterpillar	Exelon	Kelly Services	NuStar Energy	Target	Xerox
CBS	Exxon Mobil Corporation	Kimberly-Clark	Occidental Petroleum	Tech Data	Yahoo
Centene	FirstEnergy Corp.	Kroger	Office Depot	Terex	YRC Worldwide
CenterPoint Energy, Inc.	Fluor	L Brands	Omnicare	Tesoro	Yum Brands
Charter Communications	Foot Locker	L-3 Communications	Omnicom Group	Texas Instruments	
Chesapeake Energy	Ford	Las Vegas Sands	ONEOK	Textron	
Chevron	Gannett Co. Inc.	Lear Corporation	Paccar	The Andersons, Inc.	
Chubb Corp.	Gap	Leucadia National	Peabody Energy Corp.	The Boeing Company	