

What is Segment Reporting?

Worksheet

Segment reporting measures each segment's profitability using the segment margin: $\text{Segment Margin} = \text{Sales} - \text{Variable Costs} - \text{Traceable Fixed Costs}$, excluding common fixed costs that aren't caused by any single segment.

Questions

1. Segment margin is calculated as sales minus
 - A) Only variable costs
 - B) Only common fixed costs
 - C) Variable costs and traceable fixed costs
 - D) Variable costs and common fixed costs
2. Sales \$150,000, variable costs \$80,000, traceable fixed costs \$30,000. Segment margin?
 - A) \$70,000
 - B) \$40,000
 - C) \$120,000
 - D) \$20,000
3. Common fixed costs should be
 - A) Allocated equally to every segment
 - B) Excluded from segment margin calculations
 - C) Added to variable costs
 - D) Ignored entirely in reporting
4. A segment with a negative segment margin most likely should be
 - A) Expanded immediately
 - B) Considered for elimination
 - C) Ignored
 - D) Given more common costs
5. A segment has sales of \$200,000, variable costs of \$110,000, and traceable fixed costs of \$40,000. Find the segment margin.
6. Two segments: Segment A has a segment margin of \$50,000 and Segment B has \$30,000. Common fixed costs are \$60,000. Find net operating income.
7. A segment's contribution margin is \$90,000. If traceable fixed costs are \$55,000, find the segment margin, and state whether the segment should be considered for elimination.
8. Define: What is segment reporting?
9. Define: What is the segment margin formula?
10. Define: What's the difference between traceable and common fixed costs?

Answer Key

1. C) Variable costs and traceable fixed costs - Segment Margin = Sales Variable Costs Traceable Fixed Costs; common costs are excluded.
2. B) $\$40,000 - 150,000 - 80,000 - 30,000 = 40,000$.
3. B) Excluded from segment margin calculations - Common costs aren't traceable to a segment, so they're excluded from segment margin and only subtracted at the company level.
4. B) Considered for elimination - If a segment can't cover even its own traceable costs, it's a strong candidate for discontinuation.
5. $SM = S - VC - TFC$
 $SM = 200,000 - 110,000 - 40,000 = \$50,000$
6. Total Segment Margin = $50,000 + 30,000 = 80,000$ Net Operating Income = $80,000 - 60,000 = \$20,000$
7. $SM = Contribution\ Margin - Traceable\ Fixed\ Costs$
 $SM = 90,000 - 55,000 = \$35,000$ Since the segment margin is positive, it's covering its own traceable costs and contributing to common costs - it should NOT be eliminated.
8. Breaking down financial results by division, product line, or region to evaluate each segment's profitability separately.
9. Segment Margin = Sales Variable Costs Traceable Fixed Costs.
10. Traceable costs are caused by and would disappear if the segment were eliminated; common costs are shared and remain regardless.

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