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Research Report on Segmental Reporting for Operational Control and Performance Evaluation in Vietnamese Real Estate Enterprises

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Abstract

Segmental reporting is an essential component of managerial accounting systems, providing information on the performance of specific business segments, such as business lines, products, and regions. This enables management to assess the operational effectiveness of each segment, guiding decisions on whether to maintain, promote, or discontinue business activities. This paper presents an overview of segmental reporting theory and explores the application of segmental reports in monitoring and evaluating the operational effectiveness of Vietnamese real estate enterprises.

Keywords*: segmental Reporting, Financial Reporting, Real Estate Enterprises*

1. Overview of Segmental Reporting (DR)

According to VAS 28: “segmental Reporting (SR) is a report providing financial information segmented by various business areas or geographic regions to assist financial statement users in understanding past performance, assessing the risks and economic benefits of an enterprise, and forming reasonable evaluations of the enterprise.”

A segment qualifies as reportable when its revenue primarily arises from external sales and meets at least one of the following conditions:

- The segment’s total revenue from external sales and inter-segmental transactions constitutes 10% or more of the enterprise’s total revenue.
- The segment’s profit or loss represents 10% or more of the absolute value of all profitable segments’ profits (or the total losses of all unprofitable segments, whichever is larger).
- The segment’s assets make up at least 10% of the enterprise’s total assets.

For segments below the 10% threshold, reporting is still permissible if:

- The segment’s information is necessary for financial statement users.
- The segment can be grouped with other similar segments.
- The remaining segments are reported as a separate item.

Segmental reports may be segmented by geographic area, business line, or operational activity:

- Business Line Reporting: Covers distinct enterprise divisions involved in producing or supplying specific products or services or groups of related products or services with unique risks and economic benefits.
- Geographic Area Reporting: Provides reports on divisions that operate within specific economic environments, where each division encounters different risks and benefits compared to those in other economic environments.
- Activity-based Reporting: Reflects the company’s operational structure, segmenting reporting by business line, geographic area, or managerial preferences for diverse, flexible reporting.

Enterprises may categorize reports as primary or secondary based on risk and profitability factors:

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- If product and service differences primarily affect an enterprise's risks and returns, primary reporting focuses on business line information, while secondary reporting relies on geographic area information.
- If geographic differences impact the enterprise's risks and returns, primary reporting centers on geographic information, with secondary reporting focusing on business lines.

Segmental reporting provides stakeholders with financial insights into the business operations and economic environments of the enterprise.

2. Current State of Segmental Reporting for Operational Control and Performance Evaluation in Vietnamese Real Estate Enterprises

The authors collected data from three major Vietnamese real estate companies distributing properties for prominent developers such as Vingroup, Sungroup, and Ecopark. A survey was conducted, including six questionnaires—three for enterprise executives and three for the chief accountants of each entity.

2.1. Current State of Segmental Identification for Reporting

Table 1 presents questions related to the criteria for identifying reportable segments by business line, along with the responses from the surveyed enterprises:

Table 1. Criteria for Identifying Reportable segments by Business Line

	Amount	Percentage
segment revenue >10% of total enterprise revenue	6	100%
segment profit (or loss) >10% of total enterprise profit (or loss)	0	0%
segment assets >10% of total enterprise assets	0	0%
All three criteria combined	0	0%
Total	**6**	**100%**

(Source: Compiled by authors based on survey results)

It is evident that all surveyed enterprises selected the revenue threshold criterion (100%) as the basis for identifying reportable segment by business line.

Table 2 presents the questions related to the criteria for identifying reportable segments by geographical area and the responses from the surveyed companies as follows:

Table 2. Criteria for Identifying Reportable segments by Geographical Area

	Quantity	Percentage
Total revenue of the segment > 10% of the total revenue of the entire enterprise	6	100%
Operating result (profit/loss) of the segment > 10% of the operating result of the entire enterprise	0	0%
segment assets > 10% of the total assets of the entire enterprise	0	0%
All three criteria above	0	0%
Total	**6**	**100%**

(Source: Compiled by the authors from the survey results)

Similar to the conditions for identifying reportable segments by business sector, the criteria for identifying reportable segments by geographical area chosen by the companies also represent a quantitative threshold based on revenue (accounting for 100%).

According to the provisions of VAS 28, a segment must report if it satisfies at least one of the three quantitative thresholds for revenue, result, or assets. However, the survey results indicate that all companies focus solely on identifying reportable segments based on the revenue threshold.

2.2. Current State of Segmental Reporting

Currently, the companies surveyed have not fully implemented segmental reporting as per VAS 28. The reports are primarily used for control and performance evaluation purposes within the companies, including: sales reports by project and product; sales reports by employee; and detailed expense reports tracked by branch and type of cost.

Table 3 presents the questions related to the segmental reports prepared by the surveyed companies and their responses.

Table 3. Segmental Reports Prepared in Enterprises

	Yes	No
Company-wide Sales Report	6/6	0/6
Sales Report by Geographical Area	4/6	2/6
Sales Report by Business Line	0/6	6/6
Sales Report by Project	6/6	0/6
Sales Report by Product	6/6	0/6
Sales Report by Employee	6/6	0/6
Company-wide Cost Report	6/6	0/6
Cost Report by Geographical Area	4/6	2/6
Cost Report by Business Line	0/6	6/6
Cost Report by Cost Type	6/6	0/6

*Corresponding Author: **Pham Thi Ninh.**

Company-wide Profit and Loss Report	6/6	0/6
Profit and Loss Report by Geographical Area	4/6	2/6
Profit and Loss Report by Business Line	0/6	6/6
Profit and Loss Report by Project	0/6	6/6
Profit and Loss Report by Product	0/6	6/6

Below are some of the segmental reports prepared by real estate companies in Vietnam:

Table 4. Project-based Sales Report

Malta Real Estate Investment and Development Joint Stock Company
Unit: VND

Project-based Sales Report (as of 30.09.2024)			
Project	**Total Paid to Developer**	**Total Collected**	**Outstanding Receivable**
Thuy Tien	100,000,000	-	100,000,000
Sky Forest	3,912,867,547	50,000,000	3,862,867,547
The Plaza	400,000,000	-	400,000,000
Mid-level Marina	1,500,000,000	-	1,500,000,000
The Campus	100,000,000	-	100,000,000
Seaview	400,000,000	-	400,000,000
Central Plaza	1,000,000,000	-	1,000,000,000
Booking	31,350,000,000	8,500,000,000	22,850,000,000
VHOC P3	600,000,000	-	600,000,000
SALES DEPOSIT	2,050,000,000	-	2,050,000,000
Total	**41,412,867,547**	**8,550,000,000**	**32,862,867,547**

2.3. Current State of Using segmental Reports for Control and Performance Evaluation

To explore this issue, the authors developed a survey questionnaire and obtained results through statistical tables as follows:

Table 5. Methods of Control and Performance Evaluation at Enterprises

Content	**Result**	**Quantity**
1. Does the enterprise control and evaluate performance through accounting reports?	Yes	6/6
	No	0/6
2. Reports provided to management include:	Statutory financial reports	6/6
	Reports requested by management	4/6

Currently, real estate companies have engaged in performance control and evaluation activities, as shown by the survey results from all 6/6 companies (100%). However, this evaluation is primarily based on statutory financial reports, with all companies adhering to this practice (6/6, 100%). Some companies, however, have not implemented reports specifically tailored to management's requirements for performance control and evaluation (4/6).

3. Conclusion

Regarding financial accounting, it can be stated that real estate companies in Vietnam have largely adhered to the current regulations under the 2015 Accounting Law, the Vietnamese Accounting Standards, and other related legal documents during the accounting process and preparation of financial statements (FS). Concerning segmental reporting (SR), companies have made initial steps in preparing and presenting segment information according to the prevailing accounting system, aligning with the operational characteristics of each enterprise. However, the quantity and quality of this reporting remain insufficient.

While real estate companies have made notable progress in applying accounting regulations to general accounting tasks, including segmental reporting, there are still several areas requiring improvement. First, segment reporting presentation does not fully comply with the prescribed standards. Justifications for not preparing certain segment reports are often inadequate and lack compelling evidence. Additionally, segment reports primarily focus on information by investment projects, indicating that companies have not yet given sufficient attention to presenting segment data in line with regulatory requirements. These reports rarely present information by business sector, and often fail to provide a comprehensive view that includes both primary and secondary segment reports.

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Furthermore, the quality of segment report information remains low. Segment reports are often inadequately prepared, with a low level of compliance with VAS 28, failing to meet the needs of users. Specific issues include:

Firstly, segmentation and identification of reportable segments: Enterprises tend to minimize the number of reportable segments by consolidating various segments from different operational areas into a single reportable segment. Discussions with chief accountants revealed that the limited presentation of segment information in financial statements is due to unclear guidelines and challenges in identifying reportable segments. The process of dividing segments into primary and secondary categories is complicated, labor-intensive, and monitoring each indicator per segment remains difficult for enterprises (2 out of 3 chief accountants shared this view).

Therefore, the authors recommend revising the regulations on segment classification and identification of reportable segments to ease the reporting process for companies.

Secondly, presentation of segment report information*:* Comparing the current state of segment reporting with VAS 28, aside from revenue, profit, assets, and liabilities for each segment, other required indicators such as costs, large non-cash expenditures for acquiring long-term assets, and depreciation of fixed assets are often omitted. Many companies justify this omission by not tracking segments individually.

Based on research from interview questions, the chief accountants of these companies believe that segment information would be more useful if it were generated from internal company reports, providing a more detailed view of each indicator instead of aggregated data. This approach, tailored to management's perspective, would allow clearer and more effective evaluation of segment performance and could enhance cost-efficiency in preparing segment reports (3 out of 3 chief accountants agreed). Furthermore, the lack of analytical indicators in segment reports reduces their usefulness.

Therefore, the authors recommend presenting segment information from a management perspective, utilizing internal data to guide decision-making. Additionally, stricter regulations should be implemented to ensure proper segment reporting.

Moreover, several challenges remain within these companies, including the underdeveloped accounting system, which hampers effective tracking and management of segment-related data. The decision-making process for resource allocation and evaluating performance remains difficult and ineffective due to a lack of specific, reasonable information from individual segments.

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