

Bhana, N.

Article

Segmented reporting by diversified companies in South Africa

South African Journal of Business Management

Provided in Cooperation with:

University of Stellenbosch Business School (USB), Bellville, South Africa

Suggested Citation: Bhana, N. (1984) : Segmented reporting by diversified companies in South Africa, South African Journal of Business Management, ISSN 2078-5976, African Online Scientific Information Systems (AOSIS), Cape Town, Vol. 15, Iss. 3, pp. 173-178, <https://doi.org/10.4102/sajbm.v15i3.1124>

This Version is available at:

<https://hdl.handle.net/10419/217869>

Standard-Nutzungsbedingungen:

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

Terms of use:

Documents in EconStor may be saved and copied for your personal and scholarly purposes.

You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.

If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.



<https://creativecommons.org/licenses/by/4.0/>

Segmented reporting by diversified companies in South Africa

N. Bhana

Graduate School of Business, University of Durban-Westville, Durban

Segmented financial statements provide more useful information on the prospects of a diversified company than the usual consolidated financial statements. Divisional and geographical segmented financial statements improve the investor's predictive ability and make inter-company comparisons possible. As a result of pressure from investors detailed segmented disclosure is becoming a statutory requirement in the more advanced countries.

Diversified companies are becoming the norm in South Africa. However, shareholders are not given segmented reports of the different divisions and geographical regions that have differing risk, profitability, and growth. The Companies Act prescribes insufficient segmented reporting by South African companies. Some of the largest and most diversified companies in South Africa are listed on the stock exchange. However, the Johannesburg Stock Exchange (JSE) has not prescribed any segmented disclosure requirements in addition to that required by the Companies Act.

The lack of generally accepted accounting practice has also resulted in listed companies providing segmented reports in an arbitrary and inconsistent manner. It is recommended that the segmented disclosure requirements of the Companies Act and the JSE be amended to bring them in line with the more advanced countries. The accountancy profession should give urgent attention to providing a statement on generally accepted accounting practice relating to segmented disclosure.

S. Afr. J. Bus. Mgmt. 1984, 15: 173 - 178

Gesegmenteerde finansiële state verskaf meer bruikbare inligting aangaande die toekomstige moontlikhede van 'n gediversifiseerde maatskappy as die gebruiklike gekonsolideerde finansiële state. Afdelings- en geografies gesegmenteerde finansiële state verbeter die belegger se vooruitskattingsvermoë en maak vergelykings tussen maatskappye moontlik. As gevolg van druk wat deur beleggers uitgeoefen word, word gesegmenteerde verslagdoening in verskeie oorsese lande statutêr bevorder.

Gediversifiseerde maatskappye wen vinnig veld in Suid-Afrika. Daar word egter te kort geskiet in die sin dat beleggers nie behoorlik op hoogte gehou word van risiko, wins, en groei deur middel van gesegmenteerde verslae, op afdelings- en geografiese basis nie. In hierdie opsig is die Wet op Maatskappye in Suid-Afrika verouderd. Alhoewel baie van die gediversifiseerde maatskappye in Suid-Afrika op die beurs genoteer word, is daar geen voorskrifte van die Johannesburgse Effektebeurs ten opsigte van gesegmenteerde verslagdoening bo en behalwe dié soos voorgeskryf deur die Wet op Maatskappye nie.

Onvoldoende rekenkundige praktyke veroorsaak dat genoteerde maatskappye verslae op 'n arbitrêre en nie-gestandaardiseerde manier verskaf. Daar word voorgestel dat die vereistes van die Wet op Maatskappye en die Johannesburgse Effektebeurs ten opsigte van gesegmenteerde openbaarmaking, verander word om aan te pas by praktyke in meer gevorderde lande. Die rekenkundige beroep moet dringende aandag skenk aan die verskaffing van 'n algemeen aanvaarde praktyk, veral met betrekking tot gesegmenteerde openbaarmaking van finansiële verslae.

S.-Afr. Tydskr. Bedryfsl 1984, 15: 173 - 178

N. Bhana

Graduate School of Business, University of Durban-Westville, Private Bag 54001, Durban 4000, Republic of South Africa

Accepted May 1984

The need for segmented reporting

Financial statements play an important role in providing financial information to those outside the company. It has been stated (Financial Accounting Standards Board, 1978: par.34) that:

'Financial reporting should provide information that is useful to present and potential investors and creditors and other users in making rational investment, credit, and similar decisions. The information should be comprehensible to those who have a reasonable understanding of business and economic activities and are willing to study the information with reasonable diligence.'

Section 286(3) of the Companies Act of 1973, as amended, requires that the financial statements should 'fairly present the state of affairs of the company and its business' during a given financial period. There has been a persistent trend, especially by the larger companies towards diversification. The regulatory authorities have responded by making provision for more meaningful disclosure requirements by diversified companies. Segmented disclosure requirements in South Africa are still in the exploratory stage. Therefore, the financial statements of diversified companies do not meet several important requirements of financial reporting. Furthermore, it cannot be said that the financial statements 'fairly present' the financial results of a diversified company.

The financial statements of diversified companies differ from those of companies that operate in a limited number of products readily identified with a specific industry. A highly diversified company consists of a group of companies who will report to its shareholders in the form of consolidated financial statements. These usually take the form of a consolidated income statement and a consolidated balance sheet. Shareholders and investment analysts are not given information on the performance of the different divisions operating in diverse industries, and that have differing risk, growth, and profitability. The current view is that the performance disclosure of the subsidiaries and divisions of a diversified company play a vital role in the economy. It has been argued (Cohen, 1966:59) that separate disclosure could result in the improvement or elimination of unprofitable divisions, resulting in benefits to the shareholders and to the economy generally.

The view of the professional investors is that without separate disclosure it is not possible to evaluate the investment potential of a diversified company. Knowledge of its involvement in the different industries having different risk, profitability, and growth is needed. For example, the investment potential of a diversified company such as The Tongaat-Hulett

Group Ltd., can only be determined by a knowledge of its involvement in its major activities such as sugar, building materials, engineering and electronics, textiles, and food. In addition to the extent of involvement in these diverse industries, a knowledge of the profitability, growth, and risk of the different divisions is also essential for investment analysis.

The main reason why investors have demanded segmented reporting is that such reports provide more meaningful information than the traditional consolidated financial statements. A hypothesis tested (Emmanuel & Pick, 1980: 201) whether segmented sales and profit disclosure by diversified companies, together with corresponding industry comparisons, provide significantly more accurate estimates of future sales and earnings than data based on consolidated financial statements. It was shown (Emmanuel & Pick, 1980:215) that segmented performance reports provide significantly more accurate predictions on future company earnings than the usual consolidated data. A study (Collins, 1976:175) has further shown that investors' predictive ability is improved by using segmented profit margins as opposed to consolidated profit margins. The results of a test (Kochanek, 1974) indicated that companies providing segmented financial statements experienced reduced share price variability. This suggests that segmented reports improve forecasts and thereby reduce uncertainty.

Despite the forceful arguments of the proponents of segmented performance reporting there are arguments against such reporting. It has been observed (Sommer, 1969:219) that the main arguments against segmented performance reporting are that (a) such information may be misunderstood by investors; (b) conveying such information to its major competitors could be detrimental to the company; (c) there will be problems of allocating the common costs to the individual divisions. With regard to the first two arguments it can be said that there is always the danger of financial information being misunderstood by unsophisticated investors. The danger of competitors gaining unfair advantage from divisional profitability figures is exaggerated because companies operating in one industry only are already reporting such information to their competitors. The third argument is more serious in the sense that an arbitrary basis of allocating joint costs such as head office salaries, group advertising costs, etc., can play havoc with the reported profitability of the different divisions. It has been shown (Greer, 1968:30) that there are situations where profitable divisions show losses as a result of arbitrary allocation of joint costs. To counter the argument of arbitrary allocations it is submitted that accountants have long been allocating joint costs such as depreciation and overhead in determining inventory costs. It is submitted that a company could determine an equitable method of allocating joint group costs.

Companies deciding to provide segmented financial statements should be obliged to make continuous use of them in the future. It can be expected that companies will be motivated to provide segmented financial statements when the reported information is likely to produce a favourable stock market reaction. Companies reporting less favourable information may be motivated not to provide segmented financial statements. Research has shown (Ronen & Livnet, 1981:475) that in an efficient market there is a penalty associated with switching from a policy of segmented disclosure to a policy of non-disclosure. Rational shareholders can be expected to make appropriate inferences on managements' decision not to provide segmented financial statements in the current period. Therefore, a decision not to make further segmented disclosure is

likely to produce the same market reaction as would have occurred if the company had decided to disclose the unfavourable segmented information. This research (Ronen & Livnet, 1981: 476) has also argued for the imposition of mandatory requirement to disclose segmented financial statements. The market mechanism cannot guarantee that comprehensive segmental disclosure will be made, neither can non-disclosure be unambiguously interpreted by all investors.

Segmented reporting by diversified companies in overseas countries

In the United States a major controversy took place during the 1960s regarding the form of financial disclosure by diversified companies in general and conglomerates in particular. The Securities and Exchange Commission was mainly responsible for greater disclosure of divisional performance. During this period a large proportion of the business assets were passing into the hands of the conglomerates, and the regulatory bodies were concerned about monopolistic practices. However, the conglomerates were able to escape the scrutiny of the antitrust agencies by providing consolidated financial statements which did not provide any information on the profitability and the market shares of the different divisions and subsidiaries.

As a result of the debate on the need for segmented disclosure, the Accounting Principles Board (APB) of the American Institute of Certified Public Accountants issued a statement. The statement did not prescribe any particular form of segmented disclosure. It has been stated (Accounting Principles Board, 1967:51) that financial reporting should be flexible enough to respond to the changes in business structure, such as the increase in conglomerate-type of take-overs, and that the accountancy profession should consider the need to provide more meaningful financial reporting. It is further stated (Accountancy Principles Board, 1967:52) that, because of several problems associated with reporting on separate segments and divisions, further research was necessary to provide guidelines for a future pronouncement on segmented reporting. In the interim period, the APB urged the diversified companies to voluntarily disclose financial information by industry segment.

While the accountancy profession was awaiting comments from interested parties on the relative merits of segmented financial disclosure, the large institutional investors began lobbying for immediate action. As a result of pressure from investors, the Securities and Exchange Commission (SEC) in 1970 changed the disclosure requirements by asking all companies whose shares were listed on a stock exchange in the United States to provide financial information on a segmented basis. This information was to be provided for the shareholders in the published financial statements of a company. The SEC requirement for diversified companies is that they must report total sales and net income before taxes of the different 'lines of business'. Although the 'lines of business' are not defined, they have been generally taken to mean different industry segments.

In 1972 the Accountants International Study Group (AISG) conducted a comparative study of financial reporting by diversified companies in the United States, Canada, and the United Kingdom. This study (Accountants International Study Group, 1972: par. 62) reported that in all three countries studied the segmented disclosure requirements were still in an exploratory stage and restricted to income data. A further characteristic, reported by this study, was the flexibility which the reporting companies have in these countries. The study reported that

while segmented financial statements are of a voluntary nature, the incidence of such reporting is increasing in all three countries. Certain companies also have decided to have their segmented financial statements evaluated by independent auditors. This study (Accountants International Study Group, 1972: par. 79) is of the opinion that audited segmented financial statements will enhance the credibility of such information to investors.

The Financial Accounting Standards Board (FASB) of the United States must be credited with providing a rigorous basis for the disclosure of segmented and geographical financial information. All listed companies in the United States whose industry segments meet one or more of the 'FASB Statement No. 14' tests of significance must disclose on a segmented basis their revenue, operating profit or loss, and identified assets. This statement (Financial Accounting Standards Board, 1976: par. 15) requires that a segment contributing 10% or more of the combined revenue, or operating profit/loss, or assets of all industry segments is regarded as significant for disclosure purposes. 'FASB Statement No. 14' (Financial Accounting Standards Board, 1976, par. 33) also provided similar tests of significance to identify reportable geographical segments. Any foreign country accounting for 10% or more of a company's total revenue creates a need for geographical financial disclosure. The 'FASB Statement No. 14' requirements for financial reporting on a segmented and geographical basis were effective from December 1976. It has been reported (Emmanuel & Gray, 1977a:410) that there is considerable scope for managerial discretion in segment identification and this undermines the effectiveness of segmented disclosure in the United States.

The International Accounting Standards Committee is in the process of standardizing disclosure requirements so that the financial statements of companies operating in different countries can be meaningfully compared. Exposure Draft 15 'Reporting Financial Information by Segment' was issued in March 1980. After representation from member countries 'International Accounting Standard No. 14' (IAS 14) was published in August 1981. This international accounting standard became operative for financial statements covering periods beginning on or after 1 January 1983. IAS 14 prescribes industry segments and geographical segments as the basis for presenting performance reports of significant operations of a company. IAS 14 recognizes that industry and geographical segments may be determined in many different ways for reporting purposes. This standard (International Accounting Standards Committee, 1981: par. 11) places the responsibility on management to exercise professional judgement in deciding which business activities are to be grouped for segmented reporting. The International Accounting Standards Committee also recognized the special disclosure needs of inventors in multinational companies. 'International Accounting Standard No. 3' (IAS 3) recognizes that the consolidated financial statements of multi-national companies may not fully reflect their exposure to exceptional risk of operating in certain countries. The Standards Committee (International Accounting Standards Committee, 1976: par. 33) recommended that a geographical distribution of assets and liabilities in those countries of exceptional risk should accompany the consolidated financial statements.

Segmented disclosure requirements for diversified companies in South Africa

In contrast to the development of segmented financial report-

ing in other countries, no significant advance has been made in South Africa. The disclosure requirements of the JSE do not provide for any financial disclosure of the separate divisions and subsidiaries of diversified companies. Paragraph 60(1) of Schedule 4 of the Companies Act of 1973, as amended, requires a statement of the estimated proportion of the profit or loss attributable to the various classes of business of a company. However, there is no requirement to provide the assets employed in the different classes of business. Shareholders and investors are not provided with all the information to determine the profitability of the different classes of business of the company. Companies which are listed on the JSE as well as in foreign countries must also conform to the disclosure requirements of overseas stock exchanges.

The Companies Act of 1973, as amended, does not specifically mention diversified companies or conglomerates. According to the general rule (Cilliers, Benade & de Villiers, 1977:411) all holding companies having subsidiaries must prepare group annual financial statements in addition to their own annual financial statements. In line with the above general rule, holding companies provide group financial statements in the form of consolidated financial statements. It is suggested (Cilliers, *et al.*, 1977:414 – 415) that instead of a single set of consolidated financial statements, any one of the following may be presented:

- (a) More than one set of consolidated statements (for each clearly defined activity);
- (b) separate financial statements for each subsidiary;
- (c) statements supplementing the information about subsidiaries in the holding company's own financial statements;
- (d) any combination of the above.

In terms of the above alternative forms of presentation, diversified companies are given a wide choice of presenting financial statements to their shareholders. The most important form of presentation for diversified companies involved in numerous unrelated activities is (a). A diversified company is therefore free to provide several sets of consolidated financial statements of subsidiaries and divisions operating in industries which have significantly different profitability, growth, and risk characteristics. A diversified company may for example provide separate consolidated financial statements for homogeneous activities such as mining, industrial manufacturing, consumer products, and financial services. There is nothing in the Companies Act which discourages the disclosure of segmented financial statements giving shareholders a financial analysis of a company's different divisions. On the contrary, (a) above could be an ideal form of industry segmented financial reporting. As this study is concerned with the companies listed on the JSE, a random analysis was made of the published financial statements of listed companies. There is no indication that listed companies are making use of the alternative forms of group reporting listed above as (a) to (d).

Several financial executives of listed companies were contacted in an attempt to determine why little or no use was made of the alternative forms of presenting financial statements of holding companies. It would seem that the time and expense in preparing several sets of consolidated financial statements was regarded as unwarranted. The general feeling was that year-end financial statements are prepared under severe time pressures and preparing several sets of consolidated statements would add to the difficulties. The usual arguments against segmented disclosure, such as the possibility of being misunderstood by investors, and the access of valuable information

Table 1 An analysis of segmented performance disclosure of a selected group of companies listed on the JSE

Name of listed company	Segmented (divisional) disclosure			Geographical analysis		
	turnover	trading profit	assets employed	turnover	trading profit	assets employed
AECI Ltd.	X	X	X			
Abercom Ltd.						
African Oxygen Ltd.		X				
Anglo American Corp. of South Africa Ltd.						
Barlow Rand Ltd.	X	X	X	X	X	X
Everite Ltd.						
Federale Volksbeleggings Beperk	X	X	X			
Plate Glass Ltd				X	X	X
Protea Holdings Ltd.	X	X				
Rembrandt Group Ltd.						
Rennies Consolidated Holdings Ltd.	X	X			X	X
Sappi Ltd.						
Sasol Ltd.						
Searde! Investment Corporation Ltd.			X			
Sentrachem Ltd.		X				
S.A. Breweries Ltd.	X	X				
Tonga Group Ltd.	X	X				

X indicates the provision of the relevant information in the published financial statements for the years 1981/82

to competitors, were also frequently cited. An analysis of the segmented and geographical disclosure of financial information by certain companies belonging to 'The Top 100' companies is shown in Table 1. Some diversified companies are not providing segmented financial statements. Several companies are providing divisional and geographical analysis in their financial statements. This information takes the form of a supplementary report. The usual form of presentation uses percentages to facilitate comparison between the different divisions and geographical areas concerned. Table 1 shows that, while many of the large diversified companies show minimal segmented financial information, there are a few companies that do provide meaningful performance reports on a divisional basis. Barlow Rand Ltd. can be singled out as a company that is providing a wide range of divisional and geographical financial information and is unique in providing both the profitability and the assets employed in the various local divisions as well as geographical segments. It was therefore possible for the shareholders and prospective investors to determine the relative return on investment of the different divisions in the company.

Table 1 shows that several companies are providing information on turnover and trading profit on a divisional basis. This gives shareholders some idea of the extent of the company's involvement in different industries. However, there is no basis for determining the profitability of the different divisions because the assets employed in the respective divisions are not known. The Tongaat Group Ltd. is a case in point. The financial statements (Tonga Group Limited, 1982:7) show that the sugar division contributed approximately 18% of the group profits. However, in the absence of information on the assets employed in this division, shareholders are completely 'in the dark' about the differences in the risk, profitabili-

ty, and growth between the sugar division and the other divisions. It can be seen from Table 1 that few companies listed on the JSE provide financial information on a geographical basis. This is a serious deficiency because in many instances there is a substantial difference in the risk, profitability, and growth of a company's local activities and its activities in the neighbouring countries such as South-West Africa, Zimbabwe, Zambia, and Mozambique. An investor can make a meaningful evaluation of a company only if he is aware of the financial information of the different local divisions of a company as well as the different geographical areas of operation outside South Africa.

The above analysis on the divisional and geographical financial reporting characteristics of the listed companies in South Africa is not fully representative. It can be said that, compared with overseas companies, South African diversified companies do not provide much meaningful information on their different operating divisions. A probable reason for this state of affairs is that the investors are not well organized in their efforts to obtain all the financial information necessary for decision-making. As a result, the accountancy profession, and the JSE, make no mention of the need for divisional reporting by diversified companies.

The results of this study are in agreement with an investigation which determined the segmented reporting by 'The Top 100' companies listed on the JSE. Schedule 4, paragraph 60(1) of the Companies Act requires directors to provide a statement of the estimated proportion of the profit or loss attributable to the various classes of business of a company in their published financial statements. It has been shown (Macgregor, 1981:30) that 'The Top 100' companies on the JSE are interpreting paragraph 60(1) in a variety of ways and that 15% of the responding companies did not even provide a breakdown

of the profit or loss attributable to specific divisions.

The increased diversification of companies in South Africa has created a need for detailed statutory requirements related to segmented disclosure. This will be of great benefit to the investors and will contribute towards the creation of a more efficient market for securities. Shareholders of a diversified company would not, for instance, tolerate the investment in a division or a subsidiary that has been operating at a loss for a lengthy period and showing no signs of recovery. Managerial efficiency and resource allocation to the different business segments may be evaluated, and will result in a more efficient allocation of resources in the economy. Divisions and subsidiaries that are earning above-average returns on investment will receive a larger allocation of resources.

As a starting point for meaningful segmented disclosure in South Africa, the companies listed on the JSE should be required to provide additional information on the different industries in which the companies operate. It is recommended that the information should be supplementary to each company's existing financial statements and should be prescribed, not voluntary. Past experience with voluntary disclosure is that such information will not be forthcoming unless there is an obligation to provide such information. For example, a request for a voluntary disclosure of inflation accounting information has not produced satisfactory results.

Although several listed companies are providing segmented financial reports, there is no consistency in the classification of the different divisions. An arbitrary classification of divisions precludes a meaningful comparison of inter-company divisional performances. Research has shown (Emmanuel & Gray, 1977b:37) that no amount of sophisticated analysis can remedy the harm caused by segments that are wrongly identified in the first place. It has been shown (Gray, 1981:39) that standard industrial classification will place a limit on the number of segments to be disclosed, and also provide a materiality criterion for disclosure. It is therefore suggested that the classification of divisions be as broad as possible, preferably along industry lines; and that companies report their divisional performance according to the JSE classified listing index, reflecting the different fields of activity. This broad industry classification of the different divisions will provide more meaningful information to the shareholders. It is also suggested that the JSE prescribe the minimum disclosure of the operating profit and the assets employed on a divisional basis, thus enabling the shareholders to determine the relative profitability of the different divisions. A similar requirement should be prescribed on a geographical basis for those companies that have a significant investment in neighbouring and overseas countries. Prescribed tests of significance are necessary and will prevent managerial discretion being exercised in deciding industry segment and geographic area identification.

The importance of the divisional and geographical financial statements to the readers of such reports poses the question whether such information need be audited. Audited segmented financial statements will add to the credibility of such information. However, in view of the several problems such as the allocation of common costs, the disclosure of inter-company transactions, the separation of financial information according to different industries and geographical regions, etc., the role of auditor should initially be limited. It is suggested that during the experimental period the auditor need only report on the accounting bases and calculations that are necessary for segmented reporting. After the experimental period the role of the auditor, as well as the segmented

disclosure requirement of companies, can be increased.

The minimum disclosure requirements outlined above are in line with the segmented disclosure requirements operating in some of the more advanced countries. While it is conceded that overseas conditions do not necessarily apply to South Africa, there is a trend towards international standardization of disclosure requirements. In South Africa and in the English-speaking countries, accounting practices usually evolve through custom and acceptance by the business community, and by innovation among the accounting practitioners. The sensible approach in South Africa, therefore, seems to be that research on segmented disclosure should be conducted by the accountancy profession in close co-operation with the business community.

Inter-company results of diversified companies in South Africa are not meaningful because there is insufficient requirement for segmented reporting. The few companies that provide segmented disclosure are doing so in an arbitrary and inconsistent manner. It is recommended that the Accounting Practices Board should issue a statement on generally accepted accounting practice (GAAP) relating to segmented disclosure based on local research and consultation with organized commerce and industry in South Africa. A GAAP statement on segmented reporting will prevent the widespread confusion in interpreting the results of diversified companies and will probably also create a more efficient market for securities in South Africa.

Conclusion

Present segmented disclosure requirements are based on experience during a period when most firms operated in clearly defined industries and growth was predominantly through internal expansion. However, in recent years there has been a greater emphasis on growth through take-overs, resulting in large diversified companies. The present segmented disclosure requirements in South Africa have been found wanting. The Companies Act prescribes insufficient segmented reporting by diversified companies in South Africa. This is contrary to the emerging international practice of greater emphasis on segmented reporting. In most developed countries segmented performance by diversified companies is still in an experimental stage. However, there are indications that segmented disclosure will become a statutory requirement as is the case in the United States of America.

The accountancy profession in South Africa has yet to issue a statement on GAAP relating to segmented reporting. Furthermore, the diversified companies are interpreting the requirements of the Companies Act (Schedule 4, paragraph 60(1)) in an arbitrary and inconsistent manner. It is recommended that the Accounting Practices Board in South Africa issue a GAAP appropriate to local conditions, keeping in mind international developments. The JSE has not prescribed any segmented disclosure requirements in addition to those required by the Companies Act. The most diversified companies in South Africa are listed on the stock exchange. There is an urgent need for the JSE to prescribe more stringent segmented disclosure for listed companies.

References

- Accountants International Study Group. 1972. *Reporting by diversified companies*. Birmingham: Hopkins and Baily Limited, 16p.
- Accounting Principles Board. 1967. Disclosure of supplemental financial information by diversified companies. *J. Account.*, vol. 124, 51-52.
- Cilliers, H.S. Benade, M.L. & de Villiers, S.W.L. 1977. *Company*

- Law*. 3rd edition. Durban: Butterworths, 633p.
- Cohen, M.F. 1966. The SEC and accountants: Co-operative efforts to improve financial reporting. *J. Account.*, vol. 122, 56–60.
- Collins, D.W. 1976. Predicting earnings with sub-entity data: Some further evidence. *J. Account. Res.*, 163–177.
- Emmanuel, C.R. & Gray, S.J. 1977a. Corporate diversification and segmental disclosure requirements in the U.S.A. *J. Bus. Finance Account.* vol. 4, 407–418.
- Emmanuel, C.R. & Gray, S.J. 1977b. Segmental disclosures and the segment identification problem. *Account. Bus. Res.* 37–50.
- Emmanuel, C.R. & Pick, R.H. 1980. The predictive ability of U.K. Segment reports. *J. Bus. Finance Account.*, vol. 7, 201–218.
- Financial Accounting Standards Board. 1976. *Statement of Financial Accounting Standards No. 14 — Financial Reporting For Segments of a Business Enterprise*. Chicago: Commerce Clearing House Inc., 26p.
- Gray, S.J. 1981. Segmental or Disaggregated Financial Statements. In *Developments in Financial Reporting*. (ed.) T.A. Lee. Oxford: Philip Allan Publishers Ltd., 292p.
- Greer, H.C. 1968. The chop suey caper. *J. Account.* vol. 125, 27–34.
- International Accounting Standards Committee. 1976. *International Accounting Standard No. 3 — Consolidated Financial Statements (IAS 3)*. London: International Accounting Standards Committee, 14p.
- International Accounting Standards Committee. 1981. *International Accounting Standard No. 14 — Reporting Financial Information by Segment (IAS 14)*. London: International Accounting Standards Committee, 7p.
- Kochanek, R.F. 1974. Segmental financial disclosure by diversified firms and security prices. *Account. Rev.* 245–258.
- Macgregor, I.H. (ed.) 1981. *A survey of financial reporting in South Africa 1980*. Johannesburg: The South African Institute of Chartered Accountants, 160p.
- Ronen, J. & Livnat, J. 1981. Incentives for Segment Reporting. *J. Account. Res.* vol. 19, 459–481.
- Sommer, A.A. Jr. 1969. Conglomerate disclosure: Friend or Foe? In *Financial Accounting Theory II*, (ed.) T.F. Keller & S.A. Zeff. New York: McGraw-Hill Book Company, 460p.
- Tongaat Group Limited. 1982. *Annual Report 1982*. Durban: Interprint (Pty) Ltd., 48p.