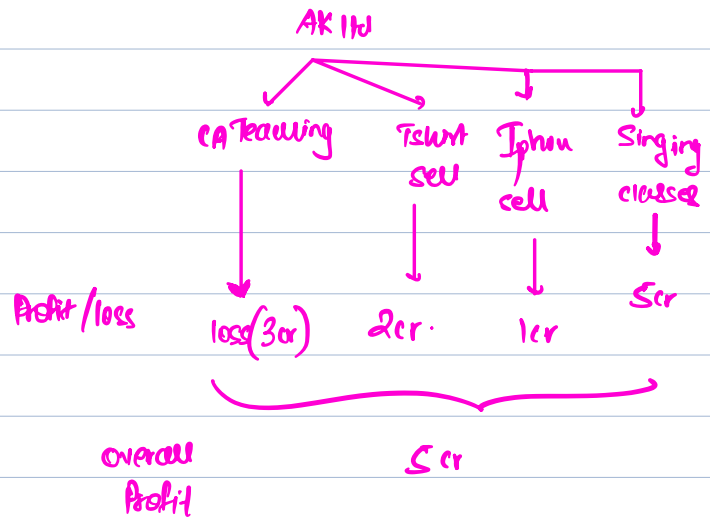
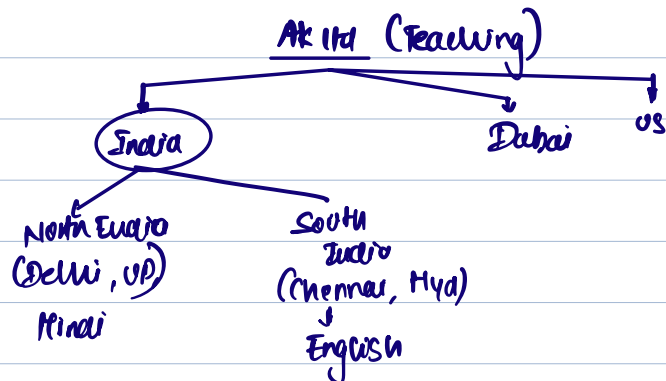
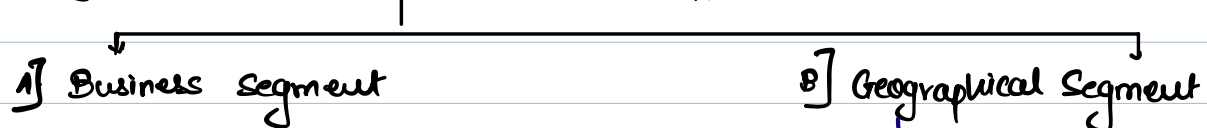


AS 17 - Segment Reporting



i] Segment can be divided into 2 types

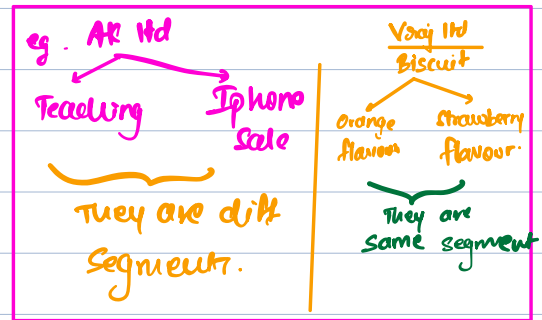


A] Business Segment

→ It is a distinguishable component that is providing an individual product or service that is subject to risks & returns that are different from other Business Segments.

→ Factors to be considered:

- i) Nature of products or services
- ii) Nature of production process
- iii) Types or class of customers
- iv) Methods of distribution
- v) Nature of regulatory environment



B] Geographical Segment ^{→ illust}

It is a distinguishable component that is engaged in providing products or services within a particular economic environment that is subject to risks & returns that are different from other economic environment.

Factors to be considered:

- i) Similarity of economic & political conditions
- ii) Relationships between operations in different geographical areas
- iii) Proximity of operations
- iv) Special risks associated with operations in a particular area.

A geographical segment may be a single country, a group of two or more countries, or a region within a country.



3] Identifying Reportable Segments (Quantitative Thresholds)

Step ①

Apply 10% (Materiality Test) [Any 1 test is to be met]

A. Revenue Test:

Revenue (External + Internal) of the segments is 10% or more of Total Revenue of All Segments.

B. Profit / Loss Test

If segment profit or loss is 10% or more of:

Combined profit of all segments (or)

Combined loss of all segments

whichever is greater in absolute Amount.

C. Assets Test

Segment Assets are 10% or more of the total assets of all segments

↳ To be done after above Test

Step ②:

75% External Revenue criteria

Out of total External Revenue atleast 75% of External Revenue should be under reportable segments.

If not, then additional segments should be identified as reportable segments, even if they do not meet 10% threshold, until atleast 75% of External revenue is included in reportable segments.

Eg ① At Hd Segments

1875

Revenue criteria.

	A	B	C	D	E	F	Total
Internal Revenue	100	150	-	-	-	-	250
External Revenue	-	200	500	1500	100	200	2500
							2750
	↓	↓					x 10%
	x	✓	✓	✓	x	x	275

Eg ② (Profit or loss Test)

	A	B	C	D	E	F	Total
Profit	50	20	-	200		10	280
loss			(5)		(30)		35
	✓	x	x	✓	✓	x	280
							x 10%
							28

Eg 3 (Asset Test)

	A	B	C	D	E	F	Total
<u>Assets</u>	100	350	500	1500	100	200	2750
							x 10%
	x	✓	✓	✓	x	x	275

Combine Eq 1 + 2 + 3 → Segments which meet any 1 criteria will be Reportable Segments.

A, B, C, D, E → Reportable

Total (External) Revenue = $2500 \times 75\%$
 $= 1875$

External Rev of
 At least 1875 should be under reportable segments.

Actual External Revenue of Reportable Seg

Seg	A	B	C	D	E
	-	200	500	1500	100
		2300			

↓
 If this was less than 1875

then we would have included more segments under reportable category

Eq 4

	A	B	C	D	E	F	
Internal	100	350	-	-	-	-	450
External	-	100	250	1500	100	350	2300
	x	✓	x	✓	x	✓	2750
							$\times 10\%$
							275

Other 2 test (PIL Test, Asset Test) — Ignore

75% External Revenue Test $(2300 \times 75\%) = 1725$

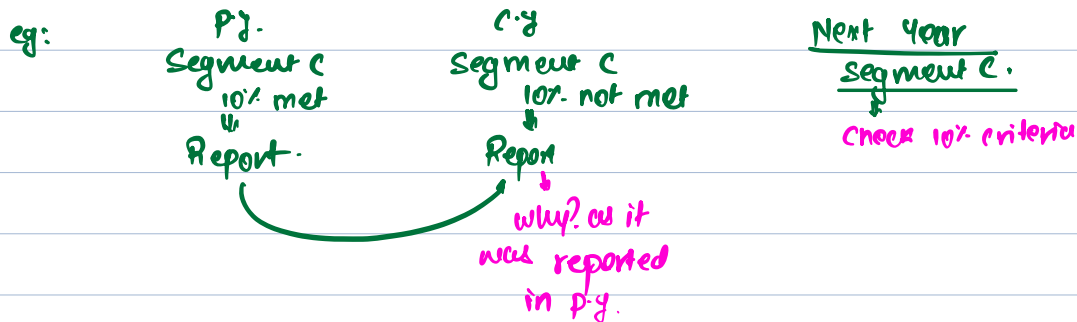
Reportable	B	D	F	
External Rev	100	1500	350	= (1950)

75% test met

no need to add more segments.

Imp points

- ① If segment was identified as reportable in previous year, then in current year, it will have to be reported even if 10% criteria is not met.



Hint: Check 10% Test every year. & Job Job meet kavage, By default you will become reportable for 2 two years (C.y) & Next year.

- ② Management at its discretion may report more segments as reportable even if they are not meeting the thresholds

Ques 1 (LOR)

Quantitative thresholds (10% Test)

Apply 10% (Materiality Test) [Any 1 test is to be met]

A. Revenue Test:

Revenue (External + Internal) of the segments is 10% or more of Total Revenue of All segments.

B. Profit / loss Test

If segment profit or loss is 10% or more of:

Combined profit of all segments (or)

Combined loss of all segments

whichever is greater in absolute Amount.

C. Assets Test

Segment Assets are 10% or more of the total assets of all segments

Asset criteria → M, N, O, P, Q — Reportable

PLL criteria → M, N, R — Reportable

Revenue criteria → M, N — Reportable

Conclusion: Any 1 test was to be met

All segments meet atleast 1 criteria. ∴ All are Reportable.

Also 75% external Revenue will also be met as all are reportable segments.

Does S (LOR)

Apply 10% (Materiality Test) [Any 1 test is to be met]

A. Revenue Test:

Revenue (External + Internal) of the segments is 10% or more of Total Revenue of All Segments.

B. Profit / Loss Test

If segment profit or loss is 10% or more of:

Combined Profit of all segments (or)

Combined loss of all segments

whichever is greater in absolute Amount.

C. Assets Test

Segment Assets are 10% or more of the total assets of all segments

Revenue criteria → L, M, O, P

PL criteria — L M N O P Q (AU Reportable)

Asset criteria — L M N O P

Conclusion: Any 1 test was to be met

All segments meet atleast 1 criteria. \therefore All are Reportable.

Also 75% external Revenue will also be met as all are reportable segments.

Ques 7

Revenue criteria = Fail

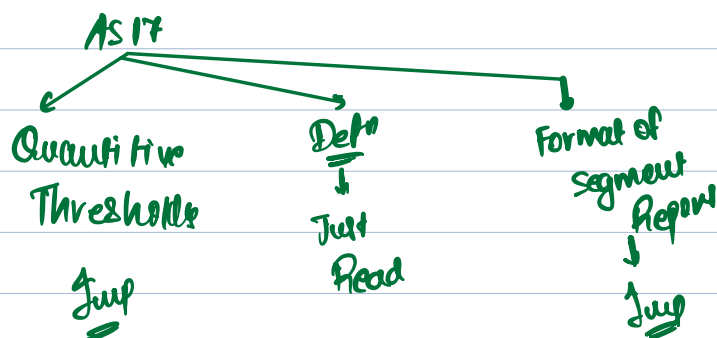
Asset criteria = Fail, Light

Total Reportable = Fail, Light

75% external Revenue criteria = $14000 \times 75\%$
= 10500

Reportable	Fail	Light	
External Rev	10900	1400	= 12300

criteria met, no need to add more



3] Important Definitions

A. Segment Revenue

It includes

- Directly attributable Revenue
- Revenue allocated to the segment on a reasonable basis
- Revenue from transactions with other segments.

Does not include

- Extra-ordinary items as per ASS
- Interest / dividend income (unless the segment primary activity is of financial nature)
- Gain on sale of Investment (")

B. Segment Expense

It includes :

- Directly attribution Expense
- Expense allocated to the segment on a reasonable basis
- Expense from transactions with other segments.

Does not include

- Extra-ordinary items as per ASS
- Interest expense (unless the segment primary activity is of financial nature)
- loss on sale of investment (financial nature)
- **Income tax Expense.**
- General Admin exp , Head office Expenses , other exp incurred for co. as a whole.

③ Segment Result (Segment Profit / Loss)

Segment Revenue less Segment Expense

④ Segment Assets

- Directly attributable assets
- Assets that can be allocated on a reasonable basis.

Do Not include

- loans, investments (unless the segment primary activity is of financial nature)

- Income Tax Asset (Deferred Tax Asset) AS 22.

- Asset used for general purpose by head office

Note: Segment assets are determined after deducting related allowances / provisions.

⑤ Segment Liab

- Directly attributable Liab
- Liab that can be allocated on a reasonable basis.

Does not include.

loans, Borrowings, (unless the segment primary activity is of financial nature)
Income tax liabilities (eg. Deferred tax liabilities) AS 22

Special case ^{MCQ}

In case interest is included as a part of cost of inventories as per AS 16 (Borrowing cost) and those inventories are a part of segment assets, then such interest should be considered as a segment expense.

if Primary & Secondary segments



→ If risks & returns are affected by differences in products or services then Business segment would be primary segment

But if risks & returns are affected by the fact that it operates in different geographical locations, then primary segment would be geographical segment.

Note: Segment info is given in primary reporting format & secondary reporting format.

If Business segment is identified to be primary - Then primary format will be adopted by Business segments & secondary format will be adopted by geographical segments.

Ques 8 (LOR)

Format of Segment Report

Particulars	Divisions			Inter segment	Consolidated Total
	Forgoing Shop	Bright Bar	Fittings	Eliminations	
A. Segment Revenue					
Domestic	90	-	-		90
Export	6135	300	270		6705
Inter-segment Sales	4575	45	-	(4620)	-
Total Revenue	10800	345	270	(4620)	6795
B. Segment Result (Profit or loss)	240	30	(12)		258
Head office expense	(It should not be segment wise)				(144)
Interest Cost	()				(16)
Profit Before Tax					98
C. Segment Assets					
Fixed Assets	300	60	180		540
Net Current Assets	180	60	135		375
unallocated corporate Assets					
(75 + 72)					147
Total Assets.					<u>1062</u>

Q2 Segment Liab

long term liab	30	15	180	225
Unallocated liab (110)				57
Total Liab				282

Other Infor Sales by Geographical Market

	Home sales	Export sales	Export sales to Rwanda	Export sales to Maldives	Total
Sales	90	6135	300	270	6795

Q2

Ques 10 Segments Assets should not include Deferred Tax Asset

	X	Y	Z	Total
Asset	2	3	5	
(-) Def Tax	(0.50)	(0.40)	(0.30)	
Revised segment Assets	1.5	2.6	4.7	8.8
				x 10%
	Report	Report	Report	0.88

Ques 17 (10K)

Calculation of Segment Results

Here we are not preparing segment Report.

<u>Segment Revenue</u>	A	B	C	Total
Directly Att. Rev.	500000	300000	100000	900000
Allocated Enterprise Rev (5:4:2)	50000	40000	20000	110000

Internal Revenue

Transact ⁿ from B	100000	-	50000	150000
<u> </u> C	10000	50000	-	60000
<u> </u> A	-	25000	100000	125000
Total Revenue (A)	660000	415000	270000	13,45,000

Segment Expenses

Operating Exp	300000	150000	75000	525000
Allocated Enterp. Exp (5:4:2)	35000	28000	14000	77000

Inter Seg. Exp

Transact ⁿ from B	75000	-	30000	105000
<u> </u> C	6000	40000	-	46000
<u> </u> A	-	18000	82000	100000
Total Exp (B)	416000	236000	201000	853000

Seg. Result (A-B)	244000	179000	69000	492000
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