

## CHAPTER 6

# AS 17: SEGMENT REPORTING

### C1: BUSINESS SEGMENT

#### **Problem 1.1**

Microtech Ltd. produces batteries for scooters, cars, trucks, and specialized batteries for invertors and UPS. How many segments should it have and why? **[SM 5]**

#### **Solution**

In case of Microtech Ltd., the basic product is the batteries, but the risks and returns of the batteries for automobiles (scooters, cars and trucks) and batteries for invertors and UPS are affected by different set of factors.

In case of automobile batteries, the risks and returns are affected by the Government policy, road conditions, quality of automobiles, etc. whereas in case of batteries for invertors and UPS, the risks and returns are affected by power condition, standard of living, etc.

Therefore, it can be said that Microtech Ltd. has two business segments viz- 'Automobile batteries' and 'batteries for Invertors and UPS'.

### C2 : GEOGRAPHICAL SEGMENT

#### **Problem 2.1**

Company A is engaged in the manufacture and sale of products, which constitute two distinct business segments. The products of the Company are sold in the domestic market only. The management information system of the Company is organized to reflect operating information by two broad market segments, rural and urban.

Besides the two business segments, how should Company A identify geographical segments? Do geographical segments exist within the same country? Explain in line with the provisions of AS 17.

**[T.2]**

#### **Solution**

AS 17 explains that, "a single geographical segment does not include operations in economic environments h significantly differing risks and returns. A geographical segment may be a single country, a group of two or more countries, or a region within a country".

Accordingly, to identify geographical segments, Company A needs to evaluate whether the segments reflected in the management information system function in environments that are subject to significantly differing risks and returns irrespective of the fact whether they are within the same country.

The Standard recognizes that, “Determining the composition of a business or geographical segment involves a certain amount of judgement...”. Accordingly, while the management information system of the Company provides segment information for rural and urban geographical segments for the purpose of internal reporting, judgement is required to determine whether these segments are subject to significantly differing risks and returns based on the definition of geographical segment. In making such a judgement, aspect like different pricing and other policies, e.g., credit policies, deployment of resources between different regions etc., may be considered for the purpose identifying ‘urban and ‘rural’ as separate geographical segment.

Company A, in making judgment for identifying geographical segments, should also consider the relevance, reliability and comparability over time of segment information that will be reported. The Standard, explains that, “In making that judgement, enterprise management takes into account the objective of reporting financial information by segment as set forth in the standard and the qualitative characteristics of financial statements. The qualitative characteristics include the relevance, reliability and comparability over time of financial information that is reported about the different groups of products and services of an enterprise and about its operations in particular geographical areas, and the usefulness of that information for assessing the risks and returns of the enterprise.”

**C3: REPORTABLE SEGMENT CRITERIA**

**Problem 3.1**

The Chief Accountant of Sports Ltd. gives the following data regarding its six segments: ₹ in lakhs

Particulars	M	N	O	P	Q	R	Total
Segment Assets	40	80	30	20	20	10	200
Segment Results	50	(190)	10	10	(10)	30	(100)
Segment Revenue	300	620	80	60	80	60	1,200

The Chief accountant is of the opinion that segments “M” and “N” alone should be reported. Is he justified in his view? Discuss. [SM 1]

**Solution**

As per AS 17 ‘Segment Reporting’, a business segment or geographical segment should be identified as a reportable segment if:

Its revenue from sales to external customers and from other transactions with other segments is 10% or more of the total revenue- external and internal of all segments; or Its segment result whether profit or loss is 10% or more of:

- The combined result of all segments in profit; or
- The combined result of all segments in loss, whichever is greater in absolute amount; or

Its segment assets are 10% or more of the total assets of all segments.

If the total external revenue attributable to reportable segments constitutes less than 75% of total enterprise revenue, additional segments should be identified as reportable segments even if they do not meet the 10% thresholds until atleast 75% of total enterprise revenue is included in reportable segments.

On the basis of turnover criteria segments M and N are reportable segments.  
 On the basis of the result criteria, segments M, N and R are reportable segments (since their results in absolute amount is 10% or more of ₹ 200 lakhs).  
 On the basis of asset criteria, all segments except R are reportable segments.  
 Since all the segments are covered in at least one of the above criteria all segments have to be reported upon in accordance with Accounting Standard (AS) 17.  
 Hence, the opinion of chief accountant is wrong.

**Problem 3.2**

Mac Ltd. gives the following data regarding to its six segments: (₹ in lakhs)

Particulars	A	B	C	D	E	F	Total
Segment assets	80	160	60	40	40	20	400
Segment results	100	(380)	20	20	(20)	60	(200)
Segment revenue	600	1,240	160	120	160	120	2,400

The accountant contends that segments 'A' and 'B' alone are reportable segments. Is he justified in his view? Discuss in the context of AS-17 'Segment Reporting'. [Nov. 2019, 5 Marks]

**Solution**

As per AS 17 'Segment Reporting', a business segment or geographical segment should be identified as a reportable segment if:

- (i) Its revenue from sales to external customers and from other transactions with other segments is 10% or more of the total revenue- external and internal of all segments; or
- (ii) Its segment result whether profit or loss is 10% or more of combined result of all segments in profit; or combined result of all segments in loss, whichever is greater in absolute amount; or
- (iii) Its segment assets are 10% or more of the total assets of all segments.

If the total external revenue attributable to reportable segments constitutes less than 75% of total enterprise revenue, additional segments should be identified as reportable segments even if they do not meet the 10% thresholds until at least 75% of total enterprise revenue is included in reportable segments.

On the basis of turnover criteria segments, A and B are reportable segments.  
 On the basis of the result criteria, segments A, B and F are reportable segments (since their results in absolute amount is 10% or more of ₹ 400 lakhs).  
 On the basis of asset criteria, all segments except F are reportable segments.  
 Since all the segments are covered in at least one of the above criteria all segments have to be reported upon in accordance with Accounting Standard (AS) 17.  
 Hence, the opinion of accountant is wrong.

**Problem 3.3**

The accountant of Parag Limited has furnished you with the following data related to its Business Divisions: (₹ in Lacs)

Division	A	B	C	D	Total
Segment Revenue	100	300	200	400	1000
Segment Result	45	- 70	80	- 10	45
Segment Assets	39	51	48	12	150

You are requested to identify the reportable segments in accordance with the criteria laid down in AS 17. [Nov. 2020, 5 Marks]

**Solution**

As per AS 17 'Segment Reporting', a business segment or geographical segment should be identified as a reportable segment if:

Its revenue from sales to external customers and from other transactions with other segments is 10% or more of the total revenue- external and internal of all segments; or

Its segment result whether profit or loss is 10% or more of:

- ⇒ The combined result of all segments in profit; or
- ⇒ The combined result of all segments in loss,

whichever is greater in absolute amount; or

Its segment assets are 10% or more of the total assets of all segments.

On the basis of revenue criteria, segments A, B, C and D - all are reportable segments.

On the basis of the result criteria, segments A, B and C are reportable segments (since their results in absolute amount is 10% or more of 125 Lakhs).

On the basis of asset criteria, all segments except D are reportable segments.

Since all the segments are covered in at least one of the above criteria, all segments have to be reported upon in accordance with Accounting Standard (AS) 17.

**Problem 3.4**

The Senior Accountant of AMF Ltd. gives the following data regarding its five segments: (₹ in lakhs)

Particulars	P (₹)	Q (₹)	R (₹)	S (₹)	T (₹)	Total (₹)
Segment Assets	80	30	20	20	10	160
Segment Results	(190)	10	10	(10)	30	(150)
Segment Revenue	620	80	60	80	60	900

The Senior Accountant is of the opinion that segment "P" alone should be reported. Is he justified in his view?

Examine his opinion in the light of provision of AS-17 'Segment Reporting'. [Jan. 2021, 5 Marks]

**Solution**

As per AS 17 'Segment Reporting', a business segment or geographical segment should be identified as a reportable segment if:

- (i) Its revenue from sales to external customers and from other transactions with other segments is 10% or more of the total revenue- external and internal of all segments; or
- (ii) Its segment result whether profit or loss is 10% or more of:
  - (1) The combined result of all segments in profit; or
  - (2) The combined result of all segments in loss, whichever is greater in absolute amount; or
- (iii) Its segment assets are 10% or more of the total assets of all segments. Accordingly,
  - a) On the basis of revenue from sales criteria, segment P is a reportable segment.
  - b) On the basis of the result criteria, segments P & T are reportable segments (since their results in absolute amount is 10% or more of ₹ 200 Lakhs).
  - c) On the basis of asset criteria, all segments except T are reportable segments.

Since all the segments are covered in at least one of the above criteria, all segments have to be reported upon in accordance with AS 17. Hence, the opinion of chief accountant that only segment 'P' is reportable is wrong.

**Problem 3.5**

XYZ Ltd. has 5 business segments. Profit / Loss of each of the segments for the year ended 31<sup>st</sup> March, 20X2 has been provided below. You are required to identify from the following whether reportable segments or not reportable segments, on the basis of "profitability test" as per AS-17.

Segment	Profit (Loss) [₹ in lakhs]
A	225
B	25
C	(175)
D	(20)
E	(105)

[T4] [May - 2022, 5 Marks]

**Solution**

As per AS 17 'Segment Reporting', a business segment or geographical segment should be identified as a reportable segment if: Its segment results whether profit or loss is 10% or more of:

- The combined result of all segments in profit; i.e., ₹ 250 Lakhs or
- The combined result of all segments in loss; i.e., ₹ 300 Lakhs

whichever is greater in absolute amount i.e., ₹ 300 Lakhs.

Operating Segment	Absolute amount of Profit or Loss (₹ In lakhs)	Reportable Segment Yes or No
A	225	Yes
B	25	No
C	175	Yes
D	20	No
E	105	Yes

On the basis of the profitability test (result criteria), segments A, C and E are reportable segments (since their results in absolute amount is 10% or more of ₹ 300 lakhs i.e., 30 lakhs).

**Problem 3.6**

ABC Limited has 5 segments namely A, B, C, D and E. The profit/loss of each segment for the year ended March 31st, 20X2 is as follows:

Segment	Profit/(Loss) (₹ in crore)
A	780
B	1,500
C	(2,300)
D	(4,500)
E	6,000
<b>Total</b>	<b>1,480</b>

Identify the Reportable segments.

[T.5]

**Solution**

In compliance with AS 17, the segment profit/loss of respective segment will be compared with the greater of the following:

- 1) All segments in profit, i.e., A, B and E - Total profit ₹ 8,280 crores.
- 2) All segments in loss, i.e., C and D - Total loss ₹ 6,800 crores.

Greater of the above - ₹ 8,280 crores.

Based on the above, reportable segments will be determined as follows:

Segment	Profit/(Loss)	Absolute Profit/Loss as a % of 8,280	Reportable Segment
A	780	9%	No
B	1,500	18%	Yes
C	(2,300)	28%	Yes
D	(4,500)	54%	Yes
E	6,000	72%	Yes
<b>Total</b>	<b>1,480</b>		

**Problem 3.7**

Heavy Goods Ltd. has 6 segments namely L-Q (below).

The total revenues (internal and external), profits or losses and assets are set out below:

(In ₹)

Segment	Inter Segment Sales	External Sales	Profit / loss	Total assets
L	4,200	12,300	3,000	37,500
M	3,500	7,750	1,500	23,250
N	1,000	3,500	(1,500)	15,750
O	0	5,250	(750)	10,500
P	500	5,500	900	10,500
Q	1,200	1,050	600	5,250
	<b>10,400</b>	<b>35,350</b>	<b>3,750</b>	<b>1,02,750</b>

Heavy Goods Ltd. needs to determine how many reportable segments it has.

You are required to advice Heavy Goods Ltd. as per the criteria defined in AS 17.

[T.6]

**Solution**

**Quantitative Threshold Test:**

**Revenue Test:**

Combined total sales of all the segment = ₹ 10,400 + ₹ 35,350 = ₹ 45,750.

10% thresholds = 45,750 x 10% = 4,575.

**Profitability Test:**

In the given situation, combined reported profit = ₹ 6,000 and combined reported loss (₹ 2,250).

Hence, for 10% thresholds ₹ 6,000 will be considered.

10% thresholds = ₹ 6,000 x 10% = ₹ 600

**Asset Test:**

Combined total assets of all the segment = ₹ 1,02,750

10% thresholds = ₹ 1,02,750 x 10% = 10,275

**Accordingly, quantitative thresholds are calculated below:**

Segments	L	M	N	O	P	Q	Reportable segments
% segment sales to total sales	36.66%	24.59%	9.84%	11.48%	13.11%	4.92%	L,M,O,P
% segment profit to total profits	50%	25%	25%	12.5%	15%	10%	L,M,N,O,P,Q
% segment assets to total assets	36.50%	22.63%	15.33%	10.22%	10.22%	5.11%	L,M,N,O,P

**Conclusion:**

Segments L, M, O and P clearly satisfy the revenue and assets tests and they are separate reportable segments.

Segment N does not satisfy the revenue test, but it does satisfy the asset test and it is a reportable segment.

Segment Q does not satisfy the revenue or the assets test but it does satisfy the profits test. Therefore, Segment Q is also a reportable segment.

Hence all segments i.e., L, M, N, O, P and Q are reportable segments.

**Problem 3.8**

The Accountant of X Ltd. provides the following data regarding its five segments:

Particulars	A	B	C	D	E	Total (₹ in Crore)
Segment Assets	50	20	15	10	5	100
Segment Results	(85)	10	10	(15)	5	(75)
Segment Revenue	250	50	40	60	30	430

The accountant is of the opinion that segment 'A' alone should be reported.

Is he justified in his view?

Examine his opinion in the light of provisions of AS-17 Segment Reporting.

[May 2023, 5 Marks]

**Solution**

As per AS 17 'Segment Reporting', a business segment or geographical segment should be identified as a reportable segment if:

- ⇒ Its revenue from sales to external customers and from other transactions with other segments is 10% or more of the total revenue- external and internal of all segments; or
- ⇒ Its segment result whether profit or loss is 10% or more of:
  - The combined result of all segments in profit; or
  - The combined result of all segments in loss,
 whichever is greater in absolute amount; or
- ⇒ Its segment assets are 10% or more of the total assets of all segments.

If the total external revenue attributable to reportable segments constitutes less than 75% of total enterprise revenue, additional segments should be identified as reportable segments even if they do not meet the 10% thresholds until 75% of total enterprise revenue is included in reportable segments.

On the basis of revenue criteria, segments A, B and D are reportable segments.

On the basis of the result criteria, segments A, B, C and D are reportable segments (since their results in absolute amount are 10% or more of ₹ 100 crore).

On the basis of asset criteria, all segments except E are reportable segments.

Since all the segments except E are covered in at least one of the above criteria. Hence, all segments except E have to be reported upon in accordance with Accounting Standard (AS) 17.

Hence, the opinion of chief accountant that only segment A alone should be reported, is wrong as all segments are reportable except E.

**Problem 3.9**

Garnet Limited has 4 operating segments. The total revenue (internal and external) and assets are set out as below:

(₹ in Lakhs)

Segment	Inter Segment Sales	External Sales	Total Assets
Fan	3,200	10,900	23,700
Light	200	1,400	13,200
Lamp	0	1,500	4,200
Printer	<u>1,100</u>	<u>200</u>	<u>3,400</u>
<b>TOTAL</b>	<b><u>4,500</u></b>	<b><u>14,000</u></b>	<b><u>44,500</u></b>

How many reportable segments does Garriet Limited have as per the Revenue and Assets criteria given in AS 17?

State reasons for your answer.

[Nov. 2023, 5 Marks]

**Solution**

As per AS 17 'Segment Reporting', a business segment or geographical segment should be identified as a reportable segment if:

- a) Its revenue from sales to external customers and from other transactions with other segments is 10% or more of the total revenue- external and internal of all segments; or
- b) Its segment assets are 10% or more of the total assets of all segments.

If the total external revenue attributable to reportable segments constitutes less than 75% of total enterprise revenue, additional segments should be identified as reportable segments even if they do not meet the 10% thresholds until at least 75% of total enterprise revenue is included in reportable segments. This is not applicable in the given case. In the given case 75% of External Revenue is ₹10,500 Lakhs (₹ 14,000 × 75%) and the total External Revenue from Reportable segments is ₹ 12,300 Lakhs. So, no need to add Reportable segments.

On the basis of turnover criteria segment Fan is reportable segment as its sales are more than 1,850 lakhs (10% of ₹ 18,500 lakhs). Moreover, total external revenue attributable to reportable segment is also more than 75% of the total enterprise revenue.

On the basis of asset criteria, Fan and Light are reportable segments as their assets are more than 4,450 lakhs (10% of ₹ 44,500 lakhs).

**C6: SEGMENT RESULT**

**Problem 6.1**

Calculate the segment results of a manufacturing organization from the following information:

Segments	A	B	C	Total
Directly attributed revenue	5,00,000	3,00,000	1,00,000	9,00,000
Enterprise revenue (allocated in 5:4:2 basis)				1,10,000
Revenue from transactions with other segments				
Transaction from B	1,00,000		50,000	1,50,000
Transaction from C	10,000	50,000		60,000
Transaction from A		25,000	1,00,000	1,25,000
Operating expenses	3,00,000	1,50,000	75,000	5,25,000
Enterprise expenses (allocated in 5:4:2 basis)				77,000
Expenses on transactions with other segments				
Transaction from B	75,000		30,000	
Transaction from C	6,000	40,000		
Transaction from A		18,000	82,000	

[T.7]

**Solution****Computation of segment result:**

Segments	A ₹	B ₹	C ₹	Total ₹
Directly attributed revenue	5,00,000	3,00,000	1,00,000	9,00,000
Enterprise revenue (allocated in 5 :4 :2 basis)	50,000	40,000	20,000	1,10,000
<b>Revenue from transactions with other segments</b>				
Transaction from B	1,00,000		50,000	1,50,000
Transaction from C	10,000	50,000		60,000
Transaction from A		25,000	1,00,000	1,25,000
<b>Total segment revenue (1)</b>	<b>6,60,000</b>	<b>4,15,000</b>	<b>2,70,000</b>	<b>13,45,000</b>
Operating expenses	3,00,000	1,50,000	75,000	5,25,000
Enterprise expenses (allocated in 5 :4 :2 basis)	35,000	28,000	14,000	77,000
Expenses on transactions with other segments				
Transaction from B	75,000		30,000	1,05,000
Transaction from C	6,000	40,000		46,000
Transaction from A		18,000	82,000	1,00,000
<b>Total segment expenses (2)</b>	<b>4,16,000</b>	<b>2,36,000</b>	<b>2,01,000</b>	<b>8,53,000</b>
<b>Segment result (1-2)</b>	<b>2,44,000</b>	<b>1,79,000</b>	<b>69,000</b>	<b>4,92,000</b>

**C7: SEGMENT ASSETS****Problem 7.1**

M/s XYZ Ltd. has three segments namely X, Y, Z. The total assets of the Company are ₹ 10.00 crores. Segment X has ₹ 2.00 crores, segment Y has ₹ 3.00 crores and segment Z has ₹ 5.00 crores.

Deferred tax assets included in the assets of each segment are X - ₹ 0.50 crores, Y- ₹ 0.40 crores and Z – ₹ 0.30 crores. The accountant contends that all the three segments are reportable segments.

Comment.

**[SM 3]**

**Solution**

According to AS 17 "Segment Reporting", segment assets do not include income tax assets. Therefore, the revised total assets are ₹ 8.8 crores [₹ 10 crores – (₹ 0.5 + ₹ 0.4 + ₹ 0.3)].

Segment X holds total assets of ₹ 1.5 crores (₹ 2 crores - ₹ 0.5 crores);

Segment Y holds ₹ 2.6 crores (₹ 3 crores - ₹ 0.4 crores); and

Segment Z holds ₹ 4.7 crores (₹ 5 crores - ₹ 0.3 crores).

Thus, all the three segments hold more than 10% of the total assets, all segments are responsible segments.

**Problem 7.2**

Nathan Limited has three segments namely P, Q and R. The assets of the company are ₹ 15 crores. Segment P has 4 crores, Segment Q has 6 crores and Segment R has 5 crores.

Deferred tax assets included in the assets of each segment are P - ₹ 1 crore, Q - ₹ 0.90 crores and R - ₹ 0.80 crores. The accountant contends that all these three segments are reportable segments.

Comment.

[T.1] [May 2018, 5 Marks]

**Solution**

According to AS 17 "Segment Reporting", segment assets do not include income tax assets.

Therefore, the revised total assets are ₹ 12.3 crore [₹ 15 crores - (₹ 1 crore + ₹ 0.90 crore + ₹ 0.80 crore)].

Segment P holds total assets of ₹ 3 crores (₹ 4 crores - ₹ 1 crore);

Segment Q holds ₹ 5.1 crores (₹ 6 crores - ₹ 0.90 crores); and

Segment R holds ₹ 4.2 crores (₹ 5 crores - ₹ 0.80 crores).

Thus, all the three segments hold more than 10% of the total assets, all segments are reportable segments.

**C8**

**Problem 8.1**

A Company has an inter-segment transfer pricing policy of charging at cost less 10%. The market prices are generally 25% above cost. Is the policy adopted by the company, correct? [SM 2]

**Solution**

AS 17 'Segment Reporting' requires that inter-segment transfers should be measured on the basis that the enterprise actually used to price these transfers. The basis of pricing inter-segment transfers and any change therein should be disclosed in the financial statements.

Hence, the enterprise can have its own policy for pricing inter-segment transfers and hence, inter-segment transfers may be based on cost, below cost or market price. However, whichever policy is followed, the same should be disclosed and applied consistently. Therefore, in the given case inter-segment transfer pricing policy adopted by the company is correct if, followed consistently.

**C10: DISCLOSURE**

**Problem 10.1**

Prepare a segmental report for publication in Diversifiers Ltd. from the following details of the company's three divisions and the head office:

Forging Shop Division

Sales to Bright Bar Division

Other Domestic Sales

Export Sales

₹ ('000)

4,575

90

6,135

10,800

Bright Bar Division				
Sales to Fitting Division			45	
Export Sales to Rwanda			<u>300</u>	
			<u>345</u>	
Fitting Division				
Export Sales to Maldives			<u>270</u>	
<b>Particulars</b>	<b>Head Office Division</b>	<b>Forging Shop Division</b>	<b>Bright Bar Division</b>	<b>Fitting</b>
	<b>₹ ('000)</b>	<b>₹ ('000)</b>	<b>₹ ('000)</b>	<b>₹ (000)</b>
Pre-tax operating result		240	30	(12)
Head office cost reallocated		72	36	36
Interest costs		6	8	2
Fixed assets	75	300	60	180
Net current assets	72	180	60	135
Long-term liabilities	57	30	15	180

[SM 4]

**Solution**

**Diversifiers Ltd.  
Segmental Report**

(₹ '000)

Particulars	Divisions			Inter Segment Eliminations	Consolidated Total
	Forging shop	Bright Bar	Fitting		
Segment Revenue					
Sales:					
Domestic	90	-	-	-	90
Export	<u>6,135</u>	<u>300</u>	<u>270</u>	-	<u>6,705</u>
External Sales	6,225	300	270	-	6,795
Inter-Segment Sales	<u>4,575</u>	<u>45</u>	-	<u>4,620</u>	-
Total Revenue	<u>10,800</u>	<u>345</u>	<u>270</u>	<u>4,620</u>	<u>6,795</u>
Segment Result (Given)	240	30	(12)		258
Head Office Expenses					<u>(144)</u>
Operating Profit					114
Interest Expense					<u>(16)</u>
Profit Before Tax					<u>98</u>
Information in Relation to					
<b>Assets and Liabilities:</b>					
Fixed Assets	300	60	180	-	540
Net Current Assets	<u>180</u>	<u>60</u>	<u>135</u>	-	<u>375</u>

Segment assets	<u>480</u>	<u>120</u>	<u>315</u>	=	<u>915</u>
Unallocated Corporate Assets (75 + 72)	-	-	-	-	<u>147</u>
Total assets					<u>1,062</u>
Segment liabilities	30	15	180	-	225
Unallocated corporate liabilities					<u>57</u>
Total liabilities					<u>282</u>

### Sales Revenue by Geographical Market

	Home Sales	Export Sales (by forging shop division)	Export to Rwanda	Export to Maldives	(₹ '000) Consolidated Total
External sales	90	6,135	300	270	6,795

### C11: SECONDARY SEGMENT INFORMATION

#### **Problem 11.1**

PK Ltd. has identified business segment as its primary reporting format. It has identified India, USA and UK as three geographical segments. It sells its products in the Indian market, which constitutes 70 percent of the Company's sales.

25 per cent is sold in USA and the balance is sold in UK.

Is PK Ltd. as part of its geographical secondary segment information, required to disclose segment revenue from export sales, where such sales are not significant? [T.3]

#### **Solution**

As per AS 17, if primary format of an enterprise for reporting segment information is business segments, it should also report segment revenue from external customers by geographical area based on the geographical location of its customers, for each geographical segment whose revenue from sales to external customers is 10 per cent or more of enterprise revenue.

Therefore, for the purposes of disclosing secondary segment information, PK Ltd. is not required to disclose segment revenue from export sales to UK, since that segment does not meet the 10 per cent or more of enterprise revenue threshold.

However, other secondary segment information as per AS 17 should be disclosed in respect of this segment if the thresholds prescribed in the AS 17 are met.

### C12: MULTIPLE CHOICE QUESTIONS

- What is the primary objective of AS 17 Segment Reporting?
  - To determine company's profitability
  - To identify reportable segments based on risks and returns
  - To calculate taxes for different segments
  - To manage the company's investment portfolio

2. Why is segment reporting important for users of financial statements?
  - (a) It simplifies the financial statements
  - (b) It helps in understanding the risks and returns of different business areas
  - (c) It is a legal requirement for all companies
  - (d) It reduces the workload of accountants
3. How does AS 17 define operating segments?
  - (a) Segments based on geographical areas
  - (b) Segments based on the nature of products
  - (c) Components of an entity that engage in business activities from which it earns revenues and incurs expenses
  - (d) Subsidiaries of a parent company
4. If a company decides to sell one of its major segments, how should this be reported as per AS 17?
  - (a) As an extraordinary item
  - (b) In a separate segment report
  - (c) As a discontinued operation
  - (d) It should not be reported until the sale is completed
5. Analyze the impact on financial analysis if a company does not segregate segment information in its financial statements.
  - (a) Enhanced clarity and simplicity
  - (b) Difficulty in assessing segment performance and risks
  - (c) Increased focus on overall company performance
  - (d) Reduction in reporting requirements
6. Evaluate the significance of segment reporting for an entity operating in multiple industries.
  - (a) It is less significant due to diverse operations
  - (b) It is highly significant for understanding the performance of each industry
  - (c) It is only significant for the dominant industry
  - (d) It has no impact on financial decision-making
7. Propose an innovative segment for a technology company that could provide insightful information to stakeholders.
  - (a) Research and Development
  - (b) Online and Offline Sales
  - (c) Domestic and International Operations
  - (d) Product and Service Innovations
8. What threshold does AS 17 set for a segment's revenue, profit, or assets to be considered significant?
  - (a) 5% of total revenue, profit, or assets
  - (b) 10% of total revenue, profit, or assets
  - (c) 15% of total revenue, profit, or assets
  - (d) 20% of total revenue, profit, or assets

9. According to AS 17, how are inter-segment transfers priced?
- (a) At market value
  - (b) At cost plus a reasonable markup
  - (c) At cost only
  - (d) Based on negotiation between segments
10. Why does AS 17 require disclosure of information about geographical segments?
- (a) For tax purposes
  - (b) To assess risks and returns in different geographical markets
  - (c) Because it is simpler to report
  - (d) To comply with international reporting standards
11. In a scenario where a company's foreign operations become its primary source of revenue, how would this change the segment reporting as per AS 17?
- (a) Geographical segments become the primary reporting format
  - (b) No change in segment reporting is required
  - (c) Business segments are still the primary, with geographical as secondary
  - (d) All segments are reported equally
12. Evaluate the effect of segment reporting on investors' perception of a conglomerate company.
- (a) It leads to confusion due to too much detail
  - (b) It provides a clearer picture of where the company is making or losing money
  - (c) It is irrelevant for investment decisions
  - (d) It only benefits large institutional investors
13. As per AS 17, what constitutes a 'business segment'?
- (a) A division that operates in a single industry
  - (b) Any department within the company
  - (c) A component engaged in providing a product or service
  - (d) A geographical region in which the company operates
14. Analyze the effect of a company restructuring its operations into fewer segments on its segment reporting as per AS 17.
- (a) Reduces the complexity and detail of segment reporting
  - (b) Increases the number of reportable segments
  - (c) Does not affect the segment reporting structure
  - (d) Requires additional disclosure for each new segment
15. As per AS 17, reportable segments are those whose total revenue from external sales and inter-segment sales is
- [ICAI Module]**
- (a) 10% or more of the total revenue of all segments
  - (b) 10% or more of the total revenue of all external segments
  - (c) 12% or more of the total revenue of all segments
  - (d) 12% or more of the total revenue of all external segments

16. Which of the following statements is correct? [ICAI Module]
- (a) Management has a discretion to include a segment as a reportable segment even if it passes the 10% materiality test.
  - (b) Management has a discretion to include any segment as a reportable segment if it fails the 12% materiality test.
  - (c) It is mandatory for the management to include the segment as a reportable segment if it passes the 10% materiality test.
  - (d) It is not mandatory for the management to include the segment as a reportable segment if it passes the 10% materiality test.
17. Which of the following statements is correct? [ICAI Module]
- (a) The overall test of 75% considers only external revenue to compute the threshold limit.
  - (b) The overall test of 75% considers only internal revenue to compute the threshold limit.
  - (c) The overall test of 75% considers both internal and external revenue to compute the threshold limit.
  - (d) It is management choice whether they want to include both external and internal revenue for computing threshold limit.
18. Which of the following statements is correct? [ICAI Module]
- (a) The 10% test computed on the basis of revenue, considers both internal and external revenue to compute the threshold limit.
  - (b) The 10% test computed on the basis of revenue, considers only external revenue to compute the threshold limit.
  - (c) The 10% test computed on the basis of revenue, considers only internal revenue to compute the threshold limit.
  - (d) It is management choice whether they want to include both external and internal revenue for computing threshold limit.
19. Which of the following statements is correct? [ICAI Module]
- (a) In case of 10% test based on profit/loss, we need to consider that any segment whose profit or loss is 10% or more than the net profit or net loss respectively of all segments taken together becomes reportable segment.
  - (b) In case of 10% test based on profit/loss, we need to consider that any segment whose profit or loss is 10% or more than the net profit (after netting the losses) of all segments taken together becomes reportable segment.
  - (c) In case of 10% test based on profit/loss, we need to consider that any segment whose profit or loss is 10% or more than the net profit or loss (whichever is higher in absolute figures) of all segments taken together becomes reportable segment.
  - (d) In case of 10% test based on profit/loss, we need to consider that any segment whose profit or loss is 10% or more than the net profit or loss (whichever is lower in absolute figures) of all segments taken together becomes reportable segment.

**ANSWERS**

1 (b)	2 (b)	3 (c)	4 (c)	5 (b)	6 (b)	7 (a)	8 (b)	9 (b)	10 (b)
11 (a)	12 (b)	13 (c)	14 (a)	15 (a)	16 (c)	17 (a)	18 (a)	19 (c)	