

CA INTERMEDIATE

MARATHON

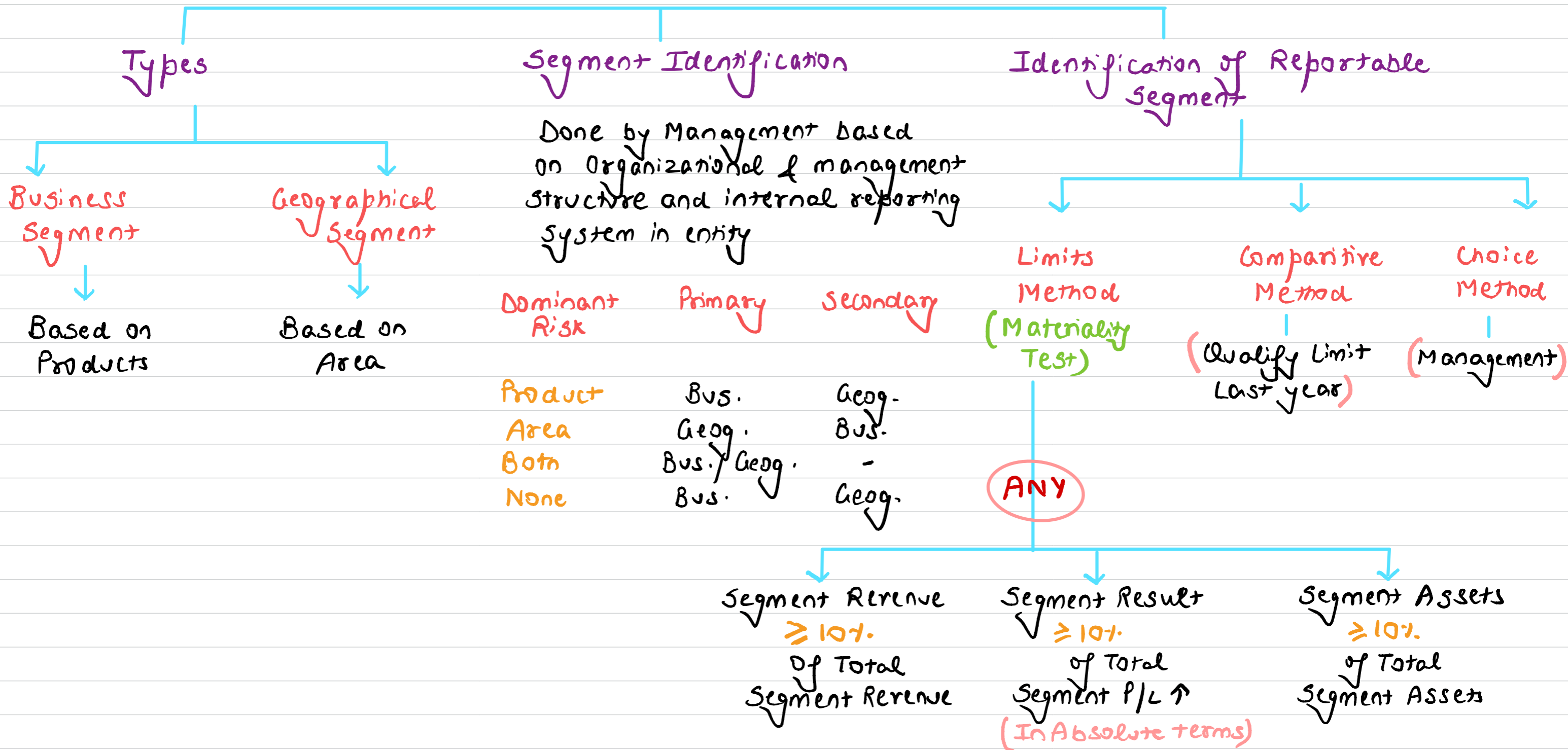
Advanced Accounting

**AS 17:
Segment Reporting**

-By CA Nitin Goel



AS 17 Segment Reporting



NOTE: Selected Reportable segments should represent 75% of external sales. If limit not attained then select further segments. (Overall Test)

Business Segment: Distinguishable component of business having separate risks & rewards in comparison to other segments. Such segments are broadly based on **products**.

Basis:

- 1) Products : Silk, Cotton, Wool, etc.
- 2) Production Process : Handmade silk, Machine made silk, etc.
- 3) Distribution Process : Retailers, Wholesalers, Direct to home, etc.
- 4) Customers : Industrial, Domestic (End consumers), etc.

Example

Geographical Segment: Distinguishable component of business having separate risks & rewards in comparison to other segments. Such segments are broadly based on **Area**.

Basis:

- 1) Area : North, South, East, West, etc.
- 2) Economic Environment : Asia, Europe, USA, etc.
- 3) Currency : Rupees, Dollars, Pounds, etc.
- 4) Political Boundaries : India, Pakistan, Sri Lanka, etc.

Example

Segment Report

Primary

- 1) Segment Revenue
- 2) Segment Result
- 3) Segment Assets
- 4) Segment Liabilities
- 5) Segment Fixed Assets acquired during period
- 6) Depreciation & Amortization
- 7) Non cash expense other than Depreciation & Amortization

Secondary

- 1) Segment Revenue
- 2) Segment Assets
- 3) Segment Fixed Assets acquired during period

(Reporting of only those segments which fulfill 10-1 criterion)

Segment Revenue

Segment External Sales	xx
+ Apportioned Sales	xx
+ Inter Segment Sales	<u>xx</u>
	<u>xx</u>

Does not Include

- * Extraordinary Item
- * Interest/Dividend Income
- * Gain on Sale of Investment

Segment Expense

Segment Direct Expenses	xx
+ Apportioned Expenses	xx
+ Inter Segment Expense	<u>xx</u>
	<u>xx</u>

Does not Include

- * Extraordinary Item
- * Interest Expense
- * Income Tax Expense
- * Administrative & HO Expenses

Segment Assets

Segment Fixed Assets
+ Segment Current Assets
(Directly Attributable + Allocated)

Does not Include

- * Income Tax Assets
- * Assets used for HO purpose

Segment Liabilities

Segment Operating Liabilities
(Directly Attributable + Allocated)

Does not Include

- * Income Tax Liabilities
- * Borrowings & other Liabilities for financing

NOTE: Segment Result = Segment Revenue - Segment Expenses

Disclosure: Inter segment transfers should be measured on the basis that enterprise actually used to price those transfers. Basis of pricing inter segment transfers & any change therein should be disclosed in the financial statements.

Segment Report (Format)

Particulars	S1	S2	S3	Pending Segments	Total
1) Segment Revenue - Inter segment sales	xx	xx	xx	xx	xx <u>(xx)</u> xx
2) Segment Result ± Unallocated Items Profit / (Loss)	xx	xx	xx	xx	xx <u>xx</u> xx
3) Segment Assets + unallocated Assets	xx	xx	xx	xx	xx <u>xx</u> xx
4) Segment Fixed Assets Acquired	xx	xx	xx	xx	xx
5) Segment Liabilities + Unallocated Liabilities	xx	xx	xx	xx	xx <u>xx</u> xx
6) Depreciation & Amortization	xx	xx	xx	xx	xx
7) Non cash expenses	xx	xx	xx	xx	xx

SEGMENT REPORTING

Question 1: Inter May 2023 (5 Marks)

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 10
Segment Results	(85) ✓	10 ✓	10 ✓	(15) ✓	5 ✗	(75)
Segment Revenue	250 ✓	50 ✓	40 ✗	60 ✓	30 ✗	430 43

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.

Loss = 100
Profit = 25 > 100 → 100

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 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.

Question 2: Inter May 2022 (5 Marks) / ICAI Study Material

XYZ Ltd. has 5 business segments. Profit / Loss of each of the segments for the year ended 31st March, 2022 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)

> 300 [10% of 3000]
✓
✗
✓
✗
✓

Solution

Loss = 300 Profit = 250 Higher = 300

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:

- (i) The combined result of all segments in profit; i.e. ₹ 250 Lakhs or
- (ii) 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).

Question 3: Inter Nov 2023 (5 Marks) / RTP Jan 2026

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

Segment	Inter Segment Sales	External Sales	Total Assets	Revenue
Fan	3,200	10,900	23,700	14100 ✓
Light	200	1,400	13,200	1600 X
Lamp	0	1,500	4,200	1500 X
Printer	1,100	200	3,400	1300 X
TOTAL	4,500	14,000	44,500	18500

How many reportable segments does Garnet Limited have as per the Revenue and Assets criteria given in AS 17? State Reasons for your answer.

$14000 \times 75\% = 10500$
 $12300 > 10500$

18500

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 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 segment Fan is reportable segment as its sales are more than 1,850 lakhs (10% of ₹ 18,500 lakhs).

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).

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.

Moreover, total external revenue attributable to reportable segment is also more than 75% of the total enterprise revenue.

So, no need to add Reportable segments.

Question 4: ICAI Study Material

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:

Segment	Inter Segment Sales	External Sales	Profit/(Loss)	Total Assets	Solu
L	4,200	12,300	3,000 ✓	37,500 ✓	16500 ✓
M	3,500	7,750	1,500 ✓	23,250 ✓	11250 ✓
N	1,000	3,500	(1,500) ✓	15,750 ✓	4500 x
O	0	5,250	(750) ✓	10,500 ✓	5250 ✓
P	500	5,500	900 ✓	10,500 ✓	6000 ✓
Q	1,200	1,050	600 ✓	5,250 x	2250 x
	10,400	35,350	3,750	1,02,750	45750

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.

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:

Segment	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 is 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

Question 5: Inter May 2018 (5 Marks) / ICAI Study Material

M/s 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 all these three segments are reportable segments. Comment.

Solution

According to AS 17 "Segment Reporting", segment Assets do not include income tax assets. Therefore, the revised total assets are 12.3 crores ₹ 15 - (₹ 1 + 0.9 + 0.8).

Details of Segment wise assets

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

Segment Q holds ₹ 5.1 crores (₹ 6 crores - 0.9 crores);

Segment R holds ₹ 4.2 crores (₹ 5 crores - ₹ 0.8 crores).

Thus, all the three segments hold more than 10% of the total assets, all segments are reportable segments. Hence, the contention of the Accountant that all three segments are reportable segments is correct.

$$12.3 \times 10\% = 1.23 \text{ cr.}$$

Question 6: RTP Sep 2024

Whether interest expense relating to overdrafts and other operating liabilities identified to a particular segment should be included in the segment expense or not?

Solution

The interest expense relating to overdrafts and other operating liabilities identified to a particular segment should not be included as a part of the segment expense unless the operations of the segment are primarily of a financial nature or unless the interest is included as a part of the cost of inventories.

Question 7: ICAI Study Material / RTP Nov 2018

Calculate 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	50,000	1,50,000
Transaction from C	10,000	25,000	1,00,000	60,000
Transaction from A				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	1,05,000
Transaction from C	6,000	40,000		46,000
Transaction from A		18,000	82,000	1,00,000

Question 8: ICAI Study Material

Microtech Ltd. produces batteries for scooters, cars, trucks, and specialised batteries for invertors and UPS. How many segments should it have and why?

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'

Question 9: ICAI Study Material / RTP Jan 2025

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?

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 intersegment 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.

Question 10: ICAI Study Material / RTP May 2019

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? 5+

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.

Accordingly, 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.

Question 11: ICAI Study Material

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

	₹ ('000)
Forging Shop Division	
Sales to <u>Bright Bar Division</u>	4,575
Other Domestic Sales	90
Export Sales	6,135
	10,800
Bright Bar Division	
Sales to <u>Fitting Division</u>	45
Export Sales to Rwanda	300
	345
Fitting Division	
Export Sales to Maldives	270

Particulars	Head Office ₹ ('000)	Forging Shop Division ₹ ('000)	Bright Bar Division ₹ ('000)	Fitting Division ₹ ('000)
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

1) Types of segments



I T C Ltd.

Bus-segment

Cigarettes	Food
Personal care	Agri Bus-
Stationery	Paper & Packaging

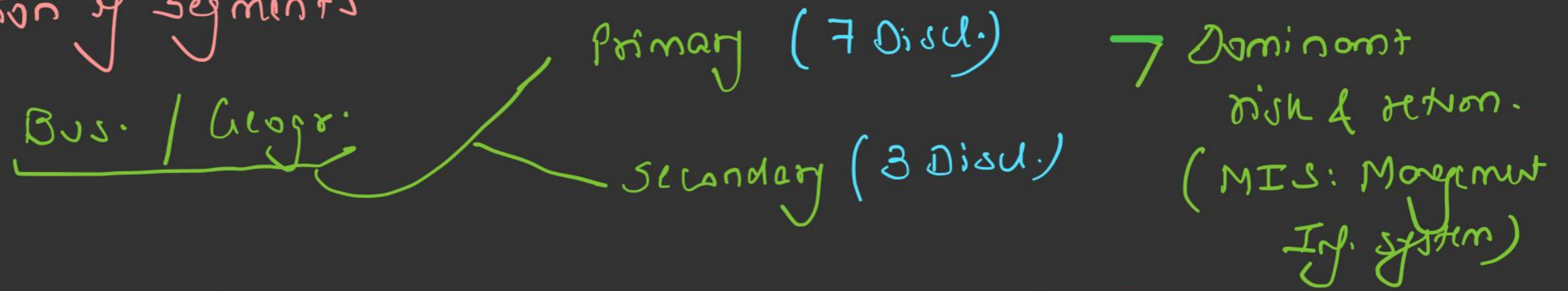
Total Revenue = 500 cr.

Geographical segm

India	U.S.A
U.K.	Others

Total Revenue = 500 cr.

2) Identification of segments



	<u>Case 1</u>	<u>Case 2</u>	<u>Case 3</u>
Primary	Business	Geographical	Bus. / Geogr.
Secondary	Geographical	Business	X
	<u>Product</u> ✓	<u>Area</u> ✓	<u>Both</u>

If confused : Not able to decide : Consider Case 1.

Reporting system in entity se decide hota hai

Sol. 7

Segment Revenue

Directly attributed revenue

Enterprise Revenue
(110000 in 5:4:2)

Inter segment sales

(X)

Segment Expenses

Operating Expenses

Enterprise Expenses
(77000 in 5:4:2)

Inter segment Exp.

(Y)

Segment Result
(X - Y)

	A	B	C	Total
Directly attributed revenue	500000	300000	100000	900000
Enterprise Revenue (110000 in 5:4:2)	50000	40000	20000	110000
Inter segment sales	110000	75000	150000	335000
	660000	415000	270000	1345000
Operating Expenses	300000	150000	75000	525000
Enterprise Expenses (77000 in 5:4:2)	35000	28000	14000	77000
Inter segment Exp.	81000	58000	112000	251000
	416000	236000	201000	853000
Segment Result (X - Y)	244000	179000	69000	492000

Sol-11

Primary : Business segments

Segment Report

(₹ in 000)

1) Segment Revenue

Inter segment sales

Domestic sales

Export sales

- Inter segment sales

2) Segment Result

Operating Result

- Unallocated Items

(HQ costs + Interest)

(144 + 16)

Forging Shop
Division

Bright Bar
Division

Fitting
Division

Total

4575

90

6135

10800

45

-

300

345

-

-

270

270

4620

90

6795

11415

4620

6795

240

30

(12)

258

(160)

98

3) Segment Assets

Fixed Assets

+ Net Current Assets

300

180

480

60

60

120

180

135

315

540

375

915

+ unallocated Assets

(no: 75 + 72)

147

1062

4) Segment Liabilities

Long Term Liabilities

+ unallocated Liab.

(no Liab.)

30

15

180

225

57

282

Secondary: Geographical segment

	Domestic Sales	Export sales to Rwanda	Export sales to Maldives	Other Export Sales	Total
1) Revenue (Sales)	90	300	270	6135	6795