AS 17 → Segment Reporting

eg:

AK ltd

CA Teaching	Tshirt sell	Iphone sell	Halwai
loss (30 cr)	20 cr	10 cr	50 cr

Overall profit 50 cr

i] Types of Segment

It can be divided into 2 types

A] Business Segment

B] Geographical Segment

A] Business Segment

→ It is a distinguishable segment 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 product or services

ii) Nature of production process

iii) Types or class of customers

AK ltd	Aryan Biscuit shop
Teaching, Halwai	Orange flavour, Strawberry flavour
They are 2 diff segments	They are same seg.

iv) Methods of distribution
v) Nature of regulatory environment

B] Geographical Segment

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 diff. geographical areas.
iii) Proximity of operations
iv) Special risk associated with operations in a particular area

A geographical segment may be a single country, a group of 2 or more countries or a region within a country.

eg

- India, Dubai, USA
- India, Outside India
- Mum, Pune, Delhi
- North India, South India

2] Identifying Reportable Segments (Quantitative Thresholds)

Step ①

C 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] Asset Test

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

Step 2: 75% External Revenue criteria (To be done after above 3 Test)

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

If not, we need to add more segments until atleast 75% of external revenue is included in reportable segments.

Eg ① Revenue criteria

AK Ltd Segments:

	A	B	C	D	E	F	Total
Internal Rev	100	150	-	-	-	-	250
External Rev	-	200	500	1500	100	200	2500
							2750
	✗	✓	✓	✓	✗	✗	× 10%
							275

Eg ② (Profit or loss Test)

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

Eg ③ Asset Test

	A	B	C	D	E	F	Total
Assets	100	350	500	1500	100	200	2750
							×10%
	✗	✓	✓	✓	✗	✗	275

Combined Eg 1, 2, 3 → Segments which meet any 1 criteria will be Reportable segments.

A, B, C, D, E → Reportable

Total External Revenue = 2500 × 75%
= 1875

Atleast External Rev of 1875 should be under Reportable segments.

Reportal Seg	A	B	C	D	E
Ext. Rev	-	200	500	1500	100

$\boxed{2300}$

Eg 4	A	B	C	D	E	F	Total
Internal	100	350	-	-	-	-	450
External	-	100	250	1500	100	350	2300
	✗	✓	✗	✓	✗	✓	2750
							× 10%
							275

Other 2 test (P/L Test, Asset Test) → Ignore

75% External Rev Test (2300 × 75%) = 1725

B	D	F	
100	1500	350	= 1950

75% Test is met

∴ no need to add more segments.

Imp points

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

P.Y. → 10% met	C.Y.	Next Yr
Seg C	Seg C → 10% met ✗	Seg C
Reportable	Reportable	NOT Reportable

Hint: Check 10% Test every year & Jab Jab 10% Test meet hoga, by default it will become reportable for 2 years (C.Y) & Next Year.

② Mngt at its discretion may report more segments as reportable even if they are NOT meeting the thresholds

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Ques ① (CDR)

Quantitative thresholds (10% Test) (write about 3 Test)

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] Asset Test

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

Asset criteria → M, N, O, P, Q → Reportable
P/L criteria → M, N, R → Reportable
Rev. criteria → M, N → Reportable

Conclusion: Any 1 Test was to be met
All segments meet atleast 1 criteria ∴ All are reportable.

Also 75% External Rev. will also be met as all are reportable segments.

Q2 to Q7 → Refer Q.B

3] Important Definitions

1] Segment Revenue

It includes
- Directly attributable Revenue
- Rev allocated to the segment on a reasonable basis.
- Rev from transaction with other segments.

Does NOT include
- Extra-ordinary items as per AS 5.
- Interest / dividend income (unless the seg primary activity is of financial nature)

- Gain on sale of Invst (—"—)

B. Segment Exp

It includes

- Directly attributable exp
- Exp allocated to segment on a reasonable basis
- Exp from transaction with other segments.

Does NOT include

- Extra-ordinary items as per AS 5.
- Interest Exp
- loss on sale of invst

} (unless segment primary activity is of financial nature)

- Income Tax exp
- General Admin exp, Head office exp, other exp incurred for co. as a whole.

© Segment Result (Seg Profit / loss)

Segment Revenue less Segment Exp.

Ⓓ Segment Assets

Includes:

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

Does NOT include

- loans, Invsts (unless 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.

(E) Segment Liab

Includes
- Direct Attributable Liab
- liab that can be allocated on a reasonable basis.

Does NOT include
- loans, Borrowings (unless segment primary activity is of financial nature)
- Income tax Liab/ Deferred Tax Liab as per AS 22.

Special case (MCQ)

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

4] Primary & secondary segments

Business — Geography

→ If risks & returns are affected by differences in products or services, then Busn seg 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 segments.

Q8 (WOR) **Format of Segment Report**

Particulars	Division			Inter Seg elimination	Consolidated Total
	Forging Shop	Bright Bar	Fitting		
A. Segment Rev					
Domestic	90	-	-		90
Export	6135	300	270		6705
Inter seg Sales	4575	45	-	(4620)	-
Total Rev	10800	345	270	(4620)	6795
B. Seg Exp — Data Not available					
C. Seg Result (Profit or loss)	240	30	(12)		258
Head ofc exp → (It should not be segment wise)					(144)
Interest Exp → (—— " ——)					(16)
Profit Before Tax					98

D. Segment Assets					
Fixed Assets	300	60	180		540
Net curr Assets	180	60	135		375
Unallocated Corp Assets (75 + 72)					147
Total Assets					1062
E. Segment Liab					
Long term Liab	30	15	180		225
Unallocated Liab					57
Total Liab					282

Other Infoⁿ : Sales by Geographical Market

	Home Sales (Domestic)	Export Sales	Export Sales to Rwanda	Export Sales by Maldives	Total
Sales	90	6135	300	270	6795

Q10 LDR Segment Assets should not include Deferred Tax Asset

	X	Y	Z	Total
Asset	2	3	5	
(-) Def tax Asset	(0.5cr)	(0.4cr)	(0.3cr)	
Revised Seg Asset	1.5	2.6	4.7	8.8
	Report	Report	Report	× 10%
				0.88 cr

Q17 (LDR) Calculation of Segment Results

Segment Rev.	A	B	C	Total
Directly Att. Rev	500000	300000	100000	900000
Enterprise Rev Allocated (5:4:2)	50000	40000	20000	110000
Internal Rev				
Transactions from B	100000	-	50000	150000
——"—— C	10000	50000	—	60000
——"—— A	-	25000	100000	125000
Total Rev I	660000	415000	270000	13,45,000
Seg Exp				
Operating Exp	300000	150000	75000	525000
Enterprise Exp allocated (5:4:2)	35000	28000	14000	77000
Inter Seg Exp				

Transactions from B	75000	-	30000	105000
——— C	6000	40000	-	46000
——— A	-	18000	82000	100000
Total Exp [II]	416000	236000	201000	853000
Seg Result (I - II)	244000	179000	69000	492000