

AS 17

SEGMENT REPORTING

NB Pg. No.

Question 1 (MTP Mar'23) (RTP May'20, May'23) (PYQ Jan'21, May'23)

PRM Ltd. obtained a loan from a bank for ₹ 120 lakhs on 30-04-20X1. It was utilised as follows:

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. (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 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 in accordance with Accounting Standard (AS) 17. Hence the opinion of chief accountant is wrong.

Question 2 : (PYQ Jan 21)

NB Pg. No.

The Senior Accountant of AMF Ltd. gives the following data regarding its five segments:

(Rs. in lakhs)

Particulars	P	Q	R	S	T	Total
	(Rs.)	(Rs.)	(Rs.)	(Rs.)	(Rs.)	(Rs.)
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'.

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 Rs. 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.

? Question 3 (PYQ May'22)

NB Pg. No.

XYZ Ltd. has 5 business segments. Profit / Loss of each of the segments for the year ended 31st March, 20X2 have 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)

Solution:

(5 Marks)

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	
B	25	Yes
C	175	No
		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 4

NB Pg. No.

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

Identify the Reportable segments.

Solution:

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

- All segments in profit, i.e., A, B and E – Total profit ₹ 8,280 crores.
- 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
Total	1,480		

Question 5

NB Pg. No.

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
	10,400	35,350	3,750	1,02,750

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 = $45,750 \times 10\% = 4,575$.

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 = $6,000 \times 10\% = ₹ 600$

Asset Test:

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

10% thresholds = $1,02,750 \times 10\% = ₹ 10,275$

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.

? Question 6 (PYQ Nov'20, Jan'21) (MTP Sep'23) (RTP Nov'23)

NB Pg. No.

The accountant of Parag Limited has furnished you with the following data related to its Business Divisions:

Division	A	B	C	D	Total
Segment Revenue	100	300	200	400	1,000
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.

(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.

Question 7 (PYQ Nov'23)

NB Pg. No.

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
Fan	3,200	10,900	23,700
Light	200	1,400	13,200
Lamp	0	1,500	4,200
Printer	1,100	200	3,400
TOTAL	4,500	14,000	44,500

How many reportable segments does Garnet Limited have as per the Revenue and Assets criteria given in AS 17? State Reasons for your answer. **(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 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 ($₹ 14,000 \times 75\%$) 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).

Question 8

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 Bright Bar Division	4,575
Other Domestic Sales	90
Export Sales	6,135
	10,800
Bright Bar Division	
Sales to Fitting Division	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

Solution :

**Diversifiers Ltd.
Segmental Report**

Particulars	Divisions			Inter Segment Eliminations	Consolidated Total
	Forging shop	Bright Bar	Fitting		
Segment Revenue					
Sales:					
Domestic	90	-	-		
Export	6,135	300	270	-	90
External Sales	6,225	300	270	-	6,705
Inter-Segment Sales	4,575	45	-	-	6,795
Total Revenue	10,800	345	270	4,620	-
Segment Result (Given)	240	30	(12)	4,620	6,795
Head Office Expenses					258
Operating Profit					(144)
					114

Interest Expense					(16)
Profit Before Tax					98
Information in Relation to Assets and Liabilities:					
Fixed Assets	300	60	180	-	540
Net Current Assets	180	60	135	-	375
Segment assets	480	120	315	-	915
Unallocated Corporate Assets (75 + 72)	-	-	-	-	147
Total assets					1,062
Segment liabilities	30	15	180	-	225
Unallocated corporate Liabilities					57
Total liabilities					282

Sales Revenue by Geographical Market

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

Question 9 (MTP Nov'21, April'23) (RTP Nov'19, May'21, May'22, Jan'25)

NB Pg. No.

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 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.

Question 10

NB Pg. No.

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 segments 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.

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 reportable segments.

Question 11

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'. Reference: The students are advised to refer the full text of AS 17 "Segment Reporting".

Question 12

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. (5 Marks)

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 ($₹4 \text{ crores} - ₹1 \text{ crores}$);

Segment Q holds ₹ 5.1 crores ($₹6 \text{ crores} - ₹0.9 \text{ crores}$);

Segment R holds ₹ 4.2 crores ($₹5 \text{ crores} - ₹0.8 \text{ crores}$).

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.**

Question 13

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.

Solution:

AS 17 explains that, "a single geographical segment does not include operations in economic environments with 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."

? Question 14 (RTP May 19)

NB Pg. No.

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?

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.

? Question 15 (RTP Nov '21)

NB Pg. No.

- Company A is engaged in the manufacture of chemicals. The company manufactures five types of chemicals that have different applications. Can this company include more than one type of chemical in a single business segment? Comment.
- Is an enterprise required to disclose changes in the basis of allocation of revenue and expenses to segments? Explain.

Solution:

- As per AS 17, "A business segment is a distinguishable component of an enterprise that is engaged in providing an individual product or service or a group of related products of services and that is subject to risks and returns that are different from those of other business segments. Factors

that should be considered in determining whether products or services are related include:

- the nature of the products or services;
- the nature of the production processes;
- the type of class of customers for the products or services;
- the methods used to distribute the products or provide the services; and
- if applicable, the nature of the regulatory environment, for example, banking, insurance, or public utilities."

As per provisions of the standard, a single business segment does not include products and services with significantly differing risks and returns. Products and services included in a single business segment may be dissimilar with respect to one or several factors listed above but are expected to be similar with respect to majority of the factors. In the present case, the Company should consider whether the chemicals with different applications, have similar risks and returns. For this purpose, the Company should ascertain whether one or more types of chemicals are related keeping in view the relevant factors including those given in the definition of business segment. Chemicals having different applications can be included in a single business segment if majority of the relevant factors including those listed above are similar. This would ensure that the chemicals having significantly different risks and returns are not included in a single business segment.

- As per AS 17, "Changes in accounting policies adopted for segment reporting that have a material effect on segment information should be disclosed. Such disclosure should include a description of the nature of the change, and the financial effect of the change if it is reasonably determinable." It also states that "some changes in accounting policies relate specifically to segment reporting. Examples include changes in identification of segments and changes in the basis for allocating revenues and expenses to segments. Such changes can have a significant impact on the segment information reported but will not change aggregate financial information reported for the enterprise. To enable users to understand and impact of such changes, this Statement requires the disclosure of the nature of change and the financial effect of the change, if reasonably determinable".

In view of the above, a change in the basis of allocation of revenue and expenses to segments is a change in the accounting policy adopted for segment reporting. Accordingly, if the change has a material financial effect on the segment information, a description of the nature of the change, and the financial effect of the change, if it is reasonably determinable, should be disclosed.

Question 16 (RTP Sep'24)

NB Pg. No.

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 17 (RTP Nov 18)

NB Pg. No.

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	

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	50,000	40,000	20,000	1,10,000
(allocated in 5 : 4 : 2 basis)				
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
Total segment revenue (1)	6,60,000	4,15,000	2,70,000	13,45,000
Operating expenses	3,00,000	1,50,000	75,000	5,25,000
Enterprise expenses	35,000	28,000	14,000	77,000
(allocated in 5 : 4 : 2 basis)				
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	
Total segment expenses (2)	4,16,000	2,36,000	2,01,000	8,53,000
Segment result (1-2)	2,44,000	1,79,000	69,000	4,92,000