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ACCOUNTING STANDARD – 17

SEGMENT REPORTING

Quote:

"Make Improvements, Not Excuses. Seek Respect, Not Attention"

1. WHY SEGMENT REPORTS ?

This standard requires entity to prepare a Segment wise report of entire business so that the stakeholders can understand and *evaluate the performance of business on segment wise*.

- Segment report is *not a part of Financial Statements*.
- If a financial report contains both the consolidated and Standalone financial statements, segment information is required *only as per the consolidated financial statements*.

2. REPORTABLE SEGMENTS

Those segments of entity for which financial information is required to be *disclosed separately* along with the financial statements. Any Segments will be considered as reportable when any one of the following criteria is fulfilled:

(a) If *Revenue (Sales)* of a segment is *equal to or more than 10%* of the combined revenue (sales) of all segments.

Revenue means *both External Revenue* from Outside Customers and *Internal Revenue* from inter segment sales.

(b) If *profit or loss* of that segment is *equal to or more than 10%* of the combined result of all segments.

Combined Result means *higher of:*

- Combined Profit of all segments in Profits
- Combined Loss of all segments in Losses

(c) If *Assets* of that segment are *equal to or more than 10%* of the combined Assets of all Segments.

Minimum 75% criteria:

If the total *external revenue* reported by operating segments constitutes less than 75% of the entity's revenue, additional operating segments should be identified as reportable

segments (even if they do not meet the criteria) until **at least 75% of the entity's revenue** is included in reportable segments.

(i.e. External revenue of reportable segments **must be $\geq 75\%$ of the total external revenue** of the entity)

Choice of Management:

Entity can report **any additional segment** as reportable segment even though it does not meet the above criteria.

Mandatory Reporting:

If any **segment was reported in the previous year** because of 10% threshold limit then such segment must be reported in current year even though 10% limit is not fulfilled in current year.

Non-reportable segments:

All remaining segments which are not reportable separately should be combined and disclosed as **"Other Segments"** in Segment Report.

3. IDENTIFY BUSINESS OR GEOGRAPHICAL SEGMENTS

A **business segment** is a part of a company that focuses **on offering a specific product or a group of related products or services**. This part of the company faces **different risks and makes different profits** compared to other parts of the company. Factors that should be considered to identify a business segment are:

1. Is the **Nature of these Products or Services** different from Other Products or Services?
(iPhone segment is different from MacBook Segment)
2. Is the **process of production** of these products or services different from others?
(Tata produces CARs but Electric Car production process is different from Petrol and Deisel Cars production)
3. Are the **customers** for these products or services different from other customers?
(Nike has different class of customers, Professional Athletes and Casual Customers. Both customers will have different needs hence products can be customised according to their need)
4. Are these products or services **sold or delivered differently** from other products or services?
(Amazon has two distribution channels, Some products are directly shipped from its own warehouse and some are shipped from third party sellers)
5. Different **Regulatory laws** for different products or services?
(Kotak Group has different segments with different regulatory laws such as Kotak Securities with SEBI regulations and Kotak Bank with RBI Regulations)

A **geographical segment** is a part of a company that operates in a **specific area**, like a country or region, and it faces **different risks and profits compared to other areas**. To understand a geographical segment, consider these factors:

1. Economic and Political Conditions:

Example: McDonald's operates in many countries. In a country like the United States with a stable economy and political environment, McDonald's might face fewer challenges compared to a country like India, which is different economy and price sensitive including different political conditions. So the planning and decision making could be different.

2. Relationships Between Areas:

Example: Reliance operates its petrochemical plants in Jamnagar (Gujarat) while having significant business interests in Mumbai (Maharashtra) where its corporate headquarters are located. The strong economic ties and logistical connectivity between these two regions facilitate smooth operations and efficient supply chain management.

3. Proximity of Operations:

Example: A Sports company like Adidas has many stores within major cities such as Mumbai or Pune. Being close to each store helps them manage inventory and respond quickly to customer needs. Now they have their stores in Northern and Southern India also, but connecting these stores with Pune and Mumbai stores would not be possible due to time constraints.

4. Special Risks in a Particular Area:

Example: A tourism company have operations in India and Japan. It needs to consider earthquake risks in Japan. But in India, it does not face the same level of concern for such events.

5. Exchange Control Regulations:

Example: A multinational company like Nestlé, operating in India, needs to deal with the Indian government's strict regulations on currency exchange and conversions into their local currency. This can complicate their financial operations compared to a country with more relaxed currency controls such as Singapore.

6. Underlying Currency Risks:

Example: **Tata Consultancy Services (TCS)** earns a significant portion of its revenue from clients in the United States and Europe. As a result, it faces underlying currency risks due to fluctuations in the Indian Rupee against the US Dollar and Euro. These currency risks can affect its profitability, and the company uses hedging strategies to mitigate these risks.

Important Notes:

- 1) A segment may engage in business activities for which it has yet to earn revenues, for example, **start-up operations may be business or geographical segments** before earning revenues.
- 2) **Corporate Headquarters** cannot become the segment.
- 3) **Two or more segments may be aggregated** into a single segment if the segments have similar economic characteristics (i.e. similar profit margin) with similar nature of Products & Services or types of customers.

4. PRIMARY AND SECONDARY REPORTING

- 1) Either Business Segments or Geographical Segments can become the Primary Reporting and the other one becomes the Secondary Reporting.
- 2) If a company's **risks and profits** are mainly influenced by the different products or services it offers, it should primarily report information by **business segments** (like separating results for its different product lines).
For example, **Tata Motors** might report separately for its passenger vehicles, commercial vehicles, and electric vehicles because each segment has different risks and returns.
- 3) On the other hand, if a company's **risks and profits** are mostly affected by the **different regions or countries** where it operates, it should primarily report information by **geographical segments**. For instance, **Infosys** might report its financials separately for operations in India, North America, and Europe, because each region has its own economic environment, regulatory landscape, and market conditions that influence the company's performance.
- 4) Also, it can be decided based on **how the Board of Directors and Chief Executive Officer (CEO) of the entity reviews** the financial information either product wise or geographic location wise.

5. ELEMENTS FOR SEGMENT REPORTING

SEGMENT REVENUE	<p>Aggregate of -</p> <ul style="list-style-type: none"> (a) Revenue Directly attributable to Segment (b) Enterprise Revenue which is allocated to Segment on reasonable basis (c) Inter Segment Revenue (Transactions with other Segments) <p>Does not include</p> <ul style="list-style-type: none"> • Extraordinary items (defined in AS 5) • Interest or Dividend Income (Except Operation of segment is primarily of financial nature such as Banks and Financial Institutions) • Gains on Sale of Investments or Extinguishment of Debts (Except Operation of segment is primarily of financial nature)
SEGMENT EXPENSE	<p>Aggregate of -</p> <ul style="list-style-type: none"> (a) Expense Directly attributable to Segment resulting from Operating activities of segment. (b) Enterprise Expense which is allocated to Segment on reasonable basis (c) Inter Segment Expenses (Transactions with other Segments) <p>Does not include</p> <ul style="list-style-type: none"> • Extraordinary items (defined in AS 5) • Interest Expenses (Except Operation of segment is primarily of financial nature)

	<ul style="list-style-type: none"> • <u>Losses</u> on Sale of Investments or Extinguishment of Debts (Except Operation of segment is primarily of financial nature) • <u>Income Tax Expenses</u> • General Adm. Expenses, Head Office Exp. and Other Exp. incurred at enterprise level and related to entity as whole. <p>Important Point- In case interest is capitalized to <u>the cost of inventories</u> as per AS 16 and such inventories are considered part of segment assets of a particular segment, then the interest should be considered as a segment expense.</p>
SEGMENT RESULT	SEGMENT REVENUE LESS SEGMENT EXPENSES
SEGMENT ASSETS	<p>Operating Assets employed by the Segments in its operating activities (Directly Attributable or Allocated)</p> <p>Investments, Advances Receivables, Loans or Other related Assets are also included only and only when Interest and Dividend Income are part of Segment Results.</p> <p>Does not include- Income Tax Assets (TDS, Advance Tax, Deferred Tax Asset) Assets used for Head Office or General Purpose</p>
SEGMENT LIABILITIES	<p>Operating Liabilities of the Segments (Directly Attributable or Allocated) Borrowings, Loans Payables are also included only and only when Interest Expenses on above are part of Segment Results.</p> <p>Does not include- Income Tax Liabilities (Deferred Tax Liability, Current Tax Liability) Loans and Liabilities used for Head Office or General Purpose</p> <p>Example: Working Capital Loan taken for Particular Segment shall be part of Segment Liabilities but Other Long-Term Loans may not be included if taken for whole company.</p>
ACCOUNTING POLICIES	<p>Segment information should be prepared in conformity with the accounting policies adopted for preparing and presenting the financial statements of the enterprise as a whole.</p> <p>However, AS 17 does not prohibit the disclosure of <u>additional segment information</u> that is prepared on a basis other than the accounting policies adopted for the enterprise financial statements.</p>

6. PRIMARY AND SECONDARY REPORTING DISCLOSURES

PRIMARY REPORTING INFORMATION:

An enterprise should disclose the following for each reportable segment:

- (a) Segment Revenue (Separately information for External and Internal Revenue)
- (b) Segment Result.
- (c) Total carrying amount of Segment Assets.
- (d) Total amount of Segment Liabilities.
- (e) Capital Expenditure incurred during the period (PPE and Intangible assets).
- (f) Depreciation and Amortisation during the Period.
- (g) Other significant non-cash expenses.

An enterprise should present a **Reconciliation** between the Reportable Segments and Financial Statements.

- Segment Revenue should be reconciled to Enterprise Revenue;
- Segment Results should be reconciled with Enterprise Net Profit or Loss;
- Segment Assets should be reconciled to Enterprise Assets; and
- Segment Liabilities should be reconciled to Enterprise Liabilities.

SECONDARY REPORTING INFORMATION:

If primary format of an enterprise for reporting segment information is business segments, it should also report the following information considering geographical area wise:

1. Segment wise Revenue from External Customers: Those geographical segments whose external revenue is 10% or more of the total enterprise revenue.
2. Segment wise Assets: Those geographical segments whose assets value are 10% or more of the total enterprise assets and Capital Expenditure incurrent during the year.

If primary format of an enterprise for reporting segment information is Geographic segments, it should also report the following information considering Product/Service wise:

1. Segment wise Revenue from External Customers: Those business segments whose external revenue is 10% or more of the total enterprise revenue.
2. Segment wise Assets: Those business segments whose assets value are 10% or more of the total enterprise assets and Capital Expenditure incurrent during the year.

STEP 4 – PREPARE A SEGMENT REPORT (DISCLOSURES)

PRIMARY SEBMENT REPORT (Assuming Business Segments)

Particulars	Segment 1 (Reportable)	Segment 2 (Reportable)	Inter Segment Eliminations	Total
1. <u>Segment Revenue & Results:</u>				
Segment Revenue (Gross)	XXX	XXX		XXX
Domestic:	<u>XXX</u>	<u>XXX</u>		<u>XXX</u>
Exports:	XXX	XXX	-	XXX
Total External Sales:	<u>XXX</u>	<u>XXX</u>	<u>(XXX)</u>	<u>XXX</u>
Inter Segment Sales:	XXX	XXX	<u>(XXX)</u>	XXX
Total Revenue	XXXX	XXXX		XXXX
(-) Segment Expenses	XXX	XXX		XXX
Segment Results (Profits/Losses)	-	-		XX
(+) Unallocated Incomes less Expenses				XXX
Net Profit before Interest & Tax				XXX
(-) Interest & Other Finance Cost				XXX
Net Profit before Tax				XXX
(-) Tax Expenses (Current +/- Deferred)				XXX
Profit After Tax (Entire)				XXX
2. <u>Segment Assets & Liabilities</u>				
(i) <u>Assets:</u>				
Non - Current Assets:	XXXX	XXXX		XXXX
Current Assets	<u>XXXX</u>	<u>XXXX</u>		XXXX
Total Segment Assets	XXXX	XXXX		XXXX
Unallocated Assets	-	-		XXX
Total Assets (Entire)	-	-		XXXX
(ii) <u>Equity and Liabilities:</u>				
Segment Liabilities	XXX	XXX		XXXX
Unallocated Liabilities	-	-		XXX
Total Liabilities	XXXX	XXXX		XXXX
Share Capital				XXXX
Reserves & Surplus				XXXX
Total Equity and Liabilities (Entire)				XXXX
3. <u>Other Information:</u>				
Capital Expenditure During the Year	XXX	XXX		XXX
Depreciation & Amortisation	XXX	XXX		XXX
Other Non-Cash Expenses	XXX	XXX		XXX

SECONDARY SEGMENT INFORMATION (Assuming Geographical Segment Wise)

<u>Geographical Information:</u>	Domestic	Foreign Country 1	Foreign Country 2	Total
Total Revenue	XXX	XXX	XXX	XXX
Total Assets	XXX	XXX	XXX	XXX
Total Capital Expenditure During the Year	XXX	XXX	XXX	XXX