

# SEGMENT REPORTING

AS  
17

Objective	<p>To establish principles for reporting financial information, about the different types of products and services an enterprise produces and the different geographical areas in which it operates.</p> <p>Such information helps users of financial statements:</p> <ul style="list-style-type: none"> <li>(a) better understand the performance of the enterprise;</li> <li>(b) better assess the risks and returns of the enterprise; and</li> <li>(c) make more informed judgements about the enterprise as a whole</li> </ul>
Business segment	<p>A distinguishable component of an enterprise that is engaged in providing an individual product or service or a group of related products or services and that is subject to risks and returns that are different from those of other business segments.</p> <p><i>Factors that should be considered in determining whether products or services are related include:</i></p> <ul style="list-style-type: none"> <li>(a) the nature of the products or services;</li> <li>(b) the nature of the production processes;</li> <li>(c) the type or class of customers for the products or services;</li> <li>(d) the methods used to distribute the products or provide services; and</li> <li>(e) if applicable, the nature of the regulatory environment, for example, banking, insurance, or public utilities.</li> </ul>
Geographical segment	<p>A distinguishable component of an enterprise that is engaged in providing products or services within a particular economic environment and that is subject to risks and returns that are different from those of components operating in other economic environments.</p> <p><i>Factors that should be considered in identifying geographical segments include:</i></p> <ul style="list-style-type: none"> <li>(a) similarity of economic and political conditions;</li> <li>(b) relationships between operations in different geographical areas;</li> <li>(c) proximity of operations;</li> <li>(d) special risks associated with operations in a particular area;</li> <li>(e) exchange control regulations; and</li> <li>(f) the underlying currency risks</li> </ul>
Reportable segment	<p>A business or a geographical segment identified on the basis of foregoing definitions for which segment information is required to be disclosed by this Standard.</p>
Segment revenue	<p>Aggregate of</p> <ul style="list-style-type: none"> <li>✓ the portion of enterprise revenue that is directly attributable to a segment,</li> <li>✓ the relevant portion of enterprise revenue that can be allocated on a reasonable basis to a segment, and</li> <li>✓ revenue from transactions with other segments of the enterprise.</li> </ul>

	<p><u>Segment revenue does not include:</u></p> <ul style="list-style-type: none"> <li><input checked="" type="checkbox"/> extraordinary items as defined in AS 5</li> <li><input checked="" type="checkbox"/> interest or dividend income, including interest earned on advances or loans to other segments unless operations of segment are primarily of a financial nature</li> <li><input checked="" type="checkbox"/> Gains on sale of investment or on extinguishment of debt unless operations of segment are primarily of a financial nature</li> </ul>
Segment expense	<p>Aggregate of</p> <ul style="list-style-type: none"> <li>✓ the expense resulting from the operating activities of a segment that is directly attributable to the segment, and</li> <li>✓ the relevant portion of enterprise expense that can be allocated on a reasonable basis to the segment, and</li> <li>✓ expense relating to transactions with other segments of the enterprise.</li> </ul> <p><u>Segment expense does not include:</u></p> <ul style="list-style-type: none"> <li><input checked="" type="checkbox"/> extraordinary items as defined in AS 5</li> <li><input checked="" type="checkbox"/> interest expense, including interest incurred on advances or loans from other segments, unless operations of the segment are primarily of a financial nature;</li> <li><input checked="" type="checkbox"/> income tax expense; and</li> <li><input checked="" type="checkbox"/> general administrative expenses, head-office expenses, and other expenses that arise at the enterprise level and relate to the enterprise as a whole.</li> </ul>
Segment result	Segment revenue less Segment expense.
Segment assets	<p>Those operating assets that are employed by a segment in its operating activities and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis.</p> <p>Segment assets do not include income tax assets &amp; assets used for general enterprise or head office purposes</p>
Segment liabilities	<p>Those operating liabilities that result from the operating activities of a segment and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis.</p> <p>Segment liabilities do not include income tax liabilities and borrowings and other liabilities that are incurred for financing rather than operating purposes</p>
Identifying Reportable Segments	<p>Primary and Secondary Segment Reporting Formats</p> <ul style="list-style-type: none"> <li>➤ The <i>dominant source and nature of risks and returns</i> of an enterprise should govern whether its primary segment reporting format will be business segments or geographical segments.</li> <li>➤ If the risks and returns of an enterprise are affected predominantly by differences in the products and services it produces, its primary format for reporting segment information should be business segments, with secondary information reported geographically &amp; vice versa.</li> </ul> <p><i>Organizational and management structure of an enterprise and its internal financial reporting system normally provide the best evidence of the predominant source of risks and returns of the enterprise for the purpose of its segment reporting</i></p>

<p>Identifying Reportable Segments (Quantitative Threshold) (Materiality Test)</p>	<p>A business segment or geographical segment should be identified as a reportable segment if:</p> <ul style="list-style-type: none"> <li>➤ its revenue from sales to external customers &amp; from transactions with other segments is 10% or more of total revenue, external &amp; internal, of all segments; or</li> <li>➤ its segment result, whether profit or loss, is 10 % or more of – <ul style="list-style-type: none"> <li>(i) the combined result of all segments in profit, or</li> <li>(ii) the combined result of all segments in loss, whichever is greater in absolute amount; or</li> </ul> </li> <li>➤ its segment assets are 10% or more of the total assets of all segments.</li> </ul>
<p>Points to remember</p>	<ul style="list-style-type: none"> <li>❖ A business segment or a geographical segment which is not a reportable segment may be designated as a reportable segment despite its size at the discretion of the management of the enterprise. If that segment is not designated as a reportable segment, it should be included as an unallocated reconciling item.</li> <li>❖ If total external revenue attributable to reportable segments constitutes &lt; 75% of the 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. (Overall Test)</li> <li>❖ A segment identified as a reportable segment in the immediately preceding period because it satisfied the relevant 10% thresholds should continue to be a reportable segment for the current period notwithstanding that its revenue, result, and assets all no longer meet the 10% thresholds</li> </ul>
<p>Primary Reporting Format</p>	<p>An enterprise should disclose the following for each reportable segment:</p> <ul style="list-style-type: none"> <li>➤ segment revenue, classified into segment revenue from sales to external customers and segment revenue from transactions with other segments;</li> <li>➤ segment result;</li> <li>➤ total carrying amount of segment assets;</li> <li>➤ total amount of segment liabilities;</li> <li>➤ total cost incurred during the period to acquire segment assets that are expected to be used during more than one period (tangible and intangible fixed assets);</li> <li>➤ total amount of expense included in the segment result for depreciation and amortization in respect of segment assets for the period; and</li> <li>➤ total amount of significant non-cash expenses, other than depreciation and amortization in respect of segment assets, that were included in segment expense &amp;, therefore, deducted in measuring segment result.</li> </ul>
<p>Secondary Reporting Format</p>	<p>An enterprise should disclose the following for each reportable segment:</p> <ul style="list-style-type: none"> <li>➤ segment revenue from sales to external customers</li> <li>➤ total carrying amount of segment assets;</li> <li>➤ total cost incurred during the period to acquire segment assets that are expected to be used during more than one period (tangible and intangible fixed assets);</li> </ul> <p>Reporting of only those segments is required which fulfill the 10% criterion. (Means reportable segments only)</p>

<b>Other Disclosures</b>	<p>In measuring and reporting segment revenue from transactions with other segments, inter-segment transfers should be measured on the basis that enterprise actually used to price those transfers. The basis of pricing inter-segment transfers and any change therein should be disclosed in the financial statements.</p> <p>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.</p> <p>An enterprise should comply with the requirements of this Standard fully and not selectively. If a single financial report contains both consolidated financial statements and separate financial statements of the parent, segment information need be presented only on the basis of the consolidated financial statements.</p>
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## ASSIGNMENT QUESTIONS

**Question 1** *(ICAI Study Material)* \_\_\_\_\_ Pg no. \_\_\_\_\_

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.

**Question 2** *(ICAI Study Material)* \_\_\_\_\_ Pg no. \_\_\_\_\_

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
Total	1,480

Identify the Reportable segments.

**Question 3** *(ICAI Study Material)* \_\_\_\_\_ Pg no. \_\_\_\_\_

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 4** *(ICAI Study Material)* \_\_\_\_\_ 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 5** *(RTP May 2018/Nov 2019/Nov 2020/May 2021/May/Nov 2022 (Sim.)/ICAI Study Material)* 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 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 6** *(ICAI Study Material)* \_\_\_\_\_ Pg no. \_\_\_\_\_

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

**Question 7** *(RTP Nov 2018) / (ICAI Study Material)* \_\_\_\_\_ Pg no. \_\_\_\_\_

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	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	1,05,000
Transaction from C	6,000	40,000		46,000
Transaction from A		18,000	82,000	1,00,000

**Question 8** *(RTP May 2019) / (ICAI Study Material)* \_\_\_\_\_ 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.

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 9** *(RTP Nov 2021)* \_\_\_\_\_ 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**

(a) 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 productions processes;
- the type of class of customers for the products or services;
- the methods use 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.

- (b) 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 10** - *(RTP May 2022) / (ICAI Study Material)* Pg no. \_\_\_\_\_

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 11** *(Inter Nov 2023) (5 Marks)* Pg no. \_\_\_\_\_

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	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.

## PRACTICE QUESTIONS

### Question 1 (Inter Nov 2019) (5 Marks)

Pg no. \_\_\_\_\_

Mac Ltd. gives the following data regarding its six segments:

	₹ in lakhs						
Particulars	A	B	C	D	E	A	Total
Segment Assets	80	160	60	40	40	20	400
Segment Results	100	(380)	20	20	(20)	60	(200)
Segment Revenue	600	1240	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'.

#### 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.

Further, 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.

Accordingly,

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 are 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.

### Question 2 (RTP May 2020) / (RTP May 2023) (Similar)

Pg no. \_\_\_\_\_

The Chief Accountant of Cotton Garments Ltd. gives the following data regarding its five segments:

	₹ in crore					
Particulars	A	B	C	D	E	Total
Segment Assets	40	15	10	10	5	80
Segment Results	(95)	5	5	(5)	15	(75)
Segment Revenue	310	40	30	40	30	450

The Chief 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'.

#### 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.

Further, 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.

Accordingly,

- (a) On the basis of revenue from sales criteria, segment A is a reportable segment.
- (b) On the basis of the result criteria, segments A & E are reportable segments (since their results in absolute amount is 10% or more of ₹ 100 crore).
- (c) On the basis of asset criteria, all segments except E are reportable segments.

Since all the segments are covered in atleast 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 'A' is reportable is wrong.

**Question 3** *(Inter Nov 2020) (5 Marks) / (RTP Nov 2023)*

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.

**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 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
- c) 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 4** *(Inter Jan 2021) (5 Marks)*

Pg no. \_\_\_\_\_

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

Division	P	Q	R	S	T	Total
Segment Assets	80	30	20	20	10	160
Segment Result	(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:

- 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.

Accordingly,

- On the basis of revenue from sales criteria, segment P is a reportable segment.
- 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).
- 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 5** *(Inter May 2022) (5 Marks) / (ICAI Study Material)*

Pg no. \_\_\_\_\_

XYZ Ltd. has 5 business segments. Profit / Loss of each of the segments for the year ended 31<sup>st</sup> 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)

**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).

**Question 6** *(Inter May 2018) (5 Marks)/(ICAI Study Material)* Pg no. \_\_\_\_\_

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.

**Question 7** *(ICAI Study Material)* 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:

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 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% = ₹ 60

**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 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 8** *(Inter May 2023) (5 Marks)*

Pg no. \_\_\_\_\_

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.

**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.