

AS 17

Segment Reporting

Question 1

The Chief Accountant of Cotton Garments Limited 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'.

(MTP 5 Marks March '23) (RTP May '20 & May '23) (PYP 5 Marks, Jan 21) (Similar to RTP Nov 20 & Nov 19 but different figures) (PYP 5 Marks May '23)

Answer 1

As per para 27 of 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 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 'A' is reportable is wrong.

Question 2

- a) 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.





b) Is an enterprise required to disclose changes in the basis of allocation of revenue and expenses to segments? Explain. **(RTP Nov '21)**

Answer 2

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:

- (a) the nature of the products of services;
- (b) the nature of the productions processes;
- (c) the type of class of customers for the products or services;
- (d) the methods used to distribute the products or provide the services; and
- (e) 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 AS17, "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 3

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. **(RTP May 22) (New SM)**

Answer 3

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 4

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? **(RTP May 19)**

Answer 4

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 5

Calculate the segment results of a manufacturing organization from the following information:

(RTP Nov 18 & New SM)

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	

Answer 5

Calculation of segment result

Segments	A	B	C	Total
	Rs.	Rs.	Rs.	Rs.
Directly attributed revenue	5,00,000	3,00,000	1,00,000	9,00,000
Enterprise revenue (allocated in 5: 4: 2 basis)	50,000	40,000	20,000	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
Total segment revenue as per AS 17 (A)	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 (allocated in 5 : 4 : 2 basis)	35,000	28,000	14,000	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
Total segment expenses as per AS 17 (B)	4,16,000	2,36,000	2,01,000	8,53,000
Segment result (A-B)	<u>2,44,000</u>	<u>1,79,000</u>	<u>69,000</u>	<u>4,92,000</u>

Question 6

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

(₹ in Lacs)

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. (PYP 5 Marks, Nov 20) (Similar to PYP Jan 21 & Nov 19 but different figures, Old & New SM) (MTP 5 Marks Sep '23) (RTP Nov '23)

Answer 6

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 Dare 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

Answer any four of the following:

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)

(PYP 5 Marks May'22)

Answer 7

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 8

Following details are given for Sundaram Ltd for the year ended 31st March (₹ in Lakhs)

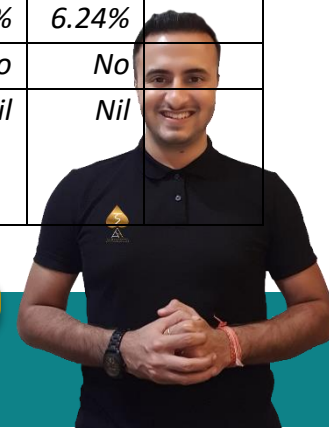
Particulars	Food Products	Plastics & Packaging	Health and Scientific	Others	Total
Sales (including Inter-Segment Sales)	10,000	1,240	690	364	12,294
Expenses	7,170	800	444	400	8,814
Other items: General Corporate Expenses					1,096
Income from Investments					252
Interest Expenses					126
Identifiable Assets	15,096	4,000	1,400	1,364	21,860
General Corporate Assets					1,664
Other Information:					
(a) Inter-Segment Sales are as below	120	168	36	10	
(b) Operating Profit includes ₹ 66 (000's) on Inter-Segment Sales.					

Identify the Reportable Segments in the above case. [CA Final - RTP]

Answer 8

Identification of Reportable Segments (Amounts in ₹ Lakhs)

	Particulars	Food Products	Plastic and Packaging	Health and Scientific	Others	Total
1.	Segment Revenue	10,000	1,240	690	364	12,294
2.	Percentage of Segment Revenue	81.34%	10.09%	5.61%	2.96%	
3.	Segment Expenses	7,170	800	444	400	8,814
4.	Segment Result (1 - 3) Profit / (Loss)	2,830	440	246	(36)	3,480
5.	Segment Result: Profit	2,830	440	246		3,516
	(Loss)				(36)	(36)
6.	Percentage of Segment Result, absolute amount of Profit or Loss, whichever is higher, i.e. % of 3,516	80.49%	12.51%	7%	1.02%	
7.	Segment Assets	15,096	4,000	1,400	1,364	21,860
8.	Percentage of Segment Assets	69.06%	18.3%	6.4%	6.24%	
9.	Reportable Segment	Yes	Yes	No	No	
10.	Criteria satisfied	Revenue, Result & Assets	Revenue, Result & Assets	Nil	Nil	





Question 9

Mahavishnu Ltd has 3 divisions A, B and C. Details of their Turnover, Results and Net Assets are given below. ₹ (000's)

		Amount
Division A:	Sales to B	3,050
	Other Sales (Home)	60
	Export Sales	4,090
	Total	7,200
Division B:	Sales to C	30
	Export Sales to Europe	200
	Total	230
Division C:	Export Sales to America	180

	Head Office	Division A	Division B	Division C
Operating Profit or Loss before Tax		160	20	(8)
Re-Allocated Cost from Head Office		48	24	24
Interest Cost		4	5	1
Fixed Assets	50	200	40	120
Net Current Assets	48	120	40	90
Long-Term Liabilities	38	20	10	120

Prepare a Segmental Report for publication in the Company's Financial Statements. [CA Final - RTP]

Answer 9

Segmental Reporting Matters for Mahavishnu Ltd (₹ 000's)

Particulars	Divisions			Inter Segment Eliminations	Consolidated Total
	A	B	C		
Segment Revenue Sales:					
Domestic	60	-	-	-	60
Export	4,090	200	180	-	4,470
External Sales	4,150	200	180	-	4,530
Inter-Segment Sales	3,050	30	-	3,080	-
Total Revenue	7,200	230	180	3,080	4,530
Segment Result (given)	160	20	(8)		172
Head Office Expenses					(96)
Operating Profit					76
Interest Expense					00
Profit before tax					66
Other Information:	200	40	120		360
Fixed Assets					
Net Current Assets	120	40	90		250
Segment Assets	320	80	210		610
Unallocated Corporate Assets					98
Segment Liabilities	20	10	120		150
Unallocated Corporate Liabilities					38



**Sales Revenue by Geographical Market (₹ 000's)**

Particulars	Home Sales	Export Sales (by Division A)	Export to Europe	Export to America	Consolidated Total
External Sales	60	4,090	200	180	4,530

Question 10

From the following information of a Company having two primary segments, prepare a statement classifying the same under appropriate heads: [CA Final - RTP]

Particulars	A (₹ in Lakhs)	B (₹ in Lakhs)	Particulars	(₹ in Lakhs)
Segment Revenue	27,050	3,280	Dividend Income	285
Inter Segment Revenue	50	-	Interest Expenses	35
Segment Profit	4,640	Loss 197	Tax Provision	1,675
Capital Expenditure	1,300	16		
Non-Cash Expenses (excl. Depreciation)	114	16		
Segment Liabilities	3,430	770	Other Liabilities	2,200
Segment Assets	19,450	2,700	Other Assets	6,550
Depreciation on Assets	110	15		

	Particulars	A (₹ in Lakhs)	B (₹ in Lakhs)	Total (₹ in Lakhs)
I.	Segment Revenue	27,050	3,280	30,330
	Inter Segment Revenue	50	-	50
	Sub-Total	27,100	3,280	30,380
	Less: Inter Segment Revenue			(50)
	Total			30,330
II.	Segment Result	4,640	(197)	4,443
	Interest Expenses			(35)
	Dividend Income			285
	Tax Provision			(1,675)
	Profit after Tax			3,018
III.	Other Information			
(a)	Segment Assets	19,450	2,700	22,150
	Unallocated Assets			6,550
(b)	Segment Liabilities	3,430	770	4,200
	Unallocated Liabilities			6,400
(c)	Capital Expenditure	1,300	16	1,316
(d)	Depreciation	110	75	185
	Non Cash Expenses	114	16	130

