AS 17 – SEGMENT REPORTING

Applicability

AS 17, on segment reporting is mandatory in respect of accounting periods commencing on or after 1-4-2001 in respect of enterprises (a) whose equity or debt securities are listed on a stock exchange in India or in process of listing on stock exchange or (b) all other enterprises whose turnover for the accounting period exceeds Rs. 50 crores.

AS 17, is a disclosure standard meaning thereby it involves only disclosure of certain information in the financial statements by way of additional information.

Issue 1 :

AS 17, is applicable to which entities?

As referred in above, AS 17 is mandatory wef 1-4-2001, to (a) companies whose equity or debt are listed on a stock exchange or are in process of listing equity or debt on a stock exchange or (b) All other commercial, industrial and business reporting enterprises, whose turnover for the accounting period exceeds Rs. 50 crores.

However, the Institute of Chartered Accountants of India, New Delhi, has made the AS applicable to the following enterprises wef 1-4-2004:

(a) Enterprises whose equity or debt securities are listed in India or Outside India.

(b) Enterprises in the process of listing their equity or debt on a stock exchange.

(c) Banks including Co-operative banks.

(d) Financial Institutions

(e) Enterprises carrying on Insurance business.

(f) All commercial, industrial and business reporting enterprises, whose turnover for the immediately preceding accounting year exceeds Rs.50 crores.

(g) All commercial, industrial and business reporting enterprises having borrowings, including public deposits in excess of Rs.10 crores at any time during accounting period.

(h) Holding and subsidiary enterprises of any one of the above.

Issue 2 :

What happens if an enterprise ceases to be covered by any of the criteria mentioned in Issue 1 above or for the first time no longer qualifies for exemption for year 2004-05?

When an enterprise ceases to be covered by the criteria, as per the amendment made in the AS (as effective from 01-04-2004) the enterprise will not qualify for exemption from the application of this standard, until the enterprise ceases to be covered in any of the above categories for two consecutive years.

Where an enterprise is covered for the first time and the AS becomes applicable from the current period, only current period figures are required to be given meaning thereby previous year figures need not be disclosed.

An enterprise which is not required to disclose segment information, wef 1-4-2004, should disclose the fact that pursuant to the exemption / relaxation given in AS, disclosures are not made in the financial statements.
**Issue 3:**
When consolidated financial statements is prepared wherein both single financial statements and consolidated financial statements of parent is given, should segment reporting also be given by the parent in its single financial statements?

☞ AS mentions, if a single financial report contains both consolidated financial statements and the separate financial statements of the parent, segment information need be presented only on the basis of the consolidated financial statements.

However, since consolidated financial statement is still not a recognised concept under the Companies Act, 1956 and that stand alone Annual report is required to be filed with Registrar of Company, enterprises would be advised to prepare segment reporting in its stand alone financial statements also.

**Issue 4:**
What should be included in segment revenue and what is disclosure requirement as to AS?

☞ Segment revenue will include direct sales to external customers, as well as inter-unit transfer to other segment. It will also include all operating revenue whether directly attributable or that can be allocated on a reasonable basis to a segment. Operating revenue will include transactions such as scrap sales, damage or penalty recovery, rent from property and profit on sale of fixed assets, if asset is included under segment assets, export incentives, royalty / licence fees if intangible assets included in segment assets, exchange fluctuation gain if relevant revenue forms part of segment revenue or relates to segment assets or segment liabilities, etc.

**Issue 5:**
What is not included in segment expense?

☞ Interest expense, including interest on loans or advances, general administrative expenses, head office expenses, other expenses that arise at the enterprise level and relate to the whole enterprise (e.g. secretarial, legal, accounting,) income-tax expense, extra-ordinary item as defined in AS 5, loss on sale of investments or losses on extinguishment of debt are not included as segment expense.

However, if any expense relate to the operating activities of the segment and if it can be directly attributed or allocated to the segment on a reasonable basis, then the same should be considered as part of the segment expense.

**Issue 6:**
What are segment accounting policies and are they required to be disclosed separately?

☞ Segment accounting policies are the accounting policies adopted for preparing and presenting the financial statements of the enterprise as well as those accounting policies that relate specifically to segment reporting.

The segment accounting policies would include such as identification of segments, method of pricing inter-segment transfers, basis for allocating revenues and expenses to segments etc.

The Accounting Standard requires that basis of pricing inter-segment transfers and any change therein or any change in accounting policies adopted for segment reporting having material effect on segment information should be disclosed.
Issue 7:
What would normally constitute non-cash expense other than depreciation and amortisation in respect of segment assets those are included in segment expense?

Items such as impairment losses, provision for bad and doubtful debts, write-down of inventories to net realisable value, foreseeable losses on construction contracts, provisioning for restructuring, loss on sale of fixed assets, and similar amounts which are deducted in determining carrying amounts of segment assets are disclosed under non-cash expense other than depreciation and amortisation.

Issue 8:
A Ltd. had a reportable segment in year 02-03, but for 03-04, that reportable segment does not meet the 10% threshold limit. Should A Ltd. continue or drop the segment for reporting in 03-04?

A segment may have been a reportable segment in the prior period but is not a reportable segment in the current period as it no longer meets the 10% threshold limit of revenue, result or assets or other reportable segments may account for more than 75% of the entity’s revenue. The AS requires A Ltd. to continue the reportable segment of 02-03 also for 03-04, even though its revenue, result and assets no longer meet the 10% threshold limit. Taking a clue about the applicability of Accounting Standards, A Ltd. would be required to disclose for two consecutive years and thereafter cease reporting that segment which does not meet the threshold criteria.

Conversely, if a segment is identified by A Ltd. in 03-04 as a reportable segment, Accounting Standard requires that prior period segment data i.e. 02-03 also be presented unless it is impracticable to do so, even if the 10% threshold were not satisfied in the preceding year.

Issue 9:
A Ltd. is in one business segment i.e. deals in food business. Also it sells entire production in India. Is A Ltd. required to give information as required under AS 17?

If A Ltd. has neither more than one business segment nor has more than one geographical segment, segment information as per AS 17 is not required to be disclosed. However A Ltd. should do well to disclose, that as it has one business segment, segment information as per AS 17 is not required to be disclosed. However, should company A Ltd. have turnover spread over geographical segments such as India, USA, UK and Asia other than India and the threshold criteria of 10% or more is met in each of above geographical segment, then A Ltd. will be required to give segment revenue by geographical area even though primary business segment may not be applicable.

Issue 10:
Is there any difference between the disclosures required under listing agreement clause 41 and that required under AS 17?

Listing agreement requires company to give segment reporting on a quarter to quarter basis along with year to date figures. Further, reporting is of segment wise revenue, results and capital employed. Capital employed is defined as segment assets less segment liabilities. The quarterly disclosure format has an elimination column for segment revenue, but there is no elimination column in the segment result. AS 17 has elimination column for segment revenue and segment results.

Further, company has an option to publish consolidated quarterly / half yearly financial results in addition to the unaudited quarterly / half yearly financial results of the parent company. However, the publication of consolidated annual financial results alongwith stand alone financial results shall be mandatory. Thus, segment revenue, results and capital employed on a consolidated basis is optional for quarterly / half yearly basis.
What is also observed that few companies do not publish segment results stating the same are furnished to stock exchange as required under listing agreement. However, this is not the letter and spirit of the listing agreement.

Under AS 17, a company is required to disclose more information which includes additional information such as reconciliation between segment revenue, results, assets and liabilities with financial statements, method of pricing inter-segment transfers, types of products and services in each business segment, composition of each geographical segment, etc.

**Issue 11:**

Are intra-group balances and intra-group transactions required to be eliminated while disclosing segment revenue, segment expense, segment assets and segment liabilities?

Segment revenue, segment expense, segment assets and segment liabilities are determined before elimination of inter-segment balances and intra-group balances and intra-group transactions between group entities in different segments.

The standard requires that all inter-segment or in that case intra-group transactions / balances be shown under respective segment and then eliminated only through the ‘Elimination’ column of Segment disclosures.

However, such balances and transactions while preparing consolidated financial statements under AS 21, are eliminated.

**Issue 12:**

What construes a change in accounting policy as referred to in AS 17?

Change in identification of segments, method of pricing inter-segment transfers and changes in the basis for allocating revenues and expenses to segment would amount to changes in accounting policies. 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 the impact of such changes having a material financial effect on the segment information, the Accounting Standard requires to disclose the nature of the change and the financial effect of the change, if reasonably determinable.

**Issue 13:**

If fixed assets are revalued, whether fixed assets should be taken at historical cost or at revalued amounts for computing segment assets?

Segment assets are to be disclosed at revalued amounts. Revaluation reserve will not appear anywhere in the segmental disclosure.

Thus, segment whose fixed assets are revalued will show higher capital employed than the segment whose fixed assets appear at cost.

**Issue 14:**

Interest, which is included as a part of the cost of inventories, as permitted under AS 16, Borrowing Cost read with AS 2, Valuation of inventories, and those inventories are part of segment assets of a particular segment, whether such interest should be considered as a segment expense?

Since, such interest is resulting from the operating activities of the segment in respect of which such inventories constitute the segment assets, interest on such inventories should be considered as a segment expense.

The amount of such interest and the fact that the segment result has been arrived at after considering such interest can be disclosed by way of a note to the segment result.
DIVERGENT PRACTICE IN DISCLOSING INFORMATION REQUIRED UNDER AS 17.

Few of BSE 30 index companies’ Annual Report were reviewed. Divergent reporting is observed in case of segment reporting. Without naming companies, observation of our analysis from the Annual reports reveals as under:

(a) Few companies have not reconciled segment revenue with enterprise revenue as disclosed in financial statements.

(b) Few of the companies have shown inter-segment revenue but not used the elimination column to reconcile External Sales as reported in financial statements.

   Similarly, these companies have also not used the elimination column to reconcile the segment results. Since inter-segment revenue is reported, segment result should report it after eliminating inter-segment results.

(c) Two companies have not reported segment reporting in a separate financial statements but have reported segment information on the basis of consolidated financial statements.

(d) Few companies though reporting inter-segment revenue have not reported the pricing mechanism of recognising such revenue.

   Many of the companies have not reported the basis of allocating expenses to segments.

(e) Many of the companies have showed external sales along with inter-segment sales. However, component of segment revenue remaining under other income is not considered as part of segment revenue. It is unknown whether such segment revenue is considered in segment results or netted off against unallocated corporate expenses.

From above, it is observed that there is no uniformity in disclosure policy adopted by different companies, even though a format is given as an illustration in the AS 17. Companies could do well by showing external sales, inter-segment sales and other operating revenue under segment revenue for better understanding and simplicity of reporting with an elimination column for each segment reconciliation.