CHAPTER IV

CONVERGENCE OF ACCOUNTING STANDARDS ON SEGMENT REPORTING IN INDIA
4.1 INTRODUCTION

Uniformity is the mother of accounting standards. Accounting standards are the means to iron out diversity in reporting practices through establishing some uniform norms for reporting; which is also very urgent to the users of financial statements. Generally there are huge standard setting bodies in the world; almost all the countries have their own standard setting body which is responsible for issuing standards. These standards are only effective within the territory of that particular country in which they are articulated. Each and every standard setting body has to prepare their set of accounting standards on the basis of their countries’ value, belief, ethics, culture, custom and that is why these sets of standards are not same in all respects. But today’s economy has become globalized - there is no national boundary of nations. As a result the entity has become multinational with several branches or subsidiary in various countries in the world which demands multi sets of financial statements under multi GAAP regime. On the other hand, the financial market has also become globalized; as a result there are several foreign participants who are not in a position to understand all sets of the financial statements prepared under different GAAP. This globalization and diversity in reporting practices across the globe create the urgency of a uniform, robust high quality set of international standards. To address this prime need, one privately funded international body International Accounting Standard Committee (IASC) was established in 1973. Since the establishment it had issued a number of accounting standards, namely International Accounting Standard (IAS) for the international reporting purposes. Since then multinational companies have been required to report two sets of the financial
statements; one as per the local GAAP and another one as per the international GAAP. As a result the entity still has to spend huge efforts and cost to prepare the financial statements and also users become confused due to multi sets of report. In this perspective, the process of convergence gained momentum throughout the world and IFRSs had been recognized as a strong base.

In this backdrop, this chapter has explained need for the convergence, benefits and problems of the convergence particularly in Indian perspective. Also, this has examined India’s initiatives and strategy to follow IFRSs. Finally, it has explored the Ind-AS 108 ‘Operating Segments’ (i.e. the converged accounting standard on segment reporting in India) along with its evaluation through the comparison with existing standards; and an assessment of prospective impact on reporting has also been made to judge the potentiality to meet the modern needs of stakeholders.

4.2 CONVERGENCE

It means a happy marriage of national and international accounting standards to achieve synchronization in reporting practices. Convergence movement is a logical extension of the harmonization process toward improving comparability of financial reports across the globe. Several national and international accounting standard setting bodies of different countries combine their experiences and expertise to arrive at the most acceptable solutions for some critical and complex financial reporting problems. It should eventually lead to the development of a worldwide accepted single set of accounting standards. In this space, the worldwide accounting organization IASB has taken the central stage for monitoring the convergence initiatives. It eventually developed the comprehensive set of high quality accounting standards namely IFRSs for providing a strong basis for convergence. It is the successor body to the IASC; it assumed the standard setting responsibility from 2001.
Since then name of the standards has also been changed from International Accounting Standard (IAS) to International Financial Reporting Standard (IFRS). The family of IFRSs actually comprises –IFRSs issued by the IASB, IAS issued by IASC; and the interpretations issued by the Standing Interpretation Committee (SIC) and International Financial Reporting Interpretation Committee (IFRIC) of the IASB. The increasing globalization of business and capital market had put impelling force to the convergence with IFRSs.

**4.3 NEED FOR CONVERGENCE**

In the age of globalization, structure of the world economy transforms into the market economy that is market gives the ultimate answer to the economic problems. The prime benefit of this free world trade system is derived from proper allocation of resources and minimization of the production cost for a given output. The liberalization of trade barriers and removal of restrictions on capital flow lead to rapid expansion in activities and operations of multinational companies and globalized financial market. Multinational companies are now a dominating force in the world economy as a major channel of foreign direct investment. This rapid expansion of the MNCs is an important factor responsible for the world convergence to the IFRSs. On the other hand these MNCs are facing serious problems in time of preparation of the consolidated accounts due to the inter country diversity in accounting practices. Another important factor is the globalized financial market which is also imposing some unnecessary burdens by demanding multi sets of financial statements due to different accounting systems throughout the world. In this way there are several stimulating factors which are intensifying the drive toward convergence to IFRSs; some of such important factors are enumerated below:

- Diversity in accounting standards and practices among the countries.
• Lack of harmony among the government, standard setting bodies and regulatory agencies.
• To promote international comparability.
• To remove the qualitative differences, a single set of standard can be used for all cross border listed companies.
• To have a globally accepted uniform, robust and quality set of standards for ensuring the uniformity, comparability and transparency in reporting.

Finally need for the convergence with IFRSs can be understood better if we quote a single line from the preface of the IASB – “To develop, in the public interest, a single set of high quality, understandable and enforceable global accounting standards that require high quality transparent and comparable information in financial statements” (Preface: Para 6).

4.4 BENEFITS OF CONVERGENCE

Convergence with the IFRSs has several advantages; some of the important advantages are explained here:

• It enhances the comparability of financial statements across the globe by its universal approach. As a result the users of financial statements can easily understand the financial reality of reporting entity and hence should be able to make effective and timely decisions.
• Most leading stock exchanges of the world allow overseas companies for getting to register. They are only asked to prepare a single set of financial statements in the line of IFRSs as a listing requirement without any reconciliation or additional set of reporting under local GAAP. As a result
companies feel easy to reduce the cost of capital through enlisting in several recognized foreign stock exchanges.

- It should help to reduce the risk premium and consequently the cost of capital by attracting foreign investors through more transparent and reliable financial information to the investor community. It also enhances the ability of investors to compare investment opportunities on a global basis; thereby lesser risk of error in judgment is achieved.

- It drives the cross-border acquisitions, partnership and alliance with foreign entity as there is no hassle of conversion of financial statements from any local GAAP to IFRSs.

- It should help to remove efforts and costs of multiple reporting and eliminate the large number of reconciliation, thereby yielding potentially significant savings. The number of accounting standards used and reconciliations required will drop dramatically even though the accuracy and timelines of financial reporting should improve.

- It allows the fair valuation technique for valuation of some of the important items; thereby it is able to reflect the current market reality into the financial statement which is very relevant to the decision makers.

- It removes the national boundaries for the accounting professionals through its characteristic of universality – that means accounting professionals may engage in the global market place as there is only one set of accounting standards (i.e. IFRSs). Their activity also becomes easy for a single set of standards in international area.
• It should promote the global reputation in global business environment rather than merely in local environment which gives a chance to enhance their brand value.

4.5 PROBLEMS OF CONVERGENCE

Despite the benefits of convergence with IFRS, some inherent problems are also there – some of them are explained hereunder:

• There is a complication with the introduction of concepts such as present value and fair value as well as some recognition and measurement issues.

• It may enhance the reporting risk for technical complexities, manual workarounds and undue time for implementation.

• It is based on the principle, as a result there is more involvement of professional judgment and also allows information to be presented on the basis of substance over from, it leads to diversity and less reliable information.

• Countries are different in terms of their beliefs, values, culture etc. so they could not agree upon a single solution for a given accounting problem. Thus it is next to impossible to develop a single set of globally accepted accounting standards which will satisfy all the nations’ demand in an equal manner.

• Convergence is the means to the end but not end itself. It is an effort to reduce the differences between the local GAAP and IFRS but not the adoption of IFRSs, so as a result still there will some diversity in financial reporting throughout the world even after convergence.

• There are various methods of convergence; it may add some extra disclosures along the primary disclosures requirements of IFRSs, or eliminate the alternative which is permitted by IFRSs. So it is obvious that even after full convergence, there must be diversity to some extent.
• The prime benefit of convergence i.e. promotion of global comparability should only be achieved if each and every nation of the world are converged with the IFRSs simultaneously. But this decision is totally based on their own discretion. As a result the full benefit of convergence cannot be availed, unless and until all nations accept it.

• If any globally accepted accounting standard is being produced then it should be obvious that it should allow various alternatives for a given problem to match the distinct needs of nations; that means this global standard itself allows the variety of reporting practices. So it could not be helpful to improve the comparability of financial statements.

• There is one popular objection that has been raised from various corners of the world, that it is the way of domination of developed countries towards developing and under-developed countries.

• Legal environment of each country is different, so it is next to impossible to develop any single set of accounting standards equipped with such diverse legal requirements.

4.6 CONVERGENCE: GLOBAL INITIATIVE

In the age of globalization, to meet the need of the hour, one world renowned privately funded accounting body, namely IASB, has taken the responsibility to develop and issue the international set of standards IFRSs for international reporting purposes. This set of standards is based on principle and so robust that most significant parts of the world have recognized it as the base for convergence. In the meantime a series of business failures took place particularly in some western countries and huge expectation gap between the stakeholders and management had recognized, as a result the need become rejuvenated to have a world-wide uniform
quality accounting language along with the rigorous corporate governance provisions. Eventually the most dominating country USA, also agreed to accept this world-wide common accounting language IFRSs which had materialized through the Norwalk Agreement, 2002. Since then, the international robust accounting language IFRSs gained significant momentum throughout the world, as a result more than 130 countries have so far switched over to IFRSs. Although some of the countries like Africa, Caribbean etc. had replaced their domestic GAAP but others only converged with it.

IFRSs are used in many segments of the world like Hong Kong, Australia, Malaysia, Pakistan, Russia, Singapore, Turkey, South Africa etc. including European Union. Since economic reforms were initiated, India has led to increasing attention being devoted to accounting standards as a means of ensuring credible and transparent financial reporting. In line with the global trend, the apex standard setting body of India ICAI had also planned for convergence with IFRSs in a phased manner.

**4.7 ADOPTION VS. CONVERGENCE: STRATEGIC ISSUE IN INDIA**

In the age of globalization, when almost all nations support the view of development of a single set of global accounting standards, India is not an exception to this global trend. In this line, India also supported the IFRSs as a single global accounting language. But a question arises, what would be the strategy to follow the IFRSs — fully adopt it or should it be modified in Indian context?

Generally there are two broad approaches to follow the IFRSs as a reporting standard. Either it may be fully adopted as it is or it can be modified with the requirements of the country’s prevailing environment. There are two schools of opinions; some experts support its adoption for its better comparability but other
experts defy it by claiming the countries differentiation. It is very difficult to
determine the best one as both of these strategies have some merits and demerits.

Full adoption is easy to take over but hard to implement in practice due to
mismatch with the prevailing legal environment like tax rules, Companies Act, listing
requirements etc. There is also the problem of interpretation of terminology which has
been used in the codification of IFRSs. Finally it is very true that the entities which
have to implement it, are not so prepared at this very point of time to adopt it in full.
Another important fact is that it could not be matched with the existing rules and
regulations, so if we want to adapt it in full form then first of all we are required to
change every relevant rule and regulation along the pre-trains and arrangement of
required resources within due time. But truly speaking it is not possible for any nation
to arrange the entire pre-requisite environment that is legal, cultural, ethical
environment as per the IFRSs nomenclature; it not only takes time but it may not be
possible in reality to some extent. Still if any country decides to adopt it, then it may
over burden the entity.

On the other hand convergence means a process of reduction in the differences
between the national standards and international standards through meeting together
or timely acceptance of the IFRSs with some modifications as per the existing
environment of nations. Generally there are three ways of modifications- a) restriction
of alternatives; b) require extra disclosures and c) changing the nomenclature of the
terms. It has also some merits and demerits – it takes time to reduce the diversity,
even after convergence there may be some diversity as the approaches of convergence
vary from country to country. But it has several benefits – it allows huge time to
prepare the entity; it is not the end but a means to end – through this journey the
country can spontaneously become accustomed with it. This strategy recognizes the country specific environment as a result, it will be more easy and attractive to nations.

Actually selection of the best strategy depends on many things like - degree of development of the country, quality of their national standards, prevailing environmental conditions etc. In this regard one can conduct an empirical study to assess the association between the degree of development and method to follow IFRSs or the quality of national standards and method to follow IFRSs or is there any geographical disparity in choosing the method? Here to get the answer we only observe the approaches of various countries towards IFRSs. It is found that quality of national standards is the most striking factor for determination of the strategy. Most of the developed countries have their own set of accounting standards, as a result they are not agreeing to adopt in full; rather they are trying to modify it according to their prevailing environmental condition. On the other hand the developing country which has no such sound accounting standards agreed to adopt IFRSs in full. Thus, it is clear that there are sharply two groups - one has agreed to converge whereas other is prepared to adopt it. Accordingly India has rightly chosen to converge with IFRSs as it has quality accounting standards and infrastructure to develop the new set of accounting standards aligned with IFRSs.

4.8 KEY DIFFERENCES BETWEEN IFRSs AND INDIAN GAAP

To converge with IFRSs and hence preparation of a new set of aligned accounting standards, it is very urgent to understand the basic differences between IFRSs and Indian GAAP. In this section, an effort has been made to highlight some key differences:

- Under Indian GAAP entity has a separate legal entity whereas IFRSs promote a group concept.
• IFRSs allow the use of fair value but Indian GAAP relies upon the historical cost.

• Under IFRSs past errors are incorporated in the accounts of the year it relates to, even after it is audited and adopted by shareholders whereas under Indian GAAP this is treated as an adjustment in the current year.

• Under IFRSs preference shares are classified as debt instrument instead of equity which affecting profitability and capital adequacy ratio.

• AS 15 permits deferments of expenditure incurred on account of termination of services under voluntary retirement scheme whereas IAS 19 does not allow the deferment of such expenditure.

• In contrast to the Indian GAAP, controls of entities are defined by the decision making power inherent in the parent company.

• IFRSs rely more upon managerial judgment particularly in case of depreciation charging against the Indian GAAP requires following the schedule XIV of the companies Act, 1956.

• Other departures from Indian GAAP are:
  
  ➢ No scope for reflection of proposed dividend into the financial statements.

  ➢ EPS to be disclosed for both continuing and discontinuing operations separately.

4.9 CHALLENGES OF CONVERGENCE IN INDIA

For the glorious benefits and the global trend India has now realized the needs to follow IFRSs and accordingly decided to converge with IFRSs. But in the course of convergence, a number of challenges have to be faced – some of them are discussed here:
The first and foremost challenge should emerge from the difference between Indian GAAP and IFRSs. The differences are very wide and deep rooted and that is why there is a chance of deviation from the exact IFRSs requirement.

It is not just a technical exercise rather an overall change in both perspective and the very objective of accounting in the country, as a result practical implementation challenges are encountered to the preparers, users and auditors.

The regulatory and legal environment of India will pose a challenge unless these are not adjusted by the respective authority.

There is some complexity regarding the introduction of some new concepts such as present value and fair value which needs to be understood properly.

Financial statements become more complex under IFRSs and thereby decision makers face difficulty to make useful decisions.

The concept of equity is changed under IFRSs, results into impact on tax benefits where interest is treated as receiving of dividend.

Extensive use of fair value under IFRSs is a great challenge to adopt it particularly in developing country like India as it is difficult to get proper market with necessary depth and breadth.

IFRS requires data relating to subsidiary, joint venture and association for consolidation purpose at every reporting date which poses a difficulty in Indian perspective.

Superiority complex is also one of the great challenges of the convergence and it is not an exception to India.
• There is a lack of experienced professionals and therefore, entity has to rely on external advisors who have embedded knowledge to ensure its application on an ongoing basis.

4.10 PROGRESS TO DATE IN INDIA

In the line of global trend, India has also decided to converge with IFRSs. To make transition from Indian GAAP to IFRSs a core group was formed under the chairmanship of the secretary, Ministry of Corporate Affairs (MCA) with participation from RBI, SEBI, IRDA, ICAI, NACAS and industry representatives. On the basis of the recommendation of this core group MCA has announced a roadmap for convergence in 2010. Phased manner of convergence was adopted due to various implementation issues which should take some time to resolve. The first phase was scheduled to start from the accounting period started on or after 1st April, 2011. In this first phase, the company either included in the nifty 50 or Sensex 30 or listed in any offshore stock market or the net worth is in excess of ₹ 1000 Crore is required to comply with Ind ASs. The second phase scheduled to start from 1st April, 2013 from which all companies with net worth in excess of ₹ 500 Crore regardless of the listing are required to comply. In last phase all the listed companies even with net worth less than ₹ 500 Crore are required to follow Ind ASs from 1st April, 2014. Accordingly, MCA had notified a new set of 35 Indian accounting standards converged with IFRSs (i.e. Ind ASs) by a press release dated 25.02.2011 except the effective date of implementation.

As a result there are two sets of notified accounting standards; one set consists of the standard which converged with IFRSs (i.e. Ind ASs) and the other set consists of existing Indian accounting standards (i.e. ASs). Ind ASs become applicable according to the roadmap for specified entity and all other entities should follow the
ASs. Although there are two sets of notified accounting standards but only existing
ASs are applicable in practice as the effective date of Ind ASs is yet to be declared.
Although considerable efforts are being made in continuous manner which being
reflected from the preparation of revised schedule VI (i.e. Schedule III of the
Companies Act, 2013) but still the effective date of Ind ASs remain to be declared,
even though the implementations date of third phase had passed away.

Actually while finalizing the Ind ASs, Indian standard setter has to modify the
requirements of IFRSs to suit the Indian perspective. In a recent press release MCA
committed that after the resolving of tax and other regulatory issues the exact
implementation date would be declared. In the meantime several significant changes
have taken place in IFRSs and as a result it is urgent to determine whether Ind ASs
should require to be updated or not. The revised Ind ASs should only be implemented
unless and until the changed IFRSs become effective. The risk of deferral
implementation in India may lose momentum in achieving its goal of convergence
and the resultant benefits. For this deferring implementation of Ind ASs leading by
several factors some of such detrimental factors are:

- Although the Companies Act had been revised as per the requirement but to
  implement the Ind ASs properly it is also very urgent to change some of the
  others prevailing rules and regulations like Income Tax Act, 1961, listing
  requirement of SEBI, legal framework of RBI etc. - which may take time.

- When developed countries like USA and Japan have not yet thought to follow
  IFRSs, only they are studying the impact of prior implication of it, then it is
  quite natural that as a developing country India may defer the implementation
  for internal reconstruction.
• Lack of preparedness and confusion in various legal issues lead to deferred implementation of Ind ASs.

• Due to the political instability numbers of bills like Direct Tax Code Bill 2010 and Banking Laws (Amendment) Bill are pending to be implemented, as a result Ind ASs also become deferred to be implemented.

• IFRS itself is very dynamic and hence it is undergoing a change which could result into deferment of the implementation of Ind ASs.

• Some of the notified Ind ASs would need to be revised in the light of the IFRSs for consolidation, joint arrangement, employees’ benefits etc. Although these amendments have already been issued by ICAI but they are yet to be notified by the MCA.

Ultimately, in April, 2014 ICAI has prepared and submitted a revised roadmap to MCA for implementation of Ind AS. Subsequently in July, 2014 the Finance Minister in his budget speech also supported the adoption of Ind ASs from the financial year 2015-16 voluntarily and mandatorily from 2016-17. Accordingly, the Ministry of Corporate Affairs has also notified the much awaited Companies (Indian Accounting Standards) Rules, 2015 on 16th February, 2015 for implementing (modified and up-to dated) 39 Ind ASs for companies other than Banking companies, Insurance companies and Non-Banking financial companies. As per this rule, Ind ASs should be implemented in a phased manner from the accounting period commencing on or after 1st April, 2015 voluntarily and it would be mandatory from the accounting period commencing on or after 1st April, 2016. Companies those are listed or in the process of listing on any stock exchange and/or having net worth of ₹ 500 Crore or more will start reporting under Ind ASs from the accounting period commencing on or after 1st April, 2016. Companies those are listed or in the process of listing on any
India can now claim that her accounting standards are contemporary and virtually at par with the leading global standards (i.e. IFRSs). The list of Ind ASs and corresponding IFRSs are given below under table 4.1.

**Table 4.1: List of Ind ASs and Corresponding IFRSs**

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Notified Ind AS</th>
<th>Titles of Ind AS</th>
<th>Corresponding IAS/ IFRS</th>
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<tr>
<td>1</td>
<td>Ind AS 1</td>
<td>Presentation of Financial Statements</td>
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<td>Ind AS 2</td>
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<td>4</td>
<td>Ind AS 8</td>
<td>Accounting Policies, Changes in Accounting Estimates and Error</td>
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<td>5</td>
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<td>Events after the Reporting Period</td>
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<tr>
<td>6</td>
<td>Ind AS 12</td>
<td>Income Taxes</td>
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<tr>
<td>7</td>
<td>Ind AS 16</td>
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<td>IAS 16</td>
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<tr>
<td>8</td>
<td>Ind AS 17</td>
<td>Leases</td>
<td>IAS 17</td>
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<td>9</td>
<td>Ind AS 19</td>
<td>Employee Benefits</td>
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<td>Accounting for Government Grants and Disclosure of Government Assistance</td>
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In the age of convergence, with the line of other countries, India has also very rightly decided to converge her accounting standards with that of the International Accounting Standard Board (IASB). Accordingly, Indian apex standard setting body Institute of Chartered Accountant of India (ICAI) has issued series of accounting standards converged with respective International Financial Reporting Standards (IFRSs) including Ind AS 108 ‘Operating Segments’. It replaces the prevailing accounting standard on segment reporting AS 17 and aligns with requirements of IFRS 8. It states that, the enterprise should prepare its segment report on the basis of operating segments which have been determined by its key decision makers (i.e. the managerial approach). The main change from the current standard is the introduction of management approach. At the time of issuing IFRS 8, IASB has recognized one of the benefits with this new approach that is, information through the eye of management will allow users to judge better the entity’s operations. As this new approach has been prescribed in new standard (i.e. Ind AS 108) which has already been issued and scheduled to be implemented, so some questions may arise whether

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Source: www.mca.gov.in

4.11 CONVERGED ACCOUNTING STANDARD ON SEGMENT REPORTING IN INDIA

In the age of convergence, with the line of other countries, India has also very rightly decided to converge her accounting standards with that of the International Accounting Standard Board (IASB). Accordingly, Indian apex standard setting body Institute of Chartered Accountant of India (ICAI) has issued series of accounting standards converged with respective International Financial Reporting Standards (IFRSs) including Ind AS 108 ‘Operating Segments’. It replaces the prevailing accounting standard on segment reporting AS 17 and aligns with requirements of IFRS 8. It states that, the enterprise should prepare its segment report on the basis of operating segments which have been determined by its key decision makers (i.e. the managerial approach). The main change from the current standard is the introduction of management approach. At the time of issuing IFRS 8, IASB has recognized one of the benefits with this new approach that is, information through the eye of management will allow users to judge better the entity’s operations. As this new approach has been prescribed in new standard (i.e. Ind AS 108) which has already been issued and scheduled to be implemented, so some questions may arise whether
this standard should bring any change in reporting practices in India or what extent it is different from existing standard AS 17 and really is it in the line of IFRS 8 or not.

In this backdrop, this part of the chapter has been spent particularly for evaluating the newness of the standard in comparison to the existing standard AS 17 and also examine the degree of similarity with IFRS 8. Finally prospective impact on reporting has also been investigated to judge the potentiality to meet the modern needs of stakeholders.

4.11.1 Ind AS 108 in Short

‘Management Approach’ has been introduced for determining the operating segments and segmental information required to be reported for them. Operating segments are identified on the basis of internal reports used by the chief operating decision maker for allocating resources to the segment and assessing the performance thereof. It is well established fact that this management approach is only way to improve financial reporting as it allows users of financial statements to review the financial statement through the eye of management. This would enable the users to predict the future prospects to some extent which is more useful to the prospective investors. It also helps to reduce the preparation costs and ensure timely completion of the report as these disaggregated information is already being used by the internal decision makers.

Core Principle

An entity should disclose information in such a way that the users of financial statements shall be able to evaluate:

- the nature and financial effects of the business of operations in which it engages; and
- the surrounding economic environment in which it operates.
**Scope**

This standard shall only be applicable to that companies which has been notified in the Companies Indian Accounting Standards Rule 2015. If any company has prepared its segment report without complying this standard, the information reported in this report should not be treated as segment information even though the company is not bound to follow the standard so far the above rule is concerned. If any financial report contained both standalone and consolidated financial statements of the parent, segment information need to be presented only in the consolidated financial statements.

**Operating Segments**

An operating segment is a component of an entity -

- that engages in business activities from which it may earn revenues and incur expenses;
- whose operating results are reviewed regularly by the entity’s chief operating decision maker to make decision about its resource to be allocated to the segment and assess its performance; and
- for which discrete financial information is available.

Usually the chief executive officer or chief operating officer or a group of executive directors may jointly be recognized as the Chief Operating Decision Maker (CODM). But it is not necessarily decided on the basis of their designation rather it should be decided on the basis of functions which they perform. The specified functions of the CODM are:

- Allocation of the resources among segments; and
- Assessment of the performance of these segments and of the entity as a whole.
Reportable Segment

Reportable segment is that operating segment which meets any of the following quantitative thresholds:

• Its revenue, from both external customers and inter-segment transfers is 10% or more of the combined revenue, internal and external of all operating segments.

• The absolute amount of its profit or loss is 10% or more of the greater, in absolute amount of
  
a) The combined reported profit of all operating segments.
  
b) The combined reported loss of all operating segments.

• Its assets are 10% or more of the combined assets of all operating segments.

Two or more reportable segments can be aggregated, if they meet each of the following aggregation criteria:

• Aggregation is consistent with the core principle;

• The segments have similar economic characteristics; and

• The segments are similar in each of the following respect:
  
a) Nature of the product and services they offer;
  
b) Nature of the production process;
  
c) Types or classes of the customers;
  
d) Methods of distribution;
  
e) Nature of regulatory environment, if applicable.

If the total external revenue reported by operating segments constitutes less than 75% of the entity’s revenue, additional operating segments must be identified as a reportable segment even if they do not meet the quantitative thresholds.
All other operating segments those are falling to meet either the quantitative thresholds or the aggregation criteria, shall be combined and reported as ‘All Others Segments’. For improving the usefulness of the segment report manager by his/her own discretion can report an operating segment additionally even if it does not meet the quantitative thresholds, if they think so.

To improve the comparability, if any reported operating segment of the current period did not meet the quantitative threshold in the last period that require to be restated and if any reported operating segment of the last period fails to meet the quantitative threshold in current period that can also be reported, if management thinks significant.

Although this standard has not specified any maximum number for reported operating segments; but it asked to judge whether the number of reported segments exceeds the practical limit, only when the number of reported operating segments is more than ten.

**Disclosures**

An entity should disclose information about its operating segments to enable users of financial report to evaluate the nature and financial effects of the business activities and the economic environment in which it operates. The disclosure requirements of Ind AS 108 are given below:

**A. General information**

- Factor used to identify reportable segments.
- Types of products and services those are reportable segment provide.

**B. Information about profit or loss, assets and liabilities**

- Revenue from external customers.
• Revenue from inter segment transfer.
• Interest revenue and expenses.
• Depreciation, depletion and amortization expenses.
• Income tax expenses and benefit.
• Material items of income and expenses.
• The entities interest in the profit or loss of associates and joint ventures accounted for by the equity method.
• Other significant non-cash items.

C. Basis of measurement

• The amount of each item shall be measured on the same basis which is used for reporting to the chief operating decision maker.
• Adjustment, elimination and allocation shall be made if they are included in the chief operating decision maker report.

D. Reconciliation

• Segmental revenue with consolidated revenue.
• Segment assets with consolidated assets.
• Segment liabilities with consolidated liabilities.
• Other material items of the reported segment with that of the enterprise as a whole.

E. Entity-wide Disclosures

In addition, there are some prescribed entity-wide disclosures that are required to be disclosed even when an entity has only one reportable segment. If the information necessary for this purpose is not available or the cost of such information is excessive then, that fact only to be disclosed.
• Revenue from external customers for each products and services.
• Revenue from external customers of domestic country and of forging country.
• Carrying amount of non-current assets by geographical area irrespective of identification of operating segments.
• The information about major customers and the total revenue from each of such customers; but need not to disclose the identity of such major customers or the amount of revenues that each operating segment earns from these customers.

4.11.2 Unique Features of Ind AS 108

This standard requires to report financial and descriptive information about its reportable segments. Reportable segments would be operating segments or aggregations of operating segments which have met specified criteria. Generally, financial information would require to be reported on the basis that is used internally for allocating resources to operating segments and evaluating their performances. It extends the scope of segment reporting by including entities whose equities or debt securities are publicly traded and entities that are in process of issuing the securities in public securities markets. It requires the information about components of the entity that management used to make decisions about operating matters and assesses its performance. The reconciliation of total revenue, profit or loss, assets and other amounts disclosed for reported segments to corresponding amounts of the entity as a whole have to be disclosed. An explanation of how segment profit or loss and segment assets have measured is to be mentioned in the financial statements for each reportable segment. The entity has to report information about its major customers and about the countries in which it earns revenue and holds assets, regardless of
whether that information is used by management in operating decision making. Finally, it also requires the descriptive information about the way by which operating segments were determined.

4.11.3 Comparison between AS 17 and Ind AS 108

According to the management approach of Ind AS 108 operating segment is identified on the basis of the internal report which regularly reviewed by the CODM but AS 17 used risk return approach with the entity’s system of internal financial reporting to key management personnel to identify the primary or secondary segments.

Although the approaches to identification of segments are different from each other but, adoption of Ind AS 108 may or may not change the entity’s segments. If under AS 17 an entity identified its primary segments on the basis of reports provided to the person whom Ind AS 108 regard as the chief operating decision maker (CODM), those might become the operating segments for the purpose of Ind AS 108.

Ind AS 108 allows to use the same basis to measure information as it used to prepare the internal report for CODM, even if this report is not prepared in accordance with the Ind AS accounting policies. As a result, there will be diversity in the amount reported in segment report with the corresponding amount reported in the entity’s primary financial statement. But AS 17 demands the basis of measurement would be in conformity with the accounting policies adopted for preparing and presenting the financial statements.

Unlike AS 17, Ind AS 108 does not define terms such as “segments revenue”, “segment profit or loss”, “segment assets” and “segment liabilities”. As a result, entities will have more discretion in determining what will be included in segment
profit or loss under Ind AS 108. This also leads to diversification in reporting practices among the various entities.

According to Ind-AS108, an entity must disclose an explanation of how it has determined its reported operating segments and the basis on which disclosed amounts have been measured. But under AS 17 these information are not required to be disclosed.

AS 17 does not allow to aggregate two or more segments whereas Ind AS 108 allows to aggregate them subject to some specified aggregation criteria.

AS 17 has guided to calculate the segment revenue/expenses without considering the interest revenue/expenses if any, but Ind AS 108 asked to report the interest expenses and revenue for each reportable segments separately.

Under Ind AS 108, disclosures are required when an entity receives more than 10% of its revenue from a single customer. In this regard the entity must disclose this fact, the total amount of revenues earned from each such customer and the name of the operating segments that reports the revenue. These disclosures have not required by AS 17.

AS 17 has liberated the single segment entity from the preparation of the segment report but, Ind AS 108 requires disclosure about that entity’s products and services, geographical areas and major customers even if it has only one reportable segment.

4.11.4 Distinctions between Ind AS 108 and IFRS 8

In the convergence project ICAI issued Ind AS 108 ‘Operating Segments’ converged with IFRS 8 for replacing AS 17 ‘Segment Reporting’ to reduce the diversity in international requirements. ICAI founds that IFRS 8 provides more useful information than that of AS 17. Therefore, ICAI had issued Ind AS 108 for adopting
the requirements of IFRS 8 through removing the diversity between IFRS 8 and AS 17, excepting some terminologies and some minor differences which are given below:

- Transitional provisions have not been given in Ind AS 108 but IFRS 8 specifically mentions that particular provision. Although all transitional provisions have been included in Ind AS 101 corresponding to IFRS 1.
- Some different terminologies have been used like ‘Balance Sheet’, Statement of Profit or Loss instead of ‘Statement of Financial Position’ and ‘Statement of Comprehensive Income’ respectively.

4.11.5 Prospective Impact of Ind AS 108 on Segment Reporting Practices in India

- It is likely that in many cases identified segment will be the same even after implementation of Ind AS 108 as risk-return is the main thing behind any economic decision. That means if the CODM practically has taken this risk-return approach for taking their decisions, then obviously the identified operating segments should be the same as before.
- There may be diversity between the amounts disclosed in the segment report with those reflected in the entity’s primary financial statement as Ind AS allows to measure segment information in line with the internal report.
- Diversity in reporting again may be increased due to non-defining the terms like segment Revenue, Segment Expenses, Segment Result, Segment Assets and Segment Liabilities.
- Although it allows to use the same basis of measurement, which has been used for internal report to measure the segment information; but for maintaining the understandability, it has been asked to disclose an explanation of how the segment information has been measured and also to give a reconciliation for these information with that of the entity.
• Although Ind AS 108 allows to identify operating segments based on internal report and not prescribed to identify the segment as business segment or geographical segment; but it has asked to give descriptive information about how the entity has determined its operating segments.

• Additional line items such as interest revenue and interest expenses are required to be disclosed if such information provided in internal report to the CODM.

• In contrast to AS 17, Ind AS 108 required to disclose some specified information regarding the customer who contribute 10% or more of the entity’s total revenue, regardless of whether that information is used by management in their operating decision making report.

• Ind AS 108 requires the information about products or services and the countries in which it earns revenue and holds assets which leads to a detailed reporting.

4.11.6 Evaluation

Ind AS 108 introduces the management approach to segment reporting in India. This approach is unfamiliar to many companies and managers will have to think carefully about implication of the existing management structure. Due to this management discretion, the comparability of information across entities will be lost. It does not define measurement of segment revenue, expenses, result, assets and liabilities. That’s why the management can measure the various segment disclosures in his/her own way which may not be consistent enough. There is less direct focus on products or geographical factors which are most useful segment information for investors, unless they are used for internal reporting; this is also a great cause of diversity in reporting.
The information available internally in companies is often more informative than information reported in the financial reports. So when the segment reporting should be based on internal reporting practice that leads to high competitive disadvantages. It will be harder to justify disclosing segment information particularly for the single segment entities. When entity use their own measures in the segment reporting, it might be hard to understand and it leads to deprive overall quality of the information.

A risk under this management approach is that, companies may be continued to misuse the aggregation criteria to give less detailed segment disclosures. As a result disclosed segment information may be insufficient to the users for taking any economic decision.

Several arguments against the management approach have been put forward. But question may arise on the validity of such criticisms against this management approach. So an endeavor is now be made to examine the validity of these major criticisms. These forgoing criticisms may be countered if we consider some unique prosperity of this new approach. Ind AS 108 focuses on the information that management believes to be important and should therefore, provide more meaningful segment information. The standard has not specified any defined measure of profit and loss but allowed the use of non-Ind AS compliant data, if this is used in internal reports; this would lead to less competitive disadvantages. It is exactly in line of IFRS 8 for ensuring the global harmonization, so the reporting entities do not have to prepare more than one set of information for different regions. The analytical value of segment information will be greater as it is consistent with internal management report of the entity. Segment disclosure following the management approach in financial reports does not result in significant extra efforts, time and cost as it has
already been used in the internal reports. The observation of segment information through the eye of management will be useful to investors, creditors and other users of financial statements, as it will highlight the risk and opportunity measures in a timely basis. The management approach provides an additional insight about the company to financial statements users. However, it hampers comparability criteria of financial statements among the entities to some extent, but it insists the unique and creative reporting, that’s why this might be given less significance. Like any other new things, although the management may has to spend some extra efforts for implementing this new approach in segment reporting but it ensures a series of promising prospects.

In this respect, it is quite important to mention the observations of IASB regarding the management approach. The IASB believes that adopting the management approach will improve financial reporting. First, it allows users of financial statements to review the operation through the eye of management. Secondly, as the information is already used internally by management, there are few costs for preparers and the information will be available on a timely basis. This means that the internal reporting of segment information might be extended beyond the current requirements. Finally, according to the chairman of IASB Sir David Tweedie “…. It therefore, gives users of financial statements the opportunity to query how the entity is controlled by its senior decision maker. It does this by enabling entities to provide timely segment information at little extra cost…. “.

Generally accepted accounting principles allow management wide latitude in the choice of accounting policies. Given adopted accounting principles, management faces discretionary accounting decisions, which are heavily oriented to a judgment process of determining amounts, rates and timing. Discretion in particular is
recognized in the translation of the management accounts (internal report) to the financial accounts (annual reports). In this age of convergence, the introduction of Ind AS 108 will be welcome particularly for realizing the advantages such as cost of capital, saving in cost of preparation of financial statements and increasing opportunities for investors or analysts. Moreover, with a view to promoting greater convergence, like other countries, India’s apex standard setting body ICAI has rightly revised of its early standards on segment reporting AS 17 and issued Ind AS 108 at par with the IASB requirements. The fundamental change, using the management approach should enable the entity to gather information in a relatively easier manner as those information should ideally be available internally. While the reporting under Ind AS 108 insists the creativity in accounting; at the same time it also enables the users to view the different perspective including future prospects of the operating segments through the eye of management. With this modern approach this standard would ensure accurate, relevant and adequate disclosures of segment information.

4.12 CONCLUSION

With vigorous globalization, the numbers of multinational entities are increasing and eventually foreign counterparts do not understand the financial statements complied with Indian GAAP. To meet the needs of users and to attract the foreign investors, convergence with IFRSs gains momentum and India has rightly decided to converge in near future. Looking at the present world reporting landscape, convergence with IFRSs is strongly recommended in contrast to the adoption as it gives some time to prepare for implementation. To achieve the targeted economic growth by availing foreign capital it is very urgent to implement Ind ASs soon. India must signal the market, it will not breach its commitment to converge. The transition to Ind ASs will not only change the reporting process and its contents, but also the
entity wide implications of people, places and system. Even though there is a common belief that there is no such differences between Indian GAAP and IFRSs, as the former is inspired by the later; but this does not mean that the efforts required to converge would be minimal. That’s why the first time transition may take some extra time and efforts but a structural approach can significantly reduce these extra efforts. Transition process to IFRSs in India is going to be very challenging but at the same time could also be rewarding. Looking at the risk of convergence, it could not escape from the process of convergence as it is an acute need of the hour to keep the steady growth of the economy. All stakeholders are required to change their mind set to take it positively and accept the same very urgently to enjoy a better growth of economy. It is hoped that, uncertainty about the implementation date of Ind AS for every sector will be over early and entity should avail of this facility in the right spirit.