CHAPTER – 1
BUSINESS REPORTING IN INDIA

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1.1 INTRODUCTION:

In today’s business world we need to record, analyze and report proper information about all day-to-day transaction. If we do not maintain all records properly so it is possible that we lost many opportunities so it is necessary that we should record all transactions and so we need proper system of “Business Reporting.” Business reporting provides valuable any vital market news, information and technical data relating to industry.

A report of recent business events such as business and environment, trade, technology, manufacturing, stock market, commodity markets, market funds, banking and other financial institutions, merger & acquisitions, human resources, trade unions, employee-employer relationship, technology & technological developments, consumers affairs and consumer protection, real estate business and corporate laws, international business etc, keeping in minds and the impact of all these on timeliness, prominence, novelty, conflict, proximity may be termed as Business Reporting.

In today’s competitive market a businessman does not deal in any particular product or market but it want to serve in multiple products / services and operates in different geographical areas. So it can cover wide area and face cut-thought competition when a business firm function in multiple products / service and in different market it need to properly anticipate and analyze risks and opportunities. All these information must be recorded in proper reports, which is known as segment reporting.

The main aim of segment reporting is to properly identify & analyze business opportunities and risks. For the fulfillment of basic need of business reporting institute of charters accountant of India gives status as accounting standard.

Accounting as a language of business communicates the financial results of an enterprise to various interested parties by means of financial statements which exhibit a ‘True & Fair’ picture of it’s state of affairs. A business firm deals with various transaction with various persons so it need
to follow proper standards which everyone know any understand it. For that ICAI provides accounting standards.

These accounting standards are written documents, statements and guidelines relating to all business transactions like establishment, reorganization, measurement, analyzes of all business transactions. Accounting standards are use as one of the main compulsory regulatory mechanisms for preparation and external audit of general – purpose of financial reports in all countries in the world.

Today business operations are not up to boundaries of a one country but it cross the boundaries of one country and function globally / internationally. For that business does not fulfill all standards of one country but they has to fulfill all standards of different countries in which it function. There is always big conflict arise in applicability of internationalized accounting standards should all enterprises large or small in all countries of a given economy subject to the same standards? Similarly, should highly develops countries be subject to the same accounting standards as less develops or developing countries? So for all these questions internationalization of accounting standards is best solution among all conflicts.

If business firm follows all internationalization accounting standard it can anticipate business opportunities and harmonize its business transactions with other economy transactions. So for the achievement of overall business goals and to reduce government interaction each & every business firm needs proper system of reporting transaction with well define accounting standards.

1.2 BUSINESS REPORTING:
1.2.1 INTRODUCTION:

Business reporting provides valuable and vital market news and information, and technical data relating to industry. A business report may be defined as a systematic process of providing the data needed for decision-making in a form, which aids understanding and stimulated action. A business
report should be simple precise, specific and accurate. Report should contain up-to-date information.

It should be timely, definite, and economical and suit to the endorser requirements. The focus should be on process and system rather than person.

1.2.2 DEFINITIONS:

- **According to James K. Gentry:**
  “Business reporting is improving and improved the most of all news specialization in the last decade in the overall news mix, business of economic section in newspapers have gained space and time.”

- **According to Marshal Loeb:**
  “Relevant in that they deal in subjects that directly and immediately affect the reader’s life: his or her career, company, family, community, and country, urgent in that the reader just can not put your magazine or newspaper or newsletter down, but feels almost irresistibly drawn to read it immediately.”

- **According to Gentry:**
  “Business reporting is going to continue to be the most complicated reporting assignment that’s possible.”

1.2.3 FEATURES OF BUSINESS REPORTING:

- Business reporting is a specialized branch of journalism.
- Business reporting provides definitive consistent coverage and valuable information to meet the specific needs of the readers in particulars.
- Business reporting is technical in nature in the sense that the report is based on in-depth research.
- Business reporting is highly analytical in nature.
- It calls for specialized, expert and professional knowledge of the subject.

The business reporting serves the informed readers by providing news, which varies from publication to publication but includes some of the following:

- News of government legislation and regulations.
- Sales figures and trends in the market.
Activities of the joint stock companies in the field.
Social, political, religious forces which are external to the industry, and their impact on the industry and business.
Business reports on market leaders.
Scientific researches and technical innovations.
Information about new products, new market, etc.

Business reports through case studies and site stories pass on to the readers the real experience of such enterprises. Business reports keep an eye on the industry and thus act as watchdog. Business report highlights trends and emerging changes in business. Business reports help in the creation of new market.

1.2.4 TYPES OF BUSINESS REPORTING & ITS FEATURES:

Business has become big news. Most newspapers have daily section/page on business. The types of business reports or stories can be as broad as the length & breadth of business itself. A cursory look at some of the daily newspapers reveals that the major beats in the newspapers published in North India are: Commodity Market, Share Market, Bullion Market, Job Market, Company News, changes in the Business Laws, Mutual Funds, Inflation, Banking and Financial Institution, Frauds, Chairman’s Speeches, Corporate Profitability, Advertising, New Issue Market, Foreign Exchange, etc. Many reporters cover several of these subjects. Among the key beats are:

| 1. Investor | 4. Government |
| 2. Money lender | 5. Society |
| 3. Labor/worker |

1.3 INTERNATIONAL ACCOUNTING STANDARDS:

1.3.1 INTRODUCTION:

Internationalization of accounting standards is an endeavor of conflicts. Since in some countries accounting standards are established politically and in others through private professional mechanisms, there is the question of how international standards should be derived. Also, there is a question about appropriate underlying concepts. For instance,
the concept of internationalization utilized by the agencies of the European Economic Community (EEC) is one of “harmonization.” This means that different standards might prevail in individual countries, so long as they are “in harmony” with each other meaning that they should not logically conflict.

1.3.2 THE INTERNATIONAL ACCOUNTING STANDARDS BOARD (IASB):

The International Accounting Standards Board (IASB), based in London, began operations in 2001. Contributions collected by its Trustees, the IASC Foundation, from the major accounting firms, private financial institutions and industrial companies throughout the world, central and development banks, and other international and professional organisations fund the operations of the IASB.

The 14 Board members are drawn from nine countries and have wide international experience and a variety of functional backgrounds. The IASB is committed to developing, in the public interest, a single set of high quality, global accounting standards that require transparent and comparable information in general purpose financial statements. In pursuit of this objective, the IASB co-operates with national accounting standard-setters to achieve convergence in accounting standards around the world.

1.3.3 ADVANTAGES OF INTERNATIONAL STANDARDS:

At the Twelfth International Congress of Accountants in Mexico City in October 1982, John N. Turner, former minister of finance, Minister of Justice and Attorney-General of Canada, and first chairman of the Interim Committee of the International Monetary fund, cited these advantages of “universally applicable standards”:

A first advantage of harmonization would be the time and money saved that is currently spent to consolidate divergent financial information when more than one set of reports is required to comply with different national laws or practice.

A second improvement from harmonization would be the tendency for accounting standards throughout the world to be raised to the highest
possible level and to the consistent with local economic, legal and social conditions.

1.3.4 LIST OF INTERNATIONAL ACCOUNTING STANDARDS:

**Table No. 1.3.4.1: International Accounting Standards:**

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<thead>
<tr>
<th>NO</th>
<th>Title</th>
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<th>Effective</th>
<th>Fully withdrawn</th>
<th>Superseded by</th>
</tr>
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<td>IAS 37</td>
<td>Provisions, Contingent Liabilities and Contingent Assets</td>
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<td>January 1, 2003</td>
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1.4 **INDIAN ACCOUNTING STANDARDS:**

1.4.1 **NEED FOR ACCOUNTING STANDARDS:**

Accounting as a “language of business” communicates the financial result of an enterprise to various interested parties by means of financial statements, which have to exhibit a ‘true and fair’ view of its state of affairs. The accounting standards deal mainly with the system of financial measurement and disclosures used in producing a set of fairly presented financial statements. Accounting standards are something less than the law but more than professional guidelines.
1.4.2 WHAT IS ACCOUNTING STANDARDS?

Accounting standards may be defined as an accepted conceptual framework to arrive at an authoritative statement of best accounting practice to be followed by the accountants in dealing with any monetary transactions.

Accounting standards can be broadly classified into following categories:
- Policy standard to deal with concepts and assumptions.
- Standards relating to financial statements format.
- Recognition of such standards to deal with measurement of financial events.
- Disclosure of the standards to enhance the usefulness of financial statements.

1.4.3 OBJECTIVE OF ACCOUNTING STANDARDS:

The principal objectives of setting accounting standards are:
- To narrow the areas of difference and variety in accounting practice
- To improve the quality of financial reporting
- To foster comparability of financial statements between various enterprises.

1.4.4 BENEFIT OF ACCOUNTING STANDARDS:

The benefits of accounting standards may be listed as follows.
- To improve the credibility and reliability of financial statements
- Benefits to Accountants and Auditors
- Determining Managerial Accountability
- Reform in Accounting Theory and Practice

1.4.5 TYPES OF ACCOUNTING STANDARDS:

Accounting standards may be as follows:
- Disclosure Standards
- Presentation Standards
- Content Standards
  - Disclosure
  - Specific
  - Conceptually
- Another
✔ Evolutionary and voluntary compliance standards
✔ Privately Set Standard
✔ Governmental Standards

1.4.6 PROCEDURE FOR ISSUING AN ACCOUNTING STANDARD:

The procedure for formulating and issuing accounting standard followed by the accounting standards board of the ICAI.

1.4.7 ACCOUNTING STANDARDS BOARD (ASB):

The institute of chartered accountants of India (ICAI) constituted the accounting standards board (ASB) on 21st April 1977, with a view to harmonies the diverse accounting policies & practices in use in India.

1.4.8 LIST OF INDIAN ACCOUNTING STANDARDS:

Table No. 1.4.8.1: Indian Accounting Standards:

<table>
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<tr>
<th>Number of the Accounting Standard (AS)</th>
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<td>AS 1</td>
<td>Disclosure of Accounting Policies</td>
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<td>AS 2 (Revised)</td>
<td>Valuation of Inventories</td>
<td>1 – 4 – 1999</td>
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<td>AS 3 (Revised)</td>
<td>Cash Flow Statement</td>
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<td>AS 7 (Revised)</td>
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<td>AS 8</td>
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<td>Financial Reporting of Interests in Joint Ventures</td>
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<td>Financial Instruments: Recognition and Measurement</td>
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Note 1: AS – 21, AS – 23 and AS – 27 (relating to consolidated financial statements) are required to be complied with by an enterprise if the enterprise, pursuant to the requirements of a statute / regulator or voluntarily, prepares and presents consolidated financial statements.

1.5 SEGMENT REPORTING:

1.5.1 SEGMENT REPORTING IN WORLD:

1) Overview of IAS 14:

IAS 14 Segment Reporting requires reporting of financial information by business or geographical area. It requires disclosures for 'primary' and 'secondary' segment reporting formats, with the primary format based on whether the entity's risks and returns are affected predominantly by the products and services it produces or by the fact that it operates in different geographical areas. IAS 14 was issued in August 1997, was applicable to annual periods beginning on or after 1 July 1998, and was superseded by IFRS 8 Operating Segments with effect from annual periods beginning on or after 1 January 2009.

2) History of IAS 14:

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<td>IAS 14 Reporting Financial Information by Segment</td>
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<td>1 January 1983</td>
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<td>December 1995</td>
<td>Exposure Draft E51 Reporting Financial Information by Segment</td>
</tr>
<tr>
<td>August 1997</td>
<td>IAS 14 Segment Reporting</td>
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<tr>
<td>1 July 1998</td>
<td>Effective date of IAS 14 (1997)</td>
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<tr>
<td>30 November 2006</td>
<td>IAS 14 is superseded by IFRS 8 Operating Segments</td>
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<td>effective for annual periods beginning 1 January 2009</td>
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</table>
3) **Objective of IAS 14:**

The objective of IAS 14 (Revised 1997) is to establish principles for reporting financial information by line of business and by geographical area. It applies to entities whose equity or debt securities are publicly traded and to entities in the process of issuing securities to the public. In addition, any entity voluntarily providing segment information should comply with the requirements of the Standard.

4) **Applicability:**

IAS 14 must be applied by entities whose debt or equity securities are publicly traded and those in the process of issuing such securities in public securities markets. [IAS 14.3]

If an entity that is not publicly traded chooses to report segment information and claims that its financial statements conform to IFRSs, then it must follow IAS 14 in full. [IAS 14.5]

Segment information need not be presented in the separate financial statements of a (a) parent, (b) subsidiary, (c) equity method associate, or (d) equity method joint venture that are presented in the same report as the consolidated statements. [IAS 14.6-7]

5) **Key definitions:**

- **Business segment:** a component of an entity that (a) provides a single product or service or a group of related products and services and (b) that is subject to risks and returns that are different from those of other business segments. [IAS 14.9]

- **Geographical segment:** a component of an entity that (a) provides products and services within a particular economic environment and (b) that is subject to risks and returns that are different from those of components operating in other economic environments. [IAS 14.9]

- **Reportable segment:** a business segment or geographical segment for which IAS 14 requires segment information to be reported. [IAS 14.9]

- **Segment revenue:** revenue, including intersegment revenue, that is directly attributable or reasonably allocable to a segment. Includes interest and dividend income and related securities gains only if the segment is a financial segment (bank, insurance company, etc.). [IAS 14.16]
- **Segment expenses:** expenses, including expenses relating to intersegment transactions, that (a) result from operating activities and (b) are directly attributable or reasonably allocable to a segment. Includes interest expense and related securities losses only if the segment is a financial segment (bank, insurance company, etc.). Segment expenses do not include:
  - interest
  - losses on sales of investments or debt extinguishments
  - losses on investments accounted for by the equity method
  - income taxes
  - general corporate administrative and head-office expenses that relate to the entity as a whole [IAS 14.16]

- **Segment result:** segment revenue minus segment expenses, before deducting minority interest. [IAS 14.16]

- **Segment assets and segment liabilities:** those operating assets (liabilities) that is directly attributable or reasonably allocable to a segment. [IAS 14.16]

**6) Identifying business and geographical segments:**

An entity must look to its organisational structure and internal reporting system to identify reportable segments. In particular, IAS 14 presumes that segmentation in internal financial reports prepared for the board of directors and chief executive officer should normally determine segments for external financial reporting purposes. Only if internal segments are not along either product/service or geographical lines is further disaggregation appropriate. [IAS 14.26]

Geographical segments may be based either on where the entity's assets are located or on where its customers are located. [IAS 14.14] Whichever basis is used, several items of data must be presented on the other basis if significantly different. [IAS 14.71-72]

**7) Primary and secondary segments:**

For most entities one basis of segmentation is primary and the other is secondary, with considerably less disclosure required for secondary segments. The entity should determine whether business or geographical segments are to be used for its primary segment reporting format based on whether the entity's
risks and returns are affected predominantly by the products and services it produces or by the fact that it operates in different geographical areas. The basis for identification of the predominant source and nature of risks and differing rates of return facing the entity will usually be the entity's internal organisational and management structure and its system of internal financial reporting to senior management. [IAS 14.26-27]

8) **Which segments are reportable?**

The entity's reportable segments are its business and geographical segments for which a majority of their revenue is earned from sales to external customers and for which: [IAS 14.35]

- Revenue from sales to external customers and from transactions with other segments is 10% or more of the total revenue, external and internal, of all segments; or
- Segment result, whether profit or loss, is 10% or more the combined result of all segments in profit or the combined result of all segments in loss, whichever is greater in absolute amount; or
- Assets are 10% or more of the total assets of all segments.

Segments deemed too small for separate reporting may be combined with each other, if related, but they may not be combined with other significant segments for which information is reported internally.

Alternatively, they may be separately reported. If neither combined nor separately reported, they must be included as an unallocated reconciling item. [IAS 14.36]

If total external revenue attributable to reportable segments identified using the 10% thresholds outlined above is less than 75% of the total consolidated or entity revenue, additional segments should be identified as reportable segments until at least 75% of total consolidated or entity revenue is included in reportable segments. [IAS 14.37]

Vertically integrated segments (those that earn a majority of their revenue from intersegment transactions) may be, but need not be, reportable segments. [IAS 14.39] If not separately reported, the selling segment is combined with the buying segment. [IAS 14.41]
IAS 14.42-43 contain special rules for identifying reportable segments in the years in which a segment reaches or loses 10% significance.

9) **What accounting policies should a segment follow?:**

Segment accounting policies must be the same as those used in the consolidated financial statements. [IAS 14.44] If assets used jointly by two or more segments are allocated to segments, the related revenue and expenses must also be allocated. [IAS 14.47]

10) **What must be disclosed?:**

IAS 14 has detailed guidance as to which items of revenue and expense are included in segment revenue and segment expense. All companies will report a standardised measure of segment result – basically operating profit before interest, taxes, and head office expenses. For an entity's primary segments, revised IAS 14 requires disclosure of: [IAS 14.51-67]

- Sales Revenue (Distinguishing Between External And Intersegment)
- Result
- Assets
- The Basis Of Intersegment Pricing
- Liabilities
- Capital Additions
- Depreciation And Amortisation
- Significant Unusual Items
- Non-Cash Expenses Other Than Depreciation
- Equity Method Income

Segment revenue includes "sales" from one segment to another. Under IAS 14, these intersegment transfers must be measured on the basis that the entity actually used to price the transfers. [IAS 14.75]

For secondary segments, disclose: [IAS 14.69-72]

- Revenue
- Assets
- Capital Additions

Other disclosure matters addressed in IAS 14:

- Disclosure is required of external revenue for a segment that is not deemed a reportable segment because a majority of its sales are intersegment sales but
nonetheless its external sales are 10% or more of consolidated revenue. [IAS 14.74]

- Special disclosures are required for changes in segment accounting policies. [IAS 14.76]
- Where there has been a change in the identification of segments, prior year information should be restated. If this is not practicable, segment data should be reported for both the old and new bases of segmentation in the year of change. [IAS 14.76]
- Disclosure is required of the types of products and services included in each reported business segment and of the composition of each reported geographical segment, both primary and secondary. [IAS 14.81]

An entity must present a reconciliation between information reported for segments and consolidated information. At a minimum: [IAS 14.67]

- segment revenue should be reconciled to consolidated revenue
- segment result should be reconciled to a comparable measure of consolidated operating profit or loss and consolidated net profit or loss
- segment assets should be reconciled to entity assets
- segment liabilities should be reconciled to entity liabilities.

1.5.2 SEGMENT REPORTING IN INDIA:

1) Introduction:

Accounting standards 17, ‘Segment Reporting’, issued by the council of the Institute of chartered Accountants of India. This standard comes into effect in respect of accounting periods commencing on or after 1.4.2001 and is mandatory in nature, from that date, in respect of the following:

(i) Enterprises whose equity or debt securities are listed on a recognized stock exchange in India and enterprises that are in the process of issuing equity or debt securities that will be listed on a recognized stock exchange in India as evidenced by the board of director’s resolution in this regard.

(ii) All other commercial, industrial and business reporting enterprises, whose turnover for the accounting period exceeds Rs. 50 crores.
2) **Applicability of Accounting Standard:**

Applicable to Level I Enterprises. Not applicable to Level II and Level III enterprises in their entirely.

- **List of Level I Enterprises:**
  1. Enterprises whose equity or debt securities are listed whether in India or outside India.
  2. Enterprises which are in the process of listing their equity or debt securities as evidenced by the Board resolution in this regard.
  3. Banks including co-operative banks.
  4. Financial institutions
  5. Enterprises carrying insurance business
  6. Enterprises whose turnover exceeds Rs. 50 crores.
  7. Enterprises having borrowings in excess of Rs. 10 crores at any time during the accounting period.
  8. Holding companies and subsidiaries of enterprises falling under any one of the categories mentioned above.

- **List of Level II Enterprises:**
  1. Enterprises whose turnover exceeds Rs. 40 lakhs but does not exceed Rs. 50 crores.
  2. Enterprises having borrowings in excess of Rs. 1 crore but not in excess of Rs. 10 crores at any time during the accounting period.
  3. Holding companies and subsidiaries of enterprises falling under any one of the categories mentioned above.

- **List of Level III Enterprises:**
  Enterprises which are not covered under Level I, and Level II.

3) **Main gist of accounting standard:**

In view of the complexities of types of businesses, the aggregated financial information is not adequate to evaluate a company’s and management’s operating and financial strategies with regard to specific or distinct line of activities i.e. segment.

As an enterprise deals in multiproduct/multiple services and operates in different geographical areas, the degree of risk and return also varies.
considerably. Segment information will enable the users to understand better and also to assess the underlying risks and returns of an enterprise.

Initially the segment needs to be broadly classified into either ‘Business Segments’ or ‘Geographical Segments’ before being slotted as ‘Primary’ or ‘Secondary’ for reporting in the financial statements as per AS-17.

4) **Objective of AS-17:**

The objective of this statements is to establish principles for reporting financial information, about the different types of products and services an enterprises and the different geographical areas in which it operators. Such information helps users of financial statements.

- Better understand the performance of the enterprise.
- Better assess the risks and returns of the enterprise, and
- Make more informed judgments about the enterprise as a whole.

5) **Scope of AS-17:**

- This statement should be applied in presenting general-purpose financial statements.
- An enterprise should comply with the requirements of this statement fully and not selectively.
- 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. In the context of reporting of segment information in consolidated financial statements, the references in this statement to any financial statement items should construed to be the relevant item as appearing in the consolidated financial statements.

6) **Benefit of AS-17:**

Information reported in business enterprises financial statements constitutes an important input to financial statement analysis, which is generally made in investment and lending decisions. Investors and lenders analyze information relating to a business enterprise to evaluate risk and return associated with an investment or lending alternative. Financial Accounting Standards Board of the USA Stats.
“The purpose of the information is to assist financial statement users in analyzing and understanding the enterprise’s financial statements by permitting better assessment of the enterprise’s past performance and future prospects.”

Information about the different types of product and services an enterprise produces and the different geographical areas in which it operates would be useful in the following respects:

- **Allocation of Resources:**

  Segment information, if disclosed to parties outside the enterprise, would play an important role in improving the allocation of scarce resources in an economy. The disclosure of information removes the imperfection in the investment market and causes the market to function properly.

- **Investment and Credit Decisions:**

  It is widely recognized by authors in accounting and finance, accountants and accounting bodies that segment information has great usefulness in investment and credit decisions. Segment information enhances investor’s ability to understand a diversified company and to make accurate and useful forecast about the profitability of segments as well as the company as a whole.

- **Equilibrium in Share Prices:**

  The segment disclosures would tend to adjust the prices of company shares according to information released.

- **True and Fair View:**

  An important provision of the companies Act in India is to reveal a true and fair view of the results of operation and financial position. Segment disclosures may be greatly required in terms of the “true and fair” criterion established in the companies Act.

  The above mentioned benefits associated with segment disclosure point out that segment reporting is desirable in published annual reports of diversified companies to present true and fair results of their business activities, and to help investors in making proper investment decisions.
7) **Key Definitions:**

- **Business Segment:**
  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 or services and that is subject to risks and returns that are different from those of other business segment. Factors that should be considered in determining whether products or services are related include:
  - The nature of the product or services,
  - The nature of the production process,
  - The type or class of customers for the product or services
  - The methods used to distribute the products or provide the services, and
  - If applicable, the nature of the regulatory environment, for example, banking, insurance or public utilities.

- **Geographical Segment:**
  A geographical segment is 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. Factors that should be considered in identifying geographical segments include:
  - Similarity of economic and political conditions,
  - Relationships between operations in different geographical area,
  - Proximity of operation
  - Special risks associated with operations in a particular area;
  - Exchange control regulations, and
  - The underlying currency risks.

- **Reportable Segment:**
  A reportable segment is a business segment or a geographical segment identified on the basis of forgoing definitions for which segment information is required to be disclosed by this statement.
- **Enterprise Revenue:**
  Enterprise revenue from sales to external customers as reported in the statements of profit and loss.

- **Segment Revenue:**
  Segment revenue is the aggregate of
  - The portion of enterprise revenue that is directly attributable to a segment.
  - The relevant portion of enterprise revenue that can be allocated on a reasonable basis to a segment, and
  - Revenue from transactions with other segments of the enterprise.

- **Segment Expenses:**
  **Segment expenses include the following:**
  - The expenses resulting from the operating activities of a segment that is directly attributable to the segment.
  - The relevant portion of enterprise expenses that can be allocated and a reasonable basis to the segment.
  - It includes expenses relating to transactions with other segments of the enterprise.

  **A segment expense does not include the following:**
  - Extraordinary items as defined in As-5 revised
  - Interest expenses
  - Interest incurred on advances from other segments.
  - Loss on sale of investments.
  - Loss on write-off of bad debts.
  - Income-tax
  - General administration and Head office expenses
  - Other expenses at enterprise level

- **Segment Assets:**
  - Segments assets are 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 segments on a reasonable basis.
If the segments result of a segment includes interest or dividend income, its segments assets include the related receivable, loans, investments or other interest or dividend generating assets.

- Segment assets do not include income tax assets.
- Segment assets are determined after deducting related allowances / provisions that are reported as direct offsets in the balance sheet of the enterprise.

### Segment Liabilities:

Segment liabilities are those operating liabilities that either are directly attributable to the segment or can be allocated to the segments on a reasonable basis. If the segment result of a segment includes interest expenses, its segment liabilities include the related interest-bearing liabilities.

### Segment Result:

Segment result is segment revenue less segment expenses.

#### 8) Bases of Segmentation:

An important problem in segment reporting is how to sub-divide a diversified company into reporting units or how to define business segment for external reporting purposes. Discussion of segment reporting for diversified companies in accounting and finance literature has been marked by great deal of confusion over identification and definition of what constitutes a segment. A diversified company, generally speaking, can be dissected according to one or more of the following bases.

- **Organizational Division:**

  The term ‘division’ has different companies. Most commonly the term ‘division’ refers to the use of company operating structure or organization charts as a basis for segmenting operations into reporting units. The accounting systems in such revenues by managerial responsibilities represented by divisions and their sub-units. Division in some manufacturing companies also delineated the various industries product lines or geographical areas in which the enterprise operates. Different products, i.e. products with unlike characteristics, are as signed to a given division for a variety of reasons.
such as physical contiguity of the operations, managerial competence, benefits from integrating or combining production or marking operations etc. under all circumstances, divisions are at best only approximations to those segments which are to be selected for reporting to the external users.

The divisions as basis of segmentation are considered an appropriate base for segmentation for external financial reporting purposes because it is sometimes used for internal reporting and managerial control also. Organizational lines define areas of managerial responsibility, planning and control. Therefore, segmentation on such basis meets the information needs of investors and creditors, however organizational division is criticized on some grounds as a basis of segmentation.

- Firstly, information, which is appropriate for managerial planning, control and decision-making may not necessarily be useful to investors and creditors. The investors generally are not aware about the operations of a company’s various divisions or units. Investors tend to understand the relevance of information if it is provided by industry, product lines or markets.

- Secondly a company could change its organizational structure, which would require a change in definition of a segment.

- **Basis of Business Activities:**

  Business activities imply the segmentation can be done broadly classified as under.

  - **(a) Broad Industry Grouping:**

    An industry is usually regarded as a broad group if related product or services as reporting units. For examples include textile mill products, paper and allied product, oil refining, shipbuilding, agriculture product.

    There are circumstances where it may appear that an enterprise has a number of industry segments but where industry segmentation could be meaningless or more misleading than helpful. The following examples of such situations are given.

    - Where lines of business rely on common manufacturing facilities and could not be economically carried on without each other.
➢ Where one line of business is a by-product of the main line of business and would not exist but for that main line of business.
➢ Where a company operates one lines of business primarily to support or promote its other line of business.
➢ Where lines of business rely on common sales or distribution outlets and either could not be economically carried on without each other or alternative outlets could not be found.

(b) Lines-of-Business or a Product Line:

A line of business or a product line is defined on the basis of the end products produced. It is generally considered to be a relatively narrow group of related products, whereas an industry constitutes a broader grouping.

The distinction between segmentation by industry and segmentation by product lines is often difficult to draw and at times the two may be congruent. Industry segmentation and product line segmentation both have problems, which are similar in nature. A drawback to the use of industry or product line as a basis of segmentation is that innovations, obsolescence, fluctuations in demand influence greatly the basis of segmentation i.e. industry and product lines.

(c) Individual Products and Services:

Segmentation base may imply individual products and services using narrowly defined groups or categories of product manufactured or sold and services rendered as reporting units. An example would be to disaggregate office furniture into the reporting units: chair, sofas, desks, stools, filing cabinets and benches, or oil refining as one industry group to be disaggregated as the following reporting units: refined fuels, oils, grease, etc.

Segmentation on the basis of individual product would prove useful in making predictions and analysis of a company’s product prospects and risk element. However, this segmentation basis has a drawback in that no suitable classification of products and services is available. A comprehensive working of figures is needed to produce
the data. Since detailed disclosure is provided certain companies could suffer a high level of competitive damage.

Market Structure:

Market structure is considered by some as a possible solution to the problem of defining segments of diversified companies on the premise that different markets have different degree of risk attributed to them, e.g., both risk and profitability can be affected by whether the firm supplies manufactures, middlemen or consumers and whether there is a high proportion of sales to government bodies, to particular industries, or to particular company groups. Information for different markets is valuable to users in determining the future growth and stability of the company.

Market basis of segmentation, however, does not process readily available data in the form needed to make the necessary segmental disclosure some more points are mentioned here against market segmentation.

- Segmentation by market has problems in determining profits by customers cost allocating among the different markets may be highly complex confusing and unreliable.
- The marketwise data may prove harmful to the reporting company.

Geographical Segments:

Geographical segment is generally proposed in term of (i) foreign and (ii) domestic segmentation. It is assumed that segmentation on the basis of geographical area reflects differing prospects for growth rates of profitability and degrees of risk in various parts of the would and perhaps even in various parts of the home country.

Foreign geographical areas are individual countries or groups of countries as may be found suitable in an enterprises particular circumstances. Foreign geographical segments generate revenue either from sales to unaffiliated customers or from inter-segment sales or transfers between geographical areas. An enterprise’s domestic operations are regarded a separate geographical segment.

Domestic area includes those revenue producing operations of the enterprise located in the home country that generate revenue either from sales to unaffiliated customers or from inter segments sales or transfers between
geographical areas. As compared to domestic operations, operations in foreign geographical areas and sales to foreign market may involve greater risk due to foreign government instability, exchange rate fluctuations, changes in industrial policy of the government, competition in international business, political decisions protectionism, etc.

9) **Identifying Reportable Segments:**

A reportable segment is a business segment or geographical segments identified on the basis given below:

- **Primary and Secondary Segment Reporting Formats.**
  - The dominant source and nature of risks and returns of an enterprise should govern whether its primary segment reporting format will be business segments or geographical segments. 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.
  - Internal organization and management's structure of an enterprise and its system of internal financial reporting to the board of directors and the chief executive officer should normally be the basis for identifying the predominant source and nature of risks and differing rates of return of the enterprise and therefore, for determining which reporting format is primary and which is secondary, except as provided in the following matter.
  - If risks and returns of an enterprise are strongly affected both by differences in the products and services it produces and by differences in the geographical areas in which it operates, as evidenced by a ‘matrix approach’ to managing the company and to reporting internally to the board of directors and the chief executive officers, then the enterprise should use business segments as its primary segment reporting format and geographical segments as its secondary format, and
If internal organization and management structure of an enterprise and its system of internal financial reporting to the board of directors and the chief executive officer are based neither on individual products or services or groups of related products/services nor on geographical areas the directors and managements of the enterprise should determine whether the risks and returns of the enterprise are related more to the products and services it produces or to the geographical areas in which it operates and should, accordingly, choose business segments or geographical segments as the primary segment reporting format of the enterprise, with the often as its secondary reporting format.

**Business and Geographical Segments:**

Business and geographical segments of an enterprise for external reporting purposes should be those organizational units for which information is reported to the board of directors and to the chief executive officer for the purpose of evaluating the unit’s performance and for making decisions about future allocations of resources.

If internal organizational and managements structure of an enterprise and its system of internal financial reporting to the board of directors and the chief executive officer are based neither on individual products or services or groups of related products/services nor on geographical areas with the other as its secondary reporting format. In that cases, the directors and management of the enterprise should determine its business segments and geographical segments for external reporting purposes based on the factors in the definitions of business segment and geographical segment rather than on the basis of its system of internal financial reporting to the board of directors and chief executives officer, consistent with the following:
A) If one or more of the segments reported internally to the directors and management is a business segment or a geographical segment based on the factor in the definitions of business and geographical segment but other are not applied only to those internal segments that do not meet that definitions.

B) For those segments reported internally to the directors and management that do not satisfy the definitions of business and geographical segment, management of the enterprises should look to the next lower level of internal segmentation that reports information along product and services lines or geographical lines, as appropriate under the definition of business and geographical segments.

C) If such an internally reported lower-level segment meets the definition of business and geographical segment.

- **Reportable Segments:**
  - Business segment or geographical segment should be identified as a reportable segment if:
    - Its revenue from sales to external customers and from translations with other segments is 10% or more of the total revenue, external and internal of all segments or
    - Its segments 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
      - Is segment assets are 10% or more of the total assets of all segments.
  - A segment identified as a reportable segment in the immediately preceding period because it satisfied the relevant 10% share holders should continue to be a reportable segments for the current period not with standing that its revenue, result and assets all no longer meet the 10% share holders
  - If a segment is identified as reportable segment in the current period because it satisfies the relevant 10% share holders,
preceding period segment data that is presented for comparative purpose should, unless it is impracticable to do so, be restated to reflect the newly reportable segment as a separate, even if that segment did not satisfy the 10% shareholders in the preceding period.

- **Primary Reporting Format:**
  - An enterprise should disclose the following for each reportable segment:
    - Segment revenue, classified into segment revenue from sales to external customers and segment revenue from transaction with other segment.
    - Segment result
    - Total carrying amount of segment assets.
    - Total amount of segment liabilities.
    - Total cost incurred during the period to acquire segments assets that are expected to be used during more that one period.
    - Total amount of expenses included in the segment amortization in respect of segments assets for the period.
  - An enterprise should present reconciliation between the information disclosed for reportable segments and the aggregated information in the enterprise financial statements. In presenting the reconciliation segment revenue should be reconciled to enterprise revenue segment result should be reconciled to enterprise net profit or loss, segment assets should be reconciled to enterprise assets and segment liabilities should be reconciled to enterprise liabilities.

- **Secondary Segment Information:**
  - If primary format of an enterprise for reporting segment information is business segments, it should also report the following information.
    - 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 customer is 10% or more of & enterprise revenue.

✓ The total carrying amount of segments assets by geographical location of assets, for each geographical segment whose segment assets are 10% or more of the total assets of all geographical segments, and

✓ The total cost incurred during the period to acquire segments assets that are expected to be used during more than one period by geographical location of assets, for each geographical segment whose segments assets are 10% or more of the total assets of all geographical segments.

➢ If Primary format of an enterprise for reporting segment information is geographical segments that are based on location of it customers is different from the location of its assets, then enterprise should also report revenue from sales to external customers for each customer – based geographical segment whose revenue from sales to external customers is 10% or more of enterprise revenue.

☐ Other Disclosures:

➢ In measuring and reporting segment revenue from transactions with other segments, inter segment transfers should be measured on the basis that the 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.

➢ 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 change if it is reasonably determinable.
An enterprise should indicate the types of products and services included in each reported business segment and indicate the composition at each reported geographical segment, both primary and secondary, if not otherwise disclosed in the financial statements.

10) **Segment Disclosures in Segment Reports:**

Setting standards of segmented disclosure for diversified companies requires determining the relevant data to be disclosed and the methodology to be used in these disclosures. The following items of information have generally been found proposed for disclosure in published annual reports of individual diversified companies.

- **Segment Revenue:**
  
  Segment revenue is the aggregate of
  
  - The portion of enterprise revenue that is directly attributable to a segment.
  - The relevant portion of enterprise revenue that can be allocated on a reasonable basis to a segment and
  - Revenue from transaction with other segments of the enterprise.
  - Segment revenue does not include:

  (a) Extraordinary item as defined in As S, net profit or loss for the period, prior period items and changes in accounting policies.
  
  (b) Interest on dividend income including interest earned on advances or loans to other segments unless the operations of the segments are primarily of a financial nature and,
  
  (c) Gains on sales of investments or extinguishments of debt unless the operations of the segment are primary of finance nature.

- **Segment Expense:**

  Segment expanse is the aggregate of (a) the expense resulting from the operating activities of a segment that is directly attributable to the segment and (b) the relevant portion of enterprise expense that can be allocated on a reasonable basis to the segment.

  Segment expenses do not include:
(a) Extraordinary item as defined in AS 5, net profit or loss for the period, prior period items and changes in accounting policies.

(b) Interest expenses including interest incurred on advances or loans from other segments, unless the operations of the segment are primarily of a financial nature.

(c) Losses on sales of investment or loss on extinguishments of debt unless the operation of segment are primary of a financial nature.

(d) Income expenses and

(e) General administrative expenses, head office expenses and other expenses that arise at the enterprise level and relate the enterprise as a whole. However costs are sometimes incurred at the enterprise level on behalf of a segment such a costs are part of segment expenses if they relate to the operating activities of the segment and if they can be directly attributable or allocated to the segment on a reasonable basis.

Segment Profitability:

Generally there are two concept of segment profitability

- Segment contribution
- Segment net profit.

Segment contribution is calculated by deducting the expenses traceable to a segment from segment revenue. Segment contribution is also known as define profit since traceable expenses would include directly fixed cost as well as direct variable cost. Segment contribution approach can easily be followed with ease because there no need to make joint cost allocation to segment which are often considered time consuming and costly. The segment net profit approach considered all costs in the determination of operating profit and loss. The profit so determined is known as net income or operating profit. The segment net profit approach considered all cost and revenue whether they are direct or joint determining net income in this manner involves allocating joint revenue and joint costs.
 **Assets:**

The disclosure of segment assets gives an indication of the resources employed in generating segment operating result. The following assets are not included in segment assets:

- Assets maintained for general corporate purpose.
- Inter-segment loans and advances, for and
- Investment accounted for by the equity method.

 **Liabilities:**

A suggestion has emerged in corporate financial reporting that liabilities should be reported on a segments basis. It does not involve much difficulty about liabilities, which are directly traceable to segment. However, most business enterprises have common liabilities for the business as a whole.

 **Funds Flow:**

Rappaport and Lernet have advocated the production of a segmented funds statement for a number of reasons including the following:

- Users are concerned with liquidity and would be interested in knowing which segment are net sources of funds and which segments are not users.
- The disclosure of application of funds indicates to the shareholders management’s commitment to future prospects of various segments. An investor may or may not agree with management’s resource allocation plan, but the information allows the investor yet another basis for valuing the company’s shares.

 **Accounting policies:**

Investors improve their predictions when business enterprises disclose sufficient information regarding the impact of accounting changes on their earring. Accounting policy disclosures are mainly required relating to

- The basis of segmentation and
- The basis of accounting for inter-segment sales or transfers.
Inter Segment Transfers:

Total revenues, including inter segment transfers, should be disclosed in the segment income statements. The amount of such transfers should be shown either on a separate line or by footnote. Management should be free to determine the most appropriate method of pricing inter-segment transfers; the method used for pricing inter-segment transfer for internal reporting purpose will also usually be satisfactory in presenting the segment income statements. The methods of pricing inter-segment transfers should be disclosed in the segment reports.

Extraordinary Interests:

Unusual infrequently or extraordinary items should be attributed to segment whether a directly identifiable relationship exists. More importantly, some such items may be particular to a segment’s particular industry and thus relate to its degree of risk, growth and profitability in a meaningful fashion.

Minority Interests:

If all of the minority interest relates to a segment, minority interest should be deducted. If the minority interest relates to more than one segment, it should be treated as a common cost.

Segment Depreciation and Capital Expenditure:

These should be reported since they are likely to be useful and are easy to verify.

Reconciliation to the Consolidated Amounts:

It has been emphasized that segment data should be reconciled to the consolidated financial statements. There seems little doubt that reconciliation is desirable, it helps, among other things, to stress that the segment data are a disaggregating of the consolidated financial data and that the same accounting principles are used for both except that most inter-segment transactions eliminated from consolidated financial statements are reinstated and included in segment data.
Additional Information:

Disclosure of additional information about segments should be governed by the same precepts as disclosure of additional information about company wide activities. Among the items to be disclosed may be (a) the basis or bases of segmentation and the nature of operations of the various segments. This should include a listing a listing of the classes of products included in each segment with the most significant of those products listed first, (b) if common costs are allocated, the method of allocating than, (c) an explanation of the treatments of investments accounted for by the equity method.

Disclosure of Budget Data:

Budgetary data are useful in making investment decisions. Segmental disclosure of budgetary data would help investors and creditors make better decisions by improving their ability to evaluate the future potential of both the company and its management. It would also help government to make better estimate of investment levels, tax revenue, and guide them in policymaking decision in the areas of taxes and investments.

11) Segment Accounting Policies:

- Segmentation information should be prepared in conformity with the accounting policies adopted for preparing and presenting the financial statements of the enterprise as a whole.

- There is a presumption that the accounting policies that the directors and management of an enterprise have chosen to use in preparing the financial statements of the enterprise as a whole are those that the directors and managements believe are the most appropriate for external reporting purposes.

- This statement does not prohibit the disclosure of additional segment information that is prepared on a basis other than the accounting policies adopted for the enterprise financial statements, provided that the information is reported internally to the board of directors and the chief executive officers for purpose of making decisions about allocating recourses to the segment and assessing its performance.
Asset and liabilities that relate jointly to two or more segments should be allocated to segments if, and only if, their related revenue and expenses also are allocated to those segments.

12) Limitations of Segment Reporting:

The segmental reporting is criticized due to the following factors.

- The as 17 requires common costs to be apportioned to various segments on what the company’s management believes is a reasonable basis. In practice, there can be many categories of common costs the standard requires not to apportion such common costs if their apportionment is misleading. There is a small cause in making an artificial apportionment of such costs.

- It is very difficult to determine segment assets in the enterprise. Some assets are required for general purposes and are used by different segments. It is preferable to disclose them as a separate asset in the balance sheet of the concern and a footnote of this fact that several segments use these assets commonly may also be furnished.

- The segmental results are dependent on the transfer price fixed for inter segmental sales, which are always logically determined and established. The use of various transfer pricing methods will make the segmental information not comparable with similar disclosures by other enterprises.

- The standard requires disseminating the information about the segments, which may not be desirable from the view that divulgence of strategic information of the organization may be total and sometimes causing threat to survival of the enterprise.

13) Difficulties in Segment Reporting:

The difficulties involved in segment reporting are, truly speaking, and the problems of implementation. Some problems in implementing segment-reporting proposal are listed below:

- Basis of Segmentation:

  How a diversified company should be fractionalized for reporting purpose is a problem in segment reporting. Basically there are three questions involved in this vital problem. The greatest problem in segmenting a
diversified enterprise lies in the fact that diversification may exist in different forms such as industry, product lines individuals products market and geographical areas.

- **Allocation of Common Costs:**

  Common costs for the purpose of preparing segments reports need to be apportioned between different products. In some cases, common costs are apportioned on a basis, which may be classified as reasonable and reliable. If common cost were apportioned on a basis, which does not reflect a rational relationship, the basis being totally unjustified would produce inaccurate and unreliable segment figures.

- **Pricing of Inter-segment Transactions:**

  The segments in a diversified company may or may not have substantial amounts of inter-segment transaction. A diversified company having disparate segments may have very few inter-segment transactions. The market price for pricing inter-segment transactions may be more useful for external users as it provides accurate revenue data based on the transactions approach and the realization concept. No, single accounting method is available which may be classified as the most appropriate. However, segment reporting should not be with held simply because an appropriate method is not available.

- **Degree of Integration in Segment Activities:**

  A more significant argument against segmental reporting can be made where a firm is highly integrated. In the case of a vertically integrated firm, the recognition of external market for intermediate goods may not always be warranted.

  Where a firm’s operations are highly integrated and closely coordinated, then it seems unlikely that meaningful segmental reports will result. The problem is how to determine the critical points at which disaggregating no longer becomes justifiable, Or segments reports valuable.

- **Management Conservatism:**

  Another argument is that, where there is no regulatory provision to disclose segmental reports, voluntary disclosures are likely to be perceived by managements to be beneficial only in certain instances, for example, where
management believes that the company’s attractiveness to investors will be enhanced and the costs of finance reduced.

14) **Segment Disclosures in India:**

In Indian companies Act, 1956 has provision for disclosures of some segmental information in published annual reports such as sales, production, stocks, and purchases. Besides, information about licensed capacity and installed capacity for every product is also to be given in the annual reports. It has been found that many diversified Indian companies develop segment information of their managerial planning control and decision making such as income statements, sales or other gross revenue, cost of goods sold, gross margin on sales, segmented contribution margin, selling expenses, administrative expenses, segmented not profit before tax, segmented balance sheet.

Accounting Standard 17 is mandatory in respect of companies who are listed on the stock exchange or who are in process of issuing equity or debt securities and will be accordingly listed on the stock exchange in India. Therefore, Indian companies are giving segmental information in compliances with AS 17 Segment Reporting issued by ICAI.

### 1.6 IASB ISSUES CONVERGENCE STANDARD ON SEGMENT REPORTING:

The International Accounting Standards Board (IASB) today issued International Financial Reporting Standard (IFRS) 8 Operating Segments. The IFRS continues the IASB’s work in its joint short-term convergence project with the US Financial Accounting Standards Board (FASB) to reduce differences between IFRSs and US generally accepted accounting principles (GAAP).

IFRS 8 arises from the IASB’s comparison of International Accounting Standard (IAS) 14 Segment Reporting with the US standard SFAS 131 Disclosures about Segments of an Enterprise and Related Information. IFRS 8 replaces IAS 14 and aligns segment reporting with the requirements of SFAS 131.

The IFRS requires an entity to adopt the ‘management approach’ to reporting on the financial performance of its operating segments. Generally, the information to be reported would be what management uses internally for evaluating segment
performance and deciding how to allocate resources to operating segments. Such information may be different from what is used to prepare the income statement and balance sheet. The IFRS therefore requires explanations of the basis on which the segment information is prepared and reconciliations to the amounts recognised in the income statement and balance sheet.

The IASB believes that adopting the management approach will improve financial reporting. First, it allows users of financial statements to review the operations through the eyes of management. Secondly, because the information is already used internally by management, there are few costs for preparers and the information is available on a timely basis. This means that interim reporting of segment information can be extended beyond the current requirements.

As part of its deliberations leading to IFRS 8, the IASB considered comments by a coalition of over 300 non-governmental organisations (NGOs) known as the Publish What You Pay campaign, which asked for the scope of the IFRS to be extended to require additional disclosure on a country-by-country basis. Because the IFRS was developed as a short-term convergence project, the IASB decided that country-by-country disclosure should not be addressed in the IFRS. Instead, the matter will be raised with international bodies that are engaged with similar issues.

Introducing IFRS 8, Sir David Tweedie, IASB Chairman, said:

- IFRS 8 continues our work to eliminate major differences between IFRSs and US GAAP and to improve financial reporting. The IFRS adopts the management approach to segment reporting set out in SFAS 131.
- 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.
- The Board will continue to examine the merits for a requirement of country-by-country disclosure as suggested by supporters of the Publish What You Pay campaign. A group of Board members will discuss this issue with other interested organizations.
REFERENCES:
7. Financial Reporting: An accounting Revolution, William H. Beaver, New Jersey,
11. Accounting Standards Boards, AS 17, Segment Reporting, ICAI, October 2000, p. 3.