

Chapter 6

A Case Study of the Users of Accounts

6.1. Introduction

With the application of AS 17 on 'Segment Reporting', the Indian companies have started giving disaggregated information in their published financial statements. In the previous chapter, we have examined the segment reporting practices of the selected companies in India. In this chapter, we try to ascertain to what extent the present regime of segment disclosures are fulfilling and satisfying the need of the users of accounts. We also make an effort to point out the gap, if any, between the information disclosed about the segments in the annual reports and the information required by the users of accounts for taking more informed decisions. For this purpose, a questionnaire was prepared and sent to the users of accounts – both of accounting academy and profession – at different parts of the country.

6.2. Design of the questionnaire

The questionnaire (vide appendix) contained 16 questions through which we tried to get users' perceptions on segment reporting. More specifically, we have attempted to get the users' perceptions on the following areas of segment reporting:

- (a) Desirability or usefulness of segment reporting;
- (b) Identification of segment;
- (c) Items to be disclosed for each reportable segment;
- (d) Relative importance to the users about the items disclosed for each of the segment;
- (e) The parties that benefit most from the segment reporting;

- (f) Accounting treatment of certain typical but controversial items as regards segment reporting;
- (g) Costs associated with segment disclosures, and
- (h) The ways and means to bring about an improvement over existing practices of segment reporting.

Against each question, possible alternative answers were suggested and the respondents were asked to answer the question by giving tick mark at the appropriate place. If, however, the respondent's answer did not match with any of the answers given, then space was provided to give the respondent's own answer.

6.3. Profile of the respondents

With a view to making the study broad-based and all-India character, the questionnaires were sent to the selected users residing at various parts of India. The initial sample size was 300 comprising members of Indian Accounting Association Research Foundation (IAARF), Indian Accounting Association (IAA), Indian Commerce Association and Deans and Heads of the Department of Commerce and/or Management of the following universities of national repute in India:

- (i) University of Andhra
- (ii) University of Bangalore
- (iii) Burdwan University
- (iv) University of Calcutta
- (v) University of Delhi
- (vi) University of Gauhati
- (vii) University of Gujarat
- (viii) Kurukshetra University
- (ix) University of Madras
- (x) University of Osmania

(xi) Punjabi University

(xii) Utkal University.

Although, the instant method of sample selection has its own limitations, given the time and resources available, we thought that this would be reasonably a workable method for the case study. The details of the sample and the logic of selection of the same are now given.

While all the life members (244) of Indian Accounting Association Research Foundation were selected from the membership register, only 44 members comprising existing executive committee members of the Indian Accounting Association and Indian Commerce Association were selected. In addition, questionnaires were sent to the heads or deans of commerce faculty of 12 leading Universities of India. The reason for selection of all the members of IAARF is that it is the platform where professional accountants and the accounting academics get together having interest in promoting accounting, accounting education and research, both nationally and internationally (Banerjee, 2002). Moreover, many of them not only use financial statements for the purpose of research but also for taking investment decisions for themselves and on behalf of the organisation they work for. Similarly, the present executive committee members of IAA and Indian Commerce Association also comprise the academics as well as professionals. Moreover, as they are elected democratically, so in a sense their opinions represent the opinion of about 1000 members comprising these two associations. The selection of the heads or deans of reputed universities of the country was for the reason that they are well acquainted with the international developments and practice on the segment reporting and, therefore, would be able to judge the national scenario in the light of current international developments. However, a further scrutiny of the sample revealed that 25 names have been found in more than one category, for example a person is both life member of IAARF and executive member of IAA, the Head, or Dean of the Dept of Commerce is either a life member of IAARF or, an

executive member of IAA. These names were dropped to avoid duplication. Therefore, the final sample size came down to 275.

In all, 67 responses (about 24.3%) was received (Table 6.1). Out of 67 responses, 50 came from academics and 17 from professionals. However, again it may be mentioned that, this division between the academics and the professionals is based on whether the concerned person is in full-time teaching job, or he is working in an industry or acting as an independent auditor or consultant. In the sample, there are many persons who although work in the industry, but act as a part-time or guest teacher in an academic institution. Similarly, those who work as a full-time academic faculty do possess professional degrees and practice as a part-time consultant. The rate of responses although apparently appears to be low, but considering the general experience of data collection in India (Roy, 1991; Porwal, 1994) this may be considered satisfactory. Of the total responses received, about 75% are from academics and 25% are from professionals (Table 6.2). Table 6.1 shows the state-wise distribution of responses:

Table 6.1
State-wise distribution of responses

Name of the State	No. of respondents	Percentage
Andhra Pradesh	4	5.97
Assam	1	1.49
Delhi	7	10.45
Himachal Pradesh	1	1.49
Jharkhand	1	1.49
Karnataka	2	2.99
Maharashtra	2	2.99
Orissa	2	2.99
Punjab	1	1.49
Rajasthan	1	1.49
Uttar Pradesh	2	2.99
West Bengal	43	64.17
Total	67	100

Table 6.2
Profile of respondents

Characteristics of respondents	No	Percentage
Academics (University or College Teachers)	50	74.6
Professionals (employed in industry or self-employed)	17	23.4
Total	67	100

6.4. Analysis of responses

(i) On desirability of segment information in the annual report of the companies

All the respondents feel that inclusion of segment information in the published annual report by the companies enables the users of accounts to take more informed decisions.

Table 6.3
Whether inclusion of segment information help users in taking more informed decisions

Nature of responses	Academics		Professionals		Total	
	Number	%	Number	%	Number	%
Yes	50	100	17	100	67	100
No	0	0	0	0	0	0
Total	50	100	17	100	67	100

(ii) The user groups and segment information

On the question of the relative benefit accruing to the user groups due to incorporation of segment information in the annual reports by the companies, the respondents' rank has been shown in Table 6.4. This table shows that most of the respondents have ranked shareholders as the first beneficiaries of segment reporting. The financial analysts come second, followed by the creditors. In Table 6.4A we analyse the rankings

given by the academics and in Table 6.4B analysis of professionals' rankings has been done to find out if there is any difference between the perception of academics and shareholders in this regard.

Table 6.4

Relative benefits of different user groups due to segment reporting on the basis of ranks assigned by the respondents

User Group	Rank I		Rank II		Rank III		Rank IV		Rank V		Rank VI		Total	
	No	%	No	%	No	%	No	%	No	%	No	%	No	%
Shareholders	47	70	18	27	2	3							67	100
Financial Analysts	18	27	49	73									67	100
Creditors	2	3	—		65	95							67	100
Government	—		—		—		39	58	16	24	12	18	67	100
Workers	—		—		—		15	22	22	33	30	45	67	100
Customers	—		—		—		13	20	29	43	25	37	67	100
Total	67	100	67	100	67	100	67	100	67	100	67	100	—	—

Table 6.4A

Relative benefits of different user groups due to segment reporting on the basis of ranks assigned by the academics

User Group	Rank I		Rank II		Rank III		Rank IV		Rank V		Rank VI		Total	
	No	%	No	%	No	%	No	%	No	%	No	%	No	%
Shareholders	47	94	2	4	1	2							50	100
Financial Analysts	2	4	47	94	1	2							50	100
Creditors	1	2	1	2	49	98							50	100
Government	—		—		—		25	50	17	34	8	16	50	100
Workers	—		—		—		15	30	18	36	17	34	50	100
Customers							10	20	15	30	25	50	50	100
Total	50	100	50	100	50	100	50	100	50	100	50	100		

The major difference between the rankings made by the academics and the professionals is that 94% of the academics feel that shareholders benefit most from the segment reporting, whereas, 100% of the professionals feel that it is the financial analysts who benefit most from segment reporting. The reason for such difference may be due to the fact

that the majority of shareholders lack the technical skill and knowledge to interpret the published annual report to take their investment decisions

Table 6.4 B
Relative benefits of different user group due to segment reporting
on the basis of ranks assigned by the professionals

User Group	Rank I		Rank II		Rank III		Rank IV		Rank V		Rank VI		Total	
	No	%	No	%	No	%	No	%	No	%	No	%	No	%
Shareholders	—		16	94	1	6							17	100
Financial Analysts	17	100	—										17	100
Creditors	—		1	6	16	94							17	100
Government	—		—		—		14	82	1	6	2	12	17	100
Workers	—		—		—		—		4	24	13	76	17	100
Customers							3	18	12	70	2	12	17	100
Total	17	100	17	100	17	100	17	100	17	100	17	100		

and depend on the advice of the financial analysts. The academics themselves have the requisite skill and knowledge for interpretation of accounts. So based on their personal experience, they have identified the shareholders as the group that benefit most from the segment reporting. In other words, the benefit the financial analysts derive from segment reporting is ultimately passed on to the investors in general and shareholders in particular. Therefore, if analysed from this point of view, then there is practically no inconsistency between the rankings made by the professionals and academics with regard to the user group that benefit most from segment reporting. In other areas of rankings, no major differences have been revealed.

(iii) On the primary basis of segmentation

On the basis of segmentation, almost all the respondents feel that the segmentation should be on the basis of either on the basis of product or on the basis of geographical region, depending on the predomination of the risk and return on these two factors. Table 6.5 provides the respondents' perception on this factor.

Table 6.5
Primary basis of segmentation

Basis of segmentation	Academics		Professionals	
	Numbers	%	Numbers	%
On the basis of either product or geographical region	50	100	16	94
On the basis of discretion of top management	nil	0	1	6
On the basis of any other factors	nil	0	nil	0
Total	50	100	17	100

(iv) Basis of segmentation when products and geographical region equally dominate risks and returns of the company

Almost all the respondents feel that in the event when both products and geographic regions equally dominate the risks and return of the company, the primary basis of segmentation should be on the basis of product. The result of the questionnaire survey on this issue is being presented in Table 6.6.

Table 6.6
Basis of segmentation when product and geographic region equally dominate the risk and the return of the company

Basis of segmentation	Academics		Professionals		Total	
	Numbers	%	Numbers	%	Numbers	%
On the basis of Product	48	96	16	94	64	95.5
On the basis geographic region	Nil	0	Nil	0	0	0
On the basis of discretion of top management	2	4	1	6	3	4.5
On the basis of any other factor	Nil	0	Nil	0	0	0
Total	50	100	17	100	67	100

(v) On the benchmark of reportable segment identification

Here, the respondents were asked whether considering the relatively small size of the companies compared with the corporate size of

the developed countries, the threshold for identification of reportable segment should be raised somewhat more than the usual 10% benchmark in respect of sales, profit (loss) and total assets. On this issue, we found that the respondents are divided. The opinion of the respondents in this respect has been summarised in Table 6.7.

Table 6.7

Whether threshold for identifying reportable segment should be raised over 10% criteria in respect of sales, profit (loss) and total assets

Nature of responses	Academics		Professionals		Total	
	Numbers	%	Numbers	%	Numbers	%
Yes	28	56	5	29	33	49.3
No	22	44	12	71	34	50.7
	50	100	17	100	67	100

Out of the total respondents, 50.7% prefer the existing 10% benchmark for identifying a reportable segment, whereas 49.3% are in favour of raising the existing 10% criterion of identifying a reportable segment. 56% of the academics and only 29% professionals feel that the existing criterion of 10% should be raised.

All the respondents who support for raising the 10% benchmark feel that it should be raised to 20%.

(vi) On secondary segment disclosure

The respondents were asked whether annual report of the company should provide some information about the secondary segment. More specifically, whether the annual report should contain some (but less detailed) information about the geographic region, when primary segmentation has been done on the basis of product and the company operates across different geographic region and vice versa. On this issue, almost all the respondents feel the desirability of secondary segment disclosures.

Table 6.8
Desirability of secondary segment disclosure

Nature of responses	Academics		Professionals		Total	
	Numbers	%	Numbers	%	Numbers	%
Yes	48	96	14	82	62	82
No	2	4	3	18	5	18
Total	50	100	17	100	67	100

Table 6.8 shows that annual report of a company should give secondary segment disclosures according to 93% of the respondents. 96% of the academics and 82% of the professionals perceive that secondary information disclosures would benefit the users of accounts.

(vii) On items to be disclosed for the primary segment

The respondents were asked to rank, in order of importance, 10 items that appear to be useful from the viewpoint of the users of financial statements. Table 6.9 summarises the rankings of the all the respondents taken together, Table 6.9A records the ranking by the academics and Table 6.9B shows the rankings of the professionals.

Table 6.9
**Relative Importance of items in respect of primary segment
as perceived by the respondents**

Items	Rank 1	Rank 2	Rank 3	Rank 4	Rank 5	Rank 6	Rank 7	Rank 8	Rank 9	Rank 10	Total
Segment revenue	30	20	13	4	0	0	0	0	0	0	67
Segment profit	10	16	30	11	0	0	0	0	0	0	67
Segment Assets	5	1	5	30	13	12	1	0	0	0	67
Segment Net Assets	2	0	3	10	10	11	12	10	8	1	67
Segment Cash flow	20	30	16	1	0	0	0	0	0	0	67
Segmental Transfer Policy	0	0	0	0	0	0	0	12	21	34	67

Items	Rank 1	Rank 2	Rank 3	Rank 4	Rank 5	Rank 6	Rank 7	Rank 8	Rank 9	Rank 10	Total
Rate of change in segment revenue	0	0	0	0	18	15	20	14	0	0	67
Rate of change in segment profit	0	0	0	0	14	10	11	13	18	1	67
Rate of change in segment assets	0	0	0			0	9	7	20	31	67
Rate of change in segment operating cash flow	0	0	0	11	12	19	14	11	0	0	67
Total	67	67	67	67	67	67	67	67	67	67	—

Table 6.9A
Relative importance of items in respect of primary segment
as perceived by the academics

Items	Rank 1	Rank 2	Rank 3	Rank 4	Rank 5	Rank 6	Rank 7	Rank 8	Rank 9	Rank 10	Total
Segment revenue	22	15	11	2	0	0	0	0	0	0	50
Segment profit	8	12	21	9	0	0	0	0	0	0	50
Segment Assets	3	1	3	22	10	10	1	0	0	0	50
Segment Net Assets	2	0	3	7	7	8	8	7	7	1	50
Segment Cash flow	15	22	12	1	0	0	0	0	0	0	50
Segmental Transfer Policy	0	0	0	0	0	0	0	9	16	25	50
Rate of change in segment revenue	0	0	0	0	14	11	15	10	0	0	50
Rate of change in segment profit	0	0	0	0	10	7	8	11	13	1	50
Rate of change in segment assets	0	0	0	0	0	0	7	6	14	23	50
Rate of change in segment operating cash flow	0	0	0	9	9	14	11	7	0	0	50
Total	50	50	50	50	50	50	50	50	50	50	—

Table 6.9B
Relative importance of items in respect of primary segment
as perceived by the professionals

Items	Rank 1	Rank 2	Rank 3	Rank 4	Rank 5	Rank 6	Rank 7	Rank 8	Rank 9	Rank 10	Total
Segment revenue	8	5	2	2	0	0	0	0	0	0	17
Segment profit	2	4	9	2	0	0	0	0	0	0	17
Segment Assets	2	0	2	8	3	2	0	0	0	0	17
Segment Net Assets	0	0	0	3	3	3	4	3	1	0	17
Segment Cash flow	5	8	4	0	0	0	0	0	0	0	17
Segmental Transfer Policy	0	0	0	0	0	0	0	3	5	9	17
Rate of change in segment revenue	0	0	0	0	4	4	5	4	0	0	17
Rate of change in segment profit	0	0	0	0	4	3	3	2	5	0	17
Rate of change in segment assets	0	0	0			0	2	1	6	8	17
Rate of change in segment operating cash flow	0	0	0	2	3	5	3	4	0	0	17
Total	17	17	17	17	17	17	17	17	17	17	—

To interpret the results, the ranks are weighted into a 10-point scale for converting them into scores. For conversion of ranks into scores, weights are assigned to each rank in the descending order - with the first rank assigned 10 points, the second rank 9 points and the tenth rank 1 point. Needless to mention, assignments of points for ranking depend on individual judgement and may vary according to the perception of individuals. These scores are then multiplied with the number of persons giving a particular item the same rank and are added up to arrive at the cumulative scores. The ultimate ranking is done on the basis of the cumulative scores. Symbolically,

Cumulative scores = $\sum f_i w_i$, i.e. product of cumulative scores and frequency of the ranks assigned

f = Frequency of ranks

w = Weighted scores

i = Items 1, 2, ... 10.

Table 6.9C
Ultimate ranking of items on the basis of cumulative scores

Items	Total respondents		Academics		Professionals	
	Cumulative scores	Overall ranking	Cumulative scores	Overall ranking	Cumulative scores	Overall ranking
1. Segment revenue	612*	1	457	1	155	1
2. Segment profit	561	3	419	3	142	3
3. Segment Assets	439	4	331	4	120	4
4. Segment Net Assets	324	6	243	6	81	5.5**
5. Segment Cash-flow	605	2	451	2	154	2
6. Segmental Transfer Policy	112	10	84	10	28	10
7. Rate of change in segment revenue	305	7	229	7	76	7
8. Rate of change in segment profit	254	8	187	8	67	8
9. Rate of change in segment assets	128	9	97	9	31	9
10. Rate of change in segment operating cash flow	333	5	252	5	81	5.5**

* The procedure of getting the cumulative score, $(30 \times 10) + (20 \times 9) + (13 \times 8) + (7 \times 4) = 612$

** There is a tie between 5th and 6th. place. So average rank $6+5/2 = 5.5^{\text{th}}$ rank has been assigned.

The above table reveals that rankings done by the groups, academics as well as professionals show consistent results. That is segmental revenue occupies the first place in order of importance followed by the segment cash flow.

(viii) On segmental accounting principles and policies

The respondents were asked to give their opinion on the issue of the segmental accounting policy. They were asked whether the same accounting policy and principles are to be applied in respect of segment reporting as have been followed in the preparation of the consolidated

accounts. Table 6.10 shows that according to the majority of the respondents, accounting policies in respect of the segment reporting and consolidated reporting should be identical.

Table 6.10
Following same accounting policies in respect of
segment reporting and consolidated reporting

Nature of responses	Academics		Professionals		Total	
	Numbers	%	Numbers	%	Numbers	%
Yes	42	84	17	100	59	88
Not necessary	8	16	0	8	8	12
Total	50	100	17	100	67	100

88% of the respondents feel that same accounting policies should be followed both in respect of segment accounting as well as consolidated accounting. Groupwise, 100% of the professionals and 84% of the academics hold this view.

(ix) On allocation of common costs among the segments

On allocation of common costs, the opinion of the respondents have been summarised in table 6.11.

Table 6.11
Requirement of allocation of common segment costs

Nature of responses	Academics		Professionals		Total	
	Numbers	%	Numbers	%	Numbers	%
Required	6	12	0	0	6	9
Not required	44	88	17	100	61	91
Total	50	100	17	100	67	100

91% of the respondents feel that allocation of common segment costs would confuse the users of accounts. 88% of the academics and 100% of the professionals support this view.

(x) *On following a rigid set of rules as regards segment reporting*

The respondents were asked to give their views regarding following a rigid set of rules concerning segment disclosures, or, allowing the management some sort of flexibility in the field of segment disclosure over and above the minimum disclosure requirements depending on the nature of the activities carried out by the segments that constitute the company. Table 6.12 shows that about 83% of the respondents favour some sort of flexibility in the field of segment reporting.

Table 6.12
Flexibility over and above minimum disclosure requirements

Nature of responses	Academics		Professionals		Total	
	Numbers	%	Numbers	%	Numbers	%
Desirable	46	92	10	59	56	83
Not desirable	4	8	7	41	11	17
Total	50	100	17	100	67	100

However, on this issue, the professionals exercised a relatively rigid view — 92% of the academics welcome flexibility, whereas in respect of the professionals 59% have opted for flexibility.

(xi) *Treatment of online sales*

Sales through internet is becoming popular nowadays. The respondents were asked whether online sales should be regarded as a separate segment or be merged with the other geographic segments. The results of their opinion have been analysed in Table 6.12.

Table 6.13
Classification of online sales

Nature of responses	Academics		Professionals		Total	
	Numbers	%	Numbers	%	Numbers	%
Should be treated as a separate segment	31	62	9	53	40	60
Should be merged with other geographic segment	19	38	8	47	27	40
Total	50	100	17	100	67	100

Of the total respondents, 60% feel that online sales should be regarded as a separate segment whereas 40% favour merger of this segment with other geographic segments.

62% of the academics and 53% of the professionals feel that online sales should be regarded as a separate segment.

(xii) Cost-benefit analysis for disclosing an item voluntarily in respect of a particular segment

The respondents were asked to air their views on carrying out a cost-benefit analysis before deciding to disclose voluntarily an item in respect of a particular segment.

All the respondents feel that a cost-benefit analysis should be the criteria in deciding whether an item in respect of a segment should be reported. Table 6.14 shows the result.

Table 6.14
Cost-benefit analysis as a criterion for
Including an Item for segment reporting

Nature of responses	Academics		Professionals		Total	
	Number	%	Number	%	Number	%
Yes	50	100	17	100	67	100
No	0	0	0	0	0	0
Total	50	100	17	100	67	100

(xiii) The nature of costs involved in segment reporting

The respondents were asked to identify the nature of costs involved in segment reporting. The questionnaire specified the probable nature of costs and the respondents were requested to put a tick mark according to their options. Table 6.15 summarises the results. 60% of the total respondents feel that costs involved in providing segment information

represent both cost of sharing secret information and cost of dissemination of segment information. 30% feel that the cost of sharing secret information is the only cost involved in disclosing segment information. Only 10% feel that cost of disseminating segment information

Table 6.15
The nature of costs involved in the segment reporting

The nature of costs	Academics		Professionals		Total	
	Numbers	%	Numbers	%	Numbers	%
(a) Cost of sharing secret information	14	28	6	35	20	30
(b) Cost of disseminating the information	7	14	0	0	7	10
(c) Both (a) & (b)	29	58	11	65	40	60
(d) Any other	0	0	0	0	0	0
Total	50	100	17	100	67	100

is the only cost involved in providing segment disclosures. None of the professionals feel that cost of dissemination is the only cost involved in segment reporting. Therefore, from the responses, it appears that cost of segment reporting comprises mainly the cost of sharing secret information and, to a lesser extent, the cost of disseminating segment information.

(xiv) Dissemination of forward-looking information

The respondents were asked to give their views on providing forward-looking information in respect of a segment by way of footnotes or in a supplementary statement. The results of the responses have been summarised in Table 6.16. 63% of the respondents feel that forward-looking information should be provided in respect of a segment. However, interestingly, the majority opinion in respect of academics and professionals do not reconcile on this matter. Of the academics, 70% hold the view that forward-looking information in respect of a segment should

Table 6.16
Whether forward-looking information
should be a part of segment reporting

Nature of responses	Academics		Professionals		Total	
	Number	%	Number	%	Number	%
Yes	35	70	7	41	42	63
No	15	30	10	59	25	37
Total	50	100	17	100	67	100

be provided, while amongst the professionals, only 43% are in favour of inclusion of forward-looking information.

(xv) Inclusion of segment-wise employee information

On the issue of segment-wise employee information, the perception of the respondents has been analysed in table 6.17. 88% of the total respondents feel that it is desirable to give segment-wise information in respect of employees. Among the academics, 94% hold this view and among the professionals, 74% support this view.

Table 6.17
Desirability of including segment-wise detailed information
in respect of the employees working for the segment

Nature of responses	Academics		Professionals		Total	
	Number	%	Number	%	Number	%
Yes	47	94	12	71	59	88
No	3	6	5	29	8	12
Total	50	100	17	100	67	100

6.5. Review of the responses

The responses of the respondents have been analysed in the previous sections. Some of the results are interesting and undoubtedly speak volume in favour of segment reporting. This supports the general hypothesis that in the competitive market in the new economy, high quality segmented information, all other factors remaining constant, will

be more useful to the investors for investment decisions. We now summarise the results. In doing so, a reference to the relevant provision of AS 17 is attempted wherever possible, to vindicate that the responses are not unfounded but are in line with letters and spirits of the accounting standard.

1. Segment reporting has enriched the financial reporting in the sense that the users now can combine consolidated disclosures and segment disclosures for arriving at a more informed decision. (Table 6.3)
2. All classes of users benefit from segment reporting but, comparatively, the shareholders and the financial analysts benefit most from segment reporting as they can utilise more effectively the segment information in their decision making activities than the other group of users. (Table 6.4)
3. On the basis of segmentation, the users feel that it should either be on the basis of the product or, on the basis of geographic region, depending on the predominance of risk and return factors on the product or, on the geographic region. This is consistent with the provision of AS 17. If both the factors are of equal dominance, then the segmentation should be done on the basis of product. (Table 6.6)
4. On the issue of the benchmark for identifying a segment as a reportable segment, no clear-cut consensus has been reached. 50.7% of the respondents favour sticking to the international norm of 10% criteria in respect of revenues, assets and profit (loss) and 49.3% feel that the benchmark should be raised to 20% considering the relatively small size of Indian companies. (Table 6.7)
5. The respondents feel the need for providing some important but less detailed information in respect of secondary segment which is in line with the AS 17 requirements. (Table 6.8)

6. The respondents feel that information to be disclosed in respect of the primary segments should include (in order of importance) information about revenues, operating cash flows, profits (loss), assets, rate of change in segment operating cash flows, segment net assets, rate of change in segment revenues, rate of change in segment profit (loss), rate of change in segment assets and segmental transfer pricing policy in respect of inter-segment transactions. AS 17 does not require disclosures of segmental operating cash flow. Although it provides for disclosure of immediate previous year's figure, trend values cannot be computed by considering figures of only two years. (Table 6.9C)
7. The respondents feel that the same accounting policies and principles are to be followed in the preparation of the segment reporting as have been followed in respect of the consolidated reporting. AS 17 requirement in this respect is also the same. (Table 6.10)
8. The respondents are almost unanimous in their opinion that no attempt should be made to allocate common segment costs, which could not directly be identified, or associated with a particular segment because an allocation of common costs would unduly distort the segment results. (Table 6.11)
9. The respondents feel that the companies should voluntarily disclose some segment information over and above the minimum disclosure requirements, which they feel relevant considering the nature of the segments that constitute the reporting company. (Table 6.12)
10. According to the respondents, the ultimate test of disclosing any segment information should be on the basis of cost-benefit analysis - when expected benefit from inclusion of any segment

information exceeds its cost, only then such information should be disclosed. (Table 6.14)

11. The respondents identified that the costs of segment reporting are made of two types of costs – cost of sharing secret information and that of disseminating information. The former is more relevant in the sense that the additional costs involved in providing segment information are relatively less. (Table 6.15)
12. On the issue of providing forward-looking information in respect of a segment in order to provide the users more relevant information in the context of their decision making, the majority of the respondents felt the need of disclosing such information. However, on this issue the opinions of academics and the professionals do not match. The majority of the professionals (59%) feel that forward-looking information in respect of a segment is not required at this moment. (Table 6.16)
13. On the issue of providing segment-wise information about the employees, the respondents feel that such disclosure should be made. However, AS 17 does not require such disclosure. (Table 6.17)

6.6. Concluding Observation

Segment reporting is a new development in the corporate reporting scenario in India. Most of the companies are giving segment information for the first time. Therefore, care has been taken to make the questionnaire simple and easily comprehensible. This has helped considerably to assess and analyse the perceptions of the users of accounts regarding some important aspects of segment reporting that forms part of annual reports of companies. Such analysis and interpretations would form basis, among others, of making our suggestions and recommendations in the next chapter.

Appendix to Chapter 6

Questionnaire on Segment Reporting in India

(An Analysis of Users' Perception)

(Kindly tick your answer in the appropriate box)

1. Do you feel that disclosure of segment information in the Annual Reports of the companies would enable the user of financial statements to make more informed decision?

a. Yes

b. No

2. Which group of users would be more benefited by the disclosure of segment information? (Please rank them)

Ranks

a. Shareholders

b. Creditors

c. Workers

d. Government

e. Customers

f. Financial Analyst

3. What should be the primary basis of segmentation?

- (a) On the basis of the *products*, if risks and returns are pre-dominantly affected by the products:

a. Yes

b. No

- (b) On the basis of *geographical region*, if risks and returns are pre-dominantly affected by the geographical region:

a. Yes

b. No

- (c) On the basis of the *discretion* of the top Management:

a. Yes

b. No

- (d) On any other basis: (Please specify)

a. Yes

b. No

4. What should be the primary basis of segmentation when products and geographical region equally dominate risks and returns of the company?

- a. On the basis of the product
- b. On the basis of the geographical region
- c. On the basis of managerial discretion
- d. On any other basis (Please specify)

5. Do you feel that in the Indian context considering the relatively small size of the companies as compared with the corporate size of the developed countries, the *threshold* of segment identification should be raised somewhat more than the usual 10% bench-mark in respect of sales, profit (loss) and total assets?

- a. Yes
- b. No

6. If your answer to the above question is 'yes', then what should be the benchmark for segment identification?

- a. 15%
- b. 20%
- c. 25%
- d. Others (Please specify)

7. Do you feel that the Annual Report of a company should provide some (but less detailed) information of the secondary segment, i.e. information about the geographical region when segmentation has been done primarily on the basis of product and vice versa?

- a. Yes
- b. No

8. How do you rank in order of importance, the information relating to a segment which a user of accounts usually looks for:

Items	Rank
a. Segment Revenue	
b. Segment Profit	
c. Segment Assets	

Items	Rank
d. Segment Net Assets	
e. Segment Cash-flow	
f. Segmental Transfer Pricing Policy	
g. Rate of change in Segment Revenue	
h. Rate of change in Segment Profit	
i. Rate of change in Segment Assets	
j. Rate of change of Operating Cash-flow for segment	
k. Any other information (Please specify)	

9. Do you suggest application of same accounting principles and policies to be followed in respect of segment reporting as has been followed in the preparation of the consolidated accounts of a company?

a. Yes

b. No

10. There is no problem in the treatment of identifiable segment cost. The non-identifiable costs may be offset against total segmental profit or may be allocated to various segments on some basis before arriving at individual segment profit. Do you feel that allocation of common costs among the segments would confuse the users of financial statements?

a. Yes

b. No

11. Do you agree that some sort of freedom should be given to the management in the field of segment reporting over and above minimum disclosure requirements?

a. Yes

b. No

12. Do you feel that online sales should be regarded as a separate segment or should be adjusted with the geographical segment on the basis of the region in which the sales have taken place?

a. Should be regarded as a separate segment.

b. Should be merged with other geographical segment.

13. Do you recommend that a cost-benefit analysis be made before disclosing a particular information with respect to a segment?

a. Yes b. No

14. If your answer to this question is yes, then which costs are to be considered?

- a. Cost of sharing secret information
- b. Cost of disseminating the information.
- c. Both (a) & (b)
- d. Any other costs (Please specify)

15. Should forward-looking information be provided for each of the segments either by way of footnotes or in a supplementary statement?

a. Yes b. No

16. Should segment-wise detailed information about the employees be provided either by way of footnotes or in a supplementary statement?

a. Yes b. No

Date :

Signature

Name :

Institution :

Designation :