CHAPTER II
SCOPE OF SEGMENT REPORTING
### CHAPTER –II

**SCOPE OF SEGMENT REPORTING**

<table>
<thead>
<tr>
<th>2.1</th>
<th>SEGMENT REPORTING MEANING</th>
<th>16</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.1.1</td>
<td>MEANING</td>
<td>16</td>
</tr>
<tr>
<td>2.1.2</td>
<td>TYPES OF SEGMENTS</td>
<td>17</td>
</tr>
<tr>
<td>2.1.3</td>
<td>SEGMENT RELATED EXPLANATIONS</td>
<td>19</td>
</tr>
<tr>
<td>2.1.4</td>
<td>SCOPE</td>
<td>22</td>
</tr>
<tr>
<td>2.1.5</td>
<td>LIMITATION OF SEGMENT REPORTING</td>
<td>23</td>
</tr>
</tbody>
</table>
CHAPTER -II

SCOPE OF SEGMENT REPORTING.

2.1 SEGMENT REPORTING MEANING

2.1.1. MEANING

Segment reporting essentially seeks to analyze the past performances of an undertaking and its future growth prospects. It is an analysis to understand the expected future business conditions, resulting in better forecasts of sales and earnings.

Segment reporting refers to "desegregation of accounting information, reporting the same on the basis of products and services of an enterprise and on the basis of the geographical area in which the enterprise operates."¹

The FASB (Financial Accounting Standards Board) United States, suggested that segments of a business can be identified on the basis of similarity of products, production processes and markets on marketing methods. In United States the segment reporting was emphasized by the FASB in the year 1974. In India the segment reporting was emphasized from 1997 onwards by introducing

¹ The management accountant October 2002, Page 726.
SEBI in the year 2001 made compulsory for listed companies to present segment reporting.

2.1.2. TYPES OF SEGMENTS

The segments reports may be taken as two types. They are explained below:

1. 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 segments. The following table illustrates the Business Segment of different components.

<table>
<thead>
<tr>
<th>SI No.</th>
<th>Name of the Company</th>
<th>Segments of the Company</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>UTI Bank</td>
<td>(i) Corporate Banking</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(ii) Retail Banking</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(iii) Treasury</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(iv) Others</td>
</tr>
<tr>
<td>2.</td>
<td>Tube Investments of India Ltd.</td>
<td>(i) Cycles/components</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(ii) Engineering</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(iii) Metal Forming</td>
</tr>
<tr>
<td>3.</td>
<td>Himatsingka Seide Ltd.</td>
<td>(i) Fabrics</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(ii) Yarn</td>
</tr>
</tbody>
</table>
2. 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.

For a geographical segment the area of operation of component of an enterprises is not only the criterion but also the economic environment in which the component is functioning.

The Following table illustrates the Geographical Segment of Infosys Ltd., for the year ended 31-3-2004.

<table>
<thead>
<tr>
<th>Particulars</th>
<th>GEOGRAPHIC SEGMENTS (Rs.in Crores)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>North America</td>
</tr>
<tr>
<td>Revenues</td>
<td>3459.86</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>1453.94</td>
</tr>
<tr>
<td>Allocated expenses</td>
<td>879.47</td>
</tr>
<tr>
<td>Segmental Operating Income</td>
<td>1126.45</td>
</tr>
</tbody>
</table>
3. Reportable Segment

A Reportable Segment is identified from the business segment or the geographical segment fulfilling the following conditions:

➢ The percentage of revenue of the segment to total revenue is 10% or more or
➢ The percentage of segment results to total segment results is 10% or more of the combined results of all segments in profit or loss whichever is greater in absolute amount.
➢ The percentage of Segment assets to total assets of all segments is 10% or more.

In this way the reportable segment of Tata Coffee Ltd., for the year ended 31-3-2002 is identified as coffee and other product segment based on the segment results.

2.1.3. SEGMENT RELATED EXPLANATIONS

1. Segment revenue is the aggregate of:

   • The portion of enterprise revenue that is directly attributable to a segment,

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2 Financial results published in The Hindu dated 14/06/2002
• 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 revenue does not include:* while calculating such revenues the following should be excluded:

• Extraordinary items as defined in AS 5, Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies;

• Interest or dividend income, including interest earned on advances or loans to other segments unless the operations of the segment are primarily of a financial nature; and

• Gains on sales of investments or on extinguishment of debt unless the operations of the segment are primarily of a financial nature.

2. **Segment expense** is the aggregate of

• The expense resulting from the operating activities of a segment that is directly attributable to the segment, and

• The relevant portion of enterprise expenses that can be allocated on a reasonable basis to the segment, including expense relating to transactions with other segments of the enterprise.
Segment expense does not include:

- Extraordinary items as defined in AS 5, Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies;

- Interest expense, including interest incurred on advances or loans from other segments, unless the operations of the segment are primarily of a financial nature;

- Losses on sales of investments or losses on extinguishment of debt unless the operations of the segment are primarily of a financial nature;

- Income tax expense; and

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

3. **Segment result** is segment revenue less segment expense.

4. **Segment 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 segment on a reasonable basis.
If the segment result of a segment includes interest or dividend income, its segment assets include the related receivables, 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 or provisions that are reported as direct offsets in the balance sheet of the enterprise.

5. **Segment liabilities** are those operating liabilities that result from the operating activities of a segment and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis.

If the segment result of a segment includes interest expense, its segment liabilities include the related interest-bearing liabilities.

Segment liabilities do not include income tax liabilities.

2.1.4. **Scope**

The style of including the segment reporting in the annual report is made as mandatory. As such every concern is presenting the business segment reports.

The following may be listed as the scope of segment reporting.

1. This statement should be applied in presenting general-purpose financial statements.

2. The requirements of this statement are also applicable in case of consolidated financial statements.
3. An enterprise should comply with the requirements of this statement fully and not selectively.

4. 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.

2.1.5. LIMITATIONS OF SEGMENT REPORTING

Although there are many advantages of segment reporting the following may be listed as limitations.

a. Overburden of information –
   The value of segment reporting may get affected because of overloaded information.

b. Involvement of Additional Cost –
   The supply of additional information in the annual report will increase the operating cost in terms of collections, processing, audit and dissemination.
c. Divulgence of secret facts to the competitors –

Protection of important information is necessary for the survival of the enterprises.

d. Inter segment Sales –

It depends on the transfer pricing policy of the enterprises. The use of various transfer pricing will make the segmental information as incomparable with others.

e. Common Costs –

Generally common costs are apportioned on reasonable basis. However this may be misleading some times. Hence, there may be small cause in making an artificial apportionment of such cost.

f. Common Assets –

It is very difficult to determine segment assets in enterprises, as some assets are required for general purposes and may be used by different segments.