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Exposure Draft

Accounting Standard (AS) 108

Segment Reporting

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Accounting Standards Board
The Institute of Chartered Accountants of India

Exposure Draft

Accounting Standard (AS) 108, *Segment Reporting*

The Indian Accounting Standards (Ind AS), as notified by the Ministry of Corporate Affairs in February 2015, are applicable to the specified class of companies. Accounting Standards notified under Companies (Accounting Standards) Rules 2021, and those issued by the ICAI are applicable to entities to whom Ind AS are not applicable. However, on the basis of the discussions held at various standard setting forums, it has been decided to revise the Accounting Standards. Accordingly, the Accounting Standards Board of ICAI has initiated the process of revision of these standards which will be applicable to the entities to whom Ind AS are not applicable. While formulating these Standards, it was decided to maintain the consistency in the numbering of AS with Ind AS numbering.

In the above background, the ASB has finalised AS 108, *Segment Reporting*, taking existing AS 17, *Segment Reporting*, notified by MCA as the base. Revised AS 108 has been formulated taking existing AS 17 as base since bringing MIS based Operating Segment approach under Ind AS 108 would be onerous to be applied by entities to whom Ind AS are not applied. Major differences between AS 108 and Ind AS 108, *Operating Segments*, are included in the Appendix 1 of the Standard. Major differences between AS 108 and AS 17, are included in the Appendix 2 of the Standard.

This is the Exposure Draft of the Accounting Standard (AS) 108, *Segment Reporting*, issued by the ASB for comments.

The ASB invites comments on any aspect of this Exposure Draft. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, contain a clear rationale and, where applicable, provide a suggestion for alternative wording.

How to Comment:
*Comments can be submitted using one of the following methods so as to receive not later than **May 28, 2022.***

Electronically:	click on http://www.icai.org/comments/asb/to submit comments online
Email:	Comments can be sent at commentsasb@icai.in
Postal:	Secretary, Accounting Standards Board, The Institute of Chartered Accountants of India ICAI Bhawan, Post Box No. 7100, Indraprastha Marg, New Delhi – 110 002

Further clarifications on any aspect of this Exposure Draft may be sought by e-mail to asb@icai.in.

Draft Accounting Standard (AS) 108

Segment Reporting

(This Accounting Standard includes paragraphs set in ***bold*** *type and plain type, which have equal authority. Paragraphs in bold italic type indicate the main principles.)*

This Accounting Standard is not mandatory for Small and Medium Sized Companies, and Micro, Small and Medium sized enterprises (Level IV, Level III and Level II non-company entities), as defined in Appendix 1 to this Compendium 'Applicability of Accounting Standards to Various Entities'. Such Companies are, however, encouraged to comply with the Standard.

Objective

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

(a) better understand the performance of the entity;

(b) better assess the risks and returns of the entity; and

(c) make more informed judgements about the entity as a whole.

Many entities provide groups of products and services or operate in geographical areas that are subject to differing rates of profitability, opportunities for growth, future prospects, and risks. Information about different types of products and services of an entity and its operations in different geographical areas - often called segment information - is relevant to assessing the risks and returns of a diversified or multi-locational entity but may not be determinable from the aggregated data. Therefore, reporting of segment information is widely regarded as necessary for meeting the needs of users of financial statements.

Scope

1. This Standard shall be applied in presenting general purpose financial statements.

2. The requirements of this Standard are also applicable in case of consolidated financial statements.

3. An entity shall comply with the requirements of this Standard 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 Standard to any financial statement items shall construed to be the relevant item as appearing in the consolidated financial statements.

Definitions

5. **The following terms are used in this Standard with the meanings specified:**

<u>Business Segment</u> is a distinguishable component of an entity 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. Factors that shall be considered in determining whether products or services are related include:

(a) the nature of the products or services;

(b) the nature of the production processes;

(c) the type or class of customers for the products or services;

(d) the methods used to distribute the products or provide the services; and

(e) if applicable, the nature of the regulatory environment, for example, banking, insurance, or public utilities.

<u>Geographical Segment</u> is a distinguishable component of an entity 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 shall be considered in identifying geographical segments include:

(a) similarity of economic and political conditions;

(b) relationships between operations in different geographical areas;

(c) proximity of operations;

(d) special risks associated with operations in a particular area;

(e) exchange control regulations; and

(f) the underlying currency risks.

<u>Reportable Segment</u> is a business segment or a geographical segment identified on the basis of foregoing definitions for which segment information is required to be disclosed by this Standard.

Entity revenue is revenue from sales to external customers as reported in the statement of profit and loss.

Segment revenue is the aggregate of

(i) the portion of entity revenue that is directly attributable to a segment,

(ii) the relevant portion of entity revenue that can be allocated on a reasonable basis to a segment, and

(iii) revenue from transactions with other segments of the entity.

Segment revenue does not include:

(a) 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

(b) gains on sales of investments or on extinguishment of debt unless the operations of the segment are primarily of a financial nature.

Segment expense is the aggregate of

(i) the expense resulting from the operating activities of a segment that is directly attributable to the segment, and

(ii) the relevant portion of entity expense that can be allocated on a reasonable basis to the segment, including expense relating to transactions with other segments of the entity.

Segment expense does not include:

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

Explanation:

The interest expense relating to overdrafts and other operating liabilities identified to a particular segment are not included as a part of the segment expense unless the operations of the segment are primarily of a financial nature or unless the interest is included as a part of the cost of inventories. In case interest is included as a part of the cost of inventories where it is so required as per AS 23, Borrowing Costs read with AS 2, Inventories, and those inventories are part of segment assets of a particular segment, such interest is considered as a segment expense. In this case, the amount of such interest and the fact that the segment result has been arrived at after considering such interest is disclosed by way of a note to the segment result.

(b) losses on sales of investments or losses on extinguishment of debt unless the operations of the segment are primarily of a financial nature;

(c) income tax expense; and

(d) general administrative expenses, head-office expenses, and other expenses that arise at the entity level and relate to the entity as a whole. However, costs are sometimes incurred at the entity 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.

<u>Segment result</u> is segment revenue less segment expense.

<u>Segment assets</u> 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/ provisions that are reported as direct offsets in the balance sheet of the entity.

<u>Segment liabilities</u> 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.

<u>Segment liabilities</u> do not include income tax liabilities.

<u>Segment accounting policies</u> are the accounting policies adopted for preparing and presenting the financial statements of the entity as well as those accounting policies that relate specifically to segment reporting.

6. The factors in paragraph 5 for identifying business segments and geographical segments are not listed in any particular order.

7. A single business segment does not include products and services with significantly differing risks and returns. While there may be dissimilarities with respect to one or several of the factors listed in the definition of business segment, the products and services included in a single business segment are expected to be similar with respect to

a majority of the factors.

8. Similarly, a single geographical segment does not include operations in economic environments with significantly differing risks and returns. A geographical segment may be a single country, a group of two or more countries, or a region within a country.

9. The risks and returns of an entity are influenced both by the geographical location of its operations (where its products are produced or where its service rendering activities are based) and also by the location of its customers (where its products are sold or services are rendered). The definition allows geographical segments to be based on either:

   (a) the location of production or service facilities and other assets of an entity; or

   (b) the location of its customers.

10. The organisational and internal reporting structure of an entity will normally provide evidence of whether its dominant source of geographical risks results from the location of its assets (the origin of its sales) or the location of its customers (the destination of its sales). Accordingly, an entity looks to this structure to determine whether its geographical segments shall be based on the location of its assets or on the location of its customers.

11. Determining the composition of a business or geographical segment involves a certain amount of judgement. In making that judgement, entity management takes into account the objective of reporting financial information by segment as set forth in this Standard and the qualitative characteristics of financial statements as identified in the Framework for the Preparation and Presentation of Financial Statements issued by the Institute of Chartered Accountants of India. The qualitative characteristics include the relevance, reliability, and comparability over time of financial information that is reported about the different groups of products and services of an entity and about its operations in particular geographical areas, and the usefulness of that information for assessing the risks and returns of the entity as a whole.

12. The predominant sources of risks affect how most entities are organised and managed. Therefore, the organisational structure of an entity and its internal financial reporting system are normally the basis for identifying its segments.

13. The definitions of segment revenue, segment expense, segment assets and segment liabilities include amounts of such items that are directly attributable to a segment and amounts of such items that can be allocated to a segment on a reasonable basis. An entity looks to its internal financial reporting system as the starting point for identifying those items that can be directly attributed, or reasonably allocated, to segments. There is thus a presumption that amounts that have been identified with segments for internal financial reporting purposes are directly attributable or reasonably allocable to segments for the purpose of measuring the segment revenue, segment expense, segment assets, and segment liabilities of reportable segments.

14. In some cases, however, a revenue, expense, asset or liability may have been allocated to segments for internal financial reporting purposes on a basis that is understood by entity management but that could be deemed arbitrary in the perception of external users of financial statements. Such an allocation would not constitute a reasonable basis under the definitions of segment revenue, segment expense, segment assets, and segment liabilities in this Standard. Conversely, an entity may choose not to allocate some item of revenue, expense, asset or liability for internal financial reporting purposes, even though a reasonable basis for doing so exists. Such an item is allocated pursuant to the definitions of segment revenue, segment expense, segment assets, and segment liabilities in this Standard.

15. Examples of segment assets include current assets that are used in the operating activities of the segment and property, plant and equipment, intangible assets and investment property. If a particular item of depreciation or amortisation is included in segment expense, the related asset is also included in segment assets. Segment assets do not include assets used for general entity or head-office purposes. Segment assets include operating assets shared by two or more segments if a reasonable basis for allocation exists. Segment assets include goodwill that is directly attributable to a segment or that can be allocated to a segment on a reasonable basis, and segment expense includes related amortisation of goodwill. If segment assets have been revalued subsequent to acquisition, then the measurement of segment assets reflects those revaluations.

16. Examples of segment liabilities include trade and other payables, accrued liabilities, customer advances, product warranty provisions, and other claims relating to the provision of goods and services. Segment liabilities do not include borrowings and other liabilities that are incurred for financing rather than operating purposes. The liabilities of segments whose operations are not primarily of a financial nature do not include borrowings and similar liabilities because segment result represents an operating, rather than a net-of-financing, profit or loss. Further, because debt is often issued at the head-office level on an entity-wide basis, it is often not possible to directly attribute, or reasonably allocate, the interest-bearing liabilities to segments.

17. Segment revenue, segment expense, segment assets and segment liabilities are determined before intra-entity balances and intra-entity transactions are eliminated as part of the process of preparation of entity financial statements, except to the extent that such intra-entity balances and transactions are within a single segment.

18. While the accounting policies used in preparing and presenting the financial statements of the entity as a whole are also the fundamental segment accounting policies, segment accounting policies include, in addition, policies that relate specifically to segment reporting, such as identification of segments, method of pricing inter-segment transfers, and basis for allocating revenues and expenses to segments.

Identifying Reportable Segments

Primary and Secondary Segment Reporting Formats

19. **The dominant source and nature of risks and returns of an entity shall govern whether its primary segment reporting format will be business segments or geographical segments. If the risks and returns of an entity are affected predominantly by differences in the products and services it produces, its primary format for reporting segment information shall be business segments, with secondary information reported geographically. Similarly, if the risks and returns of the entity are affected predominantly by the fact that it operates in different countries or other geographical areas, its primary format for reporting segment information shall be geographical segments, with secondary information reported for groups of related products and services.**

20. **Internal organisation and management structure of an entity and its system of internal financial reporting to the board of directors and the chief executive officer shall normally be the basis for identifying the predominant source and nature of risks and differing rates of return facing the entity and, therefore, for determining which reporting format is primary and which is secondary, except as provided in sub-paragraphs (a) and (b) below:**

    (a) if risks and returns of an entity 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 entity and to reporting internally to the board of directors and the chief executive officer, then the entity shall use business segments as its primary segment reporting format and geographical segments as its secondary reporting format; and

    (b) **if internal organisational and management structure of an entity 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 management of the entity shall determine whether the risks and returns of the entity are related more to the products and services it produces or to the geographical areas in which it operates and shall, accordingly, choose business segments or geographical segments as the primary segment reporting format of the entity, with the other as its secondary reporting format.**

21. For most entities, the predominant source of risks and returns determines how the entity is organised and managed. Organisational and management structure of an entity and its internal financial reporting system normally provide the best evidence of the predominant source of risks and returns of the entity for the purpose of its segment reporting. Therefore, except in rare circumstances, an entity will report segment information in its financial statements on the same basis as it reports internally to top

management. Its predominant source of risks and returns becomes its primary segment reporting format. Its secondary source of risks and returns becomes its secondary segment reporting format.

22. A ‘matrix presentation’ — both business segments and geographical segments as primary segment reporting formats with full segment disclosures on each basis -- will often provide useful information if risks and returns of an entity are strongly affected both by differences in the products and services it produces and by differences in the geographical areas in which it operates. This Standard does not require, but does not prohibit, a ‘matrix presentation’.

23. In some cases, organisation and internal reporting of an entity may have developed along lines unrelated to both the types of products and services it produces, and the geographical areas in which it operates. In such cases, the internally reported segment data will not meet the objective of this Standard. Accordingly, paragraph 20(b) requires the directors and management of the entity to determine whether the risks and returns of the entity are more product/service driven or geographically driven and to accordingly choose business segments or geographical segments as the primary basis of segment reporting. The objective is to achieve a reasonable degree of comparability with other entities, enhance understandability of the resulting information, and meet the needs of investors, creditors, and others for information about product/service-related and geographically-related risks and returns.

Business and Geographical Segments

24. Business and geographical segments of an entity for external reporting purposes shall be those organisational 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, except as provided in paragraph 25.

25. If internal organisational and management structure of an entity 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, paragraph 20(b) requires that the directors and management of the entity shall choose either business segments or geographical segments as the primary segment reporting format of the entity based on their assessment of which reflects the primary source of the risks and returns of the entity, with the other as its secondary reporting format. In that case, the directors and management of the entity shall determine its business segments and geographical segments for external reporting purposes based on the factors in the definitions in paragraph 5 of this Standard, rather than on the basis of its system of internal financial reporting to the board of directors and chief executive 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 factors in the definitions in paragraph 5 but others are not, sub-paragraph (b) below shall be applied only to those internal segments that do not meet the definitions in paragraph 5 (that is, an internally reported segment that meets the definition shall not be further segmented);

(b) for those segments reported internally to the directors and management that do not satisfy the definitions in paragraph 5, management of the entity shall look to the next lower level of internal segmentation that reports information along product and service lines or geographical lines, as appropriate under the definitions in paragraph 5; and

(c) if such an internally reported lower-level segment meets the definition of business segment or geographical segment based on the factors in paragraph 5, the criteria in paragraph 27 for identifying reportable segments shall be applied to that segment.

26. Under this Standard, most entities will identify their business and geographical segments as the organisational units for which information is reported to the board of the directors (particularly the non-executive directors, if any) and to the chief executive officer (the senior operating decision maker, which in some cases may be a group of several people) for the purpose of evaluating each unit's performance and for making decisions about future allocations of resources. Even if an entity must apply paragraph 25 because its internal segments are not along product/service or geographical lines, it will consider the next lower level of internal segmentation that reports information along product and service lines or geographical lines rather than construct segments solely for external reporting purposes. This approach of looking to organisational and management structure of an entity and its internal financial reporting system to identify the business and geographical segments of the entity for external reporting purposes is sometimes called the 'management approach', and the organisational components for which information is reported internally are sometimes called 'operating segments'.

Reportable Segments

27. **A business segment or geographical segment shall be identified as a reportable segment if:**

(a) its revenue from sales to external customers and from transactions with other segments is 10 per cent or more of the total revenue, external and internal, of all segments; or

(b) its segment result, whether profit or loss, is 10 per cent or more of -

(i) the combined result of all segments in profit, or

(ii) the combined result of all segments in loss,

whichever is greater in absolute amount; or

(c) its segment assets are 10 per cent or more of the total assets of all segments.

28. A business segment or a geographical segment which is not a reportable segment as per paragraph 27, may be designated as a reportable segment despite its size at the discretion of the management of the entity. If that segment is not designated as a reportable segment, it shall be included as an unallocated reconciling item.

29. If total external revenue attributable to reportable segments constitutes less than 75 per cent of the total entity revenue, additional segments shall be identified as reportable segments, even if they do not meet the 10 per cent thresholds in paragraph 27, until at least 75 per cent of total entity revenue is included in reportable segments.

30. The 10 per cent thresholds in this Standard are not intended to be a guide for determining materiality for any aspect of financial reporting other than identifying reportable business and geographical segments.

Illustration II attached to this Standard presents an illustration of the determination of reportable segments as per paragraphs 27-29.

31. A segment identified as a reportable segment in the immediately preceding period because it satisfied the relevant 10 per cent thresholds shall continue to be a reportable segment for the current period notwithstanding that its revenue, result, and assets all no longer meet the 10 per cent thresholds.

32. If a segment is identified as a reportable segment in the current period because it satisfies the relevant 10 per cent thresholds, preceding-period segment data that is presented for comparative purposes shall, unless it is impracticable to do so, be restated to reflect the newly reportable segment as a separate segment, even if that segment did not satisfy the 10 per cent thresholds in the preceding period.

Segment Accounting Policies

33. Segment information shall be prepared in conformity with the accounting policies adopted for preparing and presenting the financial statements of the entity as a whole.

34. There is a presumption that the accounting policies that the directors and management of an entity have chosen to use in preparing the financial statements of the entity as a whole are those that the directors and management believe are the most appropriate for external reporting purposes. Since the purpose of segment information is to help users of financial statements better understand and make more informed judgements about the entity as a whole, this Standard requires the use, in preparing segment information, of the accounting policies adopted for preparing and presenting the financial statements of

the entity as a whole. That does not mean, however, that the entity accounting policies are to be applied to reportable segments as if the segments were separate stand-alone reporting entities. A detailed calculation done in applying a particular accounting policy at the entity-wide level may be allocated to segments if there is a reasonable basis for doing so. Pension calculations, for example, often are done for an entity as a whole, but the entity-wide figures may be allocated to segments based on salary and demographic data for the segments.

35. This Standard does not prohibit the disclosure of additional segment information that is prepared on a basis other than the accounting policies adopted for the entity financial statements provided that (a) the information is reported internally to the board of directors and the chief executive officer for purposes of making decisions about allocating resources to the segment and assessing its performance and (b) the basis of measurement for this additional information is clearly described.

36. Assets and liabilities that relate jointly to two or more segments shall be allocated to segments if, and only if, their related revenues and expenses also are allocated to those segments.

37. The way in which asset, liability, revenue, and expense items are allocated to segments depends on such factors as the nature of those items, the activities conducted by the segment, and the relative autonomy of that segment. It is not possible or appropriate to specify a single basis of allocation that shall be adopted by all entities; nor is it appropriate to force allocation of entity asset, liability, revenue, and expense items that relate jointly to two or more segments, if the only basis for making those allocations is arbitrary. At the same time, the definitions of segment revenue, segment expense, segment assets, and segment liabilities are interrelated, and the resulting allocations shall be consistent. Therefore, jointly used assets and liabilities are allocated to segments if, and only if, their related revenues and expenses also are allocated to those segments. For example, an asset is included in segment assets if, and only if, the related depreciation or amortisation is included in segment expense.

Disclosure

38. Paragraphs 39-46 specify the disclosures required for reportable segments for primary segment reporting format of an entity. Paragraphs 47-51 identify the disclosures required for secondary reporting format of an entity. Entities are encouraged to make all of the primary-segment disclosures identified in paragraphs 39-46 for each reportable secondary segment although paragraphs 47-51 require considerably less disclosure on the secondary basis. Paragraphs 53-59 address several other segment disclosure matters. Illustration III attached to this Standard illustrates the application of these disclosure standards.

Explanation:

In case, by applying the definitions of ‘business segment’ and ‘geographical segment’, it is concluded that there is neither more than one business segment nor more than one geographical segment, segment information as per this Standard is not required to be disclosed. However, the fact that there is only one ‘business segment’ and ‘geographical segment’ is disclosed by way of a note.

Primary Reporting Format

39. The disclosure requirements in paragraphs 40-46 shall be applied to each reportable segment based on primary reporting format of an entity.

40. An entity shall disclose the following for each reportable segment:

(a) segment revenue, classified into segment revenue from sales to external customers and segment revenue from transactions with other segments;

(b) segment result;

(c) total carrying amount of segment assets;

(d) total amount of segment liabilities;

(e) total cost incurred during the period to acquire segment assets that are expected to be used during more than one period (property, plant and equipment, intangible assets and investment property);

(f) total amount of expense included in the segment result for depreciation and amortisation in respect of segment assets for the period; and

(g) total amount of significant non-cash expenses, other than depreciation and amortisation in respect of segment assets, that were included in segment expense and, therefore, deducted in measuring segment result.

41. Paragraph 40(b) requires an entity to report segment result. If an entity can compute segment net profit or loss or some other measure of segment profitability other than segment result, without arbitrary allocations, reporting of such amount(s) in addition to segment result is encouraged. If that measure is prepared on a basis other than the accounting policies adopted for the financial statements of the entity, the entity will include in its financial statements a clear description of the basis of measurement.

42. An example of a measure of segment performance above segment result in the statement of profit and loss is gross margin on sales. Examples of measures of segment performance below segment result in the statement of profit and loss are profit or loss (either before or after income taxes).

43. Accounting Standard 1, ‘*Presentation of Financial Statements*’ requires that “when items of income and expense are material, the entity shall disclose their nature and

amount separately”. Examples of such items include write-downs of inventories, restricting of the activities of the entity and reversal of provisions for the cost of restructuring, disposals of items of property, plant and equipment, discontinued operations, litigation settlements, and reversal of other provisions. An entity shall disclose the nature and amount of material items of segment revenue and segment expense in accordance with AS 1. Such disclosure changes the level at which the significance of such items is evaluated for disclosure purposes from the entity level to the segment level.

44. An entity that reports the amount of cash flows arising from operating, investing and financing activities of a segment need not disclose depreciation and amortisation expense and non-cash expenses of such segment pursuant to sub-paragraphs (f) and (g) of paragraph 40.

45. AS 7, *Statement of Cash Flow*, recommends that an entity present a cash flow statement that separately reports cash flows from operating, investing and financing activities. Disclosure of information regarding operating, investing and financing cash flows of each reportable segment is relevant to understanding the entity’s overall financial position, liquidity, and cash flows. Disclosure of segment cash flow is, therefore, encouraged, though not required. An entity that provides segment cash flow disclosures need not disclose depreciation and amortisation expense and non-cash expenses pursuant to sub-paragraphs (f) and (g) of paragraph 40.

46. An entity shall present a reconciliation between the information disclosed for reportable segments and the aggregated information in the entity financial statements. In presenting the reconciliation, segment revenue shall be reconciled to entity revenue; segment result shall be reconciled to entity net profit or loss; segment assets shall be reconciled to entity assets; and segment liabilities shall be reconciled to entity liabilities.

Secondary Segment Information

47. Paragraphs 39-46 identify the disclosure requirements to be applied to each reportable segment based on primary reporting format of an entity. Paragraphs 48-51 identify the disclosure requirements to be applied to each reportable segment based on secondary reporting format of an entity, as follows:

(a) if primary format of an entity is business segments, the required secondary-format disclosures are identified in paragraph 48;

(b) if primary format of an entity is geographical segments based on location of assets (where the products of the entity are produced or where its service rendering operations are based), the required secondary-format disclosures are identified in paragraphs 49 and 50;

(c) if primary format of an entity is geographical segments based on the location of its customers (where its products are sold or services are rendered), the required secondary-format disclosures are identified in paragraphs 49 and 51.

48. If primary format of an entity for reporting segment information is business segments, it shall also report the following information:

(a) 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 customers is 10 per cent or more of entity revenue;

(b) the total carrying amount of segment assets by geographical location of assets, for each geographical segment whose segment assets are 10 per cent or more of the total assets of all geographical segments; and

(c) the total cost incurred during the period to acquire segment assets that are expected to be used during more than one period (property, plant and equipment, intangible assets and investment property) by geographical location of assets, for each geographical segment whose segment assets are 10 per cent or more of the total assets of all geographical segments.

49. **If primary format of an entity for reporting segment information is geographical segments (whether based on location of assets or location of customers), it shall also report the following segment information for each business segment whose revenue from sales to external customers is 10 per cent or more of entity revenue or whose segment assets are 10 per cent or more of the total assets of all business segments:**

(a) segment revenue from external customers;

(b) the total carrying amount of segment assets; and

(c) the total cost incurred during the period to acquire segment assets that are expected to be used during more than one period (property, plant and equipment, intangible assets and investment property).

50. If primary format of an entity for reporting segment information is geographical segments that are based on location of assets, and if the location of its customers is different from the location of its assets, then the entity shall also report revenue from sales to external customers for each customer-based geographical segment whose revenue from sales to external customers is 10 per cent or more of entity revenue.

51. If primary format of an entity for reporting segment information is geographical segments that are based on location of customers, and if the assets of the entity are located in different geographical areas from its customers, then the entity shall also report the following segment information for each asset-based geographical

segment whose revenue from sales to external customers or segment assets are 10 per cent or more of total entity amounts:

(a) **the total carrying amount of segment assets by geographical location of the assets; and**

(b) **the total cost incurred during the period to acquire segment assets that are expected to be used during more than one period (property, plant and equipment, intangible assets and investment property) by location of the assets.**

Illustrative Segment Disclosures

52. Illustration III attached to this Standard Illustrates the disclosures for primary and secondary formats that are required by this Standard.

Other Disclosures

53. In measuring and reporting segment revenue from transactions with other segments, inter-segment transfers shall be measured on the basis that the entity actually used to price those transfers. The basis of pricing inter-segment transfers and any change therein shall be disclosed in the financial statements.

54. **Changes in accounting policies adopted for segment reporting that have a material effect on segment information shall be disclosed. Such disclosure shall include a description of the nature of the change, and the financial effect of the change if it is reasonably determinable.**

55. AS 8 requires that an entity shall change an accounting policy only if the change is required by an AS, by any statute or pronouncement specified in paragraph 11 of AS 8, , or if the change results in the financial statements providing more reliable and more relevant information about the effects of transactions, other events or conditions on the entity's financial position, financial performance, or cash flows.

56. Changes in accounting policies adopted at the entity level that affect segment information are dealt with in accordance with AS 8. AS 8 requires that nature of the change in accounting policy and reasons why applying new accounting policy provides reliable and more relevant information where change is made shall be disclosed. The impact of, and the adjustments resulting from, such change which has material effect shall be disclosed in the financial statements of the period in which such change is made, to reflect the effect of such change. If a change is made in the accounting policies which has no material effect on the financial statements for the current period but which is reasonably expected to have a material effect in later periods, the fact of such change shall be appropriately disclosed in the period in which the change is adopted unless it is impracticable to estimate the effect of the changes in accounting policy. In the latter case, the fact shall be disclosed.

57. Some changes in accounting policies relate specifically to segment reporting. Examples include changes in identification of segments and changes in the basis for allocating revenues and expenses to segments. Such changes can have a significant impact on the segment information reported but will not change aggregate financial information reported for the entity. To enable users to understand the impact of such changes, this Standard requires the disclosure of the nature of the change and the financial effect of the change, if reasonably determinable.

58. An entity shall indicate the types of products and services included in each reported business segment and indicate the composition of each reported geographical segment, both primary and secondary, if not otherwise disclosed in the financial statements.

59. To assess the impact of such matters as shifts in demand, changes in the prices of inputs or other factors of production, and the development of alternative products and processes on a business segment, it is necessary to know the activities encompassed by that segment. Similarly, to assess the impact of changes in the economic and political environment on the risks and returns of a geographical segment, it is important to know the composition of that geographical segment.

Illustration I

Segment Definition Decision Tree

The purpose of this illustration is to illustrate the application of paragraphs 24-32 of the Accounting Standard.

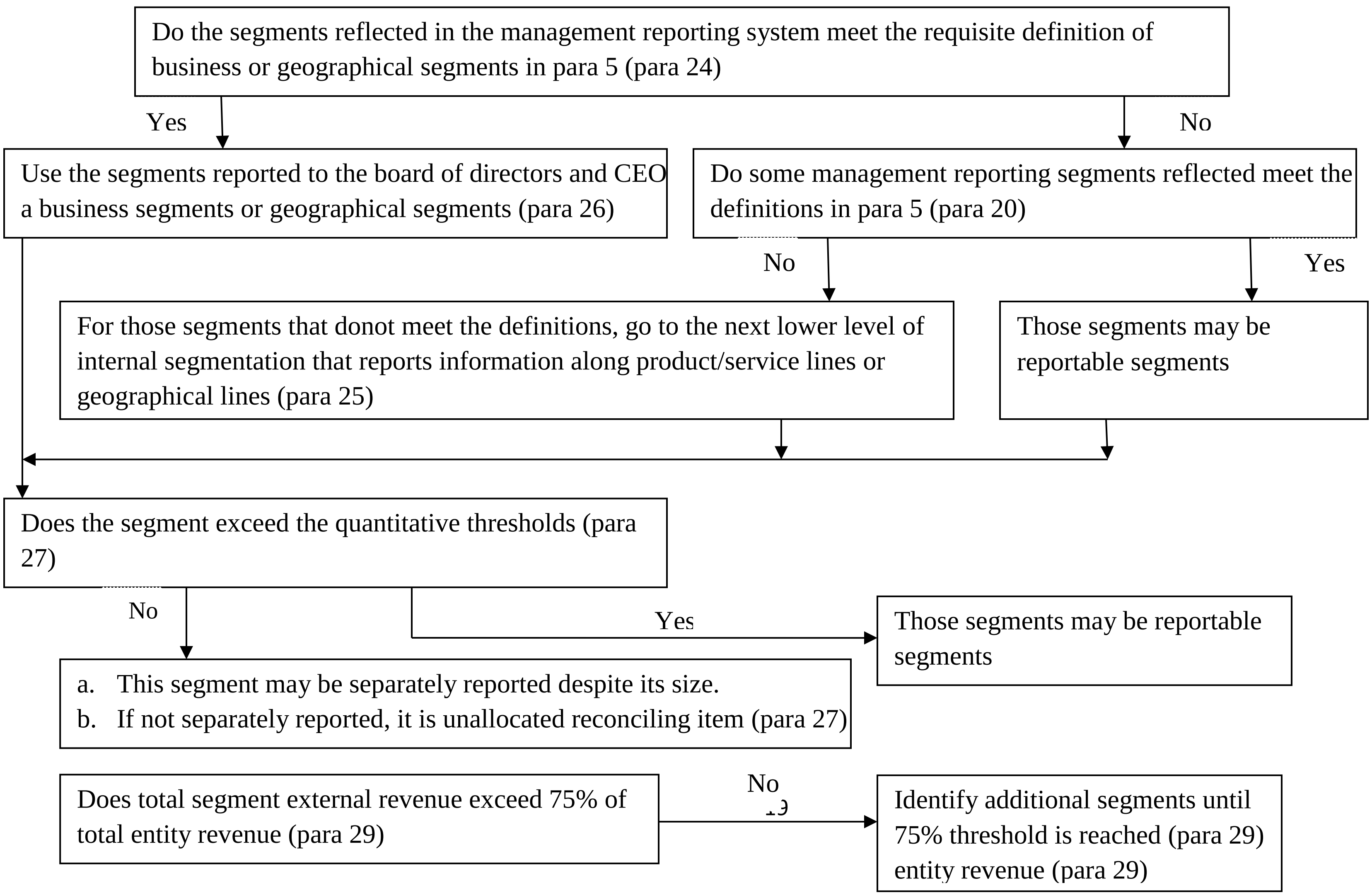

Illustration II

Illustration on Determination of Reportable Segments [Paragraphs 27-29]

This illustration does not form part of the Accounting Standard. Its purpose is to illustrate the application of paragraphs 27-29 of the Accounting Standard.

An entity operates through eight segments, namely, A, B, C, D, E, F, G and H. The relevant information about these segments is given in the following table (amounts in Rs.'000):

	A	B	C	D	E	F	G	H	Total (Segments)	Total (entity)
1. SEGMENT REVENUE (a) External Sales	-		15	10		50	20	35	400	
(b) Inter-segment Sales	100	60	30	5		-	5	-	200	
(c) Total Revenue	100	315	45	15		50	25	35	600	400
2. Total Revenue of each segment as a percentage of total revenue of all segments	16.7		7.5	2.5		8.3	4.2	5.8		

	A	B	C	D	E	F	G	H	Total (Segments)	Total (Entity) (a)
3. SEGMENT RESULT [Profit/(Loss)]	5	(90)	15	(5)	8	(5)	5	7		(b) (c) (d)
4. Combined Result of all Segments in profits	5		15		8		5	7	40	(e) (f) (g)
5. Combined Result of all Segments in loss		(90)		(5)		(5)			(100)	(h) (i) (j) (k)
6. Segment Result as a percentage of the greater of the totals arrived at 4 and in absolute amount (i.e., 100)	5	90	15	5	8	5	5	7		(l) (m) (n) (o) (p) (q)
7. SEGMENT ASSETS	15	47	5	11	3	5	5	9	100	(r) (s)
8. Segment assets as a percentage of total assets of all segments	15	47	5	11	3	5	5	9		(t) (u) (v) (w)

The reportable segments of the entity will be identified as below:

(a) In accordance with paragraph 27(a), segments whose total revenue from external sales and inter-segment sales is 10% or more of the total revenue of all segments, external and internal, shall be identified as reportable segments. Therefore, Segments A and B are reportable segments.

(b) As per the requirements of paragraph 27(b), it is to be first identified whether the combined result of all segments in profit or the combined result of all segments in loss is greater in absolute amount. From the table, it is evident that combined result in loss (i.e., Rs.100,000) is greater. Therefore, the individual segment result as a percentage of Rs.100,000 needs to be examined. In accordance with paragraph 27(b), Segments B and C are reportable segments as their segment result is more than the threshold limit of 10%.

(c) Segments A, B and D are reportable segments as per paragraph 27(c), as their segment assets are more than 10% of the total segment assets.

Thus, Segments A, B, C and D are reportable segments in terms of the criteria laid down in paragraph 27.

Paragraph 28 of the Standard gives an option to the management of the entity to designate any segment as a reportable segment. In the given case, it is presumed that the management decides to designate Segment E as a reportable segment.

Paragraph 29 requires that if total external revenue attributable to reportable segments identified as aforesaid constitutes less than 75% of the total entity revenue, additional segments shall be identified as reportable segments even if they do not meet the 10% thresholds in paragraph 27, until at least 75% of total entity revenue is included in reportable segments.

The total external revenue of Segments A, B, C, D and E, identified above as reportable segments, is Rs.295,000. This is less than 75% of total entity revenue of Rs.400,000. The management of the entity is required to designate any one or more of the remaining segments as reportable segment(s) so that the external revenue of reportable segments is at least 75% of the total entity revenue.

Segments A, B, C, D, E and H are reportable segments. Segments F and G will be shown as reconciling items.

Illustration III

Illustrative Segment Disclosures

This illustration does not form part of the Accounting Standard. Its purpose is to illustrate the application of paragraphs 38-59 of the Accounting Standard.

This illustration illustrates the segment disclosures that this Standard would require for a diversified multi-locational business entity. This example is intentionally complex to illustrate most of the provisions of this Standard.

INFORMATION ABOUT BUSINESS SEGMENTS (NOTE xx)

(All amounts in Rs. lakhs)

	Paper Products		**Office Products**		**Publishing**		**Other Operations**		**Eliminations**		**Consolidated Total**	
	Current Year	Previous year	Current Year	Previous year	Current Year	Previous year	Current Year	Previous year	Current Year	Previous year	Current Year	Previous year
REVENUE												
External Sales	55	50	20	17	19	16	7	7				
Inter-segment sales	15	10	10	14	2	4	2	2	(29)	(30)		
Total Revenue	70	60	30	31	21	20	9	9	(29)	(30)	101	90
RESULT												
Segment Result	20	17	9	7	2	1	0	0	(1)	(1)	30	24

Unallocated corporate expenses											(7)	(9)
Operating Profit											23	15
Interest expense											(4)	(4)
Interest income											2	3
Income Taxes											(7)	(4)
Profit											14	10
Net profit											14	10
OTHER INFOR-MATION												
Segment assets	54	50		30				9			108	99
Unallocated corporate assets											67	56
Total Assets											175	155
Segment liabilities	25	15		11				1			42	35
Unallocated corporate liabilities											40	55

Total liabilities											82	90
Capital expenditure		10	3	5	5		4	3				
Depreciation	9	7	9	7	5	3	3	4				
Non-cash expenses other than depreciation		2	7	3	2	2	2	1				

Note xx-Business and Geographical Segments (amounts in Rs. lakhs)

Business segments: For management purposes, the entity is organised on a worldwide basis into three major operating divisions-paper products, office products and publishing — each headed by a senior vice president. The divisions are the basis on which the entity reports its primary segment information. The paper products segment produces a broad range of writing and publishing papers and newsprint. The office products segment manufactures labels, binders, pens, and markers and also distributes office products made by others. The publishing segment develops and sells books in the fields of taxation, law and accounting. Other operations include development of computer software for standard and specialised business applications. Financial information about business segments is presented in the above table

Geographical segments: Although the entity's major operating divisions are managed on a worldwide basis, they operate in four principal geographical areas of the world. In India, its home country, the entity produces and sells a broad range of papers and office products. Additionally, all of the entity's publishing and computer software development operations are conducted in India. In the European Union, the entity operates paper and office products manufacturing facilities and sales offices in the following countries: France, Belgium, Germany and the U.K. Operations in Canada and the United States are essentially similar and consist of manufacturing papers and newsprint that are sold entirely within those two countries. Operations in Indonesia include the production of paper pulp and the manufacture of writing and publishing papers and office products, almost all of which is sold outside Indonesia, both to other segments of the entity and to external customers.

Sales by market: The following table shows the distribution of the entity's consolidated sales by geographical market, regardless of where the goods were produced:

	Sales Revenue by Geographical Market	
	Current Year	Previous year
India	19	22
European Union	30	31
Canada and the United States	28	21
Mexico and South America	6	2
Southeast Asia (principally Japan and Taiwan)	18	14
	101	90

Assets and additions to property, plant and equipment, intangible assets and investment property by geographical area: The following table shows the carrying amount of segment assets and additions to property, plant and equipment, intangible assets and investment property by geographical area in which the assets are located:

	Carrying Amount of Segment Assets		**Additions to Property, plant and equipment, Intangible Assets** and investment property	
	Current Year	Previous year	Current Year	Previous year
India	72	78	8	5
European Union	47	37	5	4
Canada and the United States	34	20	4	3
Indonesia	22	20	7	6
	175	155	24	18

Segment revenue *and expense:* In India, paper and office products are manufactured in combined facilities and are sold by a combined sales force. Joint revenues and expenses are allocated to the two business segments on a reasonable basis. All other segment revenue and expense are directly attributable to the segments.

Segment revenue *and expense:* In India, paper and office products are manufactured in combined facilities and are sold by a combined sales force. Joint revenues and expenses are allocated to the two business segments on a reasonable basis. All other segment revenue and expense are directly attributable to the segments.

Segment assets and liabilities: Segment assets include all operating assets used by a segment and consist principally of operating cash, debtors, inventories and property, plants and equipment, net of allowances and provisions which are reported as direct offsets in the balance sheet. While most such assets can be directly attributed to individual segments, the carrying amount of certain assets used jointly by two or more segments is allocated to the segments on a reasonable basis. Segment liabilities include all operating liabilities and consist principally of creditors and accrued liabilities. Segment assets and liabilities do not include deferred income taxes.

Inter-segment *transfers:* Segment revenue, segment expenses and segment result include transfers between business segments and between geographical segments. Such transfers are accounted for at competitive market prices charged to unaffiliated customers for similar goods. Those transfers are eliminated in consolidation.

Unusual item: Sales of office products to external customers in the current year were adversely affected by a lengthy strike of transportation workers in India, which interrupted product shipments for approximately four months. The entity estimates that sales of office products during the four-month period were approximately half of what they would otherwise have been.

Illustration IV
Summary of Required Disclosures

This illustration does not form part of the Accounting Standard. Its purpose is to summarise the disclosures required by paragraphs 38-59 for each of the three possible primary segment reporting formats.

Figures in parentheses refer to paragraph numbers of the relevant paragraphs in the text.

PRIMARY FORMAT IS BUSINESS SEGMENTS	**PRIMARY FORMAT GEOGRAPHICAL SEGMENTS BY LOCATION OF ASSETS**	**PRIMARY FORMAT GEOGRAPHICAL SEGMENTS B LOCATION OF CUSTOMERS**
Required Primary Disclosures	***Required Primary Disclosures***	***Required Primary Disclosures***
Revenue from external customers by business segment [40(a)]	Revenue from external customers by location of assets [40(a)]	Revenue from external customers by location of customers [40(a)]
Revenue from transactions with other segments by business segment [40(a)]	Revenue from transactions with other segments by location of assets [40(a)]	Revenue from transactions with other segments by location of customers [40(a)]
Segment result by business segment [40(b)]	Segment result by location of assets [40(b)]	Segment result by location of customers [40(b)]
Carrying amount of segment assets by business segment [40(c)]	Carrying amount of segment assets by location of assets [40(c)]	Carrying amount of segment assets by location of customers [40(c)]
Segment liabilities by business segment [40(d)]	Segment liabilities by location of assets [40(d)]	Segment liabilities by location of customers [40(d)]
Cost to acquire property, plant and equipment, intangible assets and investment property by business segment [40(e)]	Cost to acquire property, plant and equipment, intangible assets and investment property by location of assets [40(e)]	Cost to acquire property, plant and equipment, intangible assets and investment property by location of customers [40(e)]
Depreciation and amortisation expense by business segment	Depreciation and amortisation expense by location of assets[40(f)]	Depreciation and amortisation expense by location of customers[40(f)]
Non-cash expenses other than depreciation and amortisation by business segment	Non-cash expenses other than depreciation and amortisation by location of assets	Non-cash expenses other than depreciation and amortisation by location of customers
Reconciliation of revenue, result, assets, and liabilities by business segment [46]	Reconciliation of revenue, result, assets, and liabilities [46]	Reconciliation of revenue, result, assets, and liabilities [46]
Required Secondary Disclosures	***Required Secondary Disclosures***	***Required Secondary Disclosures***

PRIMARY FORMAT IS BUSINESS SEGMENTS	**PRIMARY FORMAT GEOGRAPHICAL SEGMENTS BY LOCATION OF ASSETS**	**PRIMARY FORMAT GEOGRAPHICAL SEGMENTS B LOCATION OF CUSTOMERS**
Revenue from external customers by location of customers [48]	Revenue from external customers by business segment [49]	Revenue from external customers by business segment [49]
Carrying amount of segment assets by location of assets [48]	Carrying amount of segment assets by business segment [49]	Carrying amount of segment assets by business segment [49]
Cost to acquire property, plant and equipment, intangible assets and investment property by location of assets [48]	Cost to acquire property, plant and equipment, intangible assets and investment property by business segment [49]	Cost to acquire property, plant and equipment, intangible assets and investment property by business segment [49]
	Revenue from external customers by geographical customers if different from location of assets [50]	
		Carrying amount of segment assets by location of assets if different from location of customers [51]
		Costs to acquire property, plant and equipment, intangible assets and investment property by location of assets if different from location of customers
Other Required Disclosures	***Other Required Disclosures***	***Other Required Disclosures***
Basis of pricing inter-segment transfers and any change therein [53]	Basis of pricing inter-segment transfers and any change therein [53]	Basis of pricing inter-segment transfers and any change therein [53]
Changes in segment accounting policies [54]	Changes in segment accounting policies [54]	Changes in segment accounting policies [54]
Types of products and services in each business segment [58]	Types of products and services in each business segment [58]	Types of products and services in each business segment [58]
Composition of each geographical segment	Composition of each geographical segment	Composition of each geographical segment

Appendix 1

Note 1: This Appendix is not a part of the Accounting Standard. The purpose of this Appendix is only to bring out the major differences, if any, between Accounting Standard (AS) 108 and the corresponding Indian Accounting Standard (Ind AS) 108, Operating Segments.

Note 2: Paragraph numbering appearing in revised AS 108 can be different as compared to those in Ind AS 108.

1. Under Ind AS 108, identification of segments is based on 'management approach' i.e., operating segments are identified based on the internal reports regularly reviewed by the entity's chief operating decision-maker. Revised AS 108 requires identification of two sets of segments; one based on related products and services, and the other on geographical areas based on the risks and returns approach. One set is regarded as primary segments and the other as secondary segments.

2. Ind AS 108 requires that the amounts reported for each operating segment shall be measured on the same basis as that used by the chief operating decision maker for the purposes of allocating resources to the segments and assessing its performance. Revised AS 108 requires segment information to be prepared in conformity with the accounting policies adopted for preparing and presenting the financial statements of the enterprises as a whole. Accordingly, Revised AS 108 also defines segment revenue, segment expense, segment result, segment assets and segment liabilities.

3. Ind AS 108 specifies aggregation criteria for aggregation of two or more segments and also requires the related disclosures in this regard. Revised AS 108 does not deal specifically with this aspect.

4. Revised AS 108 state that in case there is neither more than one business segment nor more than one geographical segment, segment information as per the standard is not required to be disclosed. However, this fact shall be disclosed by way of a note. Ind AS 108 requires certain disclosures even in case of entities having single reportable segment.

5. As per Revised AS 108, interest expense relating to overdrafts and other operating liabilities identified to a particular segment should not be included as a part of the segment expense unless the operations of the segment are primarily of a financial nature or unless interest is included as part of the cost of inventories. It also provides that in case interest is included as a part of the cost of inventories where it is so require as per AS 16 read with AS 2 and those inventories are part of segment assets of a particular segment, such interest should be considered as a segment expense. This aspect is specifically dealt with as an explanation keeping in view that the definition of 'segment expense' given in Revised AS 108 excludes interest expense.

   Ind AS 108 requires separate disclosures about interest revenue and interest expense of each reportable segment, therefore, these aspects have not been specifically dealt with.

6. Ind AS 108 requires disclosures of revenues from external customers for each product and service. With regard to geographical information, it requires the disclosure of revenues from customers in the country of domicile and in all foreign countries, non-current assets in the country of domicile and all foreign countries. It also requires disclosure of information about major customers. Disclosures in Revised AS 108 are based on the classification of the segments

as primary or secondary segments. Disclosure requirements for primary segments are more detailed as compared to secondary segments.

7. As compared to Ind AS 108, Revised AS 108 includes the following Illustrations:
   (i) Illustration I *Segment Definition Decision Tree*
   (ii) Illustration II *Illustration on Determination of Reportable Segments*
   (iii) Illustration III *Illustrative Segment Disclosures*
   (iv) Illustration IV *Summary of Required Disclosures*

Appendix 2

This Appendix is not a part of the Accounting Standard. The purpose of this Appendix is only to bring out the major differences, if any, between Accounting Standard (AS) 108 and Accounting Standard 17, Segment Reporting.

1. Since revised AS 108 is based on existing AS 17, there are no major differences between the two. However, certain changes have been made to align the provisions with other revised AS, such as revised AS 1, *Presentation of Financial Statements,* and revised AS 8, *Accounting Policies, Changes in Accounting estimates and Errors*.

2. Accounting Standard 5, *Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies,* required that "when items of income and expense within profit or loss from ordinary activities are of such size, nature or incidence that their disclosure is relevant to explain the performance of the enterprise for the period, the nature and amount of such items should be disclosed separately". In this regard, AS 17 encouraged, but not required, an entity to disclose the nature and amount of any items of segment revenue and segment expense that are of such size, nature, or incidence that their disclosure is relevant to explain the performance of the segment for the period. Revised AS 1, '*Presentation of Financial Statements*' requires that "when items of income and expense are material, the entity shall disclose their nature and amount separately". Revised AS 108 requires the disclosure of the nature and amount of material items of segment revenue and segment expense in accordance with revised AS 1.