

TOPIC 28

INDAS 108 OPERATING SEGMENTS

INDEX

S.No.	Topic Name	Page No.
1	What is Segment Report	864
2	Identification of Operating Segments	864
3	Aggregation of Similar Operating Segments	866
4	Quantitative Threshold	867
5	Segment Report (Disclosures)	869

Quote:-

Always Remember

*That your present situation is not your final destination,
The Best is yet to corner*



Segment Reports

This standard requires entity to prepare a Segment wise report of entire business so that the stakeholders can understand and evaluate the performance of business on segment wise.

Segment report is not a part of Financial Statements. Also this IndAS provides following guidelines to prepare a segment report:

1. First of all identify the operating segments of business
2. Make aggregation of similar operating segments
3. Identify Reportable Segments from operating segments (Quantitative Threshold)
4. Prepare segment reports

SEGMENT REPORT FOR CONSOLIDATION & SEPARATE FINANCIAL STATEMENTS

If a financial report contains both the consolidated financial statements of a parent that is within the scope of Ind AS 108 as well as the parent's separate financial statements, segment information is required only in the consolidated financial statements.

STEP 1 - IDENTIFY OPERATING SEGMENTS

An operating segment is a component of an entity that should have following characteristics:

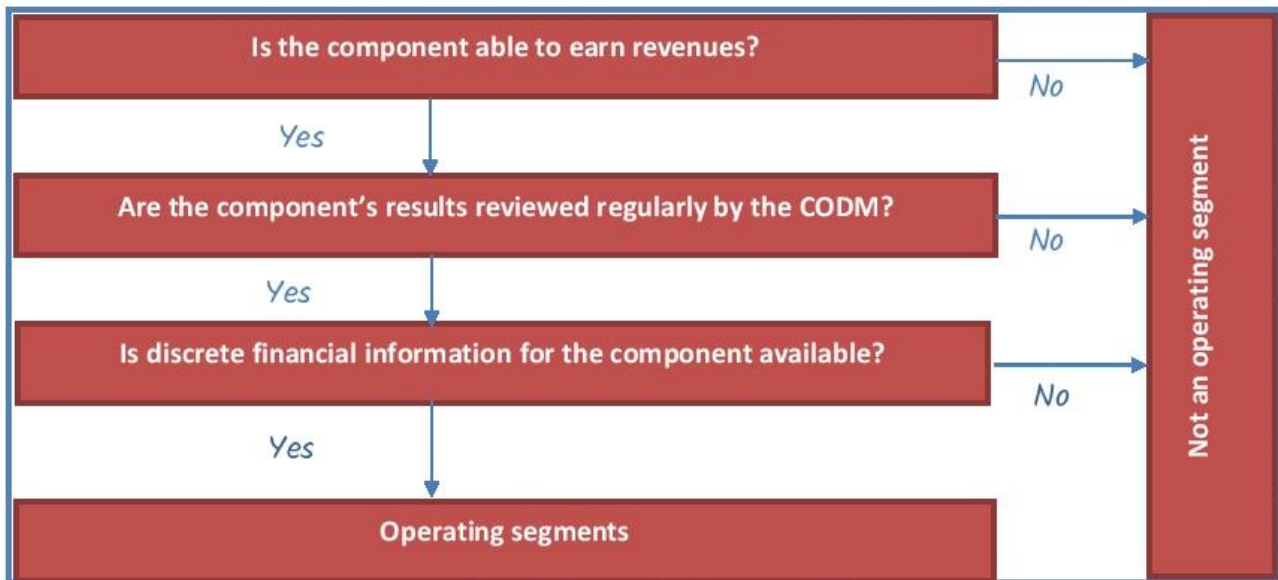
- (a) that engages in business activities from which **it may earn revenues and incur expenses** (including revenues and expenses relating to transactions with other components of the same entity);
- (b) whose **operating results (Profits/Losses)** are regularly reviewed by the entity's chief **operating decision maker (CODM)** to make decisions about resources to be allocated to the segment and assess its performance; and
- (c) for which **discrete financial information** is available (like Incomes, Expenses, Assets, Liabilities etc)

Note:

1. An operating segment may engage in business activities for which it has yet to earn revenues, for example, **start-up operations may be operating segments** before earning revenues.
2. According to AS 17 Segment Reporting, there can be two types of segments Business Segment (Product/Service wise) and Geographical Segments (Area wise). IndAS 108 does not include such type of categories.



3. It may be noted that AS 17 follows the approach of **risk and return** for determination of a business and geographical segment. **Ind AS 108, however, follows the management approach** meaning thereby that whichever business activity is considered by the management (CODM) as a separate source of revenue will be considered as an operating segment



Q406 (ICAI MODULE)

ABC Ltd. manufactures and sells healthcare products, and food and grocery products. Three products namely A, B & C are manufactured. Product A is classified as healthcare product and product B & C are classified as food and grocery products. Products B & C are similar products. Discrete financial information is available for each manufacturing locations and for the selling activity of each product. There are two line managers responsible for manufacturing activities of products A, B & C. Manager X manages product A and Manager B manages products B & C. The operating results of health care products (product A) and food and grocery products (products B & C) are regularly reviewed by the CODM. Identify reportable segments of ABC Ltd.

Solution

In this situation both the healthcare, and food and grocery product line meet the criteria for operating segments set out above. Therefore, it is likely that ABC Ltd.'s operating segments would be classified as being (i) healthcare and (ii) food and grocery segments.

Whether each part or activity of business can be treated as Operating Segment?

Not every part of an entity is necessarily an operating segment or part of an operating segment.

For example, **a corporate headquarters or some functional departments** may not earn revenues or may earn revenues that are only incidental to the activities of the entity and would not be operating segments. For the purposes of Ind AS 108, an entity's **post-employment benefit plans are not operating segments.**

Who is CODM?

The term 'chief operating decision maker' (CODM) identifies a function, not necessarily a manager with a specific title.

That function is to allocate resources to and assess the performance of the operating segments of an entity.

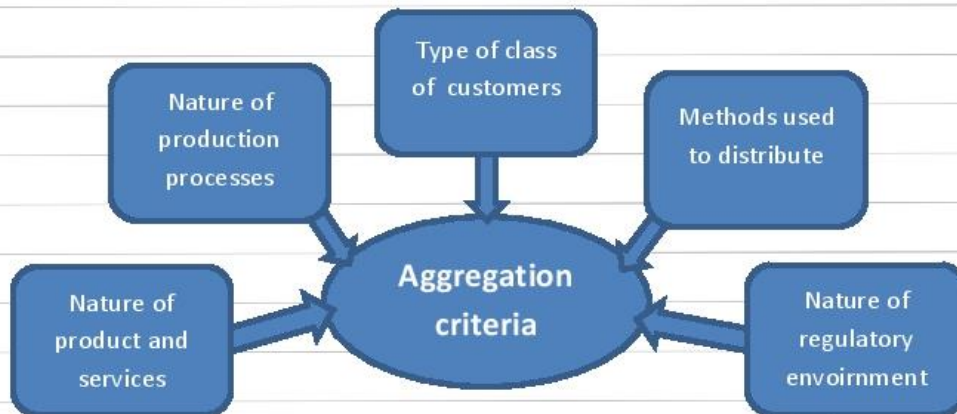
Often the CODM of an entity is its chief executive officer or chief operating officer but, for example, it may be a group of executive directors or others.

STEP 2 – AGGREGATION OF SIMILAR OPERATING SEGMENTS

Two or more operating segments may be aggregated into a single operating segment if the segments have similar economic characteristics, and the segments are similar in each of the following respects:

- (a) the nature of the products and services;
- (b) the nature of the production processes;
- (c) the type or class of customer for their products and services;
- (d) the methods used to distribute their products or provide their services; and
- (e) if applicable, the nature of the regulatory environment, for example, banking, insurance or public utilities.





Q407

X Ltd. is engaged in the business of manufacturing and selling papers. Varieties of paper like adhesive paper, anti-rust paper, antique paper, art paper etc., are manufactured and sold by X Ltd. Should X Ltd. classify these papers into different segments?

Solution

Two or more operating segments may be aggregated into a single operating segment if the segments have similar economic characteristics, and the segments are similar with respect to various factors like nature of the product and production process, type of customers, method of distribution and regulatory requirement.

In case of X Ltd., so far as varieties of paper concerned, if all factors such as nature of the product and production process, type of customers, method of distribution and regulatory requirement are common, there is no need to create different segments for each type of paper.

STEP 3 - QUANTITATIVE THRESHOLDS

Separate financial information for each segment should be presented for that operating segments which meets the following quantitative thresholds:

(a) Its reported **revenue**, including both sales to external customers and intersegment sales or transfers, is **10% or more of the combined revenue**, internal and external, of all operating segments.

(b) The absolute amount (ignoring negative signs) of its **reported profit or loss is 10% or more of the greater**, in absolute amount, of



- (i) the combined reported profit of all operating segments that did not report a loss and
(ii) the combined reported loss of all operating segments that reported a loss.

(c) Its **assets are 10% or more** of the combined assets of all operating segments.

Revenue;
or

10% of revenue (Internal and external) for all segments; or

Profit or
loss; or

10 % of absolute combined profit or combined loss (Whichever is greater) ; or

Assets

10% of combined assets for all segments

Choice of Management:

Operating segments that do not meet any of the quantitative thresholds may be considered reportable and separately disclosed, if management believes that information about the segment would be useful to users of the financial statements.

Minimum 75% criteria:

If the total **external revenue** reported by operating segments constitutes less than 75% of the entity's revenue, additional operating segments should be identified as reportable segments (even if they do not meet the criteria) until at least 75% of the entity's revenue is included in reportable segments.

External revenue of reportable segments must be $\geq 75\%$ of total external revenue of the entity.

Reportable in the Immediately preceding period:

If management judges that an operating segment identified as a reportable segment in the immediately preceding period is of continuing significance, information about that segment should continue to be reported separately in the current period even if it no longer meets the criteria for reportability.



Q408

X Ltd. has identified the following business components.

Segment	Revenue (Rs.)		Profit (Rs.)	Assets(Rs.)
	External	Internal		
Pharma	97,00,000	Nil	20,00,000	55,00,000
FMCG	Nil	4,00,000	2,50,000	25,00,000
Ayurveda	3,00,000	Nil	2,00,000	4,00,000
Others	8,00,000	41,00,000	5,50,000	6,00,000
Total for the Entity	1,08,00,000	45,00,000	30,00,000	90,00,000

Which of the segments would be reportable as per the criteria prescribed in Ind AS108?

Solution

Quantitative thresholds are calculated below:

Segment	Pharma	FMCG	Ayurveda	Others
% segment sales to total sales	63.40	2.61	1.96	32.03
% segment profit to total profits	66.67	8.33	6.67	18.33
%segment assets to total assets	61.11	27.78	4.44	6.67

Segment Pharma would separately reportable since they meet all three size criteria, though any one criteria is required. FMCG segment does not satisfy the revenue and profit test but does satisfy the asset test. So it would be separately reportable. Ayurveda segment does not meet any threshold. It may not be classified as reportable segment.

Information about other business activities and operating segments that are not reportable should be combined and disclosed in an 'all other segments' category separately from other reconciling items in the reconciliations. The sources of the revenue included in the 'all other segments' category should be described.

STEP 4 – PREPARE A SEGMENT REPORT (DISCLOSURES)

An entity should disclose the following for each period in the segment report:

(a) **General Information;**

(b) Information about reported segment profit or loss, including **specified revenues and expenses** included in reported segment profit or loss, **segment assets, segment liabilities and the basis of measurement;** and



(c) Reconciliations of the totals of segment revenues, reported segment profit or loss, segment assets, segment liabilities and other material segment items to corresponding entity amounts.

(a) General Information

An entity should disclose the following general information:

- (a) **factors used** to identify the entity's reportable segments, including the basis of organisation (for example, whether management has chosen to organise the entity around differences in products and services, geographical areas, regulatory environments, or a combination of factors and whether operating segments have been aggregated); and
- (b) The **judgments made by management** in applying the aggregation criteria. This includes a brief description of the operating segments that have been aggregated in this way and the economic indicators that have been assessed in determining that the aggregated operating segments share similar economic characteristics; and
- (c) **Types of products and services** from which each reportable segment derives its revenues.

The following illustrates the disclosure of descriptive information about an entity's reportable segments:

(b) Information about profit or loss, assets and liabilities

An entity should report a measure of profit or loss for each reportable segment. An entity should report a measure of total assets and liabilities for each reportable segment if such amounts are regularly provided to the CODM. An entity should also disclose the following about each reportable segment if the specified amounts are included in the measure of segment profit or loss reviewed by the CODM, or are otherwise regularly provided to the CODM, even if not included in that measure of segment profit or loss:

- (a) revenues from external customers;
- (b) revenues from transactions with other operating segments of the same entity;
- (c) interest revenue;
- (d) interest expense;
- (e) depreciation and amortisation;



- (f) material items of income and expense disclosed in accordance with Ind AS 1, Presentation of Financial Statements;
- (g) the entity's interest in the profit or loss of associates and joint ventures accounted for by the equity method;
- (h) income tax expense or income; and
- (i) Material non-cash items other than depreciation and amortisation.
- (j) Segment Assets and Liabilities (Non-Current and Current)
- (k) Capital Expenditure incurred during the year segment wise

An entity should report interest revenue separately from interest expense for each reportable segment unless a majority of the segment's revenues are from interest and the CODM relies primarily on net interest revenue to assess the performance of the segment and make decisions about resources to be allocated to the segment. In that situation, an entity may report that segment's interest revenue net of its interest expense and disclose that it has done so.

Information about reportable segment profit or loss, assets and liabilities

	Car parts	Motor vessels	Soft ware	Electronics	Finance	All others	Total
Revenue from external customers						(a)	
Inter-segment revenues						-	
Interest revenue						-	
Interest expense						-	
Net interest revenue (b)						-	
Depreciation and amortisation						-	
Reportable Segment profit/loss							
Other material Non-cash item:							



Impairment of assets							
Reportable segment assets							
Expenditures for reportable segment in non-current assets							
Reportable segment liabilities							

(a) Revenues from segments below the quantitative thresholds are attributable to four operating segments of Diversified Company. Those segments include a small property business, an electronics equipment rental business, a software consulting practice and a warehouse leasing operation. None of those segments has ever met any of the quantitative thresholds for determining reportable segments.

(b) The finance segment derives a majority of its revenue from interest. Management primarily relies on net interest revenue, not the gross revenue and expense amounts, in managing that segment. Therefore, only the net amount is disclosed.

(c) MEASUREMENT

How the items to be reported are measured?

Same measurement basis as used by CODM-reconciliation to financial statements needed.

The amount of each segment item reported should be the measure reported to the CODM for the purposes of making decisions about allocating resources to the segment and assessing its performance.

However generally the segment revenue and results are measured as under:

Segment Revenue – Total of Internal and External Revenue including any other revenue earned by the segment.

Segment Result – Segment Revenue less all expenses of segments except interest, tax and head office expenses.



(d) RECONCILIATIONS

An entity should provide reconciliations of all of the following:

- the total of the reportable segments' revenues to the entity's revenue;
- the total of the reportable segments' measures of profit or loss to the entity's profit or loss before tax expense (tax income) and discontinued operations. However, if an entity allocates to reportable segments items such as tax expense (tax income), the entity may reconcile the total of the segments' measures of profit or loss to the entity's profit or loss after those items;
- the total of the reportable segments' assets to the entity's assets if the segment assets are reported;
- the total of the reportable segments' liabilities to the entity's liabilities if segment liabilities are reported; and
- the total of the reportable segments' amounts for every other material item of information disclosed to the corresponding amount for the entity.

Q409.

X Ltd. has identified 4 operating segments for which revenue data is given below:

	External Sale (Rs)	Internal Sale (Rs)	Total (Rs)
Segment A	30,00,000	Nil	30,00,000
Segment B	6,50,000	Nil	6,50,000
Segment C	8,50,000	1,00,000	9,50,000
Segment D	5,00,000	49,00,000	54,00,000
Total Sales	50,00,000	50,00,000	1,00,00,000

Additional information:

Segment C is a new business unit and management expect this segment to make a significant contribution to external revenue in coming years.

Which of the segments would be reportable under the criteria identified in Ind AS 108?

Solution:

Threshold amount is Rs 10,00,000 (Rs 1,00,00,000 × 10%).

Segment A exceeds the quantitative threshold (Rs 30,00,000 > Rs 10,00,000) and hence reportable segment.

Segment D exceeds the quantitative threshold (Rs 54,00,000 > Rs 10,00,000) and hence reportable segment.



Segment B & C do not meet the quantitative threshold amount and may not be classified as reportable segment.

However, the total external revenue generated by these two segments A & D represent only 70% ($\text{Rs } 35,000/50,000 \times 100$) of the entity's total external revenue. If the total external revenue reported by operating segments constitutes less than 75% of the entity total external revenue, additional operating segments should be identified as reportable segments until at least 75% of the revenue is included in reportable segments.

In case of X Ltd., it is given that Segment C is a new business unit and management expect this segment to make a significant contribution to external revenue in coming years. In accordance with the requirement of Ind AS 108, X Ltd. designates this start-up segment C as a reportable segment, making the total external revenue attributable to reportable segments 87% ($\text{Rs } 43,50,000/ 50,00,000 \times 100$) of total entity revenues.

Q410.

X Ltd. is operating in coating industry. Its business segment comprise coating and others consisting of chemicals, polymers and related activities. Certain information for financial year 20X1-20X2 is given below :

(Rs in lakhs)

Segments	External sale	Tax	Other operating income	Result	Asset Liabilities	
Coating	2,00,000	5,000	40,000	10,000	50,000	30,000
Others	70,000	3,000	15,000	4,000	30,000	10,000

Additional information:

1. Unallocated revenue net of expenses is Rs 30,00,00,000
2. Interest and bank charges is Rs 20,00,00,000
3. Income tax expenses is Rs 20,00,00,000 (current tax Rs 19,50,00,000 and deferred tax Rs 50,00,000)
4. Investments Rs 1,00,00,00,000 and unallocated assets Rs 1,00,00,00,000.
5. Unallocated liabilities, Reserve & surplus and share capital are Rs 2,00,00,00,000, Rs 3,00,00,00,000 & Rs 1,00,00,00,000 respectively.
6. Depreciation amounts for coating & others are Rs 10,00,00,000 and Rs 3,00,00,000 respectively.



7. Capital expenditure for coating and others are Rs 50,00,00,000 and Rs 20,00,00,000 respectively.
8. Revenue from outside India is Rs 3,00,00,00,000 and segment asset outside India Rs 1,00,00,00,000.

Based on the above information, how X Ltd. would disclose information about reportable segment revenue, profit or loss, assets and liabilities for financial year 20X1-20X2?

Solution:

Segment information

(A) Information about operating segment

(1) the company's operating segments comprise :

Coatings: consisting of decorative, automotive, industrial paints and related activities.

Others: consisting of chemicals, polymers and related activities.

(2) Segment revenues, results and other information.

(Rs in Lakhs)

	Revenue	Coating	Others	Total
1.	External sales (gross)	2,00,000	70,000	2,70,000
	Tax	(5,000)	(3,000)	(8,000)
	External sales (net)	1,95,000	67,000	2,62,000
	Other operating income	40,000	15,000	55,000
	Total Revenue	2,35,000	82,000	3,17,000
2.	Results			
	Segment results	10,000	4,000	14,000
	Unallocated income (net of unallocated expenses)			3,000
	Profit from operation before interest, taxation and exceptional items			17,000
	Interest and bank charges			2,000
	Profit before exceptional items			15,000
	Exceptional items			Nil
	Profit before taxation			15,000
	Income Taxes			1,950
	-Current taxes			
	-Deferred taxes			50
	Profit after taxation			13,000
3.	Other Information			
(a)	Assets			
	Segment Assets	50,000	30,000	80,000



Investments			10,000
Unallocated assets			10,000
Total Assets			1,00,000
(b) Liabilities/Shareholder's funds			
Segment liabilities	30,000	10,000	40,000
Unallocated liabilities			20,000
Share capital			10,000
Reserves and surplus			30,000
Total liabilities/shareholder's funds			1,00,000
(c) Others			
Capital Expenditure		5,000	2,000
Depreciation		1,000	300
Geographical Information			(Rs in lakhs)
	India (Rs)	Outside India (Rs)	Total (Rs)
Revenue	2,87,000	30,000	3,17,000
Segment assets	70,000	10,000	80,000
Capital expenditure	7,000		7,000

Notes:

- (i) The operating segments have been identified in line with the Ind AS 108, taking into account the nature of product, organisation structure, economic environment and internal reporting system.
- (ii) Segment revenue, results, assets and liabilities include the respective amounts identifiable to each of the segments. Unallocable assets include unallocable fixed assets and other current assets. Unallocable liabilities include unallocable current liabilities and net deferred tax liability.
- (iii) Corresponding figures for previous year have not been provided. However, in practical scenario the corresponding figures would need to be given.





Student Notes:-

COVID-19





Student Notes:-

COVID-19

