

Ind AS 108

Operating Segments

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Scope



Scope

This Accounting Standard shall apply to companies to which Indian Accounting Standards (Ind ASs) notified under the Companies Act apply.

If an entity that is not required to apply this Ind AS chooses to disclose information about segments that does not comply with this Ind AS, it shall not describe the information as segment information.

Key Concepts



Operating Segments

An operating segment is a component of an entity:

- a. that engages in business activities from which it may earn revenues and incur expenses,**
- b. whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and**
- c. for which discrete financial information is available.**

Chief Operating Decision Maker (CODM)

The term 'chief operating decision maker' 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 chief operating decision maker 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.

A question for you : CODM (1)

- Executive Committee of Company ABC comprises CEO, COO and President
- Committee assesses performance and makes resource allocation decisions
- Each Committee member has a single vote

Who is the CODM of Company ABC?

- Executive committee
- CEO
- COO
- President

Response : CODM (1)

The CODM is the Executive Committee because it is the highest level of management that assesses performance and makes resource allocation decisions.

A question for you : CODM (2)

- (1) Same as previous slide, except that the President can override a vote of the Committee
- (2) Same as previous slide, except that a Supervisory Board reviews the operation of the Committee.

In each case, can you identify the CODM?

Response : CODM (2)

- In case 1, in our view the CODM is the President. This is on the basis that the President essentially controls the Executive Committee and therefore has control over the operating decisions that the Executive Committee makes.
- In case 2, in our view the CODM remains the Executive Committee because the mere existence of the higher level Supervisory Board does not necessarily mean that it is the CODM. In this example there is no indication that the Supervisory Board assesses performance and/or makes resource allocation decisions. In practice this will be a matter of judgement depending on the specific facts and circumstances.

Reportable Segments

An entity shall report separately information about each operating segment that:

- a. has been identified or results from aggregating two or more of those segments in accordance with aggregation criteria, and
- b. exceeds the quantitative thresholds

Quantitative thresholds

An entity shall report separately information about an operating segment that meets any of the following quantitative thresholds:

- a. Its reported revenue, including both sales to external customers and intersegment sales or transfers, is 10 per cent or more of the combined revenue, internal and external, of all operating segments.
- b. The absolute amount of its reported profit or loss is 10 per cent 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 per cent or more of the combined assets of all operating segments.

Quantitative thresholds

Note: If the total external revenue reported by operating segments constitutes less than 75 per cent of the entity's revenue, additional operating segments shall be identified as reportable segments (even if they do not meet the criteria in paragraph 13) until at least 75 per cent of the entity's revenue is included in reportable segments

Quantitative thresholds-Example

Example – Determining reportable segments

Entity A has operating segments A-F (below). The revenues (internal and external), profits and assets are set out below. Entity A needs to determine how many reportable segments it has. The figures are in the same proportions as in the previous year.

Segment	Total revenue	Profit/loss	Total assets
A	11,000	2,000	25,000
B	7,500	1,000	15,500
C	3,000	(1,000)	10,500
D	3,500	(500)	7,000
E	4,000	600	7,000
F	1,500	400	3,500
	30,500	2,500	68,500

Segments A, B, C and E clearly satisfy the revenue and assets test under Ind AS 108 and they are separate reportable segments. There is no need to consider profits test.

Segment C does not satisfy the revenue test, but it does satisfy the assets test and it is a reportable segment. Therefore, there is no need to consider the profits test.

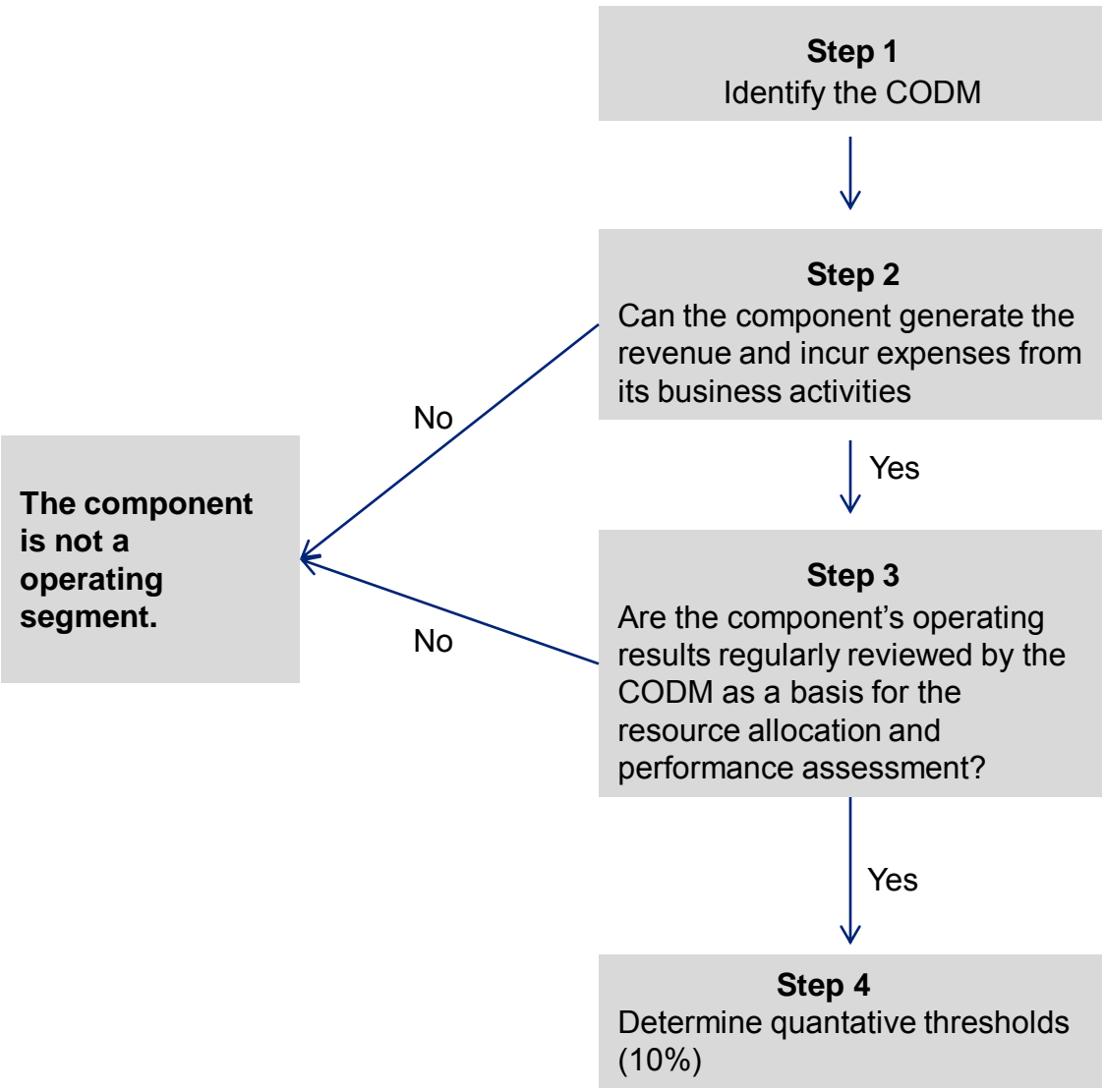
Segment F does not satisfy the revenue or the assets tests, but it does satisfy the profits test because its profit of 400 is 10% of the greater of the absolute amount of losses of those segments in loss (1,500) and those that either break even or make a profit (4,000 including segment F). Therefore segment F is a reportable segment.

Aggregation criteria

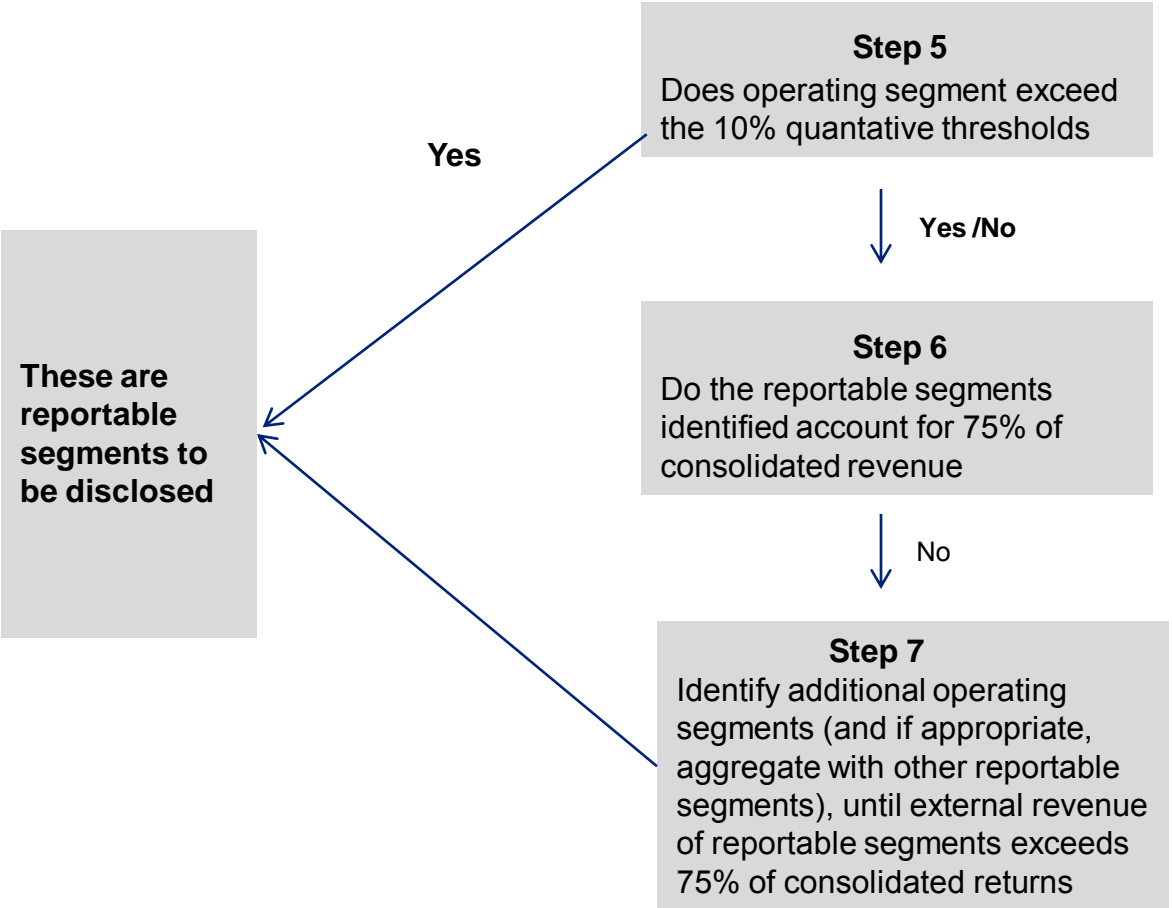
Two or more operating segments may be aggregated into a single operating segment if aggregation is consistent with the core principle of this Ind AS, the segments have similar economic characteristics, and the segments are similar in each of the following respects:

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

Steps for identifying Operating Segments



Steps for identifying Operating Segments



Questions and answers

Question:

Is the CODM always viewed as the highest level of management at which decisions are made?

Answer:

Typically, yes. In almost every organisation, decisions about the entity's resource allocation and the assessment of the performance of the entity's businesses are made at the highest level of management.

Question:

Does a component meet the definition of a segment if the CODM reviews revenue-only information?

Answer:

In most cases, no. For most entities, the review of revenue-only data is not sufficient for decision-making related to resource allocation or performance evaluation of a segment.

Questions and answers

Question:

Is a segment balance sheet necessary to conclude that discrete financial information is available?

Answer:

No. We believe that in many cases the requirement for discrete financial information can be met with operating performance information only, such as revenue and gross profit by product line.

Question:

Can a discontinued operation be an operating segment?

Answer:

Yes. A discontinued operation can meet the definition of an operating segment if:

- it continues to engage in business activities;
- the operating results are regularly reviewed by the CODM; and
- discrete financial information is available to facilitate the review.

Questions and answers

Question:

When applying the 75% test under Ind AS 108 para 15, should the next largest operating segment always be selected?

Answer:

No. The entity should select the next most meaningful operating segment.

Question:

Is aggregation must if two or more segments meet all the aggregation criteria?

Answer:

No, Aggregation into a single reportable is permitted. But its not compulsory.



Disclosures

Disclosure

1.1 Adoption of Ind AS 108 Operating Segments

The Company has adopted Ind AS 108 Operating Segments with effect from 1 April 20XX. Ind AS 108 requires operating segments to be identified on the basis of internal reports about components of the Company that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess their performance.

1.2 Segment revenues and results

The following is an analysis of the Company's revenue and results from continuing operations by reportable segment:

	Segment Revenue		Segment Profit
	Year Ended		Year Ended
	31-Mar-XX		31-Mar-XX
	INR Crores		INR Crores
AA	XXX		XXX
BB	XXX		XXX
Others	XXX		XXX
Less: Inter Segment Revenue	XXX		-
Total for continuing operations	XXX		XXX
Central administration costs			XXX
Profit before tax (continuing operations)			XXXX

Disclosure

1.3 Segment assets and liabilities

	As at
	31-Mar-XX
Segment assets	INR Crores
AA	XXX
BB	XXX
Others	XXX
Total segment assets	XXXX
Unallocated	XXX
Consolidated assets	XXXXX

Segment liabilities	As at
	31-Mar-XX
	INR Crores
AA	XXX
BB	XXX
Others	XXX
Total segment liabilities	XXXX
Unallocated	XXX
Consolidated liabilities	XXXXX

Disclosure

1.4 Other segment information

	Depreciation and amortisation	Additions to noncurrent assets
	Year Ended	Year Ended
	31-Mar-XX	31-Mar-XX
	INR Crores	INR Crores
AA	XXX	XXX
BB	XXX	XXX
Others	XXX	XXX
	XXXX	XXXX

1.5 Revenue from major products and services

	Year Ended
	31-Mar-XX
	INR Crores
X1	XXX
X2	XXX
X3	XXX
X4	XXX
Others	

Disclosure

1.6 Geographical information

The Company operates in two principal geographical areas – India (country of domicile) and Outside India.

The Company's revenue from continuing operations from external customers and information about its non-current assets by geographical location are detailed below.

	Revenue from external customers	Non-current assets*
	Year Ended	As at
	31-Mar-XX	31-Mar-XX
	INR Crores	INR Crores
India	XXX	XXX
Outside India	XXX	XXX

1.7 Information about major customers

In respect of customers which accounts for more than 10% of the revenues

Thank You