EXPOSURE DRAFT

Accounting Standards Interpretation (ASI) 3[1] (Revised)

Accounting for Taxes on Income in the situations of Tax Holiday under Sections 80-IA and 80-IB of the Income-tax Act, 1961

Accounting Standard (AS) 22, Accounting for Taxes on Income

(Last Date for Comments: April 30, 2005)

[The revision to this Interpretation is being undertaken only to cover the situation where the timing differences originate before the tax holiday period and reverse during the tax holiday period or thereafter. Thus, the Accounting Standards Board does not intend to review the basic requirements of this Interpretation.]

The following is the text of the Exposure Draft of revised Accounting Standards Interpretation (ASI) 3 on Accounting for Taxes on Income in the situations of Tax Holiday under Sections 80-IA and 80-IB of the Income-tax Act, 1961, issued by the Accounting Standards Board of the Institute of Chartered Accountants of India, for comment. Members and others are requested to send their comments on the Exposure Draft to the Secretary, Accounting Standards Board, The Institute of Chartered Accountants of India, Post Box No. 7100, Indraprastha Marg, New Delhi – 110 002, so as to reach him not later than April 30, 2005. Comments can also be sent by e-mail at tdte@icai.org.

This is a 'marked copy' which indicates the changes proposed vis-à-vis existing ASI 3. Proposed additions are underlined whereas proposed omissions are shown in strike-through form.

ISSUE

1. Sections 80-IA and 80-IB of the Income-tax Act, 1961 (hereinafter referred to as the 'Act') provide certain deductions, for certain years, in determining the taxable income of an enterprise. These deductions are commonly described as 'tax holiday' and the period during which these deductions are available is commonly described as 'tax holiday period'.

2. The issue is how AS 22 should be applied in the situations of tax-holiday under sections 80-IA and 80-IB of the Act.

CONSENSUS

3. The deferred tax in respect of timing differences which ~~originate during the tax holiday period and~~ reverse during the tax holiday period, should not be recognised to the extent the enterprise's gross total income is subject to the deduction during the tax holiday period as per the requirements of the Act.

4. Deferred tax in respect of timing differences which ~~originate during the tax holiday period but~~ reverse after the tax holiday period should be recognised in the year in which the timing differences originate. However, recognition of deferred tax assets should be subject to the consideration of prudence as laid down in paragraphs 15 to 18 of AS 22.

5. For the above purposes, the timing differences which originate first should be considered to reverse first.

   The Appendix to this Interpretation illustrates the application of the above requirements.

BASIS FOR CONCLUSIONS

6. Section 80A (1) of the Act, provides that in computing the total income of an assessee, there shall be allowed from his gross total income, in accordance with and subject to the provisions of this Chapter, the deductions specified in sections 80C to 80U. Therefore, the deductions under sections 80-IA and 80-IB are the deductions from the gross total income of an assessee determined in accordance with the provisions of the Act. For example, depreciation under section 32 of the Act is provided for arriving at the amount of gross total income even if it is not claimed in view of Explanation 5 to clause (ii) of sub-section (1) of section 32 of the Act.

7. In view of the above, the amount of the deduction under sections 80-IA and 80-IB of the Act, is based on the gross total income which is determined in accordance with the provisions of the Act. In respect of the situations covered under sections 80-IA and 80-IB, the difference in the relevant accounting income and taxable income (relevant gross total income minus deduction allowed under sections 80-IA and 80-IB) of an enterprise during a tax holiday period is classified into permanent differences and timing differences. The amount of deduction in respect of sections 80-IA and 80-IB is a permanent difference whereas the differences which arise because of different treatment of items of income and expenses for determination of relevant accounting income and relevant gross total income such as depreci-

[1] The authority of this ASI is the same as that of the Accounting Standard to which it relates. The contents of this ASI are intended for the limited purpose of the Accounting Standard to which it relates. ASI is intended to apply only to material items.

ation are timing differences.

8. The Framework for the Preparation and Presentation of Financial Statements provides that "An asset is recognised in the balance sheet when it is probable that the future economic benefits associated with it will flow to the enterprise and the asset has a cost or value that can be measured reliably". The Framework also provides that "A liability is recognised in the balance sheet when it is probable that an outflow of resources embodying economic benefits will result from the settlement of a present obligation and the amount at which the settlement will take place can be measured reliably". In the situation of tax holiday under Sections 80-IA and 80-IB of the Act, it is probable that deferred tax assets and liabilities in respect of timing differences which ~~originate and~~ reverse during the tax holiday period, whether originated in the tax holiday period or before that (refer provisions of section 80-IA(2) of the Act), will not be realised or settled. Accordingly, a deferred tax asset or a liability for timing differences which reverse during the tax holiday period does not meet the above criteria for recognition of asset or liability, as the case may be, and therefore is not recognised to the extent the gross total income of the enterprise is subject to the deduction during the tax holiday period.

9. Deferred tax assets/liabilities for timing differences which reverse after the tax holiday period, whether originated in the tax holiday period or before that, are recognised in the period in which these differences originate because these can be realised/paid after the expiry of the tax holiday period by payment of lesser or higher amount of tax after the tax holiday period because of reversal of timing differences.

10. According to one view, during the tax holiday period, no deferred tax should be recognised even for the timing differences which reverse after the tax holiday period, because timing differences do not originate, for example, in the situation of a 100 percent tax holiday period the taxable income is nil. This view was not accepted because in the aforesaid situation, although the current tax is nil but deferred tax, on account of the timing differences which will reverse after the tax holiday period, exists. Further, even in case of carry forward of losses which can be set-off against future taxable income, deferred tax may be recognised, as per AS 22, in respect of all timing differences irrespective of the fact that the taxable income of the enterprise is nil in the period in which the timing differences originate.

11. According to another view, the timing differences which will reverse after the tax holiday period should be recognised at the beginning of the first year after the expiry of the tax holiday period and not in the year in which the timing differences originate. Accordingly, as per this view, during the tax holiday period, deferred tax should not be recognised. This view was also not accepted because as per AS 22 deferred tax should be recognised in the period in which the relevant timing differences originate.

Appendix

Note: This appendix is illustrative only and does not form part of the Accounting Standards Interpretation. The purpose of this appendix is to illustrate the application of the Interpretation to assist in clarifying its meaning.

Facts:

1. The income before depreciation and tax of an enterprise for 15 years is Rs. 1000 lakhs per year, both as per the books of account and for income-tax purposes.
2. The enterprise is subject to 100 percent tax-holiday for the first 10 years under section 80-IA. Tax rate is assumed to be 30 percent.
3. At the beginning of year 1, the enterprise has purchased one machine for Rs. 1500 lakhs. Residual value is assumed to be nil.
4. For accounting purposes, the enterprise follows an accounting policy to provide depreciation on the machine over 15 years on straight-line basis.
5. For tax purposes, the depreciation rate relevant to the machine is 25% on written down value basis.

The following computations will be made, ignoring the provisions of section 115JB (MAT), in this regard:

Table 1
Computation of depreciation on the machine for accounting purposes and tax purposes

(Amounts in Rs. lakhs)

Year	Depreciation for accounting purposes	Depreciation for tax purposes
1	100	375
2	100	281
3	100	211
4	100	158
5	100	119
6	100	89
7	100	67
8	100	50
9	100	38
10	100	28
11	100	21
12	100	16
13	100	12
14	100	9
15	100	7

At the end of the 15th year, the carrying amount of the machinery for accounting purposes would be nil whereas for tax purposes, the carrying amount is Rs. 19 lakhs which is eligible to be allowed in subsequent years.

Table 2
Computation of Timing differences

(Amounts in Rs. lakhs)

1	2	3	4	5	6	7	8	9
Year	Income before depreciation and tax (both for accounting purposes and tax purposes)	Accounting Income after depreciation	Gross Total Income (after deducting depreciation under tax laws)	Deduction under section 80-IA	Taxable Income (4-5)	Total Difference between accounting income and taxable income (3-6)	Permanent Difference (deduction pursuant to section 80-IA)	Timing Difference (due to different amounts of depreciation for accounting purposes and tax purposes) (O= Originating and R= Reversing)
1	1000	900	625	625	Nil	900	625	275 (O)
2	1000	900	719	719	Nil	900	719	181 (O)
3	1000	900	789	789	Nil	900	789	111 (O)
4	1000	900	842	842	Nil	900	842	58 (O)
5	1000	900	881	881	Nil	900	881	19 (O)
6	1000	900	911	911	Nil	900	911	11 (R)
7	1000	900	933	933	Nil	900	933	33 (R)
8	1000	900	950	950	Nil	900	950	50 (R)
9	1000	900	962	962	Nil	900	962	62 (R)
10	1000	900	972	972	Nil	900	972	72 (R)
11	1000	900	979	Nil	979	-79	Nil	79 (R)
12	1000	900	984	Nil	984	-84	Nil	84 (R)
13	1000	900	988	Nil	988	-88	Nil	88 (R)
14	1000	900	991	Nil	991	-91	Nil	91 (R)
15	1000	900	993	Nil	993	-93	Nil	74 (R) 19 (O)

Notes:

1. Timing differences originating during the tax holiday period are Rs. 644 lakhs, out of which Rs. 228 lakhs are reversing during the tax holiday period and Rs. 416 lakhs are reversing after the tax holiday period. Timing difference of Rs. 19 lakhs is originating in the 15th year which would reverse in subsequent years when for accounting purposes depreciation would be nil but for tax purposes the written down value of the machinery of Rs. 19 lakhs would be eligible to be allowed as depreciation.

2. As per the Interpretation, deferred tax on timing differences which ~~originate during the tax holiday period and~~ reverse during the tax holiday period should not be recognised. For this purpose, timing differences which originate first are considered to reverse first. Therefore, the reversal of timing difference of Rs. 228 lakhs during the tax holiday period, would be considered to be out of the timing difference which originated in year 1. The rest of the timing difference originating in year 1 and timing differences originating in years 2 to 5 would be considered to be reversing after the tax holiday period. Therefore, in year 1, deferred tax would be recognised on the timing difference of Rs. 47 lakhs (Rs. 275 lakhs – Rs. 228 lakhs) which would reverse after the tax holiday period. Similar computations would be made for the subsequent years. The deferred tax assets/liabilities to be recognised during different years would be computed as per the following Table.

Table 3

Computation of current tax and deferred tax

(Amounts in Rs. lakhs)

Year	Current tax (Taxable Income x 30%)	Deferred tax (Timing difference x 30%)	Accumulated Deferred tax (L= Liability and A= Asset)	Tax expense
1	Nil	47x30%=14 (see note 2 above)	14 (L)	14
2	Nil	181x30%=54	68 (L)	54
3	Nil	111x30%=33	101 (L)	33
4	Nil	58x30%=17	118 (L)	17
5	Nil	19x30%=6	124 (L)	6
6	Nil	Nil[1]	124 (L)	Nil
7	Nil	Nil[1]	124 (L)	Nil
8	Nil	Nil[1]	124 (L)	Nil
9	Nil	Nil[1]	124 (L)	Nil
10	Nil	Nil[1]	124 (L)	Nil
11	294	-79x30%=-24	100 (L)	270
12	295	-84x30%=-25	75 (L)	270
13	296	-88x30%=-26	49 (L)	270
14	297	-91x30%=-27	22 (L)	270
15	298	-74x30%=-22 -19x30%=-6	Nil 6 (A)[2]	270

[1] No deferred tax is recognised since in respect of timing differences reversing during the tax holiday period, no deferred tax was recognised at their origination.

[2] Deferred tax asset of Rs. 6 lakhs would be recognised at the end of year 15 subject to consideration of prudence as per AS 22. If it is so recognised, the said deferred tax asset would be realised in subsequent periods when for tax purposes depreciation would be allowed but for accounting purposes no depreciation would be recognised.

Exposure Draft
Proposed Accounting Standards Interpretation (ASI)[1]
Turnover in case of Contractors
Accounting Standard (AS) 7, Construction Contracts (revised 2002)

(Last Date for Comments: April 30, 2005)

The following is the text of the Exposure Draft of proposed Accounting Standards Interpretation on Turnover in case of Contractors, issued by the Accounting Standards Board of the Institute of Chartered Accountants of India, for comment. Members and others are requested to send their comments on the Exposure Draft to the Secretary, Accounting Standards Board, The Institute of Chartered Accountants of India, Post Box No. 7100, Indraprastha Marg, New Delhi – 110 002, so as to reach him not later than April 30, 2005. Comments can also be sent by e-mail at tdte@icai.org.

ISSUE

1. AS 7, Construction Contracts (revised 2002) deals, *inter alia*, with revenue recognition in respect of construction contracts in the financial statements of contractors. It requires recognition of revenue by reference to the stage of completion

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of a contract (referred to as 'percentage of completion method'). This method results in reporting of revenue which can be attributed to the proportion of work completed. Under this method, contract revenue is recognised as revenue in the statement of profit and loss in the accounting period in which the work is performed.

The issue is whether the revenue so recognised in the financial statements of contractors as per the requirements of AS 7 can be considered as 'turnover'.

CONSENSUS

2. The amount of contract revenue recognised as revenue in the statement of profit and loss as per the requirements of AS 7 should be considered as 'turnover'.

BASIS FOR CONCLUSIONS

3. The paragraph dealing with the 'Objective' of AS 7 provides as follows:

"Objective

The objective of this Statement is to prescribe the accounting treatment of revenue and costs associated with construction contracts. Because of the nature of the activity undertaken in construction contracts, the date at which the contract activity is entered into and the date when the activity is completed usually fall into different accounting periods. Therefore, the primary issue in accounting for construction contracts is the allocation of contract revenue and contract costs to the accounting periods in which construction work is performed. This Statement uses the recognition criteria established in the Framework for the Preparation and Presentation of Financial Statements to determine when contract revenue and contract costs should be recognized as revenue and expenses in the statement of profit and loss. It also provides practical guidance on the application of these criteria."

From the above, it may be noted that AS 7 deals, *inter alia,* with the allocation of contract revenue to the accounting periods in which construction work is performed.

4. Paragraphs 21 and 31 of AS 7 provide as follows:

"21. When the outcome of a construction contract can be estimated reliably, contract revenue and contract costs associated with the construction contract should be recognised as revenue and expenses respectively by reference to the stage of completion of the contract activity at the reporting date. An expected loss on the construction contract should be recognised as an expense immediately in accordance with paragraph 35."

"31. When the outcome of a construction contract cannot be estimated reliably:

(a) revenue should be recognised only to the extent of contract costs incurred of which recovery is probable; and

(b) contract costs should be recognised as an expense in the period in which they are incurred.

An expected loss on the construction contract should be recognised as an expense immediately in accordance with paragraph 35."

From the above, it may be noted that the recognition of revenue as per AS 7 may be inclusive of profit (as per paragraph 21 reproduced above) or exclusive of profit (as per paragraph 31 above) depending on whether the outcome of the construction contract can be estimated reliably or not. When the outcome of the construction contract can be estimated reliably, the revenue is recognised inclusive of profit and when the same cannot be estimated reliably, it is recognised exclusive of profit. However, in either case it is considered as revenue as per AS 7.

5. 'Revenue' is a wider term. For example, within the meaning of AS 9, Revenue Recognition, the term 'revenue' includes revenue from sales transactions, rendering of services and from the use by others of enterprise resources yielding interest, royalties and dividends. The term 'turnover' is used in relation to the source of revenue that arises from the principal revenue generating activity of an enterprise. In case of a contractor, the construction activity is its principal revenue generating activity. Hence, the revenue recognised in the statement of profit and loss of a contractor in accordance with the principles laid down in AS 7, by whatever nomenclature described in the financial statements, is considered as 'turnover'.

6. Paragraph 26 of AS 7 (revised 2002) provides as follows:
"26. A contractor may have incurred contract costs that relate to future activity on the contract. Such contract costs are recognised as an asset provided it is probable that they will be recovered. Such costs represent an amount due from the customer and are often classified as contract work in progress."

From the above, it may be noted that the term 'work in progress' may be used only in the context of the contract costs that relate to future activity on the contract. Therefore, this term cannot be used in the statement of profit and loss in the context of the amount of revenue recognised in respect of the work already performed.

Note containing reason for issuance of this [Draft] Interpretation

Note: This note is not a part of the [Draft] Interpretation. Its purpose is to give the background for issuance of this [Draft] Interpretation.

AS 7 (revised 2002) requires recognition of contract revenue as revenue in the financial statements of the contractors in accordance with the provisions prescribed therein. In this regard, an issue has been raised as to whether the amount of revenue recognised as per AS 7 should be considered as 'turnover' of the contractor or revenue may be recognised in the form of work-in-progress (inclusive or exclusive of profit element on the basis of estimation of outcome of the construction contract) until the contract is complete and, at the time of completion of the contract, the entire contract revenue is recognised as 'turnover'. This [Draft] Interpretation proposes to make it clear that the amount of contract revenue recognised as 'revenue' in the statement of profit and loss as per the requirements of AS 7 should be considered as 'turnover' and thus, the revenue so recognised cannot be described as 'work-in-progress'.

It may be noted that the distinction between 'revenue' and 'turnover' may be relevant since the level of turnover of an enterprise is considered for certain purposes, for example, determining whether an enterprise is a small and medium sized enterprise (SME) for the purpose of applicability of accounting standards.

This [Draft] Interpretation proposes to resolve the issue.

Exposure Draft

Proposed Accounting Standards Interpretation (ASI)[1]

Recognition of Revenue by Real Estate Developers

Accounting Standard (AS) 9, Revenue Recognition

(Last Date for Comments: April 30, 2005)

The following is the text of the Exposure Draft of proposed Accounting Standards Interpretation on Recognition of Revenue by Real Estate Developers, issued by the Accounting Standards Board of the Institute of Chartered Accountants of India, for comment. Members and others are requested to send their comments on the Exposure Draft to the Secretary, Accounting Standards Board, The Institute of Chartered Accountants of India, Post Box No. 7100, Indraprastha Marg, New Delhi–110002, so as to reach him not later than April 30, 2005. Comments can also be sent by e-mail at tdte@icai.org.

ISSUE

1. The term 'real estate' refers to land as well as building. The issue is when should the revenue be recognised in case of real estate sales by the enterprises engaged in such activities (commonly referred to as 'real estate developers', 'builders' or 'property developers').

CONSENSUS

2. Revenue in case of real estate sales should be recognised when all the following conditions are satisfied:
   (i) The seller has transferred to the buyer all significant risks and rewards of ownership and the seller retains no effective control of the real estate transferred to a degree usually associated with ownership;
   (ii) at the time of transfer of all significant risks and rewards of ownership it is not unreasonable to expect ultimate collection; and
   (iii) no significant uncertainty exists regarding the amount of the consideration that will be derived from the real estate sales.
3. The determination of point of time when all significant risks and rewards of ownership are transferred depends on the facts and circumstances of each case considering the terms and conditions of the agreement. In case of real estate sales, all significant risks and rewards of ownership are normally considered to be transferred when legal title passes to the buyer, e.g., at the time of the registration, with the relevant authorities, of the real estate in the name of the buyer. However, in some cases, though the legal title is not passed, all significant risks and rewards of ownership are transferred, for example, where the seller sells the real estate under an agreement of sale and gives possession of the real estate to the buyer which has the effect of transferring all significant risks and rewards of ownership of the real estate to the buyer. In such cases, provided the seller has no further substantial acts to complete under the contract, it would be appropriate to recognise revenue subject to fulfillment of other conditions.

   Where the seller is obliged to perform any substantial acts

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after the transfer of the legal title or after giving possession, revenue should be recognised on proportionate basis as the acts are performed. An example is a building or other facility on which construction has not been completed though all significant risks and rewards of ownership have been transferred pursuant to the transfer of the legal title. Another example is of a land which is yet to be developed though the possession has been given under an agreement of sale which has the effect of transferring all significant risks and rewards of ownership of the land to the buyer.

4. Whether the seller retains no effective control of the real estate transferred to a degree usually associated with ownership also depends on the facts and circumstances of each case considering the terms and conditions of the agreement. The nature and extent of continuing involvement of the seller should be assessed to determine whether the seller retains effective control. In some cases, real estate may be sold with a degree of continuing involvement by the seller such that the risks and rewards of ownership are not transferred. Examples are sale and repurchase agreements which include put and call options, and agreements whereby the seller guarantees occupancy of the property for a specified period.

5. For determining whether it is not unreasonable to expect ultimate collection, a seller should consider the evidence of the buyer's commitment to make the complete payment. For example, when the aggregate of the payments received, including the buyer's initial down payment, or continuing payments by the buyer, provide insufficient evidence of the buyer's commitment to make the complete payment, revenue is recognised only to the extent of realisation of the consideration.

6. In case of real estate sales, since normally the amount of consideration is specified in the agreement, no significant uncertainty exists regarding the amount of the consideration that will be derived from the sales.

BASIS FOR CONCLUSIONS

7. Paragraphs 10 and 11 of AS 9 provide as follows:

"10. Revenue from sales or service transactions should be recognised when the requirements as to performance set out in paragraphs 11 and 12 are satisfied, provided that at the time of performance it is not unreasonable to expect ultimate collection. If at the time of raising of any claim it is unreasonable to expect ultimate collection, revenue recognition should be postponed.

11. In a transaction involving the sale of goods, performance should be regarded as being achieved when the following conditions have been fulfilled:

(i) the seller of goods has transferred to the buyer the property in the goods for a price or all significant risks and rewards of ownership have been transferred to the buyer and the seller retains no effective control of the goods transferred to a degree usually associated with ownership; and

(ii) no significant uncertainty exists regarding the amount of the consideration that will be derived from the sale of the goods."

The real estate sales take place in a variety of ways and may be subject to different terms and conditions as specified in the agreement of sale. Accordingly, the point of time at which all significant risks and rewards of ownership can be considered as transferred, is required to be determined on the basis of the terms and conditions. For recognition of revenue in case of real estate sales, it is necessary that the conditions specified in paragraphs 10 and 11 are satisfied. Merely entering into an agreement by the seller with the buyer for the sale of real estate, which is to be developed, does not evidence transfer of all significant risks and rewards of ownership. On the contrary, significant risks and rewards of ownership are considered to be transferred to the buyer where the agreement specifically provides so' even though the possession of real estate is not transferred.

8. Paragraph 9.2 of AS 9 provide as follows:

9.2 Where the ability to assess the ultimate collection with reasonable certainty is lacking at the time of raising any claim, e.g., for escalation of price, export incentives, interest etc., revenue recognition is postponed to the extent of uncertainty involved. In such cases, it may be appropriate to recognise revenue only when it is reasonably certain that the ultimate collection will be made. Where there is no uncertainty as to ultimate collection, revenue is recognised at the time of sale or rendering of service even though payments are made by instalments."

Accordingly, in case it is unreasonable to expect ultimate collection, the revenue recognition is postponed to the extent of uncertainty involved.

Note containing reason for issuance of this [Draft] Interpretation

Note: This note is not a part of the [Draft] Interpretation. Its purpose is to give the background for issuance of this [Draft] Interpretation.

The pre-revised AS 7 (1983), *inter alia*, provides that "The Statement also applies to enterprises undertaking construction activities of the type dealt with in this Statement not as contractors but on their own account as a venture of a commercial nature where the enterprise has entered into agreements for sale". The revised AS 7 does not contain this provision. As a result of this, revised AS 7 is not applicable to certain enterprises, e.g., real estate developers. To such enterprises, AS 9, Revenue Recognition, is applicable. It is felt that an Interpretation should be issued as to how the provisions of AS 9 would be applied in case of such enterprises.

Exposure Draft
Accounting Standards Interpretation (ASI) 20[1] (Revised)
Disclosure of Segment Information
Accounting Standard (AS) 17, Segment Reporting

(Last Date for Comments: April 30, 2005)

[The revision to this Interpretation is being undertaken only to require the disclosure of the fact of there being one 'business segment' and 'geographical segment'. Thus, the Accounting Standards Board does not intend to review the basic requirements of this Interpretation.]

The following is the text of the Exposure Draft of revised Accounting Standards Interpretation (ASI) 20 on Disclosure of Segment Information, issued by the Accounting Standards Board of the Institute of Chartered Accountants of India, for comment. Members and others are requested to send their comments on the Exposure Draft to the Secretary, Accounting Standards Board, The Institute of Chartered Accountants of India, Post Box No. 7100, Indraprastha Marg, New Delhi – 110 002, so as to reach him not later than April 30, 2005. Comments can also be sent by e-mail at tdte@icai.org.

This is a 'marked copy' which indicates the changes proposed vis-à-vis existing ASI 20. Proposed additions are underlined whereas proposed omissions are shown in strike-through form.

ISSUE

1. Whether an enterprise, which has neither more than one business segment nor more than one geographical segment, is required to disclose segment information as per AS 17.

CONSENSUS

2. In case, by applying the definitions of 'business segment' and 'geographical segment', contained in AS 17, it is concluded that there is neither more than one business segment nor more than one geographical segment, segment information as per AS 17 is not required to be disclosed. However, the fact that there is only one 'business segment' and 'geographical segment' should be disclosed by way of a note.

BASIS FOR CONCLUSIONS

3. The paragraph of AS 17 dealing with 'Objective' provides as under:

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

   (a) better understand the performance of the enterprise;

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

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

   Many enterprises 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 enterprise 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 enterprise 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."

In case of an enterprise, which has neither more than one business segment nor more than one geographical segment, the relevant information is available from the balance sheet and statement of profit and loss itself and, therefore, keeping in view the objective of segment reporting, such an enterprise is not required to disclose segment information as per AS 17. The disclosure of the fact that there is only one 'business segment' and 'geographical segment' and, therefore, the segment information is not provided by the concerned enterprise is useful for the users of the financial statements while making a comparison among various enterprises.

[1] The authority of this ASI is the same as that of the Accounting Standard to which it relates. The contents of this ASI are intended for the limited purpose of the Accounting Standard to which it relates. ASI is intended to apply only to material items.