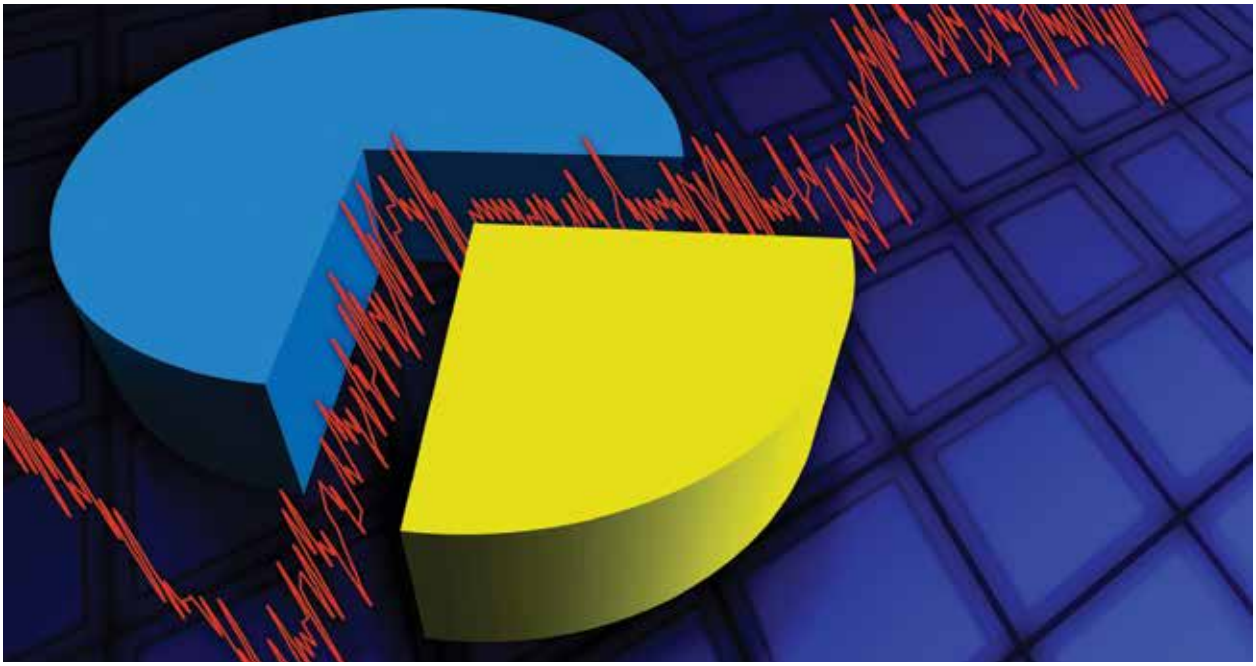
Ind AS 108: Operating Segments



Presently, Indian companies follow Accounting Standard 17: *Segment reporting* as notified under Companies (Accounting Standard) Rules, 2006, that deals with identifying segments and disclose information relating to reportable segments. As India is preparing to adopt Ind AS, Indian version of IFRS compliant accounting standards, there will be a drastic change in segment reporting. Standard equivalent to AS 17 is Ind AS 108: *Operating Segments*. The article focuses on the salient features and requirements of Ind AS 108.

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I. Core Principle

Core principle states the prime objective that the standard intends to achieve. This principle is important to decide on the information required to be disclosed as per this standard.

The core principle is:
An entity shall disclose information to enable users of its financial statements to evaluate

- the nature and financial effects of the business activities in which it engages; and
- the economic environments in which it operates.

II. Operating Segments

As per the standard, Operating Segment is a component of an entity which satisfies all the following criteria:

1) Engages in business *activity that earns revenue and incurs expenses*.
2) Operating results are regularly reviewed by Chief Operating Decision Maker (CODM) for allocating resources and assessing its performance.
3) Discrete financial *information is available*.

The functions of CODM as specified above are:

1) Allocation of resources to the segment; and
2) Assess performance of segments and company.

The standard has introduced the 'Management Approach' in determining the segments and related disclosures. This standard has enabled users of the financial statement to view the entity's results and financial position with the eyes of the management i.e. how the management reviews the result and financial position of the entity. This 4would help users of the financial statements to envisage the management's future course of action to some extent.

The CODM is decided on the basis of its functions and not on the title. The standard states that often the chief executive officer or chief operating officer or a group of executive directors are jointly responsible to discharge the functions on the CODM.

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Usually in a company, an operating segment is headed by a segment manager, who is directly responsible for the performance and operation of the segment. He usually would maintain regular contact with the CODM to discuss operating activities, financial results, forecasts, or plans for the segment. A manager may be a segment manager of more than one operating segment. If the criteria of operating segments are satisfied, even more than one component managed by a single manager would qualify for separate operating segments.

One of the important conditions for different segments, is availability of discrete financial information. Financial information generally means balance sheet, profit & loss account and notes. However, standard does not require that all these informations should be available to qualify for a segment. If the information which will enable the CODM to discharge his function is discretely available, then the condition of availability of discrete financial information is deemed to be satisfied.

III. Reportable Segment

Reportable segment are those operating segments or aggregate of operating segments that meets or exceeds any of the following quantitative thresholds:

1) Its reported revenue, including both sales to external customers and inter-segment sales or transfers, is 10% or more of the combined revenue, internal and external, of all operating segments.
2) The absolute amount 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.
3) Its assets are 10% or more of the combined assets of all operating segments.

Reportable segment can be a single operating segment or an aggregate of operating segments. As per standard, two or more operating segments may be aggregated into a single operating segment if,

1) aggregation is consistent with the core principle as stated above, i.e., it helps in evaluating nature and financial effects of the business activities and the economic environment in which it operates,
2) the segments have similar economic characteristics, and
3) 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.

The standard allows management to report a segment which does not meet the quantitative threshold if in their view information about the segment would be useful to the user.

At least 75% of the entity's revenue shall be from the segments, identified as reportable segment. If this limit is not met, then additional segments shall be reported until at least 75% of the revenue is from reportable segments.

Information of other non-reported operating segments shall be combined and disclosed in an 'all other segments' category.

An operating segment which was reportable segment in the previous year, if it does not satisfy the criteria of reportable segment in the current year, can

be reported as a segment, if the management is of the opinion that the segment is of continuing significance and its information is required to be reported separately. In case, an operating segment becomes a reportable segment only in the current year, previous year's information shall be restated for comparability purpose even though the segment did not satisfy criteria of reportable segment in the previous year. The standard has not laid down maximum limit on number of reportable segment, but has stated that if reportable segments are more than 10 then, then entity should consider whether a practical limit has been reached.

IV. Disclosure

1) As discussed above in the *core principle* paragraph, disclosure shall take into consideration the core principal. Standard requires some general information and some specific information about profit or loss, assets and liabilities of a reportable segment to be disclosed. Some of the disclosures are:
   a) factors used to identify the entity's reportable segments.
   b) types of products and services from which, each reportable segment derives its revenues.
   c) revenues from external customers and from transactions with other operating segments of the same entity;
   d) interest revenue and expenses;
   e) depreciation and amortisation;
   f) material items of income and expense;
   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.

   Measurement

   The segment items shall be measured at the amount which is reported to CODM. Any adjustment made in revenue, expenses, gains or losses shall be included only if they are included to measure profit or loss reported to CODM.

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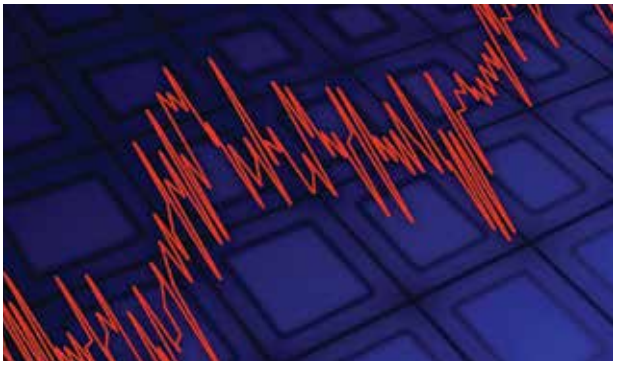

2) **Reconciliations**

   Standard also requires companies to prepare reconciliation of total reportable segment's revenue, profit or loss, assets and liabilities to entity's revenue, profit or loss, assets and liabilities.

3) **Entity-wide Disclosures**

   Certain entity-wide disclosures are required to be made by every company, even if they have only one reportable segment. This information shall be disclosed only if it is available or can be obtained without excessive cost.
   a) Revenues from external customers from each products and services.
   b) Revenues from external customers from domicile country and from foreign country.
   c) Non-current assets other than financial instruments, deferred tax assets, post-employment benefit assets, and rights arising under insurance contracts (i) located in the entity's country of domicile and (ii) located in all foreign countries in total in which the entity holds assets.
   d) Disclose external customers who contribute 10% or more or the entity's total revenue also disclose revenue from such customer.

V. Conclusion

The whole new concept of segments as viewed by management has evolved as compared to business and reporting segments as described by AS 17 – *Segment Reporting*. It would require substantial amount of time and efforts to comply with the requirements of Ind AS 108. But the standard prescribed a good approach and way of communication between management and owners (including other stakeholders). Implementation of the new standard would ensure proper, relevant and sufficient disclosures of segment information. ■