

**Accounting Standards Interpretation (ASI) 22<sup>1</sup>****Treatment of Interest for determining  
Segment Expense****Accounting Standard (AS) 17, Segment Reporting**

*[Pursuant to the issuance of this Accounting Standards Interpretation, General Clarification (GC) – 14/2002, issued in October 2002, stands withdrawn.]*

**ISSUES**

1. Whether interest expense relating to overdrafts and other operating liabilities identified to a particular segment should be included in the segment expense or not.
2. Another issue is that in case interest is included as a part of the cost of inventories where it is so required as per Accounting Standard (AS) 16, Borrowing Costs, read with Accounting Standard (AS) 2, Valuation of Inventories, and those inventories are part of segment assets of a particular segment, whether such interest would be considered as a segment expense.

**CONSENSUS**

3. The 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 the interest is included as a part of the cost of inventories as per paragraph 4 below.
4. In case interest is included as a part of the cost of inventories where it is so required as per AS 16, read with AS 2, Valuation of Inventories, and those inventories are part of segment assets of a particular segment, such interest should be considered as a segment expense.

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<sup>1</sup> Published in 'The Chartered Accountant', March 2004, pp. 965-966. 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.

In this case, the amount of such interest and the fact that the segment result has been arrived at after considering such interest should be disclosed by way of a note to the segment result.

### **BASIS FOR CONCLUSIONS**

5. The definition of the term “segment expense” (paragraph 5) contained in AS 17 does not include, inter alia, “*interest expense, including interest incurred on advances or loans from other segments, unless the operations of the segment are primarily of a financial nature.*” Accordingly, the interest expense relating to overdrafts and other operating liabilities identified to a particular segment is 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 as per paragraph 4 above.

6. According to AS 16, read with AS 2, interest can be added to the cost of inventories only where time is the major factor in bringing about a change in the condition of inventories. Change in the condition of inventories is an operational activity. Accordingly, such interest is resulting from the operating activities of the segment in respect of which such inventories constitute the segment asset. The definition of ‘segment expense’ under AS 17 comprises, inter alia, “*the expense resulting from the operating activities of a segment that is directly attributable to the segment.*” Accordingly, interest on such inventories should be considered as a segment expense. The clause excluding the interest expense in the definition of ‘segment expense’ (see paragraph 5 above) does not apply to such interest.