



Date: 30 August 2021

LIVE COACHING CLASSES BOARD OF STUDIES (A), ICAI

CA FINAL PAPER 1: FINANCIAL REPORTING

TOPIC: IND AS 108 - OPERATING SEGMENTS

Faculty: CA. Aditya Kulkarni



Topics to be Covered

Particulars	Slides Reference		Slides Reference
Core Principle of Ind AS 108	3	Step 2: Identify Operating Segments	9-17
Scope of Ind AS 108	4	Step 3: Determine Reportable Segments	18-26
Identification and Disclosures	5	Step 4: Making Disclosures	27-34
Step 1: Identify CODM	6-8		



Need for Ind AS 108

Core Principle of Ind AS 108 (Para 1)



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.



Judgment is required for applying Ind AS 108; the Management should **consider the core principle** for the purposes of segment disclosure rather than relying on a set of rules, as was done under the erstwhile AS 17 Segment Reporting.



Key Concepts:



- The entity should provide information used by Management that will allow **users to understand** the entity's **main activities**, the **location** of those activities and the **performance** of those activities.
- It allows users of the financial statements to review segment information from the '**eyes of the management**' rather than the 'risk and reward approach', thus enhancing a user's ability to predict actions or reactions of management that can significantly affect enterprise's prospects for future cash flows.



Scope of Ind AS 108

Applicable to companies to which Indian Accounting Standards notified under Companies Act, 2013 apply.



Particulars	Consolidated Financial Statements	Separate Financial Statements
Company is not required to present consolidated financial statements as per Ind AS 110	Not Applicable	Mandatory
Company is required to present Consolidated Financial Statements	Mandatory	Voluntary (Optional)

Voluntary disclosure about segment cannot be termed as 'Segment Information', unless it complies with Ind AS 108.



In case of Separate Financial Statements, where presentation of Segment Information is optional, in case the Entity decides to present it, and title the same as 'Segment Information', the information so presented must be in accordance with Ind AS 108.



Identification and Disclosures - Operating Segments

Step 1 Identification of Chief Operating Decision Maker (CODM)

Step 2 Identify Operating Segment

Step 3 Determine the Reportable Segment

Step 4 Disclosures as per Ind AS 108

Ind AS 108 follows **management approach** rather than risk-reward approach outlined in AS 17

Implications →

- Any business activity which is **considered by the management** as a separate source of revenue will be considered as an operating segment.
- The operating results of such operating segment are **regularly reviewed** by CODM to make **decision about resources allocation** and **performance measurement**.



Step 1: Identify Chief Operating Decision Maker (CODM)

Who is CODM?

Concept

- Identified as a function
- Need not be a person or a designation

Function involves

- Allocation of resources of the entity
- Assessment of performance of the operating segments of the entity
- Making strategic decisions about the entity's segment

Examples of CODM

- Can be individuals like CEO / COO
- Can be a committee like Senior Management or BOD
- Cannot be a supervisory board that just approves and/or reviews decisions
- Generally: Highest Level of Management

Fundamental Criteria

- Ensure correct identification of Reportable Segment



Step 1: Identify Chief Operating Decision Maker (CODM)

Can a committee of Non-Executive Directors (NEDs) be a CODM?

General Understanding

- NEDs are not involved in resource allocation decisions.
- NEDs role is primarily related to governance rather than a management role.

However

- A function (BOD), might include NEDs whose sole responsibility is governance.
- Such a function would be CODM if the most significant operating, as well as strategic decisions are made by that function, even if NEDs do not participate in implementing such decisions.



CODM: Illustrations for understanding

Question 1:

The Executive Committee of XYZ Ltd. comprises of the CEO, COO and the President. The committee assesses performance and allocates resources. Each committee member has a single vote. Identify the CODM.

Question 2:

Consider the facts as above, except that the president can override the vote of the committee. Identify the CODM.

Question 3:

Facts are similar to Question 1, except that the Supervisory Board reviews the operations of the Executive Committee. Identify the CODM.



Step 2: Identify Operating Segments

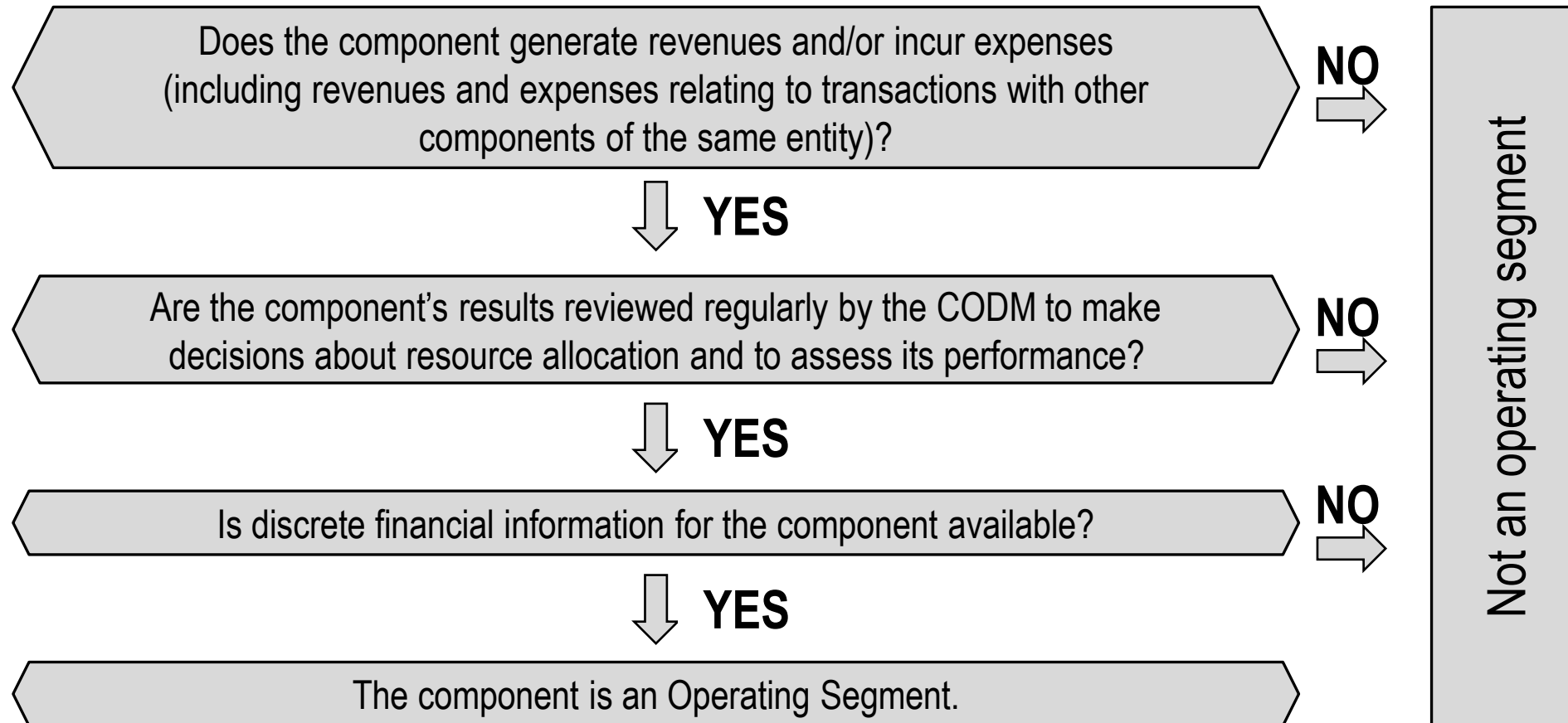




Illustration 1: Page 11.89

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.

Illustration 2: Page 11.91

The CEO along with other Board members do a review of financial information about various business segments and take decisions on the basis of discrete information available for these segments and are correctly identified as Chief Operating Decision Maker (CODM). Review of only revenue information is done for decision making about those segments by the CODM. As per CODM, many segments require minimal costs due to centralization of costs. Whether review of only the revenue related information is sufficient for these segments to be considered as operating segments for the purposes of Ind AS 108 'Operating Segments'?

ICAI Illustrations



Step 2: Identify Operating Segments

Concept of Segment Manager and their Role in Determining Operating Segments

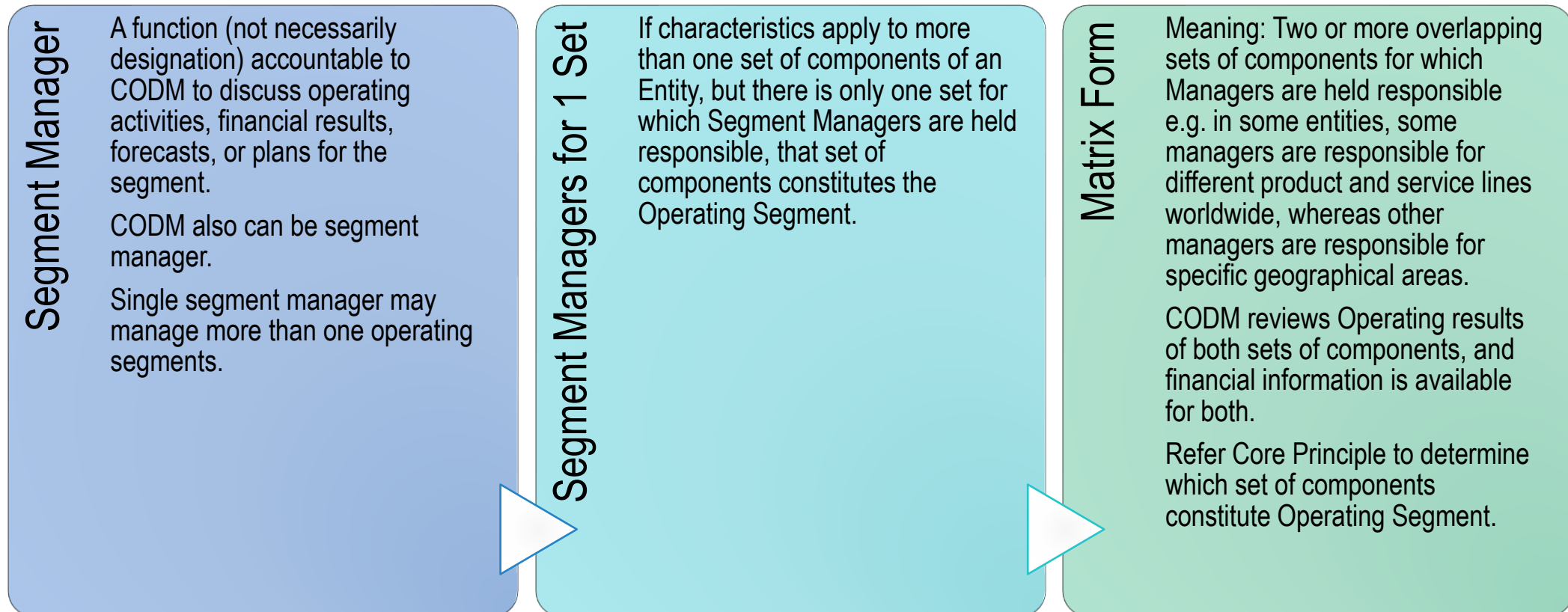




Illustration 3: Page 11.92

X Ltd. is engaged in the manufacture and sale of two distinct type of products A & B. X Ltd. supplies the product in the domestic market in India as well as in Singapore. There are two regional managers responsible for manufacturing activities of product A & B worldwide and also two other managers responsible for different geographical areas. For internal reporting purposes, X Ltd. provides information product-wise and as per the geographical location of the company.

The CODM regularly reviews the operating results of both sets of components. How should X Ltd. identify its operating segments?

Illustration 4: Page 11.92

CODM of XY Ltd. receives and reviews multiple sets of information when assessing the businesses' overall performance to take a decision on resources allocation. It receives the information as under:

- Level 1 Report: Summary report for all 4 regions*
- Level 2 Report: Summary report for 20 Sub-regions within those regions*
- Level 3 Report: Detailed report for 50 Branches within the sub-regions*

What factors and level should be considered for determining an operating segment?

ICAI Illustrations



Step 2: Identify Operating Segments

Functions integral to Business

- Where activities of a function are integral part of the company's business e.g. R&D function for a pharmaceuticals or software company, this can be considered as an Operating Segment provided that there is discrete information available that is regularly reviewed by the CODM.

Discontinued Operations –whether an Operating Segment?

If the Discontinued Operation continues to

- (a) engage in business activities;
- (b) whose operating results are reviewed by the CODM; and
- (c) there is discrete information available to support the review

Then, it would meet the definition of an Operating Segment.



Step 2: Identify Operating Segments

Aggregation of Operating Segments

Is aggregation consistent with Core Principles of Ind AS 108?

↓ YES

Do the segments have similar economic characteristics?

↓ YES

Are the segments similar in each of the following respects?

- Nature of products and services;
- Nature of production processes;
- Type or class of customers for their products and services;
- Methods used to distribute their products or provide services; and
- Nature of regulatory environment e.g. banking, insurance, public utilities etc.

YES
→

Segments may be aggregated



Illustration 5: Page 11.94

XY Ltd. has operations in France, Italy, Germany, UK and India. It wishes to apply aggregation criteria on geographical basis.

How will the aggregation criteria apply for reporting segments in the given scenario?

Illustration 6: Page 11.95

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?

ICAI Illustrations



Illustration 7: Page 11.96

T Ltd is engaged in transport sector, running a fleet of buses at different routes. T Ltd has identified 3 operating segments:

- Segment 1: Local Route*
- Segment 2: Inter-city Route*
- Segment 3: Contract Hiring*

The characteristics of each segment are as under:

Segment 1: The local transport authority awards the contract to ply the buses at different routes for passengers. These contracts are awarded following a competitive tender process; the ticket price paid by passengers are controlled by the local transport authority. T Ltd would charge the local transport authority on a per kilometre basis.

Segment 2: T Ltd operates buses from one city to another, prices are set by T Ltd on the basis of services provided (Deluxe, Luxury or Superior).

Segment 3: T Ltd also leases buses to schools under a long-term arrangement.

ICAI Illustrations



Illustration 7: Page 11.96 (continued)

While Segment 1 has been showing significant decline in profitability, Segment 2 is performing well in respect of higher revenues and improved margins. The management of the company is not sure why is the segment information relevant for users when they should only be concerned about the returns from overall business. They would like to aggregate the Segment 1 and Segment 2 for reporting under 'Operating Segment'.

Required:

Whether it is appropriate to aggregate Segments 1 and 2 with reference to Ind AS 108 'Operating Segments'? and

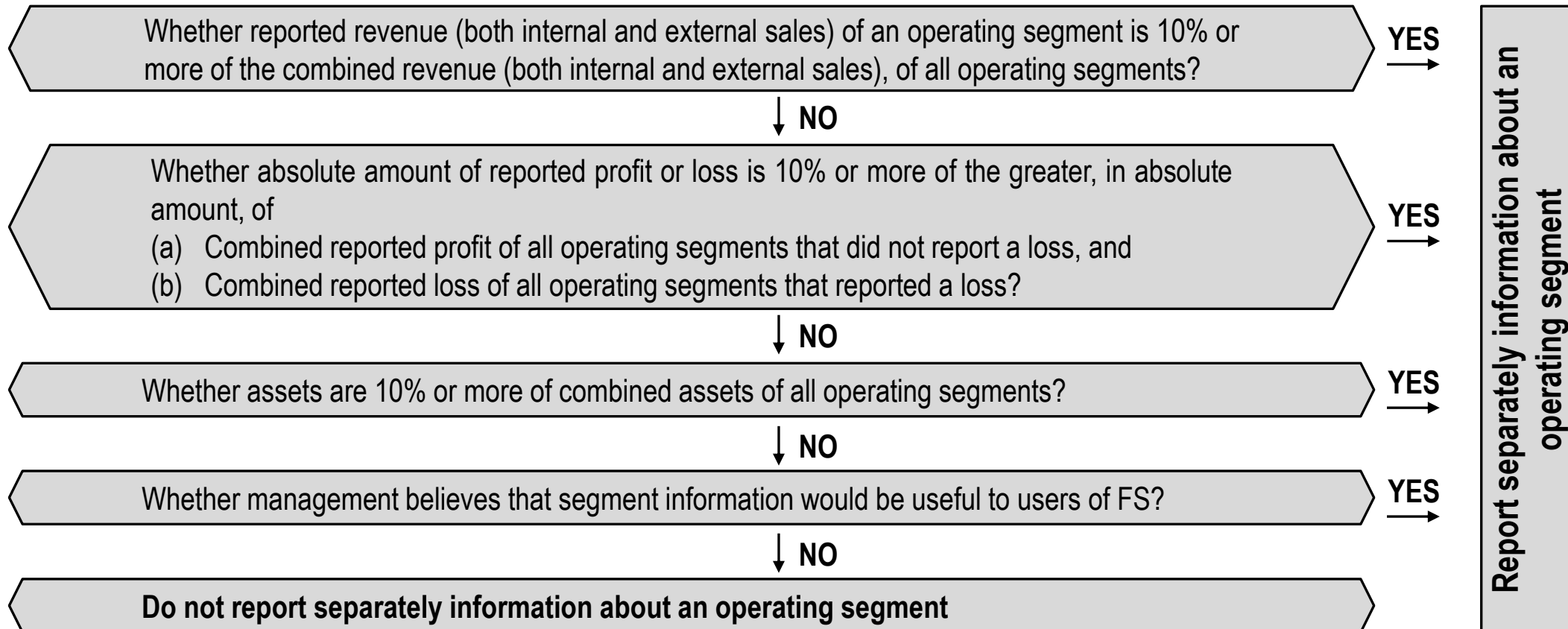
Discuss, in the above context, whether disclosure of segment information is relevant to an investor's appraisal of financial statements?

ICAI Illustrations



Step 3: Determine the Reportable Segments

Basic Quantitative Thresholds





Step 3: Determine the Reportable Segments

Other Requirements

Aggregation Principle

- Entity may combine information about Operating Segments that do not meet quantitative thresholds to produce a reportable segment only if such segments meet the five criteria in Slide 14 and have similar economic characteristics

75% Revenue Principle

- If Total External Revenue reported by Operating Segments $< 75\%$, additional Operating Segments should be identified as Reportable Segments even if they do not meet 10% thresholds, until at least 75% of Entity's Revenue is included in Reportable Segments.

Continuity Principle

- 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 shall continue to be reported separately in current period even if it no longer meets 10% thresholds.

Comparison Principle

- If Operating Segment is identified as Reportable Segment in current period as per 10% thresholds, preceding-period date presented for comparative purposes should be restated to facilitate comparison, even if it did not meet 10% criteria in the preceding period, unless the information is not available and cost to develop would be high.



Step 3: Determine the Reportable Segments

Other Requirements (continued)

10 Segments Principle

- Practical limit may be placed to the number of Reportable Segments to prevent excessively detailed segment information.
- Such limit may be placed at 10, if Reported Segments as per thresholds crosses 10 Segments.

Mgmt. Discretion Principle

- 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.

Residual Category

- Information about other business activities and Operating Segments that are not reportable, shall be combined and disclosed in 'All Other Segments' category, separately from other reconciling items in the reconciliations to be prepared. Sources of Revenue included in 'All Other Segments' shall be described.



Reportable Segments: Illustrations for understanding

Question 4:

JK Ltd. has ten segments. The share of Revenue, Profit / Loss and Assets of each of these ten segments is given below. The company has identified segments H, I and J for reporting. Comment on the adequacy of reporting, assuming that inter-segment revenues are NIL.

Segments	Revenue	Profit / Loss	Assets
A, B, C, D, E, F, G	5% each = 35%	5% each = 35%	8% each = 56%
H, I	20% each = 40%	25% each = 50%	20% each = 40%
J	25%	15%	4%



Reportable Segments: Illustrations for understanding

Question 5:

Information relating to five segments of Rajat Ltd. is as under: (₹ in lakhs)

Segments	A	B	C	D	E	Total
Segment Revenue	150	200	200	50	300	900
Segment Results	50	(70)	80	10	(25)	45
Segment Assets	40	65	140	20	35	300

The company wishes to know which of the Segments need to be reported. Advise.



Illustration 8: Page 11.98

X Ltd. has identified the following business components:

Segment	Revenue (₹)		Profit (₹)	Assets (₹)
	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 AS 108?

Illustration 9: Page 11.100

An entity has branches in different parts of the country – catering to different customers and selling local made products (a product of one region is not sold in any other region). No region or product contributes more than 5% to total revenue of the entity.

Discuss how many segments are reportable?

ICAI Illustrations



Question 1: Page 11.112

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

	External Revenue (₹)	Internal Revenue (₹)	Total (₹)
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	<u>5,00,000</u>	<u>49,00,000</u>	<u>54,00,000</u>
Total	<u>50,00,000</u>	<u>50,00,000</u>	<u>1,00,00,000</u>

Additional Information:

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

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

ICAI Test Your Knowledge



Question 4: Page 11.113 [Question 4: RTP May 2020]

ABC Limited has 5 operating segments namely A, B, C, D and E. The profit/ loss of respective segments for the year ended March 31, 20X1 are as follows:

Segment	Profit / (Loss) (₹ in crores)
A	780
B	1,500
C	(2,300)
D	(4,500)
E	6,000
Total	1,480

Based on the quantitative thresholds, which of the above segments A to E would be considered as reportable segments for the year ending March 31, 20X1?

ICAI Test Your Knowledge



Reportable Segments: Illustrations for understanding

Question 6:

Abhijit Ltd. has eight segments, information of which is given as under: (₹ in lakhs)

Particulars	A	B	C	D	E	F	G	H	Total
Segment Revenue									
- External Sales	NIL	510	30	20	30	100	40	70	800
- Inter-Segment Sales	200	120	60	10	NIL	NIL	10	NIL	400
Total Revenue	200	630	90	30	30	100	50	70	1,200
Segment Result – Profit / (Loss)	10	(180)	30	(10)	16	(10)	10	14	(120)
Segment Assets	45	141	15	33	9	15	15	27	300

Identify which of the above constitute Reportable Segments, if you were informed that A, B, C and E were the Reported Segments in the last financial year.



Step 4: Making Disclosures

Disclosures

General Information

- Factors used to identify entity's reportable segments
- Judgments made by management in applying the aggregation criteria
- Types of products and services from which each reportable segments derives its revenues

Segment Profit / Loss, Assets and Liabilities

- Measure of Profit or Loss for each reportable segment
- Measure of Assets and Liabilities for each reportable segment

Measurement Basis

- CODM may use measure different from that used in financial statements to measure an operating segment's profit or loss, segment's assets or liabilities
- Segment Results, assets and liabilities to be reported at measures used by CODM
- Reconcile differences with entity's figures, if any

Reconciliation

- Reconcile segment information to corresponding entity amount:
- Segment revenue
- Segment result (profit / loss)
- Segment assets
- Segment liabilities
- Material information, if any



Step 4: Making Disclosures

Disclosures

If provided to CODM

- Revenues from external customers and inter-segment revenues
- Interest revenue and Interest expense
- Depreciation and Amortization
- Entity's interests in associates, JV
- Income tax expense or income
- Non-cash items other than depreciation and amortization

Inter-segment Transactions

- Basis of accounting for inter-segment transactions
- Allocation of common expenses, incomes to be made on a reasonable basis

Geographical Areas

- Revenue from external customers attributed to the entity's country of domicile and attributed to foreign countries
- Non-current assets located in entity's country of domicile and in foreign countries

Major Customers

- If revenue from single customer $\geq 10\%$ of an entity's revenue, entity shall disclose the fact
- Disclose total from the customer and identity of segment reporting revenue
- Customer identity not required



Illustration 10: Page 11.104

*GH Ltd. has four distinct operating segments. The management of GH is concerned as it is unsure on how common costs be reasonably allocated to different operating segments. They intend to allocate management charges, interest costs of internal funding, cost of management of properties and pension costs **to the most profitable segment.***

Whether such costs need to conform to the accounting policies as used to prepare the financial statements?

ICAI Illustrations



Question 3: Page 11.113 [Question 20: RTP May 2019]

An entity uses the weighted average cost formula to assign costs to inventories and cost of goods sold for financial reporting purposes, but the reports provided to the chief operating decision maker use the First-In, First-Out (FIFO) method for evaluating the performance of segment operations. Which cost formula should be used for Ind AS 108 disclosure purposes?

ICAI Test Your Knowledge



Step 4: Making Disclosures

Following items are excluded while preparing segment disclosures

Segment Revenue	Segment Expenses	Segment Assets	Segment Liabilities
<ul style="list-style-type: none">• Gain on Sale of Investments• Interest and Dividend Income• Deferred Tax Income, if any	<ul style="list-style-type: none">• Loss on Sale of Investments• Interest Expenses• Allocated Head Office Expenses• Tax Expenses including Deferred Tax Expenses	<ul style="list-style-type: none">• Investments• Head Office Assets• Tax Assets e.g. Advance Tax, TDS Receivable, Self Assessment Tax paid etc.	<ul style="list-style-type: none">• Provision for Taxation• Head Office Liabilities



Step 4: Making Disclosures

Restatement of Previously Reported Information

If an entity **changes the structure of its internal organisation** in a manner that causes the **composition of its reportable segments to change**, the **corresponding information for earlier periods, including interim periods, should be restated** unless the information is **not available** and the cost to develop it would be **excessive**. The determination of whether the information is not available and the cost to develop it would be excessive should be made for each individual item of disclosure. Following a change in the composition of its reportable segments, an entity should disclose whether it has restated the corresponding items of segment information for earlier periods.



Question 2: Page 11.112-11.113

[Similar to May 2018 Exam Question 2(b): 10 marks]

X Ltd. is operating in coating industry. Its business segments comprise Coating and Others (consisting of chemicals, polymers and related activities). Certain information for financial year 20X1-20X2 is given below: (₹ in lakhs)

Segments	External Revenue (including GST)	GST	Other operating income	Result	Assets	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 income net of expenses is ₹ 30 crores.
2. Interest and bank charges is ₹ 20 crores.
3. Income tax expenses is ₹ 20 crores (current tax ₹ 19.50 crores and deferred tax ₹ 50 lakhs)
4. Unallocated Investments are ₹ 100 crores and other assets are ₹ 100 crores
5. Unallocated liabilities, Reserves & surplus and share capital are ₹ 200 crores, ₹ 300 crores & ₹ 100 crores respectively.

ICAI Test Your Knowledge



Question 2: Page 11.112-11.113 (continued)

6. Depreciation amounts for coating & others are ₹ 10 crores and ₹ 3 crores respectively.
7. Capital expenditure for coating and others are ₹ 50 crores and ₹ 20 crores respectively.
8. Revenue from outside India is ₹ 620 crores and segment asset outside India ₹ 100 crores.

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?

ICAI Test Your Knowledge



THANK YOU