

10th IFRS Study Group Meeting
ICAI, BKC

Indian Accounting Standard(Ind AS) 108
Operating Segment

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BACKGROUND

❑ THE CORE PRINCIPLE

IND AS108 requires an entity to disclose information that enable users of the financial statements to evaluate the nature and financial effects of the business activities in which the entity engages and the economic environment in which it operates

This principle makes it clear that INDAS 108 is primarily a disclosure standard

❑ SCOPE

- This standard shall apply to all companies to which Indian Accounting Standards (IND AS) notified under the companies Act applies.
- If a financial report of an entity contains both the consolidated statements of a parent as well as parent's separate financial statements, segment information need to be given ONLY for the consolidated financial statements

BACKGROUND

❑ THE SPECIFIC DISCLOSURE

- IND AS108 specifies disclosure requirements about an entity's operating segments, and also about the entity's products and services, the geographical areas in which it operates and its major customers
- General information on how reportable segments are identified
- Detailed disclosures about measures of segment profit and loss, assets and liabilities (if a measure of liabilities is reported to CODM)
- Disclosure of measurement basis of the above measures
- Reconciliations of segment information to corresponding entity amounts (as reported in the financial statements).

New concepts in Ind AS-108

- Management approach to segment reporting
- Operating segments v/s Business or Geographical segments
- CODM – chief operating decision maker
- Measure of Segment Profit and loss, segment assets and segment liabilities
- No classification of primary and secondary reporting segments
- No definition for Segment result, segment assets, segment liability
 - Accounting policies for segment information may not be in conformity with those used in preparing the entity's financial statements
- Disclosure requirements for non reportable segments

The Management Approach

- The adoption of management approach in identifying operating segments, results in the disclosure of information for segments in substantially the same manner as it is reported internally and used by the entity's CODM for purposes of evaluating performance and making resource allocation decisions
- It gives consistency between what is reported to users and what is reported internally to the management, that is, it enables users of the financial statements to review the operations through the eyes of the management
- Cost of producing segment information is less as information is almost on the same lines as reported for management's internal assessment rather than having to specially produce new segment reporting information

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Operating Segment:

OPERATING SEGMENT is
a component of an entity



- Engages in a Business Activity from which it may earn revenues and incur expenses;
- Whose operating results are regularly reviewed by the entity's CODM to make decisions about allocation of resources to the segments and assess its performance;
AND
- Discrete financial information is available for the segment

- Component of an entity to be an operating segment must engage in a business activity i.e. Incur expenses and earn revenues
- Business activities of the segment can be with external parties OR with other components of the same entity, revenues can be through inter segment sales
- Operating segments can be identified on a number of different bases like products / services / customers / geography / ETC.

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CODM– Chief Operating Decision Maker

CODM



- Refers to a function rather than to a specific title
- Is usually the highest level in the Management team
- Function is to allocate resources to the operating segments and assess its performance

- CODM may be a CEO, COO, BODs or Management committee
- Existence of BODs or management committee does not mean that those constitute CODM
- Existence of segment managers is an important aspect in determining operating segments

Case Study-1

X Ltd is in the business of manufacturing and selling aerated soft drinks viz. Thumbs down, Mountain spring, Orengica. It also used to manufacture and sells Mango moods, a mango drink product ,but which has been discontinued due to very low demand for the product and is being wound up. X Ltd's organisation structure is product based on and also in addition has two support divisions, viz. corporate headquarters carrying out accounting, legal information technology and other corporate functions, and worker's compensation division, which looks after the worker's compensation and workers' grievance matters.

X ltd has identified sales potential of a new apple drink called Appelica, for which it has commenced operations to manufacture the same.

The management has identified the following as operating segments for reporting segment information:-

Thumbs down, Mountain spring, Orengica, Mango moods, Appelica, corporate headquarters and worker's compensation division.

Q. Given that discrete financial information is available for all the above and reviewed by CODM, which of the above can be termed as operating segment?

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Measure of Profit and loss, assets and liabilities

- “Measure” means how (at what amounts) segment Profit or loss and segment assets and segment liabilities is reported the CODM
- In case of a segment profit or loss, the measure reported to the CODM may be Operating profit (EBIT) or EBITDA or Net Profit.
- In case of segment assets, the measure reported to the CODM may be receivables, cash and inventory
- **Important points of the “Measure” concept**
 - ✓ The standard does not prescribe how a measure is calculated OR basis how centrally incurred expenses and assets should be allocated to the operating segments, except that, should be allocated on a reasonable basis
 - ✓ Measure need not be consistent or in accordance with a measure defined in IFRS
 - ✓ Measure need not have same accounting policies as those in preparing the financial statements

Measure of Profit and loss, assets and liabilities

➤ Use of more than one measure of profit, assets or liabilities

Where CODM uses more than one measure of profit and loss or assets and liabilities, the measure used for reporting purposes should be those that are more consistent with profit / figures used in the entity's financial statements

Say,

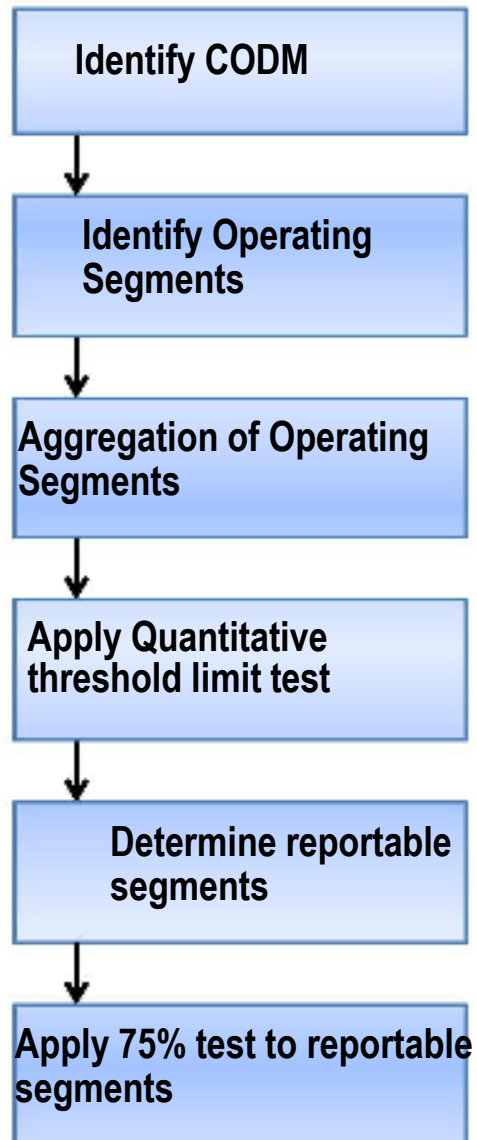
- In measuring segment profit, CODM uses both measures, Net Profit before unrealised financial instrument gains / losses and Net profit before tax for assessing performance.
- In this case Net profit before tax, is most consistent with its corresponding amount in the entity's financial statements.
- in measuring segment assets, CODM uses both measures for inventory viz. at cost or market value whichever is lower, and at cost less selling expenses only, for assessing performance.
- In this case, measure of inventory at cost or market value which ever is lower is most consistent with its corresponding amounts in the entity's financial statements

the standard does not prevent entity from reporting both measures.

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STEPS – Segment reporting



An operating segment meeting any of the following criteria shall be reported separately IF:-

- its reported revenue (external + inter segment sales) is 10% or more of combined revenue of all operating segments
- its assets are 10% or more of the combined assets of all operating segment
- the absolute amount of segment's reported profit or loss is 10% or more of the greater, of (a) the combined profit of all operating segments that does not report loss; and (b) combined loss of all operating segments that reported a loss

AGGREGATION

Two or more operating segments may be aggregated and reported as one IF:

- ❑ Aggregation is consistent with the core principle of IFRS 8

- ❑ These operating segments have same economic characteristics;
and

- ❑ They are similar in MAJORITY of the following aspects:-
 - a. nature of products and services;
 - b. nature of production process;
 - c. type or class of customers;
 - d. methods used for distribution of products or providing services;
 - e. Nature of regulatory environment, IF applicable eg. Banking, insurance or public utilities

Reportable segments

REPORTABLE SEGMENTS



Are Operating Segments
Either individually, as defined earlier
OR Two or more operating segments,
aggregated (Aggregation criteria)

AND

Exceeds the quantitative threshold

Additional reportable segments:-

Whether total external revenue reported by Operating segment is less than 75% of the entity's revenue

Yes No further Process

No
Identify additional reportable segment (till 75% limit is satisfied)

Reportable segments

Whether an operating segment NOT meeting the quantitative threshold limit can be identified as a reportable segment?

Operating segment NOT meeting the quantitative threshold limit **whether or not identified as reportable segment in the immediately preceding period** can still be a reportable segment and separately disclosed if management feels that information about the segment is useful to the users of the financial statements .

What is the position if an operating segment is identified as a reportable segment in the current period in accordance with meeting the quantitative threshold?

Segment data for the prior period shall be re-stated to reflect the newly reportable segment as a separate segment (even if segment did not satisfy the quantitative threshold limit in the prior period) UNLESS the necessary information is NOT available and the cost to develop would be excessive.

Reportable segments

What may be regarded as a practical number of reportable segments that an entity separately discloses ?

Though standard DOES NOT prescribe a precise limit, it suggests that as the reportable segments **increases 10**, the entity should consider whether a practical limit has been reached.

What is the position if an entity changes its internal organisation in a manner that causes the composition of its reportable segments to change ?

Corresponding Segment information for the prior period , including interim period shall be re-stated to reflect the newly structure(unless the information is not available or is costly to develop)

Where re-statement is not possible, entity shall disclose in the year of change, segment information for the current period on both the old basis and basis of segmentation

Disclosures

- GENERAL

- Factors used to identify the entity's reportable segments, including basis of organisation (whether reportable segments is based on products or services, geographical areas, regulatory environments or a combination of factors, and whether operating segments have been aggregated); AND
- Types of products and services from which each reportable segment derives its revenues

- SPECIFIC – Segment Information

- Measure of profit or loss and total assets for each reportable segments
 - Measure of liabilities for each reportable segment if such an amount is regularly provided to the CODM
 - Where various revenue streams within the segment are reported separately to the CODM, an entity is NOT required to report these streams separately. *IFRS 8 requires revenue from internal and external customers ONLY to be reported separately.*

Disclosures

- Following items of segment assets whether or not they are included in the measure of segment assets as reported to CODM: -
 - Amount of investments in associates and joint ventures accounted for by the equity method
 - Amount so additions to Non current assets other than financial instruments, deferred tax assets, post employment benefit assets

- Where certain specific asset balances are reviewed by the CODM, only total of these balances is required to be disclosed as segment assets and NOT the individual asset balances. FOR EG. An entity that reports following discrete information to its CODM – cash, receivables, inventory, can report totals of these as segment assets which would then be reconciled to entity's total assets

Disclosures

- Following items of segment profit or loss, whether or not they are included in that measure of segment profit or loss:-
 - Revenues from external customers;
 - Revenues from transactions with other operating segments of the same entity
 - Interest revenue and interest expenses (*separately reported unless majority of segment's revenue is interest income and CODM relies on Net interest in assessing performance*)
 - Depreciation and amortisation
 - Income tax expenses or incomes
 - Entity's interest in the profit or loss of associates and joint ventures accounted for by equity method
 - Material cash / non cash items of incomes and expenses

Disclosures

- Measurement basis of measure of profit and loss, assets and liabilities
 - Description of measurement basis for each segment profit and loss, segment assets and segment liabilities (if reported to CODM)
 - Basis of accounting for transactions between reportable segments
 - Description of other differences such as differences in accounting policies and policies for allocating centrally incurred costs
 - Explanations of differences (other than numerical) between measurement of reportable segment profit and loss and profit and loss before tax and discontinued operations that is reported in the entity's income statement

Disclosures

- RECONCILIATIONS – entity shall provide reconciliations (total of reportable segment's measures to the entity's) for each of the following:-
 - Segments' revenues
 - Segments' measure of profit or loss
 - Segments' assets
 - Segments' liabilities
 - Material item of information
 - The amount of each material item needed to reconcile reportable segment profit or loss to the entity's profit or loss arising from different accounting policies shall be separately identified and described
 - Reconciliations are needed for each date at which a statement of financial position is presented

Disclosures

- ENTITY wide disclosures – ONLY if the same is not provided as part of the reportable segment information required by this IFRS
 - Products and services - Revenues from external customers for each product and service or each group of products or services
 - Geographical areas – revenues from external customers, details of non current assets other than financial assets, deferred tax assets, post employment benefit assets, both in the country of domicile and foreign
 - Major customers – those contributing to 10% or more of the entity’s revenues and the segment or segments reporting such revenues

- NON reportable segments - Information about other business activities and operating segments NOT reported shall be combined and disclosed in “**all other segments**” category separately from other reconciling items in the reconciliations

X Limited – CFS

Operating segment information

Particulars	Segment 1	Segment 2	All other segments	TOTAL
Year ended 31 DEC 2010				
Total Segment revenues	35000	45000	55000	135000
Inter segment sales	10000	15000	20000	45000
External sales	25000	30000	35000	90000
Segment result	35000	45000	55000	135000
Depreciation	1500	2000	2500	6000
Share of profit in associate	2000	2500	3500	8000
Year ended 31 DEC 2011				
Total Segment revenues	65000	80000	95000	240000
Inter segment sales	25000	30000	35000	90000
External sales	40000	50000	60000	150000
Segment result	60000	70000	90000	220000
Depreciation	3000	3500	4000	10500
Share of profit in associate	4000	5000	6000	15000 ²⁷

X Limited – Consolidated financial statements

Reconciliation of segment profit and loss with the entity's financial statements

Particulars	YEAR 2010	YEAR 2011
Segment Result	135000	220000
Differences associated with depreciation	2500	3500
Expenses not allocated to segments		
Gain from disposal of assets	25000	35000
Finance income (expense) NET	3600	5600
Gains on disposal of investments	10000	0
Share of profit in associate	3500	8000
Profit before tax before Year ended 31 December	179600	272100

X Limited – Consolidated financial statements

Reconciliation of reportable segments external sales to sales in the consolidated SOCI

Particulars	YEAR 2010	YEAR 2011
External sales for reportable segments	90000	150000
External sales for other segments	35000	60000
Total External segment sales	135000	210000
Differences in external sales	(6000)	(8000)
Total sales as per Statement of Comprehensive Income	129000	202000

GAAP Differences

PARTICULARS	IFRS – 8	IND-AS 108	AS 17
SEGMENT REPORTING	Based on internal reports that are regularly reviewed by CODM in order to allocate resources to the segment and assess its performance	Similar to IFRS 8	Based on Business and geographical reporting further classified into primary and secondary segment reporting based on the impact of the segments on business risks and returns
SEGMENTS NOT REPORTED	Are disclosed in all other Segments category	Similar to IFRS 8	Reported separately or if not separately reported is an unallocated reconciling item

GAAP Differences

PARTICULARS	IFRS – 8	IND-AS 108	AS 17
ACCOUNTING POLICIES FOR SEGMENT REPORTING	May or may not be consistent with the accounting policies adopted for the entity's financial statements	Similar to IFRS 8	Accounting policies adopted for the entity's financial statements are used.
SEGMENT LIABILITIES	Measure of liabilities may be disclosed in segment information IF regularly reported to CODM	Similar to IFRS 8	Liabilities should be part of segment reporting
CHANGE IN INTERNAL ORGANISATION AFFECTING SEGMENT REPORTING	Previous period segment reporting to be re-stated unless information is not available	Similar to IFRS 8	AS 17 is silent on this aspect

EXAMPLE

An entity has 8 segments and the relevant information is as follows:

	A	B	C	D	E	F	G	H	TOTAL
External sales	-	255	15	10	15	50	25	35	400
Inter segment	100	60	30	5					200
I – Total revenue	100	315	45	15	15	50	25	35	600
II - Segment result Profit / Loss	5	(90)	15	(5)	8	(5)	5	7	
III – Segment Assets	15	47	5	11	3	5	5	9	

Which are the reportable segments as per IFRS 8?

(Also given that the entity's total revenue is Rs.400)

Thank You