Educational Material on
Indian Accounting Standard (Ind AS) 108
Operating Segments

The Institute of Chartered Accountants of India
(Set up by an Act of Parliament)
New Delhi

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Foreword

Considering the major developments in India with regard to convergence with IFRS and global developments in the area of IFRS, Ind AS (IFRS) Implementation Committee had been constituted by the Institute of Chartered Accountants of India. Primary objective of the Committee is to support the members and other stakeholders in proper implementation of IFRS-converged Indian Accounting Standards (Ind ASs) by providing guidance on the same.

In accordance with its Terms of Reference, the Committee is actively engaged in formulation of Educational Materials on Ind ASs to provide guidance to the members and other stakeholders so as to enable them to implement these Standards in the same spirit in which these have been formulated. Moving forward in this direction, the Committee has come out with another Educational Material on Ind AS 108, *Operating Segments*.

The purpose of this Educational Material is to provide guidance by way of Frequently Asked Questions (FAQs) explaining the principles enunciated in the Standard. This publication will provide very significant guidance to the entities in identifying their operating segments and making disclosures in a manner that the users of financial statements are able to view the entity from the perspective of the management.

I congratulate CA. Amarjit Chopra, Chairman, Ind AS (IFRS) Implementation Committee for formulating this Educational Material on Ind AS 108, *Operating Segments*. I would also like to place on record deep appreciation of efforts put in by the Committee in formulation and finalisation of this publication.

I hope that this Educational Material will be extremely useful to the members of the profession and others concerned in proper understanding and implementation of the Standard. I am confident that all these efforts of Ind AS (IFRS) Implementation Committee will play a very significant role in smooth transitioning to Ind ASs.

New Delhi
February 7, 2013

CA. Jaydeep Narendra Shah
President

Preface

Disclosures about operating segments under IFRS is a significant change as compared to existing Accounting Standards, as Ind AS 108, *Operating Segments*, requires to follow the management approach as compared to the risks and returns approach being followed under AS 17, *Segment Reporting*. Therefore, it has been felt that the guidance on reporting under Ind AS 108 would be very helpful in implementing the provisions of this Standard while preparing or auditing the Ind AS-compliant financial statements. Accordingly, The Committee has come out with Educational Material on Indian Accounting Standard (Ind AS) 108, *Operating Segments*.

This Educational Material contains summary of Ind AS 108 discussing the key requirements of the Standard in brief and Frequently Asked Questions (FAQs) covering the issues, which are expected to be encountered frequently while implementing this Standard, such as, identification of operating segments, aggregation of operating segments, identification of chief operating decision maker, disclosures, etc. The text of Ind AS 108 and significant differences between Ind AS 108 and AS 17 have been included as Appendices to make this publication comprehensive.

I may mention that the views expressed in this publication are the view of the Ind AS (IFRS) Implementation Committee and are not necessarily the views of the Council of the Institute. The purpose of this publication is to provide guidance for implementing this Ind AS effectively by explaining the principles enunciated in the Standard with the help of FAQs. However, while applying Ind ASs in a practical situation, reference should be made to the text of the Standards.

I wish to place on record my sincere appreciation of the efforts put in by Vice-President of the ICAI, CA. Subodh Kumar Agrawal, for constituting the Study Group under his convenorship and preparing the draft of this Educational Material. I would also place on record my sincere thanks to CA. Saradindu Dutta, CA. Bappaditya Ray Chaudhuri and other members of the Study Group, for developing the draft of this Educational Material. My thanks are due to our Honourable President CA. Jaydeep Narendra Shah for providing me this opportunity of bringing out implementation guidance on Ind ASs in the form of Educational Materials. I would like to thank my Council colleagues, co-opted members and special invitees on the Ind AS (IFRS) Implementation Committee for their valuable inputs.

I would like to thank Dr. Avinash Chander, Technical Director, CA. Parminder Kaur, Secretary, Ind AS (IFRS) Implementation Committee and CA. Bibhuti Bhusan Nayak, Executive Officer, for their efforts and support for finalising this publication.

I hope this Educational Material will be of immense use in understanding the provisions of Ind AS 108 and in implementation of the same.

New Delhi
February 7, 2013

CA. Amarjit Chopra
Chairman
Ind AS (IFRS) Implementation Committee

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I Ind AS 108 – Summary

Background

Information about significant components of an entity in contrast to its financial statements for the entity as a whole is very important to the users of financial statements, specifically, where an entity is engaged in different business activities or operates in different economic environments.

Under existing Indian GAAP, AS 17 deals with segment reporting, which focuses on disclosure of segments on the basis of either products or geographical segments. It requires identification of two sets of segments - one based on products and services, and the other on geographical areas based on the risks and returns approach. One set is regarded as primary segments and the other as secondary segments, depending on which set predominately reflects the sources of risks and returns affecting the entity. This approach to segment disclosures does not provide information on how an individual business entity is organised and managed; and the risks and returns that management believes are important.

Identification of segments and disclosures about those identified segments as per AS 17 could be different from the information which is used by the management for decision making purposes. As a result of this difference, users may not understand the risks and rewards that management is facing and how the same are being managed. Therefore, under Ind AS 108, *Operating Segments*, the approach is to align business reporting with internal reporting. This enables the users to view the entity through the 'eyes of its management'. Under Ind AS 108 the segments are based on the structure of an entity's internal organisation. This approach allows entities to report the statistics on the same basis as are reported for internal purposes. Ind

AS 108 aims at making users understand management's perspective about the entity and the implications of key statistics.

Under this approach, not only would entities be likely to report more detailed information but the knowledge obtained about the structure of an entity's internal organisation is valuable in itself because it highlights segments based on such structure. This approach results in the following significant advantages:

- An ability to see an entity "through the eyes of management" enhances a user's ability to predict actions or reactions of management that can significantly affect the entity's prospects for future cash flows.
- Information about those segments is generated for management's use and hence the incremental cost of providing information for external reporting would be relatively low.
- Segments based on an existing internal structure would be less subjective compared to segments identified under AS 17.

Core Principle

The core principle of Ind AS 108 is that "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".

Ind AS 108 is based on the premise that information about the entity's operations prepared from the perspective of the management would be useful to users to make meaningful investment decisions. In this context, it is important for users of financial statements to receive a disaggregated picture of the entity's multiple business operations. For instance, in case of an entity engaged in multiple industries (e.g., engineering, financial services and IT), the users of financial statements must be privy to the performance of each of its 'business activities' as perceived by management in order to make better and more informed decisions about their investments in the entity as a whole.

Similarly, an entity may be operating across multiple economic environments. 'Economic Environments' in general, are those factors which have an impact on the working of any business. These factors could include political and economic macro-systems, trade cycles, economic resources, statutory environment, income levels, industrial growth rates and many other such factors. These are dynamic in nature and are in a continuous state of change. In view of these complexities, the Standard requires disclosure of information in a manner which enables users to make informed decisions based on their assessment of the economic environments in which the different businesses of an entity operates.

For instance, an Indian entity may have a large segment of its operations being dependent on exports to specific markets (e.g., Africa and Middle East). The economic environment of such markets may be different from those prevailing in India and hence users of financial statements must be provided information that enables them to evaluate the nature and financial effects of these economic environments in which the business of the entity operates.

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.

Accordingly, the objective of segment reporting is to provide financial information on the different business activities that an entity engages in and the different economic environments under which it operates to help users of financial statements to:

(a) better understand the entity's performance;

(b) better assess its prospects for future net cash flows;

(c) make more informed judgments about the entity as a whole.

Scope

If a financial report contains both the consolidated financial statements of a parent that is within the scope of this Indian Accounting Standard as well as the parent's separate financial statements, segment information is required only in the consolidated financial statements.

Operating Segments

Ind AS 108 defines an operating segment as a component of an entity:

- that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity);
- whose operating results are reviewed regularly by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance; and
- for which discrete financial information is available.

Start-up operation could be operating segment before earning revenues as Ind AS 108 states that an operating segment may engage in business activities from which they have yet to earn revenues. Ind AS 108 further explains that not every part of an entity is necessarily an operating segment or part of an operating segment. For example, corporate headquarters or some functional departments may not earn revenues or may earn revenues that are only incidental to the activities of the entity would not be operating segments.

An entity need to identify its chief operating decision maker so that its operating segments can be identified. The term 'chief operating decision maker' identifies a function, not necessarily a manager with a specific title. Often the chief operating decision maker of an entity is its chief executive officer or chief operating officer or group of executive directors or others responsible for resource allocation and performance assessment of entity's operating segments.

Reportable Segments

Ind AS 108 requires an entity to report financial and descriptive information about its reportable segments. Reportable segments are operating segments determined in accordance with the requirements of Ind AS 108 or result from aggregations of operating segments; and exceed quantitative thresholds as prescribed in Ind AS 108.

Aggregation Criteria

Two or more operating segments may be aggregated into a single operating segment if **all** of the following are satisfied:

(a) aggregation is consistent with the core principle of Ind AS 108, that is to 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;

(b) segments have similar economic characteristics; and

(c) the segments are similar in **each** of the following respects:

- nature of the products and services;
- nature of the production processes;
- type or class of customer for their products and services;
- methods used to distribute their products or provide their services; and
- if applicable, the nature of the regulatory environment, for example, banking, insurance or public utilities.

Quantitative Thresholds

An entity shall report separately information about an operating segment that meets any of the following quantitative thresholds:

- its reported revenue, including both sales to external customers and inter-segment sales or transfers, is 10 per cent or more of the combined revenue, internal and external, of all operating segments.
- the absolute amount of its reported profit or loss is 10 per cent or more of the greater, in absolute amount of:
  - the combined reported profit of all operating segments that did not report a loss; and
  - the combined reported loss of all operating segments that reported a loss.

- its assets are 10 per cent or more of the combined assets of all operating segments.

Operating Segments that Do Not Meet the Quantitative Thresholds

Operating segments that do not meet any of the quantitative thresholds may be reportable and separately disclosed under the following circumstances:

- If management believes that information about the segment would be useful to users of the financial statement.
- Two segments can be combined to produce operating segments only if the operating segments have similar economic characteristics and share a majority of the aggregation criteria listed above.
- If the total external revenue reported by operating segments constitutes less than 75 per cent of the entity's revenue, additional operating segments shall be identified as reportable segments until at least 75 per cent of the entity's revenue is included in reportable segments.
- If management judges that an operating segment identified as a reportable segment in the immediately preceding period is of continuing significance.

Information about other business activities and operating segments that are not reportable shall be combined and disclosed in 'all other segments' category.

Disclosure

An entity should 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. For this purpose, an entity should disclose the following for each period for which a statement of profit and loss is presented:

- General information about (a) factors used to identify reportable segments and (b) the types of products and services from which each reportable segment derives its revenues.

- Information about (a) the reported segment profit or loss, including specified revenues and expenses included in reported segment profit or loss reviewed by the chief operating decision maker or otherwise regularly provided to chief operating decision maker even if not included in segment profit or loss, (b) segment assets and segment liabilities, if such amounts are regularly reported or provided to the chief operating decision maker and (c) the basis of measurement.
- Reconciliations of the totals of segment revenues, reported segment profit or loss, segment assets, segment liabilities and any other material items to corresponding items in the entity's financial statements.

Entity-wide Disclosures

Ind AS 108 requires all entities (including those entities that have a single reportable segment) that are subject to Ind ASs to provide some entity-wide disclosures. These disclosures are required to be made for the entity as a whole rather than by segment. The reason for providing entity-wide disclosures is that some entities' business activities are not organised on the basis of differences in related products and services or differences in geographical areas of operations. Such an entity's reportable segments may report revenues from a broad range of essentially different products and services, or more than one of its reportable segments may provide essentially the same products and services. Similarly, an entity's reportable segments may hold assets in different geographical areas and report revenues from customers in different geographical areas, or more than one of its reportable segments may operate in the same geographical area.

Entity-wide disclosures should be provided only if it is not provided as part of the reportable segment information.

The following should be disclosed under Entity-wide Disclosures:

- Information about products and services.
- Information about geographical areas.
- Information about major customers.

Information about Products and Services

An entity shall report the revenues from external customers for each product and service, or each group of similar products and services, unless the necessary information is not available and the cost to develop it would be excessive, in which case that fact shall be disclosed. The amounts of revenues reported shall be based on the financial information used to produce the entity's financial statements.

Information about Geographical Areas

An entity shall report the following geographical information, unless the necessary information is not available and the cost to develop it would be excessive:

- revenues from external customers:
  - attributed to the entity's country of domicile.
  - attributed to all foreign countries in total from which the entity derives revenues. If revenues from external customers attributed to an individual foreign country are material, those revenues shall be disclosed separately.
  - the basis for attributing revenues from external customers to individual countries.
- non-current assets other than financial instruments, deferred tax assets, post-employment benefit assets, and rights arising under insurance contracts:
  - located in the entity's country of domicile; and
  - located in all foreign countries in total in which the entity hold assets. If assets in an individual foreign country are material, those assets shall be disclosed separately.

The amounts reported shall be based on the financial information that issued to produce the entity's financial statements. If the necessary information is not available and the cost to develop it would be excessive, that fact shall be disclosed. An entity may provide, in addition to the information required by this paragraph, subtotals of geographical information about groups of countries.

Information about Major Customers

An entity should provide information about the extent of its reliance on its major customers. If revenues from transactions with a single external customer amount to 10 per cent or more of an entity's revenues, the entity should disclose:

- that fact;
- the total amount of revenues from each such customer; and
- the identity of the segment or segments reporting the revenues.

The entity need not disclose the identity of a major customer or the amount of revenues that each segment reports from that customer.

II Frequently Asked Questions

Objective and Scope

Question 1

Does Ind AS 108 apply to entities that are not required to prepare consolidated financial statements?

Response

Yes. This Indian Accounting Standard shall apply to companies to which Indian Accounting Standards (Ind ASs) notified under the Companies Act apply. Ind AS 108 applies both to standalone and consolidated financial statements. Even if an entity is not required to prepare consolidated financial statements, it must comply with Ind AS 108 in standalone financial statements. When a financial report includes both consolidated financial statements and the parent's standalone financial statements, segment information is required only in the consolidated financial statements. However, the entity may choose to also provide segment information in its standalone financial statements.

Question 2

Is there an upper limit on the number of reportable segments that an entity should disclose?

Response

As per paragraph 19 of Ind AS 108, there is no limit on the number of reportable segments. However, it does state that if the number of reportable segments identified exceeds ten, an entity should consider whether a practical limit has been reached. Effectively, the Standard suggests that management must exercise judgment and strike a balance between providing excessive information that may not assist the users of financial information and not providing important information as a result of too much aggregation.

Question 3

Can segment information be omitted from disclosure if the management concludes that disclosing the information will be seriously prejudicial to the interests of the entity?

Response

No. Ind AS 108 does not provide an exemption from disclosures on the ground that the board or management deems such disclosures prejudicial to the interests of the entity. Even if management of an entity concludes that disclosure of certain segment information will be prejudicial to the interests of the entity, the entity is required to make necessary disclosures.

Question 4

If an entity outside the scope of Ind AS 108 voluntarily discloses some information about segments in its financial statements, is it required to comply with all the requirements of the Standard?

Response

An entity falling within the scope of Ind AS 108 and providing information under this Standard must comply fully with all the requirements thereof. An entity outside the scope of Ind AS 108 and choosing to disclose segment information has two options:

(a) comply with all the requirements of the Standard and term the same as 'Segment Information/Reporting'; or

(b) provide selective disclosures without using the term 'Segment Information/Reporting'.

Hence, entities are permitted to provide information on segments on a voluntary basis without triggering the need to comply fully with the Standard as long as the disclosures are not referred to as 'Segment Information'.

Question 5

Are there any primary and secondary reporting segments under Ind AS 108?

Response

The approach followed under Ind AS 108 is to enable the users to view the entity from management's perspective. Therefore, the segments whose operating results are reviewed by the chief operating decision maker are identified as operating segments provided other conditions prescribed in paragraph 5 of Ind AS 108 are met. Accordingly, there are no primary and secondary segments as per Ind AS 108.

Operating Segments

Question 6

Can a part of an entity not be included under any operating segment in spite of earning revenue and incurring expenditure?

Response

According to paragraph 5 of Ind AS 108, an operating segment is a component of an entity that satisfies **all** of the following conditions:

(a) that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity);

(b) whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance; and

(c) for which discrete financial information is available.

The Standard states that every business activity of an entity is not necessarily an operating segment or part thereof and clarifies that a corporate headquarters or some functional departments which do not earn revenues or earn revenues that are only incidental to the activities of the entity would not be operating segments. Examples of such revenues could be rent, interest, dividend etc.

Accordingly, an entity may have a department that is responsible for managing its resources such as real estate or funds that are temporarily in surplus. Such a department need not constitute an operating segment as its activities of managing treasury or real estate are incidental to the operations of the entity.

On the other hand, if an entity is engaged in the business of financial services or real estate then the activities of such a department engaged in managing real estate or funds shall constitute an operating segment provided its operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and discrete financial information is available for such activities.

Entities may incur expenses on centrally managed initiatives such as ongoing business transformation initiatives and research and development projects which are attributable to the entity as a whole and not attributable to any operating segment. Such centrally managed initiatives could also relate to activities in the domain of corporate social responsibility, management of the corporate brand or image, exploratory costs relating to new business opportunities, employee retention programmes such as bonuses, stock options and pension plans that are decided and adopted at the entity level and other similar initiatives. An entity may elect to report such expenses as 'unallocated corporate expenses' with an appropriate disclosure note so long as such reporting is consistent with the manner in which operating results are reviewed by its chief operating decision maker.

Question 7

What is meant by discrete financial information?

Response

Discrete financial information means separate financial information. With regard to an operating segment, the level of details required by the chief operating decision maker to assess performance and allocate resources to segments determines what is considered to be discrete financial information. It refers to the financial information made available to the chief operating decision maker for the purpose of reviewing performance and in determining how resources should be allocated. For a component to be an operating segment, the financial information about the operating results of the component should be sufficiently detailed to enable the chief operating decision maker to make decisions about resources to be allocated and to assess its performance. A segment balance sheet is not always necessary to conclude that discrete financial information is available. In many cases the requirement for discrete financial information can be met with operating performance information only where the chief operating decision maker needs only that much information, such as revenue and operating profit. However, in many instances, a specific component of a business (e.g., R&D unit of a company) may not have discrete financial information and hence would not qualify as an operating segment.

Question 8

Can the components of an entity that earn no revenues be classified as an operating segment?

Response

One of the conditions for a component to qualify as operating segment is that it engages in business activities from which it **may** earn revenues and incur expenses.

In accordance with the above, it is not necessary for a component to earn revenues to qualify as an operating segment if other conditions of the operating segments are fulfilled, such as, the costs incurred by a component of the entity are reviewed by the chief operating decision maker to make decisions about the allocation of resources and discrete financial information is available.

For example, in case of vertically integrated petrochemical entity, transfer prices of products are fixed as they move from different stages of operation. Each such operation can be considered as ‘operating segment’. The fact that such transfer prices are not subject to frequent modification and are fixed would not exempt such activities from being considered operating segments.

Another example in this regard is, in case of certain manufacturing entities which are managed by reference to operating cost centers may not record revenues separately for each cost centre. If discrete financial information is available and reviewed by the chief operating decision maker such components would be considered as operating segments.

It may be noted that since Ind AS 108 follows the management approach for segment reporting, significant use of management’s judgement needs to be made with respect to identification of segments.

Question 9

Are activities conducted through joint ventures or associates considered under the definition of operating segment?

Response

The approach followed under Ind AS 108 is to enable the users to view the entity from management’s perspective. Therefore, the segments whose operating results are reviewed by the chief operating decision maker are identified as operating segments provided other conditions prescribed in paragraph 5 of Ind AS 108 are met. Accordingly, if activities conducted through joint ventures or associates are reviewed separately by the chief operating decision maker for taking decisions about the group and the criteria for identifying operating segments are met, the joint venture operations or associates may qualify as operating segments for the purpose of consolidated financial statements.

Question 10

What are some significant factors for an entity to consider in identifying the chief operating decision maker?

Response

As per paragraph 7 of Ind AS 108, the term 'chief operating decision maker' identifies a function, not necessarily a manager with a specific title. Ind AS requires identification of operating segments on the basis of operating results that are regularly reviewed by the entity's chief operating decision maker in order to allocate resources to the segment and assess its performance.

Chief operating decision maker is the apex decision maker engaged in assessing the performance of various components of an entity and allocation of resources to them. The chief operating decision maker may be an individual or a body of persons, depending on the management structure of the entity. The chief operating decision maker function may for example be carried out by the entity's chief executive, chief operating officer, senior management team or the board of directors.

An evaluation of the facts and circumstances of each entity's internal reporting structure would be critical in successfully determining the chief operating decision maker of that entity.

Question 11

Entity A and Entity B both manufacture and distribute furniture and electrical products used in residential and commercial units. Entity A is structured such that decisions are made and performance is evaluated on a regional basis (e.g., India, Asia Pacific), whereas Entity B makes decisions and evaluates performance on a product-line basis (e.g., furniture, electrical products).

Should Entity A and Entity B report similar operating segments?

Response

No. Entity A should report operating segments based on regions and Entity B should report operating segments based on product lines.

The management approach requires identification of operating segments on the basis of operating results that are regularly reviewed by the entity's chief operating decision maker in order to allocate resources to the segment and assess its performance. Two entities in the same industry can have very different operating segments because each will determine their operating segment based on how its chief operating decision maker makes operating decisions and assesses performance.

Question 12

Entity A has a business activity whose revenue information only is reviewed by its chief operating decision maker. Can the segment be treated as operating segment?

Response

Paragraph 5 of Ind AS 108, *inter alia,* states that an operating segment is a component of an entity whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and asses its performance.

Accordingly, review of information regarding revenue only by the chief operating decision maker without considering the expenses incurred to earn that revenue may not be sufficient for decision making with regard to resource allocation and performance measurement of a segment. A chief operating decision maker would generally review all relevant information of a segment i.e., information about revenue, expenditure, assets etc. to make decisions about resources to be allocated to the segment and asses its performance. Therefore, generally a business segment about which revenue related information only is reviewed will not be treated as operating segment.

However, where revenue information is representative of operating results and the cost involved is insignificant, review of revenue information only may be sufficient for the chief operating decision maker to take decision about resource allocation and performance measurement. In such cases, the business activity can be treated as an operating segment.

Reportable Segments

Question 13

Is an entity required to provide separate disclosures for each of its operating segments?

Response

No. The entity is required to determine its reportable segments and make disclosures accordingly.

Question 14

Is it mandatory to aggregate segments if they meet all the criteria of paragraph 12 of Ind AS 108?

Response

No. It is optional. An entity, if it so desires, can still disclose separately information about segments that meet all the criteria of Paragraph 12. However, with regard to upper limit on number of segments to be reported, guidance may be drawn from the response to Question 2.

Question 15

What are the 'economic characteristics' that would need to be 'similar' for the purpose of aggregating operating segments?

Response

The Standard does not define the term **'similar'** or provide detailed guidance on the aggregation criteria and, therefore, the determination as to whether two or more operating segments are similar is dependent on the individual facts and circumstances and is subject to judgement.

While the Standard does not define the term 'economic characteristics', it states that 'operating segments often exhibit similar long-term financial performance if they have similar economic characteristics. For example, similar long-term average gross margins for two operating segments would be expected if their economic characteristics were similar'.

Similar economic characteristics may also be indicated by metrics such as sales growth, return on assets, return on capital employed in a long term perspective and/or valuation metrics such as Enterprise Value (EV)/Earnings Before Interest, Taxes, Depreciation and Amortisation (EBITDA) and Price-Earnings (PE) Ratios that embed the market's perception of competitive and financial risks and opportunities related to such industries. If operating segments are located in different geographical areas, entities may further need to consider and evaluate whether the economic characteristics across such geographies are similar or otherwise.

Question 16

When can products/services, production processes, customers, distribution methods and regulatory environment said to be of similar nature?

Response

According to paragraph 12 of Ind AS 108, two or more operating segments may be aggregated into a single operating segment if aggregation is consistent with the core principle of Ind AS 108, i.e., the segments have similar economic characteristics, and the segments are similar in each of the following respects:

(a) **Nature of the products and services:** Similar products or services have similar purposes or end uses. Therefore, they may be expected to have similar rates of profitability, similar degrees of risk and similar opportunities for growth. The assessment of whether products or services are similar may depend, in part, on the nature and breadth of an entity's product lines and overall operations.

An entity with a relatively narrow product line may not consider two products to be similar, while an entity with a broad product line may consider the same two products to be similar. For example, a highly diversified entity may consider all consumer products to be similar if it has other businesses such as financial services and road construction.

(b) **Nature of the production process:** Although no specific guidance is provided in the Standard, similarities in the nature of the production process may be demonstrated by sharing of common or interchangeable production, equipment, labour force or servicing and maintenance staff, or use of the same or similar basic raw materials. Similar degrees of labour or capital intensiveness may indicate a similarity in the production process.

(c) **Type or class of customer for their products and services:** 'Similar type or class of customer' criterion may be evaluated based on how chief operating decision maker views the customer, viz., similar marketing and promotional efforts, common or interchangeable sales forces, customer demographics, etc. For example, customers of an entity engaged in production of fabric may be different from that of an entity engaged in manufacture of branded apparel.

(d) **Methods used to distribute products or provide services:** 'Methods of distribution' criterion may be evaluated based on the nature of the distribution channels (e.g., retail outlets, mail order, web site) and the nature of the products sold (e.g., component parts, finished goods).

(e) **Nature of regulatory environment:** (e.g., banking, insurance, public utilities) — Applies only if a unique regulatory environment exists with respect to a part of the entity's business. For example, where a component of the business is engaged in purchase and sale of units of mutual funds and other financial instruments and is regulated by RBI NBFC guidelines, whereas the other component deals in engineering goods and is not regulated, each segment is considered to operate in a different regulatory environment and, therefore, aggregation would not be appropriate.

Question 17

How quantitative thresholds are determined based on profitability criteria when certain segments report profits and certain segments report losses?

Response

With regard to quantitative thresholds to determine reportable segment relevant in context of instant case, paragraph 13(b) of Ind AS 108 may be noted which provides as follows:

"(b) The absolute amount of its reported profit or loss is 10 per cent 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."

The above condition of the Standard may be clarified with the help of following example:

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, 2012 are as follows:

Segment	Profit/(Loss) (Rs. in crore)
A	780
B	1,500
C	(2,300)
D	(4,500)
E	6,000
Total	**1,480**

In compliance with Ind AS 108, the segment profit/loss of respective segment will be compared with the greater of the following:

(i) All segments in profit, i.e., A, B and E – Total profit Rs. 8,280 crores.

(ii) All segments in loss, i.e., C and D – Total loss Rs. 6,800 crores.

Greater of the above – Rs. 8,280 crores.

Based on the above, reportable segments will be determined as follows:

Segment	Profit/(Loss)	As Absolute % of 8,280	Reportable
A	780	9%	No
B	1,500	18%	Yes
C	(2,300)	28%	Yes
D	(4,500)	54%	Yes
E	6,000	72%	Yes
Total	**1,480**		

Question 18

How should an entity perform the 10% test when different operating segments report different measures of segment profitability and segment assets?

Response

Ind AS 108 does not deal specifically with such a situation where segments report different measures of segment profitability, assets and liabilities. However, in such a situation a consistent basis of measurement should be developed by the entity to perform 10 per cent test.

For example, an entity has three operating segments. Each segment uses different measures of profitability. Profitability of Segment 1 is measured and reported to chief operating decision maker on the basis of Earnings Before Interest and Tax (EBIT). Whereas, profitability of Segment 2 and Segment 3 are measured and reported on the basis of Earning After Tax (EAT).

In this case, Earnings Before Interest and Tax (EBIT) is the lowest measure of profitability that is available and that is provided to the chief operating decision maker for all the three segments. This should be the measure used to perform 10% test in such a case.

Question 19

How is the aggregation criteria stated in paragraph 12 different from the aggregation criteria stated in paragraph 14 of Ind AS 108?

Response

Two or more segments qualify for aggregation under paragraph 12, if aggregation is consistent with the core principle of Ind AS 108 and the segments have similar economic characteristics and meet **all** the aggregation criteria, viz., nature of the products and services, production processes, type or class of customer for their products and services, distribution methods used, and if applicable, nature of regulatory environment.

However, paragraph 14 of Ind AS 108 deals with aggregation of two or more operating segments that **individually** do not exceed the quantitative threshold limits, but have similar economic characteristics and share a **majority** of the aggregation criteria stated above.

Question 20

A company has determined its reportable segments in accordance with Ind AS 108 and has noted that the reportable segments constitute 72 per cent of consolidated revenue. If all the remaining operating segments are of similar size, which other operating segments should be reported separately to achieve the 75 per cent threshold?

Response

Ind AS 108 does not specify which of the remaining operating segments should be selected to achieve the 75 per cent threshold. Accordingly, an entity can report any additional operating segment as per its choice. However, to give useful information to the users of financial statements an entity should select the next most meaningful operating segment. The next most meaningful operating segment may be the next largest in terms of revenue, but it need not necessarily be such in all the cases. Entities should consider both quantitative and qualitative factors when determining which segment would be most useful to users of financial statements. For example, an entity may select a small segment in terms of revenue contribution because it is a potential growth segment, which is expected to contribute materially to revenue of the entity in the future.

Accordingly, judgement has to be exercised after due consideration of the specific facts and circumstances of the concerned entity.

Question 21

Can information about operating segments that are not reportable be combined and disclosed along with the reconciliation items required by Ind AS 108?

Response

As per paragraph 16 of Ind AS 108, information about other business activities and operating segments that are not reportable shall be combined and disclosed in an 'all other/residual segments' category. Accordingly, this information should not be combined with the reconciling items in reconciliations required by paragraph 28 of Ind AS 108.

Question 22

Is an entity required to separately disclose an operating segment that no longer meets the quantitative thresholds in the current period but qualified as a reportable segment in the prior period?

Response

As per paragraph 17 of Ind AS 108, if management judges that an operating segment identified as a reportable segment in the immediately preceding year to be of continuing significance, information about that segment should continue to be reported separately in the current period notwithstanding that it no longer exceeds any of the 10 per cent thresholds.

While there is no specific guidance provided as to the meaning of 'continuing significance', an operating segment would be normally regarded as having continuing significance for the current financial statements when, for example:

- its decline below the 10 per cent thresholds is considered temporary and likely to reverse;

- if the management considers the segment to be of strategic importance.

The above list is not exhaustive. The management should ensure that usefulness of the financial information and consistency in reporting is maintained.

Question 23

Can an operating segment that has never met the quantitative threshold be disclosed separately?

Response

As per paragraph 13 of Ind AS 108, an operating segment that does not meet any of the quantitative thresholds may also be considered reportable, and separately disclosed if management judges it to be useful to users of the financial statements.

Question 24

Can an entity aggregate new businesses with existing businesses?

Response

Ind AS 108 lays down the criteria for aggregation of two or more operating segments. If the criteria prescribed in the Standard is met and new and existing businesses exhibit the similar long-term performance because both have similar economic characteristics, the same can be aggregated.

Question 25

Can a company aggregate an operating segment that does not meet quantitative threshold individually with a reportable operating segment?

Response

As per the scheme of the Standard, the procedure for aggregation of operating segments is as follows:

Step 1: In accordance with paragraph 12 of the Standard if two or more operating segments have similar economic characteristics and all the five criteria laid down therein are met, the same may be aggregated.

Step 2: It is determined whether the operating segments identified or aggregated as above exceeds the quantitative thresholds.

The segments determined after applying the above steps are treated as reportable segments.

Step 3: Remaining segments would be those which individually do not exceed the quantitative thresholds. As per paragraph 14 of Ind AS 108, an entity may combine information about two or more such operating segments that do not meet the quantitative thresholds to produce a reportable segment only if the operating segments have similar economic characteristics and share a majority of the aggregation criteria listed in paragraph 12 of Ind AS 108.

Accordingly, the question of aggregation of a non-reportable segment with a reportable segment does not arise.

Disclosure Requirements

Question 26

Where the chief operating decision maker is provided with more than one measure of segment's profit or loss, what measure of segment's profit or loss should be reported?

Response

Paragraph 26 of Ind AS 108, *inter alia*, provides that if the chief operating decision maker uses more than one measure of an operating segment's profit or loss, the segment's assets or the segment's liabilities the reported measures shall be those that management believes are determined in accordance with the measurement principles most consistent with those used in measuring the corresponding amounts in the entity's financial statements. Accordingly, in such a case the measurement principles consistent with those used in measuring the corresponding amounts in the entity's financial statements shall be reported.

Question 27

What do key terms such as 'segment profit', 'segment loss', 'segment assets' and 'segment liabilities' signify in the absence of any definition in Ind AS 108?

Response

Ind AS 108 follows the management approach to segment reporting, which would enable users of financial statements to gain an insight into the entity's internal reporting system and thus view the entity 'through the eyes of the management'. It allows any measure of segment profit or loss, segment assets and segment liabilities to be used so long as that measure is what is reported to and reviewed by the chief operating decision maker for the purposes of making decisions about allocating resources and assessing performance.

For example, items of revenue and expense that are attributed or allocated to a given segment for purposes of assessment of performance and allocation of resources by the chief operating decision maker shall be included in the reported operating results of that segment.

The Standard requires entities to report the measures of segment profit or loss, segment assets and segment liabilities and to provide reconciliations of the total segment amounts to the amounts recognised in the entity's financial statements. It is expected that this will enable users to understand and judge the basis on which the segment amounts were determined.

Question 28

Do the operating segments reported by the subsidiary (which falls within the scope of Ind AS 108) need to be the same as those reported by the parent entity?

Response

No. It is very likely that the chief operating decision maker of the subsidiary is not the chief operating decision maker of the parent. In addition, it is possible that the information needs of these chief operating decision maker may be different. Therefore, segment information may be reported separately. As a consequence, the operating segments identified at subsidiary level could be different from those identified at parent level for the purpose of providing segment disclosures.

At the time of preparation of consolidated accounts, segments should be determined based on how the chief operating decision maker of parent company views the Group as a whole. Information provided to the chief operating decision maker of parent company and reviewed by it on a regular basis for performance evaluation and resource allocation should be considered while determining operating segments for the Group as a whole.

Question 29

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?

Response

The entity should use First-In, First-Out (FIFO) method for its Ind AS 108 disclosures, even though it uses the weighted average cost formula for measuring inventories for inclusion in its financial statements. Where chief operating decision maker uses only one measure of segment asset, same measure should be used to report segment information. Accordingly, in the instant case, the method used in preparing the financial information for the chief operating decision maker should be used for reporting under Ind AS 108.

However, reconciliation between the segment results and results as per financial statements needs to be given by the entity in its segment report.

Question 30

How is a discontinued operation to be treated under Ind AS 108?

Response

Ind AS 105, *Non-current Assets Held for Sale and Discontinued Operations,* requires that if a non-current asset or disposal group has been classified as held for sale or sold during the year and has been presented in a reportable segment, the concerned reporting segment should be identified. Ind AS 108 requires the reportable segments' profit or loss to be reconciled to the entity's Profit or Loss Before Income Tax and Discontinued Operations.

Question 31

What are the disclosure requirements under the Standard?

Response

The following are the disclosure requirements under the Standard:

Disclosure requirements	**Items**
General information	(a) Factors used to identify the reportable segments. (b) Types of product/service from which each reportable segment derives its revenue.
Information about profit or loss, revenue, expenses, assets, liabilities and the basis of measurement for each reportable segment	For each reportable segment: (a) Measure of profit or loss (this has to be provided even if such amounts are not regularly provided to chief operating decision maker. (b) Total assets & liabilities if such amounts are regularly provided to chief operating decision maker. An entity shall also disclose the following about each reportable segment if the specified amounts are included in

	segment profit or loss reviewed by chief operating decision maker or presented regularly to the chief operating decision maker even if not included in that measure of segment profit/loss: (a) revenues from external customers; (b) inter-segment revenue; (c) interest revenue; (d) interest expense; (e) depreciation and amortisation; (f) material items of income; and expense disclosed in accordance with paragraph 97 of Ind AS 1, *Presentation of Financial Statements*; (g) 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 amortization. An entity shall disclose the following about each reportable segment if the specified amounts are included in the measure of segment assets reviewed by the chief operating decision maker or are otherwise regularly provided to the chief operating decision maker, even if not included in the measure of segment assets: (a) Investments in associates/joint ventures accounted for by equity method. (b) Additions to non-current assets other than financial instruments/ deferred tax assets/post-employment benefit assets/rights arising under Insurance Contracts.

	Explanation of the measurement of the segment disclosures: (a) Basis of accounting for transactions between reportable segments. (b) Nature of differences between the measurements of segment disclosures and comparable items in the entity's financial statements, e.g., accounting policy differences, provided these are not apparent from reconciliations provided under 'segment information'. (c) Nature of changes from prior periods in the measurement methods used to determine reported segment profit or loss and the effect of those changes on the measure of segment profit or loss. (d) Nature and effect of any asymmetrical allocations to reportable segments. For example, an entity might allocate depreciation expense to a segment without allocating the related depreciable assets to that segment.
Reconciliations	(a) Total of reportable segments' revenue, profit or loss, assets and liabilities and any other material segment items to the corresponding entity's totals in the financial statements. (b) Material reconciling items to be separately identified and described (e.g., arising from different accounting policies).
Entity-wide disclosures	(a) Revenues from external customers for each product and service, or each group of similar products and

	services (based on entity's financial statements). (b) Revenues from external customers attributed to the entity's country of domicile and attributed to all foreign countries from which the entity derives revenues. (c) Revenues from external customers attributed to an individual foreign country, if material. (d) Non-current assets (other than financial instruments, deferred tax assets, post-employment benefit assets, and rights arising under insurance contracts) located in the entity's country of domicile and in all foreign countries in which the entity holds assets. (e) Non-current assets in an individual foreign country, if material. *Note:* *(a) Above information should be based on financial statements.* *(b) Need not be provided if already part of reportable segment information.* *(c) Need not be provided if necessary information is not available and the cost to develop it is excessive.* Extent of reliance on major customers. Where customer's revenue is greater than 10% of the entity's revenue, such fact to be disclosed along with total amount of revenue from such customer and the segment to which it relates.

Question 32

Is the identity of the customers which account for more than 10% of the entity's revenue required to be disclosed?

Response

No. According to paragraph 34 of Ind AS 108, the disclosure of identity of such customer is not required. Disclosure of only the amount of revenue and the segment to which it relates is sufficient.

An example of disclosure in this regard is as follows:

"Revenues from one customer of company's Oil & Gas segment represents approximately Rs. 5,000 crores (15%) of the company's total revenues."

Question 33

If a company has only a single operating segment, what disclosures, if any, are required?

Response

Even if an entity determines that it has only a single reportable operating segment, the entity-wide disclosures as stated in paragraphs 31 to 34 of Ind AS 108 are required. (Refer response to Question 31 for entity-wide disclosures)

Question 34

If the measurement bases of the information provided to the chief operating decision maker differs from the measurement bases of the Ind AS financial statements, what needs to be done?

Response

Reconciliations are required that separately identify and describe each adjustment needed to reconcile the total of all the reportable segments' profits or losses to the consolidated profit or loss. To the extent that the nature of the measurement differences is not apparent from the reconciliations, they must be explained.

Question 35

Paragraph 33 of Ind AS 108 states that geographical data need not be given if the necessary information is not available and cost to develop is excessive. When is the "cost to develop is excessive"?

Response

The Standard provides no guidance on when the cost to develop information is excessive. The entity will have to weigh the benefits of disclosing segmental information and the cost that will be incurred in developing the information. If it is time-consuming to prepare and the benefits to most of the users of financial statement are insufficient to justify the cost, such information need not be presented.

All entity-wide disclosures including geographical data are not required where the necessary information is not available and the cost to develop it would be excessive. However, because the information is on an entity-wide basis, it is not expected that this exemption will be invoked often. Most entities are likely to collect and retain information about their geographical operations and products and services. If the exemption is availed, that fact must be disclosed.

Question 36

Paragraph 33 of Ind AS 108 requires an entity to provide breakup of revenue and non-current assets on the basis of geographical areas, divided into country of domicile and foreign cou1ntries. What is meant by the term 'entity's country of domicile' since many a time country of principal operation is different from country of domicile?

Response

Ind AS 108 does not define the term 'country of domicile'. Hence the meaning as understood in common parlance is to be considered. Country of domicile is a country or registration of an entity where it has its legal address or registered office or which is considered in law as the center of its corporate affairs. Thus, a country where the entity has its registered office/legal address is considered to be the country of domicile for that entity.

Thus, even though the principal activities of an entity are not located in its country of domicile, the disclosures would no way be different from the situation where its principal operations are located in its country of domicile.

Appendices

Appendix I

Indian Accounting Standard (Ind AS) 108

Operating Segments

Contents

Indian Accounting Standard (Ind AS) 108

Operating Segments

*(This Indian Accounting Standard includes paragraphs set in **bold** type and plain type, which have equal authority. Paragraphs in bold type indicate the main principles.)*

Core principle

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.

Scope

2 This Accounting Standard shall apply to companies to which Indian Accounting Standards (Ind AS) notified under Companies Act apply.

3 If an entity that is not required to apply this Indian Accounting Standard chooses to disclose information about segments that does not comply with this Indian Accounting Standard, it shall not describe the information as segment information.

4 If a financial report contains both the consolidated financial statements of a parent that is within the scope of this Indian Accounting Standard as well as the parent's separate financial statements, segment information is required only in the consolidated financial statements.

Operating segments

5 An operating segment is a component of an entity:

(a) that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity),

(b) whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and

(c) for which discrete financial information is available.

An operating segment may engage in business activities for which it has yet to earn revenues, for example, start-up operations may be operating segments before earning revenues.

6 Not every part of an entity is necessarily an operating segment or part of an operating segment. For example, a corporate headquarters or some functional departments may not earn revenues or may earn revenues that are only incidental to the activities of the entity and would not be operating segments. For the purposes of this Indian Accounting Standard, an entity's post-employment benefit plans are not operating segments.

7 The term 'chief operating decision maker' identifies a function, not necessarily a manager with a specific title. That function is to allocate resources to and assess the performance of the operating segments of an entity. Often the chief operating decision maker of an entity is its chief executive officer or chief operating officer but, for example, it may be a group of executive directors or others.

8 For many entities, the three characteristics of operating segments described in paragraph 5 clearly identify its operating segments. However, an entity may produce reports in which its business activities are presented in a variety of ways. If the chief operating decision maker uses more than one set of segment information, other factors may identify a single set of components as constituting an entity's operating segments, including the

nature of the business activities of each component, the existence of managers responsible for them, and information presented to the board of directors.

9 Generally, an operating segment has a segment manager who is directly accountable to and maintains regular contact with the chief operating decision maker to discuss operating activities, financial results, forecasts, or plans for the segment. The term 'segment manager' identifies a function, not necessarily a manager with a specific title. The chief operating decision maker also may be the segment manager for some operating segments. A single manager may be the segment manager for more than one operating segment. If the characteristics in paragraph 5 apply to more than one set of components of an organisation but there is only one set for which segment managers are held responsible, that set of components constitutes the operating segments.

10 The characteristics in paragraph 5 may apply to two or more overlapping sets of components for which managers are held responsible. That structure is sometimes referred to as a matrix form of organisation. For example, in some entities, some managers are responsible for different product and service lines worldwide, whereas other managers are responsible for specific geographical areas. The chief operating decision maker regularly reviews the operating results of both sets of components, and financial information is available for both. In that situation, the entity shall determine which set of components constitutes the operating segments by reference to the core principle.

Reportable segments

11 An entity shall report separately information about each operating segment that:

(a) has been identified in accordance with paragraphs 5–10 or results from aggregating two or more of those segments in accordance with paragraph 12, and

(b) exceeds the quantitative thresholds in paragraph 13.

Paragraphs 14–19 specify other situations in which separate information about an operating segment shall be reported.

Aggregation criteria

12 Operating segments often exhibit similar long-term financial performance if they have similar economic characteristics. For example, similar long-term average gross margins for two operating segments would be expected if their economic characteristics were similar. Two or more operating segments may be aggregated into a single operating segment if aggregation is consistent with the core principle of this Indian Accounting Standard, the segments have similar economic characteristics, and 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.

Quantitative thresholds

13 An entity shall report separately information about an operating segment that meets any of the following quantitative thresholds:

(a) Its reported revenue, including both sales to external customers and intersegment sales or transfers, is 10 per cent or more of the combined revenue, internal and external, of all operating segments.

(b) The absolute amount of its reported profit or loss is 10 per cent 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.

(c) Its assets are 10 per cent or more of the combined assets of all operating segments.

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.

14 An entity may combine information about operating segments that do not meet the quantitative thresholds with information about other operating segments that do not meet the quantitative thresholds to produce a reportable segment only if the operating segments have similar economic characteristics and share a majority of the aggregation criteria listed in paragraph 12.

15 If the total external revenue reported by operating segments constitutes less than 75 per cent of the entity's revenue, additional operating segments shall be identified as reportable segments (even if they do not meet the criteria in paragraph 13) until at least 75 per cent of the entity's revenue is included in reportable segments.

16 Information about other business activities and operating segments that are not reportable shall be combined and disclosed in an 'all other segments' category separately from other reconciling items in the reconciliations required by paragraph 28. The sources of the revenue included in the 'all other segments' category shall be described.

17 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 the current period even if it no longer meets the criteria for reportability in paragraph 13.

18 If an operating segment is identified as a reportable segment in the current period in accordance with the quantitative thresholds, segment data for a prior period presented for comparative purposes shall be restated to reflect the newly reportable segment as a separate segment, even if that segment did not satisfy the criteria for reportability in paragraph 13 in the prior period, unless the necessary information is not available and the cost to develop it would be excessive.

19 There may be a practical limit to the number of reportable segments that an entity separately discloses beyond which segment information may become too detailed. Although no precise limit has been determined, as the number of segments that are reportable in accordance with paragraphs 13–18 increases above ten, the entity should consider whether a practical limit has been reached.

Disclosure

20 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.

21 To give effect to the principle in paragraph 20, an entity shall disclose the following for each period for which a statement of profit and loss is presented:

(a) general information as described in paragraph 22;

(b) information about reported segment profit or loss, including specified revenues and expenses included in reported segment profit or loss, segment assets, segment liabilities and the basis of measurement, as described in paragraphs 23–27; and

(c) reconciliations of the totals of segment revenues, reported segment profit or loss, segment assets, segment liabilities and other material segment items to corresponding entity amounts as described in paragraph 28.

Reconciliations of the amounts in the balance sheet for reportable segments to the amounts in the entity's balance sheet are required for each date at which a balance sheet is presented. Information for prior periods shall be restated as described in paragraphs 29 and 30.

General information

22 An entity shall disclose the following general information:

(a) factors used to identify the entity's reportable segments, including the basis of organisation (for example, whether management has chosen to organise the entity around differences in products and services, geographical areas, regulatory environments, or a combination of factors and whether operating segments have been aggregated), and

(b) types of products and services from which each reportable segment derives its revenues.

Information about profit or loss, assets and liabilities

23 An entity shall report a measure of profit or loss for each reportable segment. An entity shall report a measure of total assets and liabilities for each reportable segment if such amounts are regularly provided to the chief operating decision maker. An entity shall also disclose the following about each reportable segment if the specified amounts are included in the measure of segment profit or loss reviewed by the chief operating decision maker, or are otherwise regularly provided to the chief operating decision maker, even if not included in that measure of segment profit or loss:

(a) revenues from external customers;

(b) revenues from transactions with other operating segments of the same entity;

(c) interest revenue;

(d) interest expense;

(e) depreciation and amortisation;

(f) material items of income and expense disclosed in accordance with paragraph 97 of Ind AS 1 *Presentation of Financial Statements*;

(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.

An entity shall report interest revenue separately from interest expense for each reportable segment unless a majority of the segment's revenues are from interest and the chief operating decision maker relies primarily on net interest revenue to assess the performance of the segment and make decisions about resources to be allocated to the segment. In that situation, an entity may report that segment's interest revenue net of its interest expense and disclose that it has done so.

24 An entity shall disclose the following about each reportable segment if the specified amounts are included in the measure of segment assets reviewed by the chief operating decision maker or are otherwise regularly provided to the chief operating decision maker, even if not included in the measure of segment assets:

(a) the amount of investment in associates and joint ventures accounted for by the equity method, and

(b) the amounts of additions to non-current assets[1] other than financial instruments, deferred tax assets, post-employment benefit assets (see Ind AS 19 *Employee Benefits* paragraphs 54–58) and rights arising under insurance contracts.

Measurement

25 The amount of each segment item reported shall be the measure reported to the chief operating decision maker for the purposes of making decisions about allocating resources to the segment and assessing its performance. Adjustments and eliminations made in preparing an entity's financial statements and allocations of revenues, expenses, and gains or losses shall be included in determining reported segment profit or loss only if they are included in the measure of the segment's profit or loss that is used by the chief operating decision maker. Similarly, only those assets and liabilities that are included in the measures of the segment's assets and

[1] For assets classified according to a liquidity presentation, non-current assets are assets that include amounts expected to be recovered more than twelve months after the reporting period.

segment's liabilities that are used by the chief operating decision maker shall be reported for that segment. If amounts are allocated to reported segment profit or loss, assets or liabilities, those amounts shall be allocated on a reasonable basis.

26 If the chief operating decision maker uses only one measure of an operating segment's profit or loss, the segment's assets or the segment's liabilities in assessing segment performance and deciding how to allocate resources, segment profit or loss, assets and liabilities shall be reported at those measures. If the chief operating decision maker uses more than one measure of an operating segment's profit or loss, the segment's assets or the segment's liabilities, the reported measures shall be those that management believes are determined in accordance with the measurement principles most consistent with those used in measuring the corresponding amounts in the entity's financial statements.

27 An entity shall provide an explanation of the measurements of segment profit or loss, segment assets and segment liabilities for each reportable segment. At a minimum, an entity shall disclose the following:

(a) the basis of accounting for any transactions between reportable segments.

(b) the nature of any differences between the measurements of the reportable segments' profits or losses and the entity's profit or loss before income tax expense or income and discontinued operations (if not apparent from the reconciliations described in paragraph 28). Those differences could include accounting policies and policies for allocation of centrally incurred costs that are necessary for an understanding of the reported segment information.

(c) the nature of any differences between the measurements of the reportable segments' assets and the entity's assets (if not apparent from the reconciliations described in paragraph 28). Those differences could include accounting policies and policies for allocation of jointly used assets that are necessary for an understanding of the reported segment information.

(d) the nature of any differences between the measurements of the reportable segments' liabilities and the entity's liabilities (if not apparent from the reconciliations described in paragraph 28). Those differences could include accounting policies and policies for allocation of jointly utilised liabilities that are necessary for an understanding of the reported segment information.

(e) the nature of any changes from prior periods in the measurement methods used to determine reported segment profit or loss and the effect, if any, of those changes on the measure of segment profit or loss.

(f) the nature and effect of any asymmetrical allocations to reportable segments. For example, an entity might allocate depreciation expense to a segment without allocating the related depreciable assets to that segment.

Reconciliations

28 An entity shall provide reconciliations of all of the following:

(a) the total of the reportable segments' revenues to the entity's revenue.

(b) the total of the reportable segments' measures of profit or loss to the entity's profit or loss before tax expense (tax income) and discontinued operations. However, if an entity allocates to reportable segments items such as tax expense (tax income), the entity may reconcile the total of the segments' measures of profit or loss to the entity's profit or loss after those items.

(c) the total of the reportable segments' assets to the entity's assets.

(d) the total of the reportable segments' liabilities to the entity's liabilities if segment liabilities are reported in accordance with paragraph 23.

(e) the total of the reportable segments' amounts for every other material item of information disclosed to the corresponding amount for the entity.

All material reconciling items shall be separately identified and described. For example, the amount of each material adjustment 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.

Restatement of previously reported information

29 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, shall 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 shall be made for each individual item of disclosure. Following a change in the composition of its reportable segments, an entity shall disclose whether it has restated the corresponding items of segment information for earlier periods.

30 If an entity has changed the structure of its internal organisation in a manner that causes the composition of its reportable segments to change and if segment information for earlier periods, including interim periods, is not restated to reflect the change, the entity shall disclose in the year in which the change occurs segment information for the current period on both the old basis and the new basis of segmentation, unless the necessary information is not available and the cost to develop it would be excessive.

Entity-wide disclosures

31 Paragraphs 32–34 apply to all entities subject to this Indian Accounting Standard including those entities that have a single reportable segment.

Some entities' business activities are not organised on the basis of differences in related products and services or differences in geographical areas of operations. Such an entity's reportable segments may report revenues from a broad range of essentially different products and services, or more than one of its reportable segments may provide essentially the same products and services. Similarly, an entity's reportable segments may hold assets in different geographical areas and report revenues from customers in different geographical areas, or more than one of its reportable segments may operate in the same geographical area. Information required by paragraphs 32–34 shall be provided only if it is not provided as part of the reportable segment information required by this Indian Accounting Standard.

Information about products and services

32 An entity shall report the revenues from external customers for each product and service, or each group of similar products and services, unless the necessary information is not available and the cost to develop it would be excessive, in which case that fact shall be disclosed. The amounts of revenues reported shall be based on the financial information used to produce the entity's financial statements.

Information about geographical areas

33 An entity shall report the following geographical information, unless the necessary information is not available and the cost to develop it would be excessive:

(a) revenues from external customers (i) attributed to the entity's country of domicile and (ii) attributed to all foreign countries in total from which the entity derives revenues. If revenues from external customers attributed to an individual foreign country are material, those revenues shall be disclosed separately. An entity shall disclose the basis for attributing revenues from external customers to individual countries.

(b) non-current assets[2] 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. If assets in an individual foreign country are material, those assets shall be disclosed separately.

The amounts reported shall be based on the financial information that is used to produce the entity's financial statements. If the necessary information is not available and the cost to develop it would be excessive, that fact shall be disclosed. An entity may provide, in addition to the information required by this paragraph, subtotals of geographical information about groups of countries.

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[2] For assets classified according to a liquidity presentation, non-current assets are assets that include amounts expected to be recovered more than twelve months after the reporting period.

Information about major customers

34 An entity shall provide information about the extent of its reliance on its major customers. If revenues from transactions with a single external customer amount to 10 per cent or more of an entity's revenues, the entity shall disclose that fact, the total amount of revenues from each such customer, and the identity of the segment or segments reporting the revenues. The entity need not disclose the identity of a major customer or the amount of revenues that each segment reports from that customer. For the purposes of this Indian Accounting Standard, a group of entities known to a reporting entity to be under common control shall be considered a single customer. However, judgement is required to assess whether a government (including government agencies and similar bodies whether local, national or international) and entities known to the reporting entity to be under the control of that government are considered a single customer. In assessing this, the reporting entity shall consider the extent of economic integration between those entities.

Appendix A

Defined term

operating segment	An operating segment is a component of an entity: (a) that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), (b) whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and (c) for which discrete financial information is available.

Appendix B

Contents

Guidance on implementing Ind AS 108 Operating Segments

Guidance on implementing Ind AS 108 *Operating Segments*

This guidance accompanies, but is not part of, Ind AS 108.

Introduction

IG1 This implementation guidance provides examples that illustrate the disclosures required by Ind AS 108 and a diagram to assist in identifying reportable segments. The formats in the illustrations are not requirements. A format that provides the information in the most understandable manner in the specific circumstances is encouraged. The following illustrations are for a single hypothetical entity referred to as Diversified Company.

Descriptive information about an entity's reportable segments

IG2 The following illustrates the disclosure of descriptive information about an entity's reportable segments (the paragraph references are to the relevant requirements in the Indian Accounting Standard).

Description of the types of products and services from which each reportable segment derives its revenues (paragraph 22(b))

Diversified Company has five reportable segments: car parts, motor vessels, software, electronics and finance. The car parts segment produces replacement parts for sale to car parts retailers. The motor vessels segment produces small motor vessels to serve the offshore oil industry and similar businesses. The software segment produces application software for sale to computer manufacturers and retailers. The electronics segment produces integrated circuits and related products for sale to computer manufacturers. The finance segment is responsible for portions of the company's financial operations including financing customer purchases of products from other segments and property lending operations.

Measurement of operating segment profit or loss, assets and liabilities (paragraph 27)

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies except that pension expense for each operating segment is recognised and measured on the basis of cash payments to the pension plan. Diversified Company evaluates performance on the basis of profit or loss from operations before tax expense not including non-recurring gains and losses and foreign exchange gains and losses. Diversified Company accounts for intersegment sales and transfers as if the sales or transfers were to third parties, ie at current market prices.

Factors that management used to identify the entity's reportable segments (paragraph 22(a))

Diversified Company's reportable segments are strategic business units that offer different products and services. They are managed separately because each business requires different technology and marketing strategies. Most of the businesses were acquired as individual units, and the management at the time of the acquisition was retained.

Information about reportable segment profit or loss, assets and liabilities

IG3 The following table illustrates a suggested format for disclosing information about reportable segment profit or loss, assets and liabilities (paragraphs 23 and 24). The same type of information is required for each year for which a statement of profit and loss is presented. Diversified Company does not allocate tax expense (tax income) or non-recurring gains and losses to reportable segments. In addition, not all reportable segments have material non-cash items other than depreciation and amortisation in profit or loss. The amounts in this illustration are assumed to be the amounts in reports used by the chief operating decision maker.

	Car parts Rs.	Motor vessels Rs.	Soft-ware Rs.	Electro-nics Rs.	Finance Rs.	All other Rs.	Totals Rs.
Revenues from external customers	3,000	5,000	9,500	12,000	5,000	1,000[(a)]	35,500
Intersegment revenues	–	–	3,000	1,500	–	–	4,500
Interest revenue	450	800	1,000	1,500	–	–	3,750
Interest expense	350	600	700	1,100	–	–	2,750
Net interest revenue[(b)]	–	–	–	–	1,000	–	1,000
Depreciation and amortization	200	100	50	1,500	1,100	–	2,950
Reportable segment profit	200	70	900	2,300	500	100	4,070
Other material non-cash items:							
Impairment of assets	–	200	–	–	–	–	200
Reportable segment assets	2,000	5,000	3,000	12,000	57,000	2,000	81,000
Expenditures for reportable segment non-current assets	300	700	500	800	600	–	2,900
Reportable segment liabilities	1,050	3,000	1,800	8,000	30,000	–	43,850

(a) Revenues from segments below the quantitative thresholds are attributable to four operating segments of Diversified Company. Those segments include a small property business, an electronics equipment rental business, a software consulting practice and a warehouse leasing operation. None of those segments has ever met any of the quantitative thresholds for determining reportable segments.

(b) The finance segment derives a majority of its revenue from interest. Management primarily relies on net interest revenue, not the gross revenue and expense amounts, in managing that segment. Therefore, as permitted by paragraph 23, only the net amount is disclosed.

Reconciliations of reportable segment revenues, profit or loss, assets and liabilities

IG4 The following illustrate reconciliations of reportable segment revenues, profit or loss, assets and liabilities to the entity's corresponding amounts (paragraph 28(a)–(d)). Reconciliations also are required to be shown for every other material item of information disclosed (paragraph 28(e)). The entity's financial statements are assumed not to include discontinued operations. As discussed in paragraph IG2, the entity recognises and measures pension expense of its reportable segments on the basis of cash payments to the pension plan, and it does not allocate certain items to its reportable segments.

Revenues	Rs.
Total revenues for reportable segments	39,000
Other revenues	1,000
Elimination of intersegment revenues	(4,500)
Entity revenues	35,500

Profit or loss	Rs.
Total profit or loss for reportable segments	3,970
Other profit or loss	100
Elimination of intersegment profits	(500)
Unallocated amounts:	
Litigation settlement received	500
Other corporate expenses	(750)
Adjustment to pension expense in consolidation	(250)
Income before income tax expense	3,070

Assets	Rs.
Total assets for reportable segments	79,000
Other assets	2,000
Elimination of receivable from corporate headquarters	(1,000)
Other unallocated amounts	1,500
Entity's assets	81,500

Liabilities	Rs.
Total liabilities for reportable segments	43,850
Unallocated defined benefit pension liabilities	25,000
Entity's liabilities	68,850

Other material items	Reportable segment totals Rs.	Adjustments Rs.	Entity totals Rs.
Interest revenue	3,750	75	3,825
Interest expense	2,750	(50)	2,700
Net interest revenue (finance segment only)	1,000	–	1,000
Expenditures for assets	2,900	1,000	3,900
Depreciation and amortization	2,950	–	2,950
Impairment of assets	200	–	200

The reconciling item to adjust expenditures for assets is the amount incurred for the corporate headquarters building, which is not included in segment information. None of the other adjustments are material.

Geographical information

IG5 The following illustrates the geographical information required by paragraph 33. (Because Diversified Company's reportable segments are based on differences in products and services, no additional disclosures of revenue information about products and services are required (paragraph 32).)

Geographical information	Revenues[a]	Non-current assets
	Rs.	Rs.
United States	19,000	11,000
Canada	4,200	–
China	3,400	6,500
Japan	2,900	3,500
Other countries	6,000	3,000
Total	35,500	24,000

(a) Revenues are attributed to countries on the basis of the customer's location.

Information about major customers

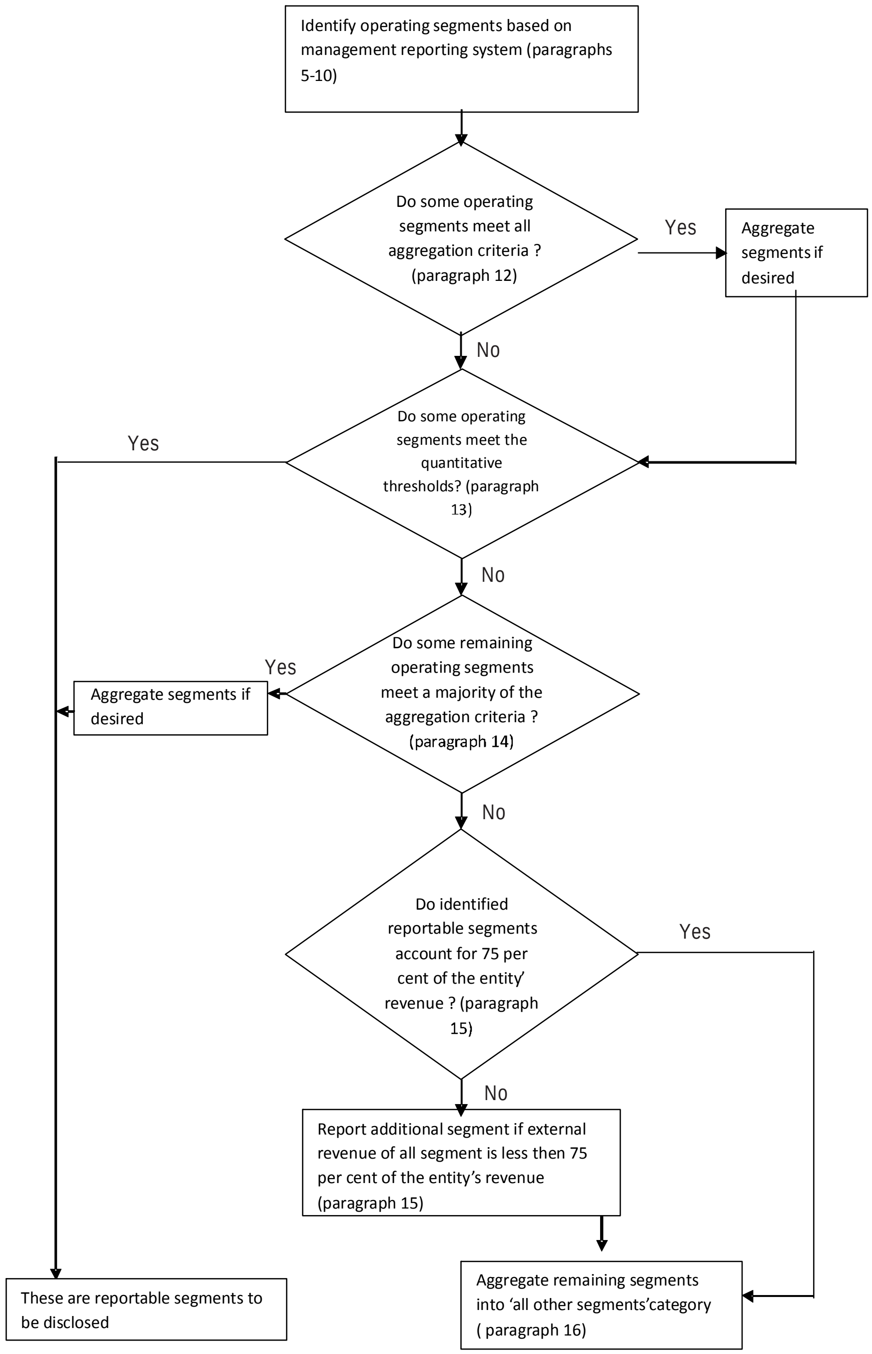
IG6 The following illustrates the information about major customers required by paragraph 34. Neither the identity of the customer nor the amount of revenues for each operating segment is required.

> Revenues from one customer of Diversified Company's software and electronics segments represent approximately Rs. 5,000 of the Company's total revenues.

Diagram to assist in identifying reportable segments

IG7 The following diagram illustrates how to apply the main provisions for identifying reportable segments as defined in the Indian Accounting Standard. The diagram is a visual supplement to the Indian Accounting Standard. It should not be interpreted as altering or adding to any requirements of the Indian Accounting Standard nor should it be regarded as a substitute for the requirements.

Diagram for identifying reportable segments



Appendix 1

Note: This appendix is not a part of the Indian Accounting Standard. The purpose of this Appendix is only to bring out the differences between Indian Accounting Standard (Ind AS) 108 and the corresponding International Financial Reporting Standard (IFRS) 8, Operating Segments

Comparison with IFRS 8, *Operating Segments*

1 The transitional provisions given in IFRS 108 has not been given in Ind AS 108, since all transitional provisions related to Ind ASs, wherever considered appropriate, have been included in Ind AS 101, *First-time Adoption of Indian Accounting Standards* corresponding to IFRS 1, *First-time Adoption of International Financial Reporting Standards*

2 Different terminology is used, as used in existing laws e.g., the term 'balance sheet' is used instead of 'Statement of financial position' and 'Statement of profit and loss' is used instead of 'Statement of comprehensive income'.

Appendix II

Differences between Ind AS 108, *Operating Segments*, and AS 17, *Segment Reporting*

1. Identification of segments under Ind AS 108 is based on 'management approach' i.e., operating segments are identified based on the internal reports regularly reviewed by the entity's chief operating decision maker to make decisions about resource allocation and performance measurement. Existing AS 17 requires identification of two sets of segments—one based on related products and services, and the other on geographical areas based on the risks and returns approach. One set is regarded as primary segments and the other as secondary segments, depending on which set predominately reflects the sources of risks and returns affecting the entity.

2. Ind AS 108 requires that the amounts reported for each operating segment shall be measured on the same basis as used by the chief operating decision maker for the purposes of allocating resources to the segments and assessing its performance. Existing AS 17 requires segment information to be prepared in conformity with the accounting policies adopted for preparing and presenting the financial statements. Accordingly, existing AS 17 also defines segment revenue, segment expense, segment result, segment assets and segment liabilities. Though AS 17 does not prohibit the disclosure of additional segment information that is prepared on a basis other than the accounting policies adopted in preparing and presenting the entity's financial statements provided that (a) the information is reported internally to the Board of Directors and the Chief Executive Officer for purposes of making decisions about resource allocation and performance measurement; and (b) the basis of measurement for this additional information is clearly described.

3. Ind AS 108 specifies aggregation criteria for aggregation of two or more segments. Existing AS 17 does not deal specifically with this aspect.

4. An explanation has been given in the existing AS 17 that in case there is neither more than one business segment nor more than one geographical segment, segment information as per this Standard is not required to be disclosed. However, this fact shall be disclosed by way of

footnote. Ind AS 108 requires certain disclosures even in case of entities having single reportable segment.

5. An explanation has been given in the existing AS 17 that 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. It also provides that in case interest is included as a part of the cost of inventories and those inventories are part of segment assets of a particular segment, such interest should be considered as a segment expense. These aspects are specifically dealt with keeping in view that the definition of 'segment expense' given in AS 17 excludes interest. Ind AS 108 requires the separate disclosures about interest revenue and interest expense of each reportable segment if these are included in the measure of segment profit or loss reviewed by the chief operating decision maker or are otherwise regularly provided to chief operating decision maker.

6. Ind AS 108 requires disclosures of revenues from external customers for each product and service. With regard to geographical information, it requires the disclosure of revenues from customers in the country of domicile and in all foreign countries, non-current assets in the country of domicile and all foreign countries. It also requires disclosure of information about major customers. Disclosures in existing AS 17 are based on the classification of the segments as primary or secondary segments. Disclosure requirements for primary segments are more detailed as compared to secondary segments.