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"Segment Reporting In India"- As A New and Growing Concept of Corporate Accounting

ABSTRACT

In today's competitive market a businessman does not deal in any particular product or market but it want to serve in multiple products / services and operates in different geographical areas. So it can cover wide area and face cut-thought competition when a business firm function in multiple products / service and in different market it need to properly anticipate and analyze risks and opportunities. All these information must be recorded in proper reports, which is known as segment reporting.

The main aim of segment reporting is to properly identify & analyze business opportunities and risks. For the fulfillment of basic need of business reporting institute of charters accountant of India gives status as accounting standard.

Accounting as a language of business communicates the financial results of an enterprise to various interested parties by means of financial statements which exhibit a 'True & Fair' picture of it's state of affairs.

A business firm deals with various transaction with various persons so it need to follow proper standards which everyone know any understand it. For that ICAI provides accounting standards.These accounting standards are written documents, statements and guidelines relating to all business transactions like establishment, reorganization, measurement, analyzes of all business transactions. Accounting standards are use as one of the main compulsory regulatory mechanisms for preparation and external audit of general – purpose of financial reports in all countries in the world.

Today business operations are not up to boundaries of a one country but it cross the boundaries of one country and function globally / internationally. For that business does not fulfill all standards of one country but they has to fulfill all standards of different countries in which it function. There is always big conflict arise in applicability of internationalized accounting standards should all enterprises large or small in all countries of a given economy subject to the same standards? Similarly, should highly develops countries be subject to the same accounting standards as less develops or developing countries? So for all these questions internationalization of accounting standards is best solution among all conflicts.

If business firm follows all internationalization accounting standard it can anticipate business opportunities and harmonize its business transactions with other economy transactions. So for the achievement of overall business goals and to reduce government interaction each & every business firm needs proper system of reporting transaction with well define accounting standards.

1) Introduction :

Accounting standards 17, 'Segment Reporting', issued by the council of the Institute of chartered Accountants of India. This standard comes into effect in respect of accounting periods commencing on or after 1.4.2001 and is mandatory in nature, from that date, in respect of the following:

(i) Enterprises whose equity or debt securities are listed on a recognized stock exchange in India and enterprises that are in the process of issuing equity or debt securities that will be listed on a recognized stock exchange in India as evidenced by the board of director's resolution in this regard.

(ii) All other commercial, industrial and business reporting enterprises, whose turnover for the accounting period exceeds Rs. 50 crores.

2) Applicability of Accounting Standard:

Applicable to Level I Enterprises. Not applicable to Level II and Level III enterprises in their entirely.

List of Level I Enterprises:

1. Enterprises whose equity or debt securities are listed whether in India or outside India.
2. Enterprises which are in the process of listing their equity or debt securities as evidenced by the Board resolution in this regard.
3. Banks including co-operative banks.
4. Financial institutions
5. Enterprises carrying insurance business
6. Enterprises whose turnover exceeds Rs. 50 crores.
7. Enterprises having borrowings in excess of Rs. 10 crores at any time during the accounting period.
8. Holding companies and subsidiaries of enterprises falling under any one of the categories mentioned above.

List of Level II Enterprises:

1. Enterprises whose turnover exceeds Rs. 40 lakhs but does not exceed Rs. 50 crores.
2. Enterprises having borrowings in excess of Rs. 1 crore but not in excess of Rs. 10 crores at any time during the accounting period.
3. Holding companies and subsidiaries of enterprises falling under any one of the categories mentioned above.

List of Level III Enterprises:

Enterprises which are not covered under Level I, and Level II.

3) Benefit of AS-17:

Allocation of Resources:
Segment information, it disclosed to parties outside the enterprise, would play an important role in improving the allocation of scare resources in an economy. The disclosure of information removes the imperfection in the investment market and causes the market to function properly.

Investment and Credit Decisions:
It is widely recognized by authors in accounting and finance, accountants and accounting bodies that segment information has great usefulness in investment and credit decisions. Segment information enhances investor's ability to understand a diversified company and to make accurate and useful forecast about the profitability of segments as well as the company as a whole.

Equilibrium in Share Prices:
The segment disclosures would tend to adjust the prices of company shares according to information released.

True and Fair View:
Am important provision of the companies Act in India is to reveal a true and fair view of the results of operation and financial position. Segment disclosures may be greatly required in terms of the "true and fair" criterion established in the companies Act.

The above mentioned benefits associated with segment disclosure point out that segment reporting is desirable in published annual reports of diversified companies to present true and fair results of their business activities, and to help investors in making proper investment decisions.

4) Key Definitions:

Business Segment:
A business segment is a distinguishable component of an enterprise that is engaged in providing an individual product or service or a group of related products or services and that is subject to risks and returns that are different from those of other business segment. Factors that should be considered in determining whether products or services are related include:

- The nature of the product or services,
- The nature of the production process,
- The type or class of customers for the product or services
- The methods used to distribute the products or provide the services, and
- It applicable, the nature of the regulatory environment, for example, banking, insurance or public utilities.

Geographical Segment:

A geographical segment is a distinguishable component of an enterprise that is engaged in providing products or services within a particular economic environment and that is subject to risks and returns that are different from those of components operating in other economic environments. Factors that should be considered in identifying geographical segments include:

- Similarity of economic and political conditions,
- Relationships between operations in different geographical area,
- Proximity of operation
- Special risks associated with operations in a particular area;
- Exchange control regulations, and
- The underlying currency risks.

Reportable Segment:

A reportable segment is a business segment or a geographical segment identified on the basis of forgoing definitions for which segment information is required to be disclosed by this statement.

Enterprise Revenue:
Enterprise revenue from sales to external customers as reported in the statements of profit and loss.

Segment Revenue:
Segment revenue is the aggregate of

- The portion of enterprise revenue that is directly attributable to a segment.
- The relevant portion of enterprise revenue that can be allocated on a reasonable basic to a segment, and
- Revenue from transactions with other segments of the enterprise.

Segment Expenses:

Segment expenses include the following:

- The expenses resulting from the operating activities of a segment that is directly attributable to the segment.
- The relevant portion of enterprise expenses that can be allocated and a reasonable basis to the segment.
- It includes expenses relating to transactions with other segments of the enterprise.

A segment expense does not include the following:

- Extraordinary items as defined in As-5 revised
- Interest expenses
- Interest incurred on advances from other segments.
- Loss on sale of investments.
- Loss on write-off of bad debts.

- Income-tax
- General administration and Head office expenses
- Other expenses at enterprise level

Segment Assets:

- Segments assets are those operating assets that are employed by a segment in its operating activities and that either are directly attributable to the segment or can be allocated to the segments on a reasonable basis.
- If the segments result of a segment includes interest or dividend income, its segments assets include the related receivable, loans, investments or other interest or dividend generating assets.
- Segment assets do not include income tax assets.
- Segment assets are determined after deducting related allowances / provisions that are reported as direct offsets in the balances sheet of the enterprise.

Segment Liabilities:
Segment liabilities are those operating liabilities that either are directly attributable to the segment or can be allocated to the segments on a reasonable basis. If the segment result of a segment includes interest expenses, its segment liabilities include the related interest – bearing liabilities.

Segment Result:
Segment result is segment revenue less segment expenses.

5) Limitations of Segment Reporting:

The segmental reporting is criticized due to the following factors.

- The as 17 requires common costs to be apportioned to various segments on what the company's management believes is a reasonable basis. In practice, there can be many categories of common costs the standard requires not to apportion such common costs it their apportionment is misleading. There is a small cause in making an artificial apportionment of such costs.
- It is very difficult to determine segment assets in the enterprise. Some assets are required for general purposes and are used by different segments. It is preferable to disclose them as a separate asset in the balance sheet of the concern and a footnote of this fact that several segments use these assets commonly may also be furnished.
- The segmental results are dependent on the transfer price fixed for inter segmental sales, which are always logically determined and established. The use of various transfer pricing methods will make the segmental information not comparable with similar disclosures by other enterprises.
- The standard requires disseminating the information about the segments, which may not be desirable from the view that divulgence of strategic information of the organization may be total and sometimes causing threat to survival of the enterprise.

6) Difficulties in Segment Reporting:

The difficulties involved in segment reporting are, truly speaking, and the problems of implementation. Some problems in implementing segment-reporting proposal are listed below:

Basis of Segmentation:

How a diversified company should be fractionalized for reporting purpose is a problem in segment reporting. Basically there are three questions involved in this vital problem. The greatest problem in segmenting a diversified enterprise lies in the fact that diversification may exist in different forms such as industry, product lines individuals products market and geographical areas.

Allocation of Common Costs:

Common costs for the purpose of preparing segments reports need to be apportioned between different products. In some cases, common costs are apportioned on a basis, which may be classified as reasonable and reliable. If common cost were apportioned on a basis, which does not reflect a rational relationship, the basis being totally unjustified would produce inaccurate and unreliable segment figures.

Pricing of Inter-segment Transactions:

The segments in a diversified company may or may not have substantial amounts of inter-segment transaction. A diversified company having disparate segments may have very few inter-segment transactions. The market price for pricing inters – segment transactions may be more useful for external users as it provides accurate revenue data based on the transactions approach and the realization concept. No, single accounting method is available which may be classified as the most appropriate. However, segment reporting should not be with held simply because an appropriate method is not available.

Degree of Integration in Segment Activities:

A more significant argument against segmental reporting can be made where a firm is highly integrated. In the case of a vertically – integrated firm, the recognition of external market for intermediate goods may not always be warranted.

Where a firm's operations are highly integrated and closely coordinated, then it seems unlikely that meaningful segmental reports will result. The problem is how to determine the critical points at which disaggregating no longer becomes justifiable, Or segments reports valuable.

Management Conservatism:

Another argument is that, where there is no regulatory provision to disclose segmental reports, voluntary disclosures are likely to be perceived by managements to be beneficial only in certain instances, for example, where management believes that the company's attractiveness to investors will be enhanced and the costs of finance reduced.

7) Segment Disclosures in India:

In Indian companies Act, 1956 has provision for disclosures of some segmental information in published annual reports such as sales, production, stocks, and purchases. Besides, information about licensed capacity and installed capacity for every product is also to be given in the annual reports. It has been found that many diversified Indian companies develop segment information of their managerial planning control and decision making such as income statements, sales or other gross revenue, cost of goods sold, gross margin on sales, segmented contribution margin, selling expenses, administrative expenses, segmented not profit before tax, segmented balance sheet.

Accounting Standard 17 is mandatory in respect of companies who are listed on the stock exchange or who are in process of issuing equity or debt securities and will be accordingly listed on the stock exchange in India. Therefore, Indian companies are giving segmental information in compliances with AS 17 Segment Reporting issued by ICAI.

8) DIFFERENCES BETWEEN IAS, USGAAP & AS:

IAS - 14	FAS - 131	AS - 17
Public entities. Report primary and secondary segment formats based on risks and returns and internal reporting structure.	Public entities. Reports based on internal operating structure.	Enterprises whose equity or debt securities are listed on a recognized stock exchange in India, in the process of listing entities having turnover Rs. 50 Crores. Rest same as IAS - 14.
Use consolidated GAAP accounting policies.	Use internal financial reporting policies even if accounting policies may differ from consolidated GAAP.	Use accounting policies adopted for the enterprise and also specific policies related to segment reporting.
Disclosures for primary segment format includes	Similar disclosures to IAS except liabilities and	Similar disclosures to IAS except capex in primary as well as in

sales, profits, capex, assets and liabilities. For secondary segment format, report sales, assets and capex.	geographical capex not required. Depreciation, amortization, tax, interest and exceptional items required if reported internally.	secondary segment formats.

9) IASB ISSUES CONVERGENCE STANDARD ON SEGMENT REPORTING:

The International Accounting Standards Board (IASB) today issued International Financial Reporting Standard (IFRS) 8 Operating Segments. The IFRS continues the IASB's work in its joint short-term convergence project with the US Financial Accounting Standards Board (FASB) to reduce differences between IFRSs and US generally accepted accounting principles (GAAP).

IFRS 8 arises from the IASB's comparison of International Accounting Standard (IAS) 14 Segment Reporting with the US standard SFAS 131 Disclosures about Segments of an Enterprise and Related Information. IFRS 8 replaces IAS 14 and aligns segment reporting with the requirements of SFAS 131.

The IFRS requires an entity to adopt the 'management approach' to reporting on the financial performance of its operating segments. Generally, the information to be reported would be what management uses internally for evaluating segment performance and deciding how to allocate resources to operating segments. Such information may be different from what is used to prepare the income statement and balance sheet. The IFRS therefore requires explanations of the basis on which the segment information is prepared and reconciliations to the amounts recognised in the income statement and balance sheet.

The IASB believes that adopting the management approach will improve financial reporting. First, it allows users of financial statements to review the operations through the eyes of management. Secondly, because the information is already used internally by management, there are few costs for preparers and the information is available on a timely basis. This means that interim reporting of segment information can be extended beyond the current requirements.

As part of its deliberations leading to IFRS 8, the IASB considered comments by a coalition of over 300 non-governmental organisations (NGOs) known as the Publish What You Pay campaign, which asked for the scope of the IFRS to be extended to require additional disclosure on a country-by-country basis. Because the IFRS was developed as a short-term convergence project, the IASB decided that country-by-country disclosure should not be addressed in the IFRS. Instead, the matter will be raised with international bodies that are engaged with similar issues.

Introducing IFRS 8, Sir David Tweedie, IASB Chairman, said:

- IFRS 8 continues our work to eliminate major differences between IFRSs and US GAAP and to improve financial reporting. The IFRS adopts the management approach to segment reporting set out in SFAS 131.
- It therefore gives users of financial statements the opportunity to query how the entity is controlled by its senior decision maker. It does this by enabling entities to provide timely segment information at little extra cost.
- The Board will continue to examine the merits for a requirement of country-by-country disclosure as suggested by supporters of the Publish What You Pay campaign. A group of Board members will discuss this issue with other interested organizations.

10) CONCLUSION :

In today's business world we need to record, analyze and report proper information about all day-to-day transaction. If we do not maintain all records properly so it is possible that we lost many opportunities so it is necessary that we should record all transactions and so we need proper system of "Business Reporting." Business reporting provides valuable any vital market news, information and technical data relating to industry.

A report of recent business events such as business and environment, trade, technology, manufacturing, stock market, commodity markets, market funds, banking and other financial institutions, merger & acquisitions, human resources, trade unions, employee-employer relationship, technology & technological developments, consumers affairs and consumer protection, real estate business and corporate laws, international business etc, keeping in minds and the impact of all these on timeliness, prominence, novelty, conflict, proximity may be termed as Business Reporting.

In today's competitive market a businessman does not deal in any particular product or market but it want to serve in multiple products / services and operates in different geographical areas. So it can cover wide area and face cut-thought competition when a business firm function in multiple products / service and in different market it need to properly anticipate and analyze risks and opportunities. All these information must be recorded in proper reports, which is known as segment reporting.

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