

AS 17 – Notes

Step 1: Identification of segment (business of geographical)

Definition of business segment (refer illustration 5 in page 4.57)

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 segments.

Factors to be considered in the identification of business segments:

- a) Nature of product or service
- b) Nature of production process
- c) Type of customers
- d) Methods of distribution of product or service
- e) Nature of regulatory environment

Definition of geographical segment (refer PQ 7 and 8 in page 4.60)

A **distinguishable component** of an enterprise that is engaged in providing an products or services **within a particular economic environment** and that is **subject to risks and returns** that are **different from those of other components operating in other economic environments**.

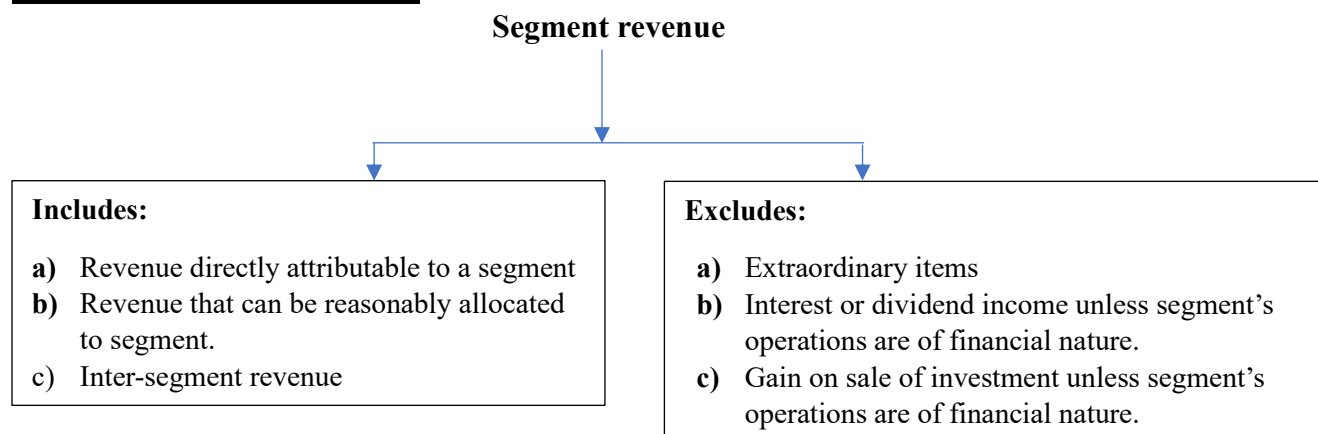
Factors to be considered in the identification of business segments:

- a) Similarity of economic and political conditions
- b) Relationships between operations in different geographical areas
- c) Proximity of operations
- d) Special risks associated with operating in a particular area
- e) Exchange control regulations
- f) Currency risks

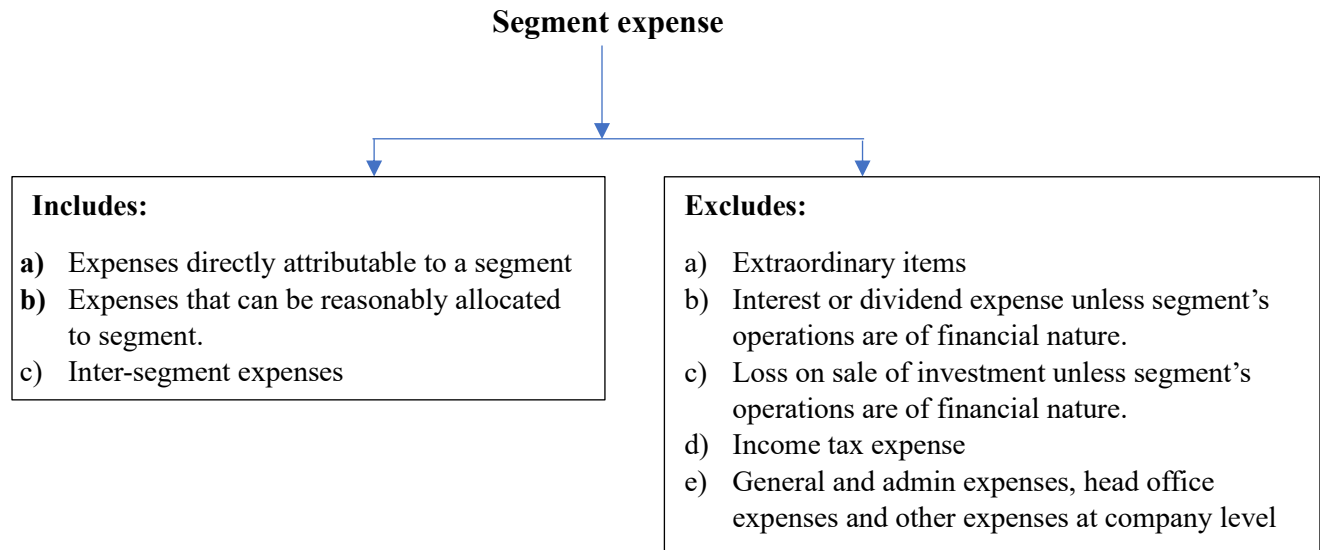
A geographical segment can be a single country, a group of two or more countries or region within a country.

Geographical segments can be of two types: (i) Geographical segment based on location of assets and (ii) Geographical segment based on location of customers.

Definition of segment revenue

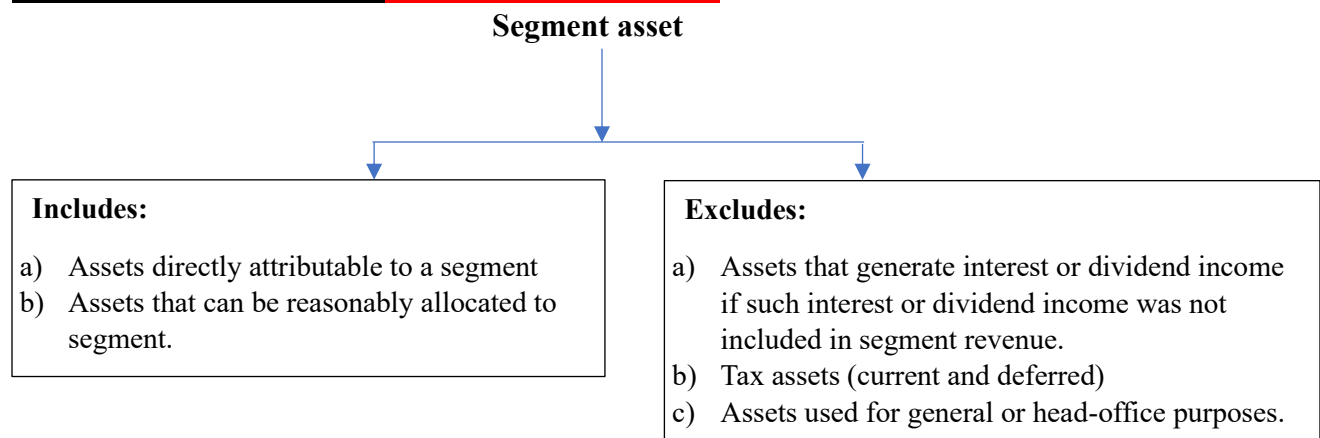


Definition of segment expense

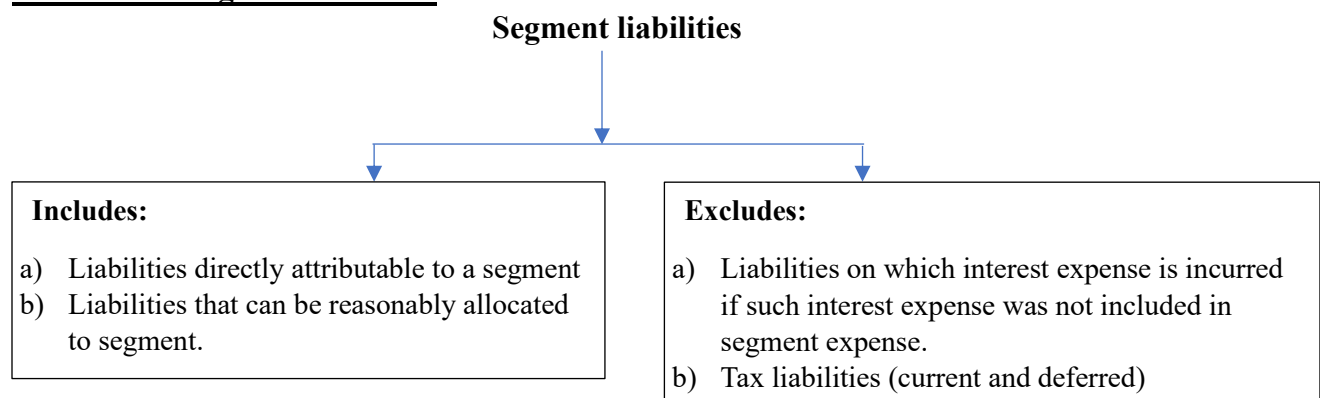


$$\text{Segment result} = \text{Segment revenue} - \text{Segment expense}$$

Definition of segment asset (refer PQ 6 in page 4.59)



Definition of segment liabilities



Note 1: In case interest cost is included as a part of cost of inventories in accordance with AS 16, then interest expense should be included as a part of segment expense.

Note 2: Segments are generally identified based on management’s internal financial reporting to CEO or board of directors. However, if such segments do not meet the definitions provided in AS 17, then we have to look into the information reported to the next lower level of management for identification of segments.

Step 2: Primary and secondary reporting formats

Segment (business or geographical) which represents dominant source of risks and rewards for the entity will be primary segment and the other one will be secondary segment.

Step 3: Identification of reportable segments (refer illustration 1 (page 4.53), PQ9 to 11 (page 4.60))

From the primary segments, we have to identify the reportable segments based on the criteria mentioned in AS 17.

Summary of criteria for identifying reportable segments:

Step I – Apply 10% Test (Materiality Test):

Any 1 Test needs to be met – For Reportable Segment:	
Revenue Test	Revenue (External + Internal) of the segment is 10% or more of the Total Revenue of all segments
Profit/Loss Test	<p>Case I – All segments have profits:</p> <p>Profit of the segment is 10% or more of the total profit of all segments</p>
	<p>Case II – Few segments have profit + Few segments have losses:</p> <ol style="list-style-type: none"> 1. Add the profits of profitable segments only. 2. Add the losses of loss-making segments only. 3. Take the figure (from 1 and 2) whichever is greater (in absolute values). 4. The segment which has profit/loss equal to 10% or more of the absolute figure computed in Point 3 becomes reportable.
Asset Test	The segment assets are 10% or more of the total assets of all segments.

Note:

A business segment or a geographical segment which is not a reportable segment as per above steps, **may be designated** as a reportable segment despite its size at the **discretion of the management** of the enterprise.

Step II – Apply 75% Test (Overall Test):

Ensure that the **total external revenue** attributable to reportable segments constitutes at least 75% of the **total enterprise revenue**.

If not, additional segments should be identified as reportable segments, even if they do not meet the 10% thresholds, until at least 75% of total enterprise revenue is included in reportable segments.

Note 1: A segment that has satisfied 10% test in the previous reporting period will be reportable segment for this year as well whether or not the 10% test has been satisfied.

Note 2: If a segment which has been identified as reportable segment in the current period, then we have restate the preceding period data as well to disclose that segment information for the previous period.

Step 4: Disclosures for primary segments (refer illustration 4 in page 4.55 and PQ 12 in page 4.62)

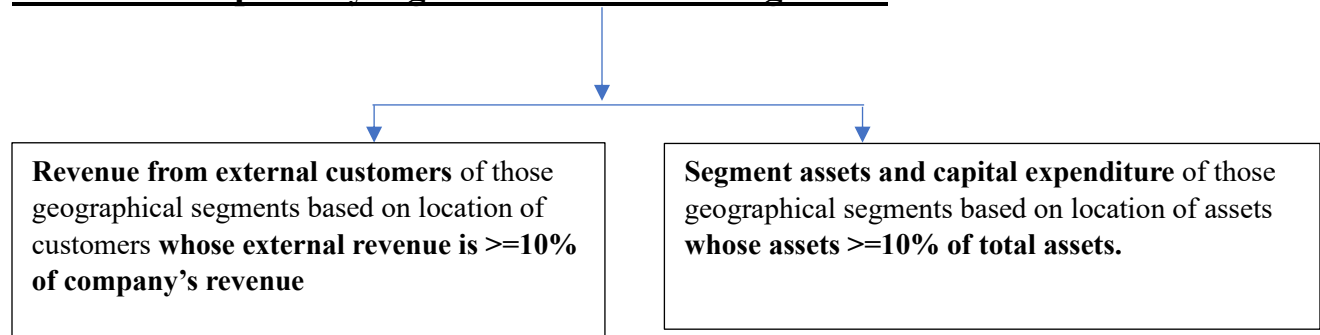
- (a) Segment revenue, classified into segment revenue from sales to external customers and segment revenue from transactions with other segments;
- (b) Segment result;
- (c) Total carrying amount of segment assets;
- (d) Total amount of segment liabilities;
- (e) Total cost incurred during the period to acquire segment assets that are expected to be used during more than one period (tangible and intangible fixed assets);
- (f) Total amount of expense included in the segment result for depreciation and amortisation in respect of segment assets for the period; and
- (g) Total amount of significant non-cash expenses, other than depreciation and amortisation in respect of segment assets that were included in segment expense and, therefore, deducted in measuring segment result.

An enterprise that reports the amount of cash flows arising from operating, investing and financing activities of a segment need not disclose depreciation and amortisation expense and non-cash expenses.

Note: Segment revenue, result, assets and liabilities disclosed above should be reconciled to numbers as per the financial statements.

Step 5: Disclosures for secondary segments

Case 1: If the primary segments are business segments.



Case 2: If the primary segments are geographical segments

Following needs to be disclosed for those business segments whose external revenue is $\geq 10\%$ of company's revenue or whose assets $\geq 10\%$ of total assets

- a) External revenue
- b) Segment assets
- c) Capital expenditure incurred during the year

Other points

- a) Inter-segment transfers can be priced on any basis. However, basis of such pricing needs to be disclosed in the financial statements. **(refer illustration 2 in page 4.54)**
- b) Any changes in accounting policies materially affecting segment information should be disclosed along with a description of nature of change and the financial effect of the same.
- c) Segment accounting policies should be in line with the accounting policies followed for company's financial statements.
- d) Additional disclosure of information which is not in line with accounting policies used for company's financial statements can be disclosed if such information is reported internally to the board and CEO and basis of measuring such information is disclosed in the financial statements.
- e) Entity should disclose type of products or services included within each business segment and composition of each geographical segment.
- f) If an entity prepares both standalone and consolidated financial statements, then segment information disclosure is required only in consolidated financial statements.
- g) AS 17 is applicable only to non-SMCs (non-corporates) and Level 1 entities (corporates).