

IND AS 108
Operating Segments

Ind-AS 18 Operating Segments

- ▶ Core principle and scope
- ▶ Identification of operating segments
 - ▶ Chief operating decision maker (CODM)
 - ▶ Operating segments
 - ▶ Aggregation of segments
 - ▶ Reportable segments
- ▶ Key differences

Core principle and scope



Core principle

- ▶ 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 requires judgement in its application. Management should consider the core principle as it determines its segment disclosures rather than relying on a set of rules.
- ▶ The key concept is that the entity should provide information used by management that will allow users to understand the entity's main activities, where those activities are located and how well those activities are performing.

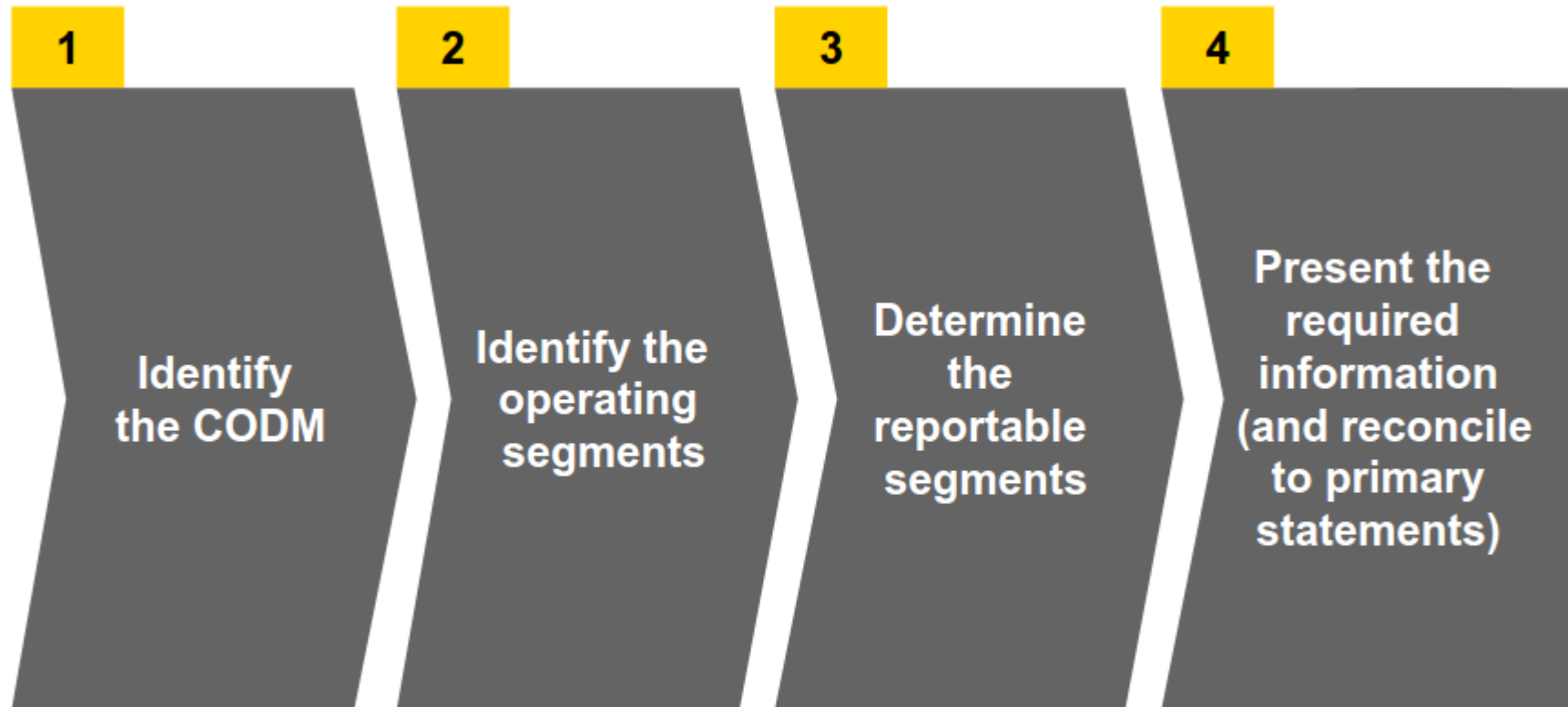
Scope

- ▶ If a parent is preparing both consolidated and separate financial statements, segment information is required only in the consolidated financial statements.
- ▶ Voluntary disclosure about segment, cannot be termed as “Segment Information”, unless it complies with Ind AS 108.

Identification and reporting of operating segments



Steps to report Operating segments



Chief Operating Decision Maker (CODM)

- ▶ Identified as a function and not necessarily a person
- ▶ Function that
 - ▶ Allocates resources of the entity
 - ▶ Assesses performance of the operating segments of the entity
- ▶ Responsible for making strategic decisions about the entity's segments
- ▶ Can be an individual like a CEO or COO, or a group of individuals like senior management team or board of directors but not supervisory board that just approves management's decisions
- ▶ Generally CODM is highest level of management
- ▶ Fundamental to correct identification of reportable segments

A question for you: CODM (1)

- ▶ Executive Committee of Company ABC comprises CEO, COO and President
- ▶ Committee assesses performance and makes resource allocation decisions
- ▶ Each Committee member has a single vote

Who is the CODM of Company ABC?

- ▶ Executive committee
- ▶ CEO
- ▶ COO
- ▶ President

A question for you: CODM (2)

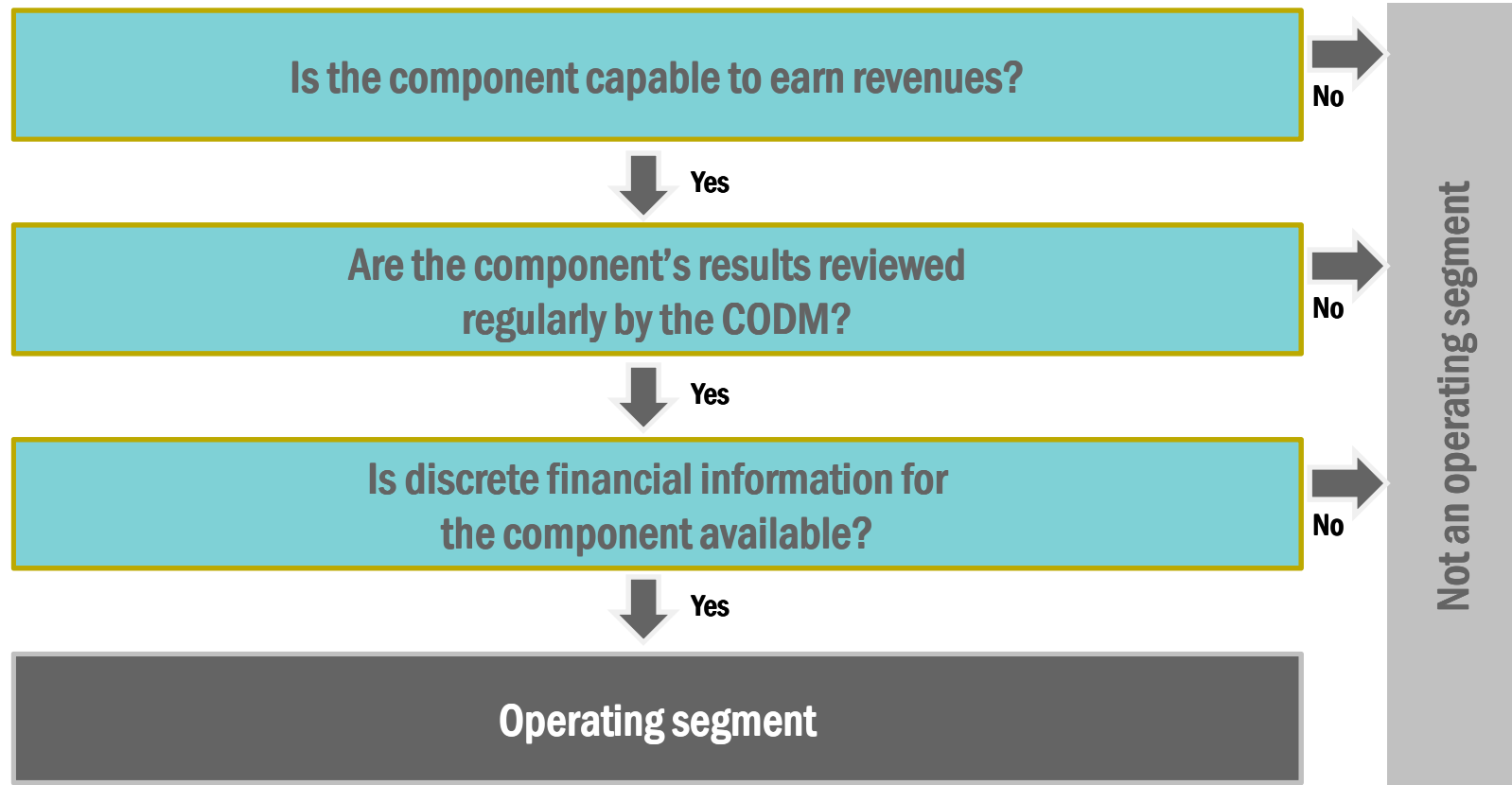
- ▶ Same as previous slide, except that the President can override a vote of the Committee
- ▶ Same as previous slide, except that a Supervisory Board reviews the operation of the Committee

In each case, can you identify the CODM?

Response: Question (2)

- ▶ In case 1, in our view the CODM is the President. This is on the basis that the President essentially controls the Executive Committee and therefore has control over the operating decisions that the Executive Committee makes.
- ▶ In case 2, in our view the CODM remains the Executive Committee because the mere existence of the higher level Supervisory Board does not necessarily mean that it is the CODM. In this example there is no indication that the Supervisory Board assesses performance and/or makes resource allocation decisions. In practice this will be a matter of judgement depending on the specific facts and circumstances.

Identification of operating segment

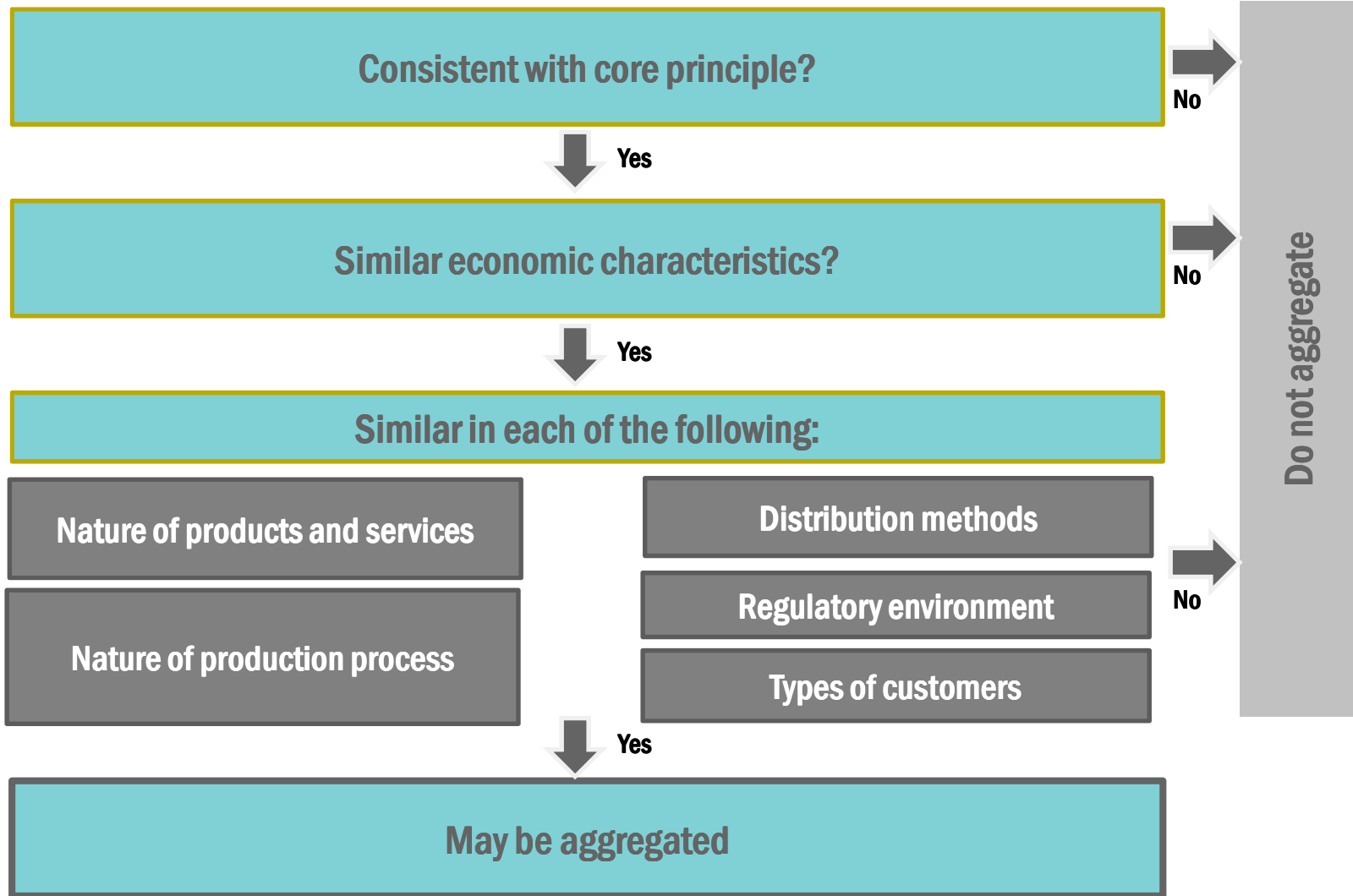


A question for you: Operating segments

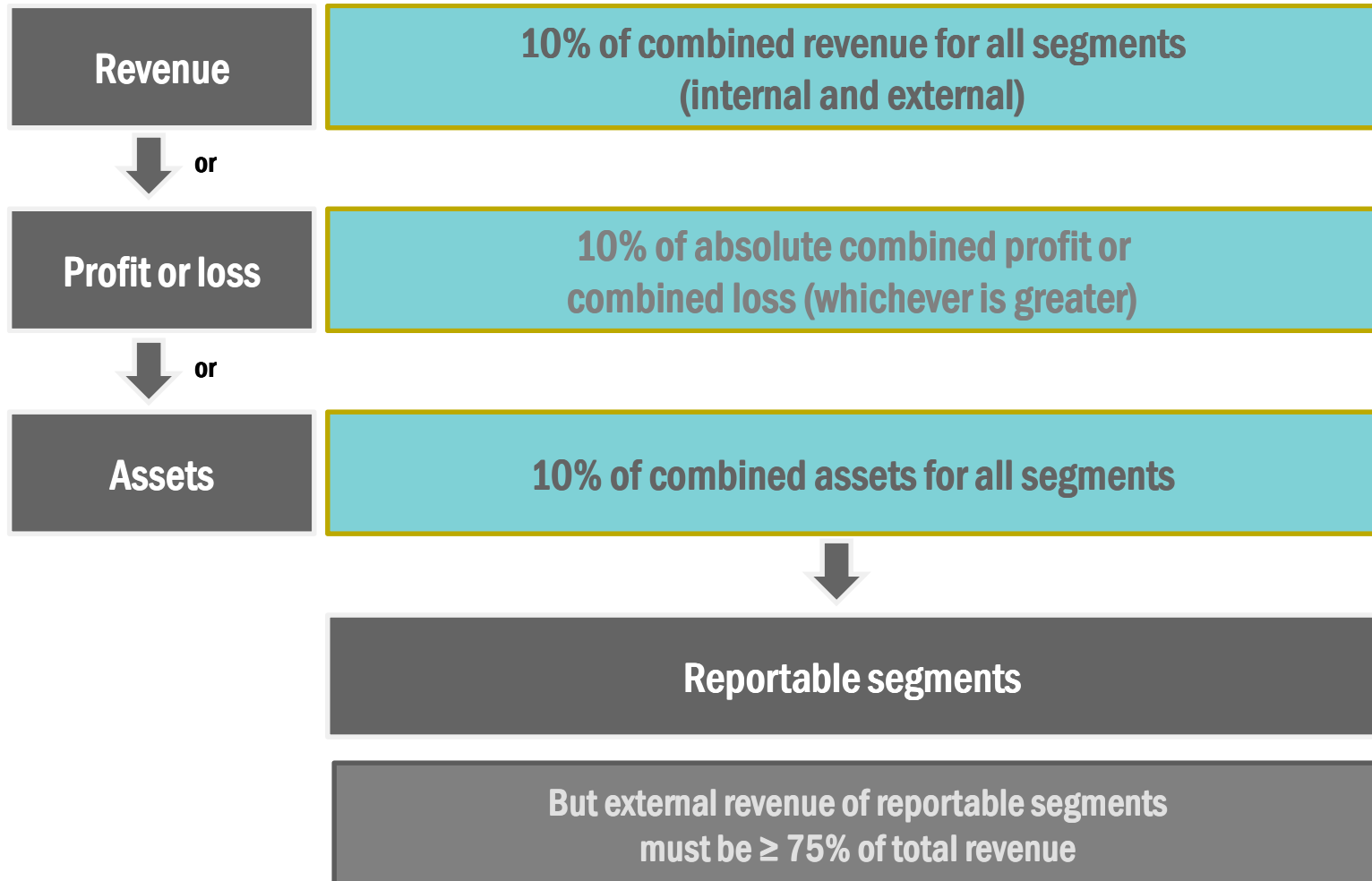
- ▶ CODM of Company ABC is thinking of changing the information that he receives
- ▶ He would receive:
 - ▶ All operations outside India of Company in aggregate
 - ▶ Other regions on the following basis:
 - ▶ Products;
 - ▶ Services;

If this change goes ahead, what will be the operating segments?

Aggregate operating segments



Determining reportable segments



Disclosures



Disclosures about reportable segments

- ▶ **General information:**

- ▶ factors used to identify the entity's reportable segments
- ▶ types of products and services from which each reportable segment derives its revenues.

- ▶ **Measures of segment profit or loss, assets and liabilities**

- ▶ **Measurement basis**

- ▶ **Reconciliation of segment information to corresponding entity amounts:**

- ▶ the total of the reportable segments' revenues to the entity's revenue.
- ▶ the total of the reportable segments' measures of profit or loss to the entity's profit or loss
- ▶ the total of the reportable segments' assets and liabilities, if reported, to the entity's assets and liabilities, respectively
- ▶ the total of the reportable segments' amounts for every other material item of information disclosed to the corresponding amount for the entity.

Measures of segment profit and loss, assets and liabilities

- ▶ Following items shall be reported if these are provided to CODM even if not included in measure of segment profit or loss or segment assets:
 - ▶ revenues from external customers;
 - ▶ revenues from transactions with other operating segments of the same entity;
 - ▶ interest revenue;
 - ▶ interest expense;
 - ▶ depreciation and amortisation;
 - ▶ material items of income and expense disclosed;
 - ▶ the entity's interest in the profit or loss of associates and joint ventures accounted for by the equity method;
 - ▶ income tax expense or income;
 - ▶ material non-cash items other than depreciation and amortisation;
 - ▶ the amount of investment in associates and joint ventures accounted for by the equity method; and
 - ▶ the amounts of additions to non-current assets other than financial instruments, deferred tax assets, post-employment benefit assets and rights arising under insurance contracts

Measurement basis and other items

- ▶ Measure of segment profit or loss and if more than one measure of profitability provided to CODM
 - ▶ Measure most relied upon by CODM for assessing performance and allocating resources to be used
 - ▶ If two measure equally relied upon, then, one most consistent with that used in entity's financials to be used
- ▶ The basis of accounting for any transactions between reportable segments.
- ▶ The nature of any differences between the measurements of the reportable segments' profits or losses, assets and liabilities and the entity's profit or loss, assets and liabilities, respectively
- ▶ The nature and effect of any asymmetrical allocations to reportable segments.
- ▶ Information about all other segments cannot be combined with reconciling amounts
- ▶ Immaterial non-reportable segment cannot be clubbed with a reportable segment if aggregation criteria not met

Entity wide disclosures

- ▶ **Products and services** - Revenues from external customers for each product and service, or each group of similar products and services based on measurement basis for financial statements.
- ▶ **Geographical areas –**
 - ▶ **Revenues from external customers**
 - ▶ attributed to the entity's country of domicile and
 - ▶ 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
 - ▶ basis for attributing the revenues to individual countries
 - ▶ **Non-current assets other than financial instruments, deferred tax assets, post-employment benefit assets, and rights arising under insurance contracts**
 - ▶ Same disclosures as above for revenue.
- ▶ **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

Thank You!