

CONVERGENCE OF AS-17 TO IND AS-108 AN OVER VIEW

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ABSTRACT

India has changed its accounting standards from India GAAP to IND AS. India has declared to the convergence with IFRS. Today's business environment has increased the pressure on companies to be more transparent in their financial reporting. Thus the need was felt to disclose the information relating to different products in each of the business segments or geographic areas. Over more than a decade India has been following AS-17 for preparing its segment reporting, but now with IND AS coming into picture, it has to report its segment reporting according to IND AS-108. This paper will help us to have an overview about AS-17 and IND AS-108.

Keywords-AS-17, INDAS-108, Segment reporting, financial statements, IFRS.

INTRODUCTION

The term "financial reporting" or "corporate reporting" connotes communication of accounting information of a corporate enterprise to its users. Financial reporting is not advertising. It is concerned with understanding between the organization and customers, analysts, shareholders, employees, and the community. The main role of financial reporting is to serve the interested parties by providing information that is useful in making business and investment decisions.

Today's business environment has increased the pressure on companies to be more transparent in their financial reporting. Efforts have been made to improve reporting practices of companies the world over. This includes segmental aspects, consolidation, impairment, joint ventures, financial investments, etc.

In today's time of Liberalisation, Privatisation and Globalisation, the whole world is considered as 'one market' and goods and services can move freely from one part to another. It has become necessary for the business enterprises to develop themselves in to large size entities with diversified activities. This brings the user to receive and analyse the financial information from different views like, what are the different line of business in which the enterprise is engaged, out of these lines how many are profitable? The financial reports provide the performance of the company

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as a whole without providing a break up of how the constituent segments contributed to the performance as a whole. Financial reports which are prepared in the traditional manner no longer reveal sufficient information which would assist the users of the information to appreciate and evaluate the results and risks involved in the business and growth prospects. Thus the need was felt to disclose the information relating to different products in each of the business segments or geographic areas. Thus the inclusion of AS-17 'Segment Reporting'.

AS-17 and its Applicability:

Accounting Standard (AS-17) is issued by Institute of Chartered Accountants of India (ICAI) in 2000, it provides financial information about different types of products and services a firm produces and the different geographical areas in which it operates. Securities Exchange Board of India (SEBI) also made the implementation of AS-17 mandatory. The accounting standard came into effect in respect of accounting period commencing on or after 1st April 2001.

Globalization has changed the closed economy into open economy. India has declared to the convergence with IFRS. India has been following AS-17 for preparing its segment reporting, but now with INDAS coming into picture; it has to report according to INDAS-108.

The new IFRS-8 operating segments, issued by IASB (International Accounting Standard Board). On segment reporting is become effective from 1 January, 2009. India has converged IFRS-8 with IND AS-108.

REVIEW OF LITERATURE

Mishari M. Alfaraih and Faisal S. Alanezi (2011) examined both the segment disclosure practice of Companies listed on the Kuwait Stock Exchange (KSE) and the factors that influence their level of segment disclosures.

Vakhrushina M A (2011) propounded that in the modern unstable economic environment, the competitiveness arising in the individual economy branches and the financial crisis make the commercial organisations to approach new management technologies.

Samuel Jebaraj Benjamin et.al., (2010) revealed that in the increasing complexity of business enterprises and the growing popularity of conglomerate type businesses, it has become clear that consolidated financial statement reporting, while obviously necessary, may not necessarily provide users with sufficient insights for the making of informed decisions.

Mohammed Talha et.al., (2009) investigated whether competitive disadvantage is experienced by Malaysian Companies as they disclose segmental information under the new accounting standard known as FRS 114, Segment Reporting.

Sanjiv Agarwal (2007) indicates that the most of the public sector banks have been following the RBI directions on clarification of business segments while a few private sector banks have been reporting as per the Accounting Standard-17.

Objectives:

1. To understanding various differences between AS-17 and INDAS-108.
2. To have an insight on Indian Accounting Standard (INDAS-108), operating segments.

The Statement of the Problem

The fundamental idea behind India following the converged IFRS, which is known as INDAS is to maintain uniformity of its financial statements with the financial statements of the other country. Out of the many accounting standards AS-17 (segment reporting) is one such standard that underwent changes after the converged IFRS came into the picture and how it's now known as INDAS-108.

The study analyses the various differences between AS-17 and INDAS-108.

Scope of the study

The study highlights the changes in segment reporting after the implementation of INDAS-108.

Research Methodology

This study is based on quantitative and qualitative techniques of methodology. In order, a methodical review of literature was conducted to attain the identified objectives. A systematic review of literature facilitates in cultivation of knowledge regarding the accounting standards under study. The literature was collected from relevant books, periodicals, journal articles, online articles, Government publications and reports and from the official website of HUL.

DISCUSSION

1. Segment Reporting (AS-17)

Accounting Standard (AS-17) is issued by Institute of Chartered Accountants of India (ICAI) in 2000, it provides financial information about different types of products and services a firm produces and the different geographical areas in which it operates. Securities Exchange Board of India (SEBI) also made the implementation of AS-17 mandatory. The accounting standard came into effect in respect of accounting period commencing on or after 1st April 2001.

Some of the Key concepts in Segment reporting:

We provide a brief summary of the Standard in the following:

Segment: A Segment is an identifiable part of a business subject to risk and returns attached to that component.

- **Business segment** (Para 5.1 of AS-17): A business segment is a distinguishable part of an enterprise engaged in providing an individual product or service and that is related to risks and returns that are different from those of other Business Segments.
- **Geographical Segments** (Para 5.2 of AS-17): Geographical segment is a distinguishable part of an enterprise which are engaged in providing products or services within a particular economic environment and that is related to risks and returns that are different from those parts operating in other economic environments.
- **Reportable segment** (Para 5.3 of AS-17): Reportable segment is a business segment or a geographical segment classified for which segment information is required to be disclosed by this Standard.
- **Enterprise revenue** (Para 5.4 of AS-17): Enterprise revenue is revenue from sales to external customers as reported in profit and loss account. Sales between units (intra-company) are not treated as revenue for the purpose of financial reporting.
- **Segment revenue** (Para 5.5 of AS-17): It is a proportion of enterprise revenue.
- **Segment result** (Para 5.7): Segment result shows the difference between Segment revenue and segment expenses and it mentions the segment profit or loss.
- **Segment assets** (Para 5.8): Segment assets are the assets which are employed by a segment in its operating activities; and directly attributable or can be allocated to the segments on reasonable basis and segment assets do not include income tax assets.
- **Segment liabilities** (Para 5.9): These are the results of operating activities of a segment and they are directly attributable to the segment or allocated on a reasonable basis. Segment liabilities do not include income tax liabilities.

- **Segment accounting policies** (Para 5.10): These are used in preparing and presenting the financial statements of the enterprise and also accounting policies which are related specifically to segment reporting.

Identification of Primary and Secondary Segments

For segment reporting purpose all entities having both business and geographical segment are required to identify two reporting formats one is Primary and another is Secondary, one supplementing the other. This categorization depends upon the risks and returns associated with the segments.

2. Operating Segments-IND AS-108/ IFRS-8

An operating segment is a part of an entity: that engages in business activities from which it may earn revenues and incur expenses; 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. Chief Operating Decision Maker: It is the function of allocating resources to, and assessing the performance of, the operating segments.

The new IFRS 8, (International Financial Reporting Standards) Operating Segments is issued by IASB (International Accounting Standards Board) on segment reporting which has become effective from Jan 1, 2009. IFRS 8 applies to the individual financial statements of an enterprise and the consolidated financial statements of a group.

- whose debt or equity instruments of fund are traded in a public market, or
- that files, its financial statements with a securities commission or other regulatory organization for the purpose of issuing any class of instruments in a public market.

Classification of segments under AS-17 is done as business or geographical segments, based on the profile of risks and returns and internal reporting structure. IFRS 8 no such category of segments is done on the basis of risks and returns.

Reportable Segment: The quantitative threshold to recognize a reportable segment is same which is followed under AS 17.

Accounting policies for segment reporting is used under IFRS 8 are adopted for internal reporting to the Chief Operating Decision Maker for the purpose of allocating resources and assessing performance even if accounting policies differ from group accounting policies.

3. Differences

● Identification of Segments

AS 17

- One segment is based on related products and services.
- The other on geographical areas based on the risks and returns approach.
- One set is treated as primary segments and the other is treated as secondary segments.
- Many entities claim that they have only 'one' segment.

IND AS-108

- Segment identification IND AS-108 is based on 'management approach'.
- Operating segments are classified based on the internal reports regularly reviewed by the entity's chief operating decision maker.

- Will result in incomparable information for same firms.
- Morepopular with management.

● **Restatement**

Indian GAAP-

If new segment is identified, corresponding data for comparative purpose is also required.

IND AS

If any entity changes the structure of its internal organization that causes the composition of reportable segment to change, corresponding information for earlier periods, including interim periods will be restated.

CONCLUSION

There is a greater need for transparency in presentation and disclosure of financial information. All users of the information depend on such information for their decision making. But the information provided in the financial statements may not be proper and particular in making decisions as companies today are much diversified in their products and services as well as geographically. So segment reporting under AS-17 of Indian GAAP should enable to make such decisions by providing elaborate information about the line of business and geographical. Now it is converged with IND AS-108.

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