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## Segment reporting practices: A study on select listed NBFCs in the light of implementation of 'IND AS'

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### Abstract

Segment reporting provides an overview of products, services and geographical areas in which entity operates; it also helps in better understanding of performance of the various segments of the enterprise which enables the investors to make informed judgments about the enterprise as a whole. In this paper, an attempt has been made to discuss the key differences between erstwhile accounting standards for segment reporting i.e., AS 17 and Ind AS 108 and also to understand how NBFCs' segment reporting practices was affected due to implementation of Ind AS 108. We considered a sample of 100 NBFCs for the analysis. By comparing the segment reporting as per 'AS' and 'Ind AS' of the select sample NBFCs, we found that 13 out of 24 (i.e., out of those having reportable segment from the sample of 2018-19 adopters) and 10 out of 20 (i.e., out of those having reportable segment from the sample of 2019-20 adopters) made changes in segment reporting practices. It is also important to note most of the NBFCs do not have any reportable segment since they have only one business segment i.e., Financing or investment.

**Keywords:** Ind AS, NBFC, segment reporting

### Introduction

Segment reporting provides an overview of products, services and geographical areas in which entity operates; it also helps in better understanding of performance of the various segments of the enterprise which enables the investors to make informed judgments about the enterprise as a whole. In this context it is noteworthy to mention that if a financial report contains both parent's consolidated financial statement and parent's standalone financial statement, Segment information is required only in parent's consolidated financial statement. However, Segment reporting may optionally be done in parent's Standalone financial statement.

### Literature review

Stanko, Utterback, Fitzgerald (2002) <sup>[1]</sup> addressed the after effects of SFAS No. 131- 'Disclosures about Segments of an Enterprise and Related Information'. They made a comparative analysis of the requirement specified under SFAS No. 14 and SFAS No. 131, the same is followed with an examination corporate disclosure before and after the release of SFAS No. 131.

Ghorai & Choudhury (2011) <sup>[2]</sup> highlighted the embedded problems associated with segment reporting practices in their paper. Various accounting standard failed to address the practical problem associated with segment reporting practices even after 40 years of its development. The study highlighted the gap between expectation of stakeholders from segment reporting and its actual content. The study has also contained some suggestions to improve the quality. Pardal, Morais (2011) <sup>[3]</sup> investigated the recent adoption of IFRS 8 by Spanish listed firms and cited details of segment disclosures under the new standard. Results show that operating segments are mainly based on lines of business, but the geographical segments are associated with a higher disaggregation. Under IFRS 8 a small portion of the sample still remain as single segment firms and they have also ascertained that size and profitability are, respectively, factors positively and negatively related to higher disclosure practices.

Bedia and Shrivastava (2016) <sup>[4]</sup> examined the impact of adoption of IFRS 8 by taking the case of M/s Sify Technologies Ltd., an Indian listed entity and presents a detailed analysis of differences in the segment disclosures data under the new standard IFRS 8 vis-à-vis the

erstwhile Accounting Standard, AS-17. It is observed from the study that there are certain deviations like under IFRS 8, the disclosure requirements related to geographical segments are significantly reduced or in most of the cases completely not there at all, which is a major concern to stakeholders. Further, there would be lack of comparability of segment information between companies as IFRS provides discretion to the Chief Operating Decision Maker (CODM) to choose what to disclose and the manner in which the information can be disclosed.

Singh, Gupta (2018) highlighted the key differences that has taken places in the segment reporting practices after implementation of Ind AS by throwing lights on the differences between AS-17 and Ind AS 108. They have also mentioned elaborate segment reporting as per Ind AS 108 would make stakeholders to take informed decision undertook the study to analyse segment wise income, risks, consistency and growth rate of Infosys Ltd. In the study, researchers have also mentioned segment-wise information helps the financial statement users to evaluate the corporation by looking at its component parts. This type of information is an effective means of evaluation and is used by companies to manage operations and to make strategic decisions.

### Objectives

The objectives of present research are to-a. highlight the key differences between erstwhile accounting standards for segment reporting (i.e., AS 17) and Ind AS 108 b. understand how segment reporting practices have been affected due to implementation of Ind AS 108.

### Data source & Methodology

For the purpose of the present study, a sample of 100 listed NBFCs have been selected based on their market capitalization at BSE & NSE as on 30<sup>th</sup> December 2022, 50 of these NBFCs implemented Ind AS with effect from the financial year 2018-19 and the other 50 NBFCs implemented Ind AS in 2019-20 for the preparation of their financial statements. We have compared the annual reports of 2017-18 (for the adopters of Ind AS in 2018-19) since this was prepared both as per 'AS' and 'Ind AS'. Similarly, we have compared annual reports of 2018-19 (for the adopters of Ind AS in 2019-20) since this was prepared both as per 'AS' and 'Ind AS'. For the purpose of analysis, we have used basic tools of data representation like pie-charts etc.

### Results and Discussion

#### Key Differences Between AS 17 & Ind As 108

Before implementation of Ind AS, NBFCs used to follow AS 17 for the purpose of segment reporting. As per para 20(b) of AS 17 states that in case of segment reporting, the directors are responsible for determining whether the risks and returns are related more to the products and services that the different segments of the entity offers or to the geographical areas in which it operates. It is also the responsibility of the director to choose business segments or geographical segments as the primary / secondary segment reporting format, accordingly. But this issue would not arise.

**in case of Ind AS 108 since there is no concept of**

#### primary and secondary segment

It is further to note that Ind AS 108 requires that the amount of each segment item reported is the measure reported to the chief operating decision maker (CODM) in internal management reports, even if this information is not prepared in accordance with the Ind AS accounting policies of the entity. Whereas, on the other hand AS 17 requires the segment information to be prepared in conformity with the entity's accounting policies for preparing its financial statements.

Para 31 of AS 17- Segment reporting states that segment which was identified as a reportable segment in the immediately preceding period should continue to be a reportable segment for the current period irrespective of its revenue, result, and assets are no longer meeting the 10 per cent thresholds criteria. But there is a little contrast in Ind AS 108 – Operating Segments, which states 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 10% thresholds.

As far as aggregation criteria is concerned, Ind AS 108 specifies aggregation criteria for aggregation of two or more segments but no specific guidance provided in AS 17 regarding the same.

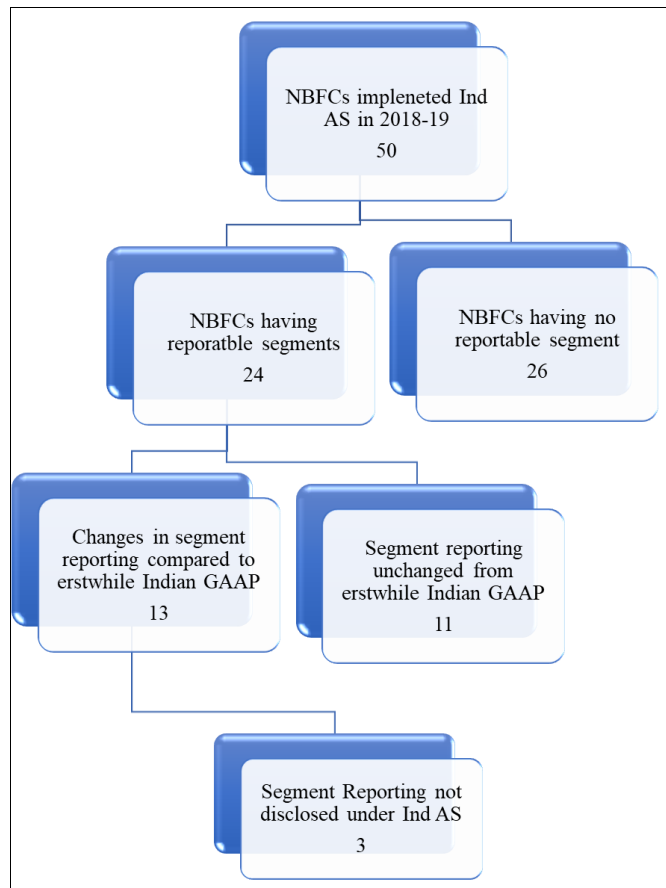
On the basis of the above discussion, it can be concluded that Ind AS 108 adopts a management reporting approach to identify operating segments i.e., based on how the financial information is reviewed by CODM. It is likely that in many cases, the structure of operating segments will not be the same under Ind AS 108 as it was under AS 17- Segment Reporting.

#### Analysis of the Impact of Ind AS on Segment Reporting Practices of the select NBFCs:

Here in this section, we made an attempt to understand how segment reporting have been affected due to implementation of Ind AS 108. We analysed 50 NBFCs those implemented Ind AS in 2018-19, we have also analysed the 50 sample NBFCs implemented Ind AS in 2019-20. We have compared the annual reports of 2017-18 (for the adopters of Ind AS in 2018-19) since this was prepared both as per 'AS' and 'Ind AS'. Similarly, we have compared annual reports of 2018-19 (for the adopters of Ind AS in 2019-20) since this was prepared both as per 'AS' and 'Ind AS'.

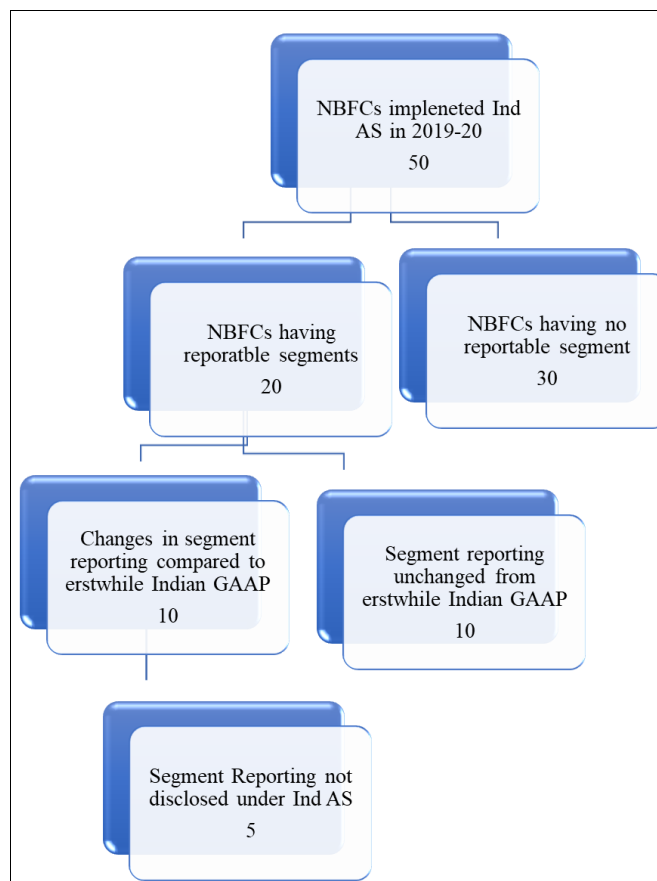
The above figure shows that 24 out of 50 sample NBFCs implemented Ind AS in 2018-19 are having reportable segments, out of which 13 NBFCs have made changes in segment reporting compared to erstwhile GAAP. Similarly, while analysing Ind AS adopters of 2019-20, we found 30 out of 50 sample NBFCs do not have any reportable segments and rest of 20 sample NBFCs have reportable segments of which 10 NBFCs have made changes in segment reporting compared to erstwhile GAAP.

It is important to note that 3 NBFCs of 2018-19 Ind AS adopters & 5 NBFCs of 2019-20 Ind AS adopters have shown segment reporting as per previous GAAP in the year immediately preceding year of Ind AS implementation i.e., in 2017-18 for the Ind AS adopters of 2018-19 and & in 2018-19 for the Ind AS adopters of 2019-20, but they have not disclosed segment reporting under Ind AS.



Source: Compiled by researchers

**Fig 1:** Segment reporting Impact on sample NBFCs implemented Ind AS in 2018-19



Source: Compiled by researchers

**Fig 2:** Segment reporting impact on sample NBFCs implemented Ind AS in 2019-20

**Table 1:** Impact of Ind AS implementation on Segment Reporting

50 sample NBFCs of 2018-19			50 sample NBFCs of 2019-20	
	Number of NBFCs	%	Number of NBFCs	%
NBFCs having no reportable segment	26	52%	30	60%
Changes in segment reporting compared to erstwhile Indian GAAP	13	26%	10	20%
Segment reporting unchanged from erstwhile Indian GAAP	11	22%	10	20%

Source: Compiled by researchers

The above table helps to understand that 26% of the sample NBFCs made changes in segment reporting upon Ind AS implementation. 22% of the NBFCs continued the segment reporting in the same way as it was doing previously as per erstwhile 'AS'. It is also to note that 52% of the sample NBFCs did not have any reportable segment.

From the above table, it can also be summarised that most of the NBFCs those implemented Ind AS in 2019-20, did not disclose any reportable segment since they have only one business segment i.e., Financing. 20% of the sample NBFCs made changes in segment reporting upon Ind AS implementation and 20% of the sample NBFCs continued the segment reporting in the same way as it was doing previously as per erstwhile 'AS'.

It is also important to note that about 50% (10 out of 20 NBFCs of 2018-19 adopters and 13 out of 24 NBFCs of 2019-20 adopters) of the NBFCs those having reportable segments made changes in segment reporting compared to erstwhile GAAP.

### Conclusion

On the basis of the above discussion, we found that there is no concept of primary and secondary segment in Ind AS 108, Which was previously there as per 'AS'. If management judges a segment is of continuing significance, information about that segment may continue to be reported separately in the current period even if it no longer meets the 10% thresholds as per Ind AS 108. The aggregation criteria for aggregation of two or more segments are specified in Ind AS 108 but no specific guidance was provided in AS 17. We also have found by comparing the segment reporting as per 'AS' and 'Ind AS' of the select sample NBFCs, we found that 13 out of 24 (those having reportable segment from the sample of 2018-19 adopters) and 10 out of 20 (those having reportable segment from the sample of 2019-20 adopters) made changes in segment reporting practices. It is also important to note most of the NBFCs do not have any reportable segment since they have only one business segment i.e., Financing or investment. We also have found 3 & 5 NBFCs out of 2018-19 and 2019-20 Ind AS adopters respectively, did not disclose segment reporting as per Ind AS although they reported the same as per erstwhile 'AS'.

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