

Query No. 6

Subject: *Applicability of Ind AS 108, ‘Operating Segments’ on section 25 company of the Companies Act, 1956 (now, section 8 of the Companies Act, 2013).*¹

A. Facts of the Case

1. A Corporation is a Central Public Sector Undertaking (CPSU), wholly owned by the Government of India, under the Administrative Ministry of Social Justice and Empowerment and is registered under section 25 of Companies Act, 1956 (now, section 8 of the Companies Act, 2013).
2. The querist has stated that the corporate office of the Corporation is in Kanpur. The Corporation is having five auxiliary production centers and five regional marketing centers on Pan-India basis. The Corporation is having its manufacturing units in Head Quarter (HQ), Kanpur and all auxiliary production centers; and effects sale from all the units, viz., the Corporation’s auxiliary production centers and regional marketing centers including HQ, Kanpur. An auxiliary production center is also proposed to be opened in Faridabad, Haryana.
3. The Corporation manufactures as well as outsources various aids and appliances such as tricycle, wheel chairs, motorised tricycle, hearing aids, artificial limbs, calipers, crutches, walking sticks, spectacles, dentures etc. for persons with disability and old age persons at its corporate office and its auxiliary production centres.
4. The Corporation is the nodal agency for the Senior Citizen Scheme of the Ministry of Social Justice and Empowerment, Government of India and also receives grant-in-aid under the Assistance to Disabled Persons (ADIP) Scheme of the Department of Empowerment of Persons with Disability, Ministry of Social Justice and Empowerment of the Government of India. The Corporation is also an implementing agency for the Corporate Social Responsibility (CSR) Scheme of various Central Public Sector Enterprises (CPSEs) and distributes the aids and appliances under CSR scheme of the CPSEs.
5. The major portion of turnover of the Corporation is against Government grant, i.e., approximately 70% from ADIP and Senior Citizen Scheme of the Government of India. Further, 20% to 25% of turnover depends on the order of State Government(s), Central Public Sector Enterprises, National Institutes etc. Rest 5% to 10% turnover occurs through cash sales/sale through dealer. The Corporation operates on PAN-India basis.
6. The querist has stated that the financial statements of the Corporation are being prepared as per Indian Accounting Standards as applicable with effect from financial year (F.Y.) 2018-19. The accounts of the Corporation are subject to audit by the statutory auditors appointed by the Comptroller and Auditor General (C&AG) of India under section 139(5) of the Companies Act, 2013 (hereinafter referred to as ‘the Act’). The statutory auditors are responsible for expressing opinion on the financial statements under section 143 of the Act based on the independent audit in accordance with the standards on auditing prescribed under section 143(10) of the Act. C&AG is required to conduct supplementary audit under section 143(6)(a) of the Act and give its report.
7. The querist has mentioned that as per core principles of Ind AS 108, ‘Operating Segments’, **“An entity shall disclose information to enable users of its financial**

¹ Opinion finalised by the Committee on 11.4.2022.

statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates.”

(Emphasis supplied by the querist.)

8. Further, as per paragraph 2 of Ind AS 108, “This Accounting Standard shall apply to companies to which Indian Accounting Standards (Ind ASs) notified under the Companies Act apply”. The Corporation is established by the Government of India as not for profit making and purely for restoration of dignity of persons with disabilities. Further, the Corporation has also enhanced its wings for welfare of senior citizens. The Corporation is not in any types of business but welfare of persons with disabilities and senior citizens. Since the objective of the Corporation is only social welfare of needy and poor persons with disabilities and senior citizens, profit generation is not part of its object.

9. Statutory auditors during statutory audit of F.Y. 2020-21, have raised the point that the Corporation is not preparing operating segment report as per Ind AS 108.

10. The management of the Corporation is of the view that Ind AS 108, ‘Operating Segments’ is not applicable on the Corporation as it is not carrying any type of business, whose nature and financial effects are required to be disclosed.

11. The Corporation is engaged in manufacture and distribution of rehabilitation aids and appliances to divyangjan and senior citizens and the operation is on Pan-India basis. The Corporation, on the principle-approval from its administrative Ministry, conducts assessment camps on Pan-India basis and then ensures the distribution by sending its team and material to the site. The materials can go to the site from any of its manufacturing units or from its marketing offices. The marketing offices also get the material through stock transfer from manufacturing plants. Thus, the Corporation considers itself to be operating in a single segment.

B. Query

12. On the basis of the above, the querist has sought the opinion of the Expert Advisory Committee (EAC) on applicability of Ind AS 108, ‘Operating Segments’ on the Corporation. If applicable, EAC may also give its opinion on the method of presenting such data, considering the nature of operations of the Corporation, as per the requirements of Ind AS 108, ‘Operating Segments’.

C. Points considered by the Committee

13. The Committee notes that the basic issue raised in the query relates to applicability of Ind AS 108, ‘Operating Segments’ on the Corporation and if Ind AS 108 is applicable, the method of presenting the data, considering the nature of operations of the Corporation, as per the requirements of Ind AS 108. The Committee has, therefore, examined only this issue and has not examined any other issue that may arise from the Facts of the Case, such as, accounting for various government grants/aids received by the Corporation, accounting for revenue earned by the Corporation etc. Further, the Committee states that the opinion expressed hereinafter is in the context of Indian Accounting Standards, notified by the Companies (Indian Accounting Standards) Rules, 2015 as amended from time to time.

14. The Committee notes from the Facts of the Case that the Corporation is a section 25 company of the Companies Act, 1956 (now section 8 of the Companies Act, 2013) and is wholly owned by the Government of India. Further, the financial statements of the

Corporation are prepared as per Indian Accounting Standards from the F.Y. 2018-19. With regard to applicability of Ind AS 108, 'Operating Segments', the Committee notes the following paragraph of Ind AS 108, 'Operating Segments':

“2 This Accounting Standard shall apply to companies to which Indian Accounting Standards (Ind ASs) notified under the Companies Act apply.”

From the above, the Committee notes that Ind AS 108, 'Operating Segments' shall apply to companies to which Ind ASs notified under the Companies Act apply. Since the financial statements of the Corporation are prepared as per Indian Accounting Standards, the Committee is of the view that Ind AS 108, 'Operating Segments' shall apply to the Corporation. The Committee also notes that no specific exemption is available to any entity from this Standard, on the basis that it is a not-for-profit organisation or section 8 company.

15. With regard to contention of the querist that Ind AS 108 is not applicable to the Corporation because it does not carry out any 'business activity' and its object being 'not for profit making', the Committee notes the following requirements of Ind AS 108:

“1 **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.**”

“5 An operating segment is a component of an entity:

- (a) that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity),
- (b) 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, and
- (c) for which discrete financial information is available.

An operating segment may engage in business activities for which it has yet to earn revenues, for example, start-up operations may be operating segments before earning revenues.

6 Not every part of an entity is necessarily an operating segment or part of an operating segment. For example, a corporate headquarters or some functional departments may not earn revenues or may earn revenues that are only incidental to the activities of the entity and would not be operating segments. For the purposes of this Ind AS, an entity's post-employment benefit plans are not operating segments.

7 The term 'chief operating decision maker' identifies a function, not necessarily a manager with a specific title. That function is to allocate resources to and assess the performance of the operating segments of an entity. Often the chief operating decision maker of an entity is its chief executive officer or chief operating officer but, for example, it may be a group of executive directors or others.

8 For many entities, the three characteristics of operating segments described in paragraph 5 clearly identify its operating segments. However, an entity may produce reports in which its business activities are presented in a variety of ways.

If the chief operating decision maker uses more than one set of segment information, other factors may identify a single set of components as constituting an entity's operating segments, including the nature of the business activities of each component, the existence of managers responsible for them, and information presented to the board of directors.”

The Committee notes from the Facts of the Case that the Corporation is earning revenue from sales to CPSEs, National Institutes, etc. and by way of cash sales through dealers. Therefore, the Committee is of the view that though profit generation is not the objective of the Corporation, it is engaged in business activities from which it may earn revenues and incur expenses. The Committee is of the view that as per section 8 of the Companies Act, 2013, a section 8 company is the one, which apart from following other conditions as per section 8, intends to apply its profits, if any, or other income in promoting its objects. Thus, the Act does not prohibit a section 8 company from earning profits for its sustenance or from carrying on commercial/business activities for its intended objectives; rather it only requires that any profits, if earned out of the commercial/business activities cannot be distributed as dividend. Accordingly, contention of the querist in this regard that since the Corporation's objective is not profit-making and that it does not undertake any business is not valid for applicability of Ind AS 108.

16. The Committee further notes from paragraph 5 of Ind AS 108 that apart from engaging in business activities as discussed above, an operating segment is a component of an entity whose results are reviewed by entity's chief decision maker to decide regarding resource allocation and assess performance and for which discrete financial information is available. Thus, while applying Ind AS 108, the Corporation should first identify its operating segments considering its business activities, the way results are reviewed by chief operating decision maker and whether discrete financial information is available or not, in its own facts and circumstances as per the requirements of paragraphs 5 to 8 of Ind AS 108 (as reproduced above).

17. The Committee is further of the view that after identifying operating segments, the Corporation should report information about each such operating segment that has been identified as discussed above or results from aggregating two or more of those segments and that exceeds the quantitative thresholds in accordance with the requirements of Ind AS 108 as reproduced below:

“Reportable segments

- 11 An entity shall report separately information about each operating segment that:
- (a) has been identified in accordance with paragraphs 5–10 or results from aggregating two or more of those segments in accordance with paragraph 12, and
 - (b) exceeds the quantitative thresholds in paragraph 13.

Paragraphs 14–19 specify other situations in which separate information about an operating segment shall be reported.

Aggregation criteria

- 12 Operating segments often exhibit similar long-term financial performance if they have similar economic characteristics. For example, similar long-term average

gross margins for two operating segments would be expected if their economic characteristics were similar. Two or more operating segments may be aggregated into a single operating segment if aggregation is consistent with the core principle of this Ind AS, the segments have similar economic characteristics, and the segments are similar in each of the following respects:

- (a) the nature of the products and services;
- (b) the nature of the production processes;
- (c) the type or class of customer for their products and services;
- (d) the methods used to distribute their products or provide their services; and
- (e) if applicable, the nature of the regulatory environment, for example, banking, insurance or public utilities.

Quantitative thresholds

13 An entity shall report separately information about an operating segment that meets any of the following quantitative thresholds:

- (a) Its reported revenue, including both sales to external customers and intersegment sales or transfers, is 10 per cent or more of the combined revenue, internal and external, of all operating segments.
- (b) The absolute amount of its reported profit or loss is 10 per cent or more of the greater, in absolute amount, of (i) the combined reported profit of all operating segments that did not report a loss and (ii) the combined reported loss of all operating segments that reported a loss.
- (c) Its assets are 10 per cent or more of the combined assets of all operating segments.

Operating segments that do not meet any of the quantitative thresholds may be considered reportable, and separately disclosed, if management believes that information about the segment would be useful to users of the financial statements.”

The Committee is of the view that the Corporation should determine its reportable segments considering its own facts and circumstances based on the requirements of Ind AS 108, as discussed above and then provide appropriate information as required by Ind AS 108.

18. The Committee also notes the following requirements of Ind AS 108, particularly, in case the Corporation concludes that it has a single reportable segment:

“Entity-wide disclosures

31 Paragraphs 32–34 apply to all entities subject to this Ind AS including those entities that have a single reportable segment. Some entities’ business activities are not organised on the basis of differences in related products and services or differences in geographical areas of operations. Such an entity’s reportable segments may report revenues from a broad range of essentially different products and services, or more than one of its reportable segments

may provide essentially the same products and services. Similarly, an entity's reportable segments may hold assets in different geographical areas and report revenues from customers in different geographical areas, or more than one of its reportable segments may operate in the same geographical area. Information required by paragraphs 32–34 shall be provided only if it is not provided as part of the reportable segment information required by this Ind AS.

Information about products and services

- 32 An entity shall report the revenues from external customers for each product and service, or each group of similar products and services, unless the necessary information is not available and the cost to develop it would be excessive, in which case that fact shall be disclosed. The amounts of revenues reported shall be based on the financial information used to produce the entity's financial statements.

Information about geographical areas

- 33 An entity shall report the following geographical information, unless the necessary information is not available and the cost to develop it would be excessive:
- (a) revenues from external customers (i) attributed to the entity's country of domicile and (ii) 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. An entity shall disclose the basis for attributing revenues from external customers to individual countries.
 - (b) non-current assets other than financial instruments, deferred tax assets, post-employment benefit assets, and rights arising under insurance contracts (i) located in the entity's country of domicile and (ii) located in all foreign countries in total in which the entity holds assets. If assets in an individual foreign country are material, those assets shall be disclosed separately.

The amounts reported shall be based on the financial information that is used to produce the entity's financial statements. If the necessary information is not available and the cost to develop it would be excessive, that fact shall be disclosed. An entity may provide, in addition to the information required by this paragraph, subtotals of geographical information about groups of countries.

Information about major customers

- 34 An entity shall provide information about the extent of its reliance on its 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. The entity need not disclose the identity of a major customer or the amount of revenues that each segment reports from that customer. For the purposes of this Ind AS, a group of entities known to a reporting entity to be under common control shall be considered a single

customer. However, judgement is required to assess whether a government (including government agencies and similar bodies whether local, national or international) and entities known to the reporting entity to be under the control of that government are considered a single customer. In assessing this, the reporting entity shall consider the extent of economic integration between those entities.”

D. Opinion

19. On the basis of the above, the Committee is of the view that Ind AS 108, ‘Operating Segments’ shall apply to the Corporation as discussed in paragraph 14 above. Therefore, the Corporation should determine its operating segments and reportable segments considering its own facts and circumstances based on the requirements of Ind AS 108, and then provide appropriate information as required by Ind AS 108, as discussed in paragraphs 16 and 17 above. Further, in case considering the facts and circumstances, it is assessed that the Corporation has a single reportable segment, entity-wide disclosures as stated in paragraphs 31 to 34 of Ind AS 108 are required to be given by the Corporation, as discussed in paragraph 18 above.
