

TRANSITION FROM AS 17 TO IND AS 108: AN EMPIRICAL STUDY ON SEGMENT REPORTING

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Abstract

In a globalized economy, India has converged their accounting standards with IFRS to facilitate cross-border comparisons and in Indian context the converged accounting standards are named as Ind AS. This study investigates whether the convergence with IFRS has any effect on company's segment disclosure. In particular, it is investigated what are the impact on companies' number of reportable segments and basis of segmentation for adopting Ind AS 108. Upon implementing converged accounting standards, the majority of companies remained their reportable segments as they were under AS 17. The empirical analysis conducted on 38 Indian listed companies reveals that there was a marginal increase in the number of reportable segments and marginal changes in the basis of segmentation. In summary, the overall findings indicated that the impact of IFRS converged accounting standard on segment reporting is not substantial.

Keywords:

Segment Disclosure; AS-17; IND-AS 108; Reportable segments; Convergence.

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1. Introduction

The basic objective of preparing any company's financial statements is to fulfill the information needs of the intended users by reporting reliable and relevant information. However, many companies carry out their operations in more than one industry and/or more than one country and disclosed their financial information in aggregated format. For those diversified companies the information in aggregated format is inadequate for investors in making rational economic decision, because multi-national company is a bundle of individual business operations with different risk, profitability and growth opportunities (Ahadiat and Stewart, 1992). One format of reporting segregated information rather than consolidated information is reporting by segments. Realizing the importance of segment information, ICAI, apex body of formulating accounting standards in India, has issued AS 17 on "Segment Reporting" with effect from 1st April, 2001. Like India, many countries have had their own accounting standards and regulations for disclosure practices. But in last few decades, due to evolution in world economy through globalization, the global economic environment has now become an integrated economy. Keeping this integrated economy in mind, there is a need to develop a globally acceptable framework in the field of accounting, especially for diversified companies to prepare the corporate reports which can be compared with their global peers. Considering the increasing significance of forming a universally accepted standard, International Accounting Standards Board has issued IFRS as the global standard of financial reporting. Most of the countries have decided to either adopt or converged their accounting standards with IFRS. Due to the effect of the global convergence, India has also decided to converge their accounting standards with IFRS. In February of 2011, the Ministry of Corporate Affairs (MCA), after consulting with ICAI, has issued the Indian Accounting Standards (abbreviated as Ind AS) including Ind AS 108, *Disclosures about Operating Segments*, to ensure standardization and comparability of financial statements in the corporate sector globally. Ind AS 108 has implemented mandatorily from accounting period beginning on or after April 01, 2016. Earlier companies followed AS 17 for preparing segment report. Now that the converged accounting standards have come into force, companies will have to prepare their segment report in accordance with Ind AS 108 to disclose information about each reportable

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segment. Based on the foregoing analysis, the present study framed to observe the variations in the segments due to transition from AS-17 to IND AS 108.

2.1 Literature Review

A considerable number of studies have covered the issues related to IFRS convergence and its significance in company's disclosure environment. A review of the relevant research works has been analyzed as under- Li (2013) explained the IFRS 8 convergence issues and its impact on the quality of segment reporting in the context of USA. Analyzing the empirical evidence, it was found that the adoption of IFRS 8 did not result in any significant improvement in company's segment disclosure practices.

Kopecka (2016) studied the effect of IFRS 8 on the quality of segmental disclosure. The author has taken data from Czech listed companies for the year 2013. The result of the study indicated that there are no significant improvements in the segment information disclosure in post implementation period of IFRS.

Lucchese and Carlo (2016) studied whether the adoption of IFRS 8 provides greater compliance rate on segment reporting. They also examined the factors that affect the disclosure of segment information. For this purpose, data had been obtained from 128 Italian companies for five years from 2008 to 2012. The results showed that the adoption of IFRS 8 not provided better compliance in terms of segment reporting. The regression results also indicate that the company size, profitability and Return on Investment negatively influenced the variation in relation to the disclosure of segment information.

Pramanick (2018) conducted a comparative study of financial statements on IT companies under IGAAP and IFRS. To measure the differences for the period 2015-16, the author has used Gray's Comparability Index. The empirical results revealed that due to the convergence of Indian accounting standards with IFRS, no significant changes is observed in the financial statements of the companies.

Dutta and Borman (2019) in their study attempted to diagnose and review the rationality and challenges associated with the IFRS adoption in Indian accounting environment. Their study indicated that the major problems that the companies faced in adopting IFRS converged accounting standards in India are inadequate training facilities, fair value measurement, incremental cost, unwillingness etc.

2.2 Research Questions

1. Whether the IFRS converged standards has led to any changes in the number of segments disclosed by the companies?
2. Has the implementation of Ind AS brought any changes in the basis of segmentation followed by the companies in segment report?

2.3 Research Objectives

The overall objective of this study is to examine the impact of Ind AS on segment disclosure. However, to be more precise, the objectives of the current study are the following:

1. To analyze the variations regarding the number of reportable segments disclosed by the companies after the adoption of IFRS converged accounting standards.
2. To analyze the basis of segmentation followed by the companies before and after the convergence with IFRS.

3.1 Data and Methodology of the study:

For the purpose of this study, initially top 50 companies indexed in NIFTY as on March 01, 2018 were considered as the sample of our study. To maintain the homogeneity in the samples reporting standards, one company was eliminated as they are the early adopters of Ind AS-108. Then, one company was excluded as they have different financial year. Thereafter, ten firms belonging to financial sector have been excluded from the initial sample companies which reduced the number of sample companies to thirty eight. This elimination was made because the reporting framework regarding the disclosure of information is different for banking and non-banking financial companies.

For the required data, our study focuses on published corporate reports for the period immediately before and after the mandatory adoption of Ind AS i.e. for the period 2015-16 and 2016-17. The published reports for this purpose have been retrieved from the company websites and BSE website. In order to analyze the data, Descriptive analysis and paired samples test were used through SPSS 20.0 version.

3.2 Hypotheses Development:

In order to fulfill the objectives of the study, we derive the following hypotheses:

H_{0a}: The number of reportable segments is not changed significantly due to the adoption of Ind AS.

H_{1a}: The number of reportable segments is changed significantly due to the adoption of Ind AS.

H_{0b}: The basis of segmentation is not changed significantly due to adoption of Ind AS.

H_{1b}: The basis of segmentation is changed significantly due to adoption of Ind AS.

4. Data Analysis and Findings

To address the first research question, we analyze the impact on the number of reportable segments per entity due to IFRS converged accounting standard.

Table 1: Change in the number segments due to Ind AS adoption

Year	Increase		Decrease		Unchanged	
	No. of firms	Percentage of firms	No. of firms	Percentage of firms	No. of firms	Percentage of firms
Business segments	4	10.53%	3	7.89%	31	81.58%
Geographical Segments	3	7.89%	-	-	35	92.11%
Total	7	18.42%	3	7.89%		

Source: Authors' compilation from annual reports

The empirical results in Table 1 displays that, referring to the years of transition from Accounting Standard - 17 to Indian accounting Standard - 108, the number of reported segments for most of the companies remained unchanged. Specifically, a little number of entities has changed the number of reportable segments in annual report. Four companies have increased their reported business segments, while for three firms; the number of business segments was declined. However, the adoption of Ind AS 108 has increases the number of geographical segments for the three companies.

Table 2: Basis of Segmentation

Basis of Segmentation	Products and Services		Geographical Area	
	2015-16	2016-17	2015-16	2016-17
Primary Segment/Operating Segment	36	35	2	3
Secondary Segment/Operating Segment	2	3	36	35
Total	38	38	38	38

Source: Authors' compilation from annual reports

In our sample, for the year 2015-16, there are 36 companies that reports products or services as their primary segment information, 2 companies have chosen geographical area as primary base of segmentation. Whereas the corresponding figures regarding the year 2016-17 is 35 companies and 3 companies. As displayed in the above table, in 2015-16, 2 companies have chosen products or services as their Secondary segment, 36 companies have chosen geographical area as a secondary base of segmentation. This indicates that out of 38 sample companies, only one company has changed their basis of segmentation in 2016-17.

The distribution of the number of segments reported by the company in the year 2015-16 and 2016-17 is presented in Table 3.

Table 3: Distribution of the No. of Reportable segments: AS-17 vs. Ind AS-108

Specific No. of Distinct Segments	2015-16: AS-17		2016-17: Ind AS-108	
	N*	%	N**	%
1	14	36.85%	13	34.21%
2	11	28.95%	10	26.32%
3	3	7.89%	4	10.53%
4	4	10.53%	4	10.53%
5	2	5.26%	1	2.63%
6	1	2.63%	3	7.89%
7	1	2.63%	2	5.26%
8	-	-	1	2.63%
9	2	5.26%	-	-
Total	38	100%	38	100%

Source: Authors' compilation from annual report

*The number of segments referred to the segment reported as primary segment

**The number of segments referred to the segment reported as operating business segment.

The results of Table 3 reveals that 14 of 38 sample companies have only one reportable segment in 2015-16, whereas the corresponding figure in 2016-17 dropped to 13 companies. This slight variation is due to three companies, out of which two single segment company of the year 2015-16 has turned into a multi segment company in 2016-17 by increasing their reportable segments in the annual reports, whereas one diversified company has turned into single reportable segment company by decreasing their reportable segments. It has also been noticed that the entities reporting four distinct segments have remained unchanged under two different reporting standards.

Table 4: Descriptive Statistics regarding the Number of Segments

	Observations	Minimum	Maximum	Mean	Standard deviation
Number of distinct segments in accordance with AS-17 in 2015-16	38	1	9	2.68	2.16
Number of operating segments in accordance with IND AS-108 in 2016-17	38	1	8	2.79	2.03

Source: SPSS Output

Table 4 reveals the average number of reportable segments disclosed per company, and the differences between the reporting under AS-17 and Ind AS-108 are not great. The mean value in 2015-16 was 2.68, whereas the corresponding figure in 2016-17 was 2.79. In short, the average number of segments reported per company falls slightly after the implementation of Ind AS-108. The maximum number of segments disclosed by any particular company in 2015-16 is 9 segments which declined to 8 segments in 2016-17.

Table 5: Paired Samples Test

No. Of Firms	Paired Differences					t	df	Sig. (2-tailed)
	Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
				Lower	Upper			
AS 17 - Ind AS 108	-.10526	.92384	.14987	-.40892	.19840	-.702	37	.487

Source: SPSS Output

From the statistical evidences as shown in table 5, it is observed that, there is not enough empirical evidence that indicates the number of reportable segments under two reporting standards differ significantly. Specifically, on the basis of above evidence, we accept the null hypothesis and concluded that there is no significant difference in the disclosed reportable segments due to transition from AS-17 to Ind AS-108.

5. Conclusion

The primary aim of this study was to analyze the effect of transition to Ind AS 108 in the first year mandatory adoption. In regard to reportable segments, the overall result indicated that the adoption of IFRS converged accounting standards have shown a very little variation, which is to be considered statistically irrelevant. In other word, it seems that the transition to IND AS did not result any significant variations regarding the number of reportable segments and number of multi-segment companies among the sample companies. It is also acknowledged that the findings may not be representative of the average listed Indian companies that disclose their segment information in accordance with IND AS-108. This study has only considers first year of Ind AS mandatory adoption, indeed, investigations of data for a number of subsequent years after transition are needed to generalize the results broadly. In order to provide more rationalize and reliable results, in the future research projects it would be worthwhile to compare the number of information for each segment and degree of compliance between AS 17 and IND AS 108.

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