Applicability of Accounting Standard (AS) 17, ‘Segment Reporting’, to a Warehousing Corporation

The following is the brief version of an opinion given by the Expert Advisory Committee of the Institute in response to query sent by a member. This is being published for the information of readers.

A. Facts of the Case

1. A public sector undertaking was formed by an Act of Parliament (The Warehousing Corporations Act, 1962) for the purpose of warehousing of agricultural produce and certain other commodities and for other matters connected therewith. Accordingly, the undertaking has been resorting to construction, hiring and operation of warehouses throughout the length and breadth of the country for storage of goods. Since the storage requirements, both in covered space and in open, vary from commodity to commodity and depositor/customer to depositor/customer, the corporation, for the purpose of convenience and also to meet the requirements of other agencies, viz., the Customs, has categorized the warehouses as below:

(a) General Warehouses: All indigenous/duty paid commodities are warehoused/stored in these warehouses other than those mentioned at (b), (c) and (d) below.

(b) Bonded Warehouses: These warehouses are for warehousing/storage of imported consignments (as per the provisions of the Customs Act, 1962) till such time the importer (bonder) deposits the customs duty and seeks release of the consignment. The undertaking gets a licence from the Customs for this purpose.

(c) CFS/ICD Warehouses: These are known as Container Freight Stations (CFS) and Inland Clearance Depots (ICD) wherein exportable/imported commodities transported through ISO containers are warehoused/stored.

(d) Management Warehouses: In respect of these warehouses, the undertaking acts as a warehouse keeper/custodian within the premises of the importer/customer and goods are released from the custodianship of the undertaking to the user as per their demand.

2. Irrespective of the nature of commodity stored and the type of warehouse in which it is stored, the line of activity performed by the undertaking is nothing but warehousing. Insofar as other ancillary services are concerned, it also undertakes marketing facilitation operations in the form of loading, unloading, book-keeping and transportation of goods offered for storage, on the request of depositors, who choose not to undertake such services on their own.

3. The operations of the corporation are being managed by 17 Regional Offices and 16 Construction Cells all over the country. The Regional Offices look after the administrative control/marketing operations and the Construction Cells look after the construction/repairs and maintenance of warehouses.

4. The querist has stated that since the line of activity of the corporation is warehousing and ancillary activities in terms of the Act, the works performed by the corporation are inter-related. Even though the corporation is in a position to maintain accounts of income separately, the expenditure as well as assets and liabilities cannot be separated/allocated judiciously until and unless it resorts to arbitrary allocations which, according to the querist, are not permitted as per the provisions of Accounting Standard (AS) 17, ‘Segment Reporting’, issued by the Institute of Chartered Accountants of India. The headwise income for the last three years is given below:
Since the same warehouse premises, establishment and other facilities are being used for warehousing, be it general goods warehousing, customs bonded goods warehousing and CFS/ICD warehousing, it is not possible to segregate the operation-wise expenditure, assets and liabilities as required by AS 17.

5. The querist has stated that in compliance with AS 17, however, the corporation has given a note in the audited accounts for the year 2001-02 in ‘Notes forming part of accounts’ as under:

“The Corporation has only one line of business which it is performing in only one geographical location and as such has no separate reportable segment”.

However, C&AG of India, during the course of their audit for the year ending 31.3.2002, have observed that this disclosure is not in conformity with AS 17 on the following grounds:

(a) Since the business of Container Freight Stations/Inland Container Depots is being governed by the provisions of the Customs Act and other regulated authorities of Government of India, and the business of warehousing agricultural produce and other commodities is governed by the Warehousing Act, the above two are different segments in terms of the requirements of AS 17.

(b) As the revenue from General Warehouses, Bonded Warehouses/ CFS & ICD exceeds 10% individually, they are Reportable Segments as per AS 17 and, as such, segment-wise results should have been separately disclosed in terms of mandatory requirements of AS 17.

6. As per the querist, insofar as C&AG’s observation at paragraph 5(a) above is concerned, the undertaking is engaged in providing ‘Warehousing and Ancillary Services’, which is within the purview of provisions of the Warehousing Corporations Act, 1962. The fact that commodities warehoused are being categorized as General/Bonded/Containerised cargo does not change the basic concept of warehousing and is not subject to varying risks and returns. The querist has emphasised that the Container Freight Stations/Inland Clearance Depots/Bonded warehouses are operated by the corporation as warehouses. However, some of the warehouses are notified by the Customs to be operated as such, for purposes of storage of cargo and collection of customs duty thereon, prior to release. By invoking provisions of the Customs Act, 1962, the basic concept of warehousing does not change.

7. The querist has further stated that, insofar as the C&AG’s observation at paragraph 5(b) above is concerned, it is of the view that the intention of AS 17 is to broadly report on distinguishable business segments in totality by indicating clearly:

(a) Segment Revenue
(b) Segment Result
(c) Segment Assets
(d) Segment Liabilities

The querist is of the view that keeping in view the fact that the nature of activity in all cases remains as warehousing only, i.e., the corporation has only one line of business, the provisions of AS 17, relating to business segment, are not applicable.

B. Query

8. The querist has sought the opinion of the Expert Advisory Committee of the Institute of Chartered
Accountants of India, in the light of the afore-mentioned facts, on the following issues:

(a) Since the CFS/ICD warehouses operated by the undertaking, which is governed by the Warehousing Corporations Act, 1962, are under licence from Customs as custodian of goods, whether it would be appropriate to treat it as a separate reportable segment as defined in AS 17, especially in view of the fact that the activity performed at these units is warehousing only.

(b) Whether it is mandatory for the undertaking to present segment report despite the fact that the corporation has only one line of business, i.e., warehousing, wherein expenditure, assets and liabilities are indistinguishable, unless arbitrary allocations are resorted to.

(c) Since the corporation is presently operating regional offices at 17 places within the country, whether their operation would invite the applicability of segment reporting based on geographical location. The querist has stated that it may be pertinent to mention that the number of regional offices may increase or decrease depending upon the need of the corporation.

C. Points considered by the Committee

9. The Committee notes that as per the provisions of Accounting Standard (AS) 17, ‘Segment Reporting’, issued by the Institute of Chartered Accountants of India, the components of an enterprise that are required to be reported separately have to first fall within the definitions of the terms ‘business segment’ or ‘geographical segment’ before being considered as ‘reportable segments’ as per the threshold criteria laid down in paragraph 27 of AS 17. In this context, the Committee notes the definitions of the terms ‘business segment’ and ‘geographical segment’ as per AS 17, which are reproduced below:

“A business segment is a distinguishable component of an enterprise that is engaged in providing an individual product or service or a group of related products or services and that is subject to risks and returns that are different from those of other business segments. Factors that should be considered in determining whether products or services are related include:

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

A geographical segment is a distinguishable component of an enterprise that is engaged in providing products or services within a particular economic environment and that is subject to risks and returns that are different from those of components operating in other economic environments. Factors that should be considered in identifying geographical segments include:

(a) similarity of economic and political conditions;
(b) relationships between operations in different geographical areas;
(c) proximity of operations;
(d) special risks associated with operations in a particular area;
(e) exchange control regulations; and
(f) the underlying currency risks.”

10. The Committee further notes that paragraphs 7 and 8 of AS 17 provide as below:

“7. A single business segment does not include products and services with significantly differing risks and returns. While there may be dissimilarities with respect to one or several of the factors listed in the definition of business segment, the products and services included in a single business segment are expected to be similar with respect to a majority of the factors.

8. Similarly, a single geographical segment does not include operations in economic environments with significantly differing risks and returns. A geographical segment may be a single country, a group of two or more countries, or a region within a country.”

11. The Committee also notes paragraph 12 of AS 17, which is reproduced below:

“12. The predominant sources of risks affect how most enterprises are organised and managed. Therefore, the organisational structure of an enterprise and its internal financial reporting system are normally the basis for identifying its segments.”

12. The Committee notes from the above that to identify business and geographical segments, the undertaking needs to evaluate whether the risks and returns of different components are different as per the factors stated in the definitions of the terms ‘business segment’ and ‘geo-
The organisational structure of an enterprise and its internal reporting system are normally the basis for identifying the segments, subject to their fulfilling the criteria prescribed in the aforesaid definitions.

13. The Committee notes from the facts of the case that the undertaking is primarily engaged in warehousing business. It also sometimes provides ancillary services such as loading, unloading, book-keeping and transportation of goods offered for storage, at the request of depositors. The Committee also notes that the querist has stated in paragraph 6 above that insofar as warehousing business comprising General/Bonded/Containerised warehouses is concerned, these are not subject to varying risks and returns. However, the querist has not informed about whether the risks and returns of the fourth category of warehouses, namely, management warehouses, differ from the risks and returns related to other warehouses. Similarly, the querist has not informed as to whether the risks and returns pertaining to the warehousing business differ from the risks and returns related to the ancillary services provided by it. Thus, in case the risks and returns of the management warehouses and ancillary services do not differ from those of other components, the corporation can be considered to have only one business segment. The Committee is of the view that the mere fact that in respect of the bonded warehouses, the Customs Act, 1962, also applies may not be the sole criterion to conclude that the risks and returns of the services provided by such warehouses differ from the risks and returns provided by other warehouses. Similarly, the querist has not supplied information as to whether or not the risks and returns associated with the different regions in which regional offices of the undertaking provide services, are different. In this context, the Committee notes that according to the definition of the term ‘geographical segment’ as per AS 17 reproduced in paragraph 9 above, if the different regions providing services are subject to different risks and returns, these would constitute different geographical segments. However, if the regions are not subject to different risks and returns, they would not constitute different geographical segments. In nutshell, the Committee is of the view that the prime consideration is the differing risks and returns between the major components of the business and the geographical components which should be determined on the basis of the criteria laid down in the definitions of the terms ‘business segment’ and ‘geographical segment’.

14. The Committee notes General Clarification (GC)-11/2002 on AS 17, issued by the Accounting Standards Board of the Institute of Chartered Accountants of India, as below:

“Accounting Standard (AS) 17, Segment Reporting, defines ‘business segment’ and ‘geographical segment’. It is clarified that in case, by applying these definitions, it is concluded that there is neither more than one business segment nor more than one geographical segment, segment information as per AS 17 is not required to be disclosed.”

D. Opinion

15. On the basis of the above, the Committee is of the following opinion on the issues raised by the querist in paragraph 8 above:

(a) It would not be appropriate to treat CFS/ICD warehouses operated by the undertaking, which is governed by the Warehousing Corporation Act, 1962, and are under licence from customs as custodian of goods, as a separate business segment from general/containerised warehouses since as stated by the querist the services rendered by them are not subject to differing risks and returns, presumably, as per the criteria laid down in the definition of the term ‘business segment’ in AS 17. However, insofar as the ‘management warehouses’ are concerned, the criteria prescribed in the definition should be considered for deciding whether the risks and returns of such warehouses differ from other warehouses. Similarly, the criteria prescribed in the definition of the term ‘business segment’ should be applied in determining whether the risks and returns pertaining to the warehousing business differ from the risks and returns pertaining to the ancillary business.

(b) In case it is concluded, as per (a) above, that the corporation has only one business segment, the corporation is not required to present segment information as per AS 17. However, in case it is concluded that the corporation has more than one business segment, segment information is required to be given as per the various requirements of AS 17.

(c) The mere fact that the corporation is operating regional offices at 17 places within the country does not mean that the regional offices would constitute separate geographical segments within the meaning of AS 17 unless the risks and returns pertaining thereto differ from each other.

*This GC has now been issued in the form of Accounting Standards Interpretation (ASI) 20, ‘Disclosure of Segment Information’