

Segmental Disclosures in Corporate Financial Reporting: An Empirical Study of ITC Ltd

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ABSTRACT

The users of financial statements have different utilities for the financial information. The traditional method of measuring the financial performance gives only the overall financial performance. The consolidated statements of an entire group of companies are not sufficient to convey all the relevant segmental information required by the stakeholders-what they need. Segment information is a part of the financial statements that provides useful information about a company's revenues, operating results and assets, by business segment and geographical segment. It requires companies especially those which are multi-product and multi-location to disclose their segment-wise operations in their annual reports as well as in their quarterly reports. The present study highlights the segment reporting of ITC. The study revealed that the segment FMCG – Cigarettes has contributed 61.55 percent of revenue earned, 84.44 percent in segment results and own 29.43 percent of segment assets during the period of study being the highest among the different segments of ITC Ltd. It is also observed that there was an improvement from year to year in segment reporting by ITC Ltd.

Keywords: Segment disclosures, primary segment, secondary segment, segment revenue, segment result, segment assets

INTRODUCTION

Business organizations today have developed into large, Multinational Corporation with diversified activities. The traditional financial statement of multinational and multi activity organization no longer reveal information to enable to appreciate and evaluate the business. It is now being growingly recognized that users of financial statement need to understand how individual segment of the business contributes to overall performance and financial position. The various industry segments or geographic areas of operations of an enterprise may have different rates, degrees and types of risks and opportunities for growth. Each line of business is affected not only by general economic conditions but by special industry factors such as volume, price and raw material cost trends. Each segment likely to have different markets, profit margins, rates of growth, returns of investment and business cycle sensitivity. So each segment must be studied separately to develop segment earnings. So it is now fully realized that the user of financial reports need to appreciate the business risk and potential for growth associate with segment, activity or location. Disclosure of such information is called segment reporting. Segment financial data are essential to the analytical process.

The concept of segment reporting in a formalized form is almost 32 years old. It was proposed in 1974 when the Financial Accounting Standard Board (FASB) of USA issued Statement of Financial Accounting Standards (SFAS) 14. After, this International Accounting Standards Committee issued IAS 14 reporting financial information by segment in 1981. Both SFAS 14 and IAS 14 were revised to make segment reporting more informative. SFAS 14 was revised by the FASB with the issue of SFAS 131 in 1997, whereas IAS 14 was revised in 1998. In India the Institute of Chartered Accountants of India has issued AS-17 Segment Reporting, which come into effect in respect of accounting periods commencing' on or after 1.4.2001 and is mandatory in nature from the date in respect of the following enterprises whose equity or debt securities are listed on a recognized Stock Exchange in India and the enterprises that are in the process of issuing equity or debt securities that will be listed on a recognized stock exchange in India as evidenced by the Board of directors resolution in this regard and all other commercial industrial and business reporting enterprises, whose turnover for the accounting period exceed Rs 50 cores. AS-17 states that a reportable segment is either a business segment or a geographical segment.

Concept of Segment Reporting

A segment is a part of an organization. A business segment is distinguishable component of an enterprise that engaged in providing an individual product or service group or a group of relating products or service, which is subject to different risks and returns as envisaged in other segments. A geographical segment is distinguishable component of an enterprise

that is engaged in providing product or service within a particular economic environment and that is subject to risk and returns that are different from those of components operating in other economic environments.

Segment reporting can be defined as the disaggregation of the financial statements of a company or a group of companies into different segments covering sales, revenues and profits, line of business, and geographical markets. Large companies with diversified product lines/marketing regions, which may differ from each other with respect to profitability, growth potential and risk, evidently require segment reporting for highlighting different areas. Information about the segment contributes to investment evaluation of corporate enterprises. Investors would be able to assess the company's earning potential, cash flows, risk, and growth. It would also help the management of the company to evaluate the internal management of the company and frame segment specific policies.

Keeping this background in view, in the present study, an attempt has been made to make an in-depth study of the segmental disclosures in corporate financial reporting of ITC Ltd. This study develops an empirical proxy for the quality of segment reporting from the data in company's annual reports. Information about an entity's geographical and business segments is relevant in assessing the risks and returns of a diversified or multinational entity for which such information is often difficult or impossible to determine from aggregated data.

REVIEW OF LITERATURE

Samuel Jebaraj Benjamin et al. (2010) in their study revealed that 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.

Sarkar (2011) analyzed the mandatory and voluntary disclosure practices of public limited companies in India for the year 2009-10, identified 22 items of mandatory disclosure and 32 items of voluntary disclosure. Findings of the study showed that there was 100 percent disclosure for mandatory items but wide diversity in the type and presentation of voluntary disclosure among companies. He suggested a common framework for presentation of information in the annual reports to meet the test of comparability and said that failures should also be reported in the annual reports.

Sanjay Bhayani (2012) in his study show that the companies with large assets size, higher profitability, higher leverage, listing in foreign stock exchanges, lower holding of promoters share and audited by big audit Companies have tendencies to be more transparent and hence disclose more information. The author in his study further reveals that age of a company and residential status do not significantly influence the level of corporate disclosure.

Objectives of the Study

- To examine the segmental disclosures in corporate financial reporting of ITC Ltd.
- To analyse the segmental performance of each segment of ITC Ltd.
- To find out whether the segment reporting is useful for stakeholders, especially from the investors' point of view for their decision-making regarding investments.

RESEARCH METHODOLOGY

Sources of Data

The present study is based on secondary data. The secondary data are collected from the annual reports, magazines, books, and published and unpublished articles.

Period of Study

The time period of the study is limited to five financial years from 2012-13 to 2016-17.

Segment Reporting of ITC: A Data Analysis

A brief review of the segment reporting of ITC can be summed up as follows. ITC in its published reports has furnished the segment reporting annually and regularly; mainly they have divided their segments into two: (a) business segment and (b) geographic segment. The data for ITC have been taken and collected for 5 years from 2012-13 to 2016-17 from the published annual reports of ITC. According to the published financial reports of ITC the Group is currently focused on four business groups: FMCG (Cigarettes and others), Hotels, Paperboards, Paper and Packaging and Agri Business. The selected variables have been presented graphically and thereafter analyzed.

Segment Revenue

Segment Revenue reported in the statement of profit and loss of an enterprise that is directly attributable to a segment and the relevant portion of enterprise revenue that can be allocated on a reasonable basis to a segment, whether from sales external customers or from transactions with other segments of the same enterprise.

The table 1 highlights the segment revenue earned by ITC for the period from 2012-13 to 2016-17

Table 1 Segment Revenue

Table 1
Segment Revenue of ITC Ltd
For the period from 2012-13 to 2016-17
(Rs. Crores)

Year	FMCG			Hotels	Agri Business	Paper Boards, Paper and Packaging	Others	Total
	Cigarettes	Others	Total					
2012-13	27136.12	7028.18	34164.30	1125.86	4922.49	2665.89	1042.22	43920.76
2013-14	30417.58	8128.77	38546.35	1185.56	5013.12	3194.15	1308.10	49247.28
2014-15	31855.85	9043.92	40899.77	1241.06	5566.08	3558.05	1454.12	52759.08
2015-16	34062.67	9738.57	43801.24	1343.49	4362.78	3757.87	1407.79	54673.17
2016-17	35877.66	10523.56	46401.22	1400.35	5314.13	3732.63	1439.62	58287.95
Total	159349.88	44463.00	203812.90	6296.32	25178.60	16908.59	6651.85	258888.24
Average	31869.98	8892.60	40762.58	1259.26	5035.72	3381.72	1330.37	51777.65
Average %	61.55	17.17	78.73	2.43	9.73	6.53	2.57	100

Source: Annual Reports of ITC Limited from **2012-13 to 2016-17**

The total segment revenue earned by ITC Ltd. have shown increasing trend throughout the period of study. It was Rs. 43920.76 Crore in 2012-13 which increased to Rs. 58287.95 Crores in 2016-17. The five years average total segment revenue displayed a figure of 51777.65 Crores. The segment revenue from FMCG - Cigarettes (61.55 percent) was the highest among the different segments of ITC Ltd followed by FMCG - others (17.17 percent), Agri Business (9.73 percent), Paper Boards, Paper and Packaging (6.53 percent), other segments (2.57 percent) and Hotels (2.43 percent).

Segment Expenses

Segment Expense is an Expense resulting from the operating activities of a Segment that is directly attributable to the segment and the relevant portion of an expense that can be allocated on a reasonable basis to a segment, including expenses relating to sales to external customers and expenses relating to transactions with other segments of the same enterprise.

The table 2 highlights the segment expenses incurred by ITC for the period from 2012-13 to 2016-17

Table 2 Segment Expenses

Table 2
Segment Expenses of ITC Ltd
For the period from 2012-13 to 2016-17
(Rs. Crores)

Year	FMCG			Hotels	Agri Business	Paper Boards, Paper and packaging	Others	Total
	Cigarettes	Others	Total					
2012-13	18441.70	7117.08	2558.78	976.57	4191.21	1701.94	905.90	33334.40
2013-14	19998.10	8116.81	28115.01	1040.01	4178.34	2301.69	1126.98	36762.03
2014-15	20219.00	9012.70	29231.70	1188.62	4662.11	2636.57	1222.52	38981.52
2015-16	21714.59	9649.86	31364.45	1281.88	3511.90	2850.25	1280.68	40189.16
2016-17	22673.96	10497.41	33171.37	1283.23	4387.81	2766.79	1336.91	42946.11
Total	103047.35	44393.86	147441.30	5770.31	20931.37	12257.24	5872.99	192213.22
Average	20609.47	8878.77	29488.26	1154.06	4186.27	2451.45	1174.60	38442.64
Average %	53.61	23.09	76.70	3.00	10.88	6.38	3.06	100

Source: Annual Reports of ITC Limited from **2012-13 to 2016-17**

The total segment expenses incurred by the ITC Ltd have also shown increasing trend throughout the period of study. It was Rs. 33334.40 Crore in 2012-13 which increased to Rs. 42946.11 Crores in 2016-17. The five years average total segment expenses displayed a figure of Rs. 38442.64 Crores. The segment expenses incurred by FMCG - Cigarettes (53.61 percent) was the highest among the different segments of ITC Ltd followed by FMCG - others (23.09 percent), Agri Business (10.88 percent), Paper Boards, Paper and Packaging (6.38 percent), other segments (3.06 percent) and Hotels (3 percent).

Segment Results

Segment result is Segment revenue less segment expenses.

The table 3 highlights the segment results of ITC for the period from 2012-13 to 2016-17

Table 3 Segment Results

Table 3
Segment Results of ITC Ltd
For the period from 2012-13 to 2016-17
(Rs. Crores)

Year	FMCG			Hotels	Agri Business	Paper Boards, Paper and packaging	Others	Total
	Cigarettes	Others	Total					
2012-13	8694.42	-88.90	8605.52	149.29	731.28	963.95	136.32	10586.36
2013-14	10419.48	11.96	10431.34	145.55	834.78	892.46	181.12	12485.25
2014-15	11636.85	31.22	11668.07	52.44	903.97	921.48	231.60	13777.56
2015-16	12348.08	88.71	12436.79	61.61	850.88	907.62	127.11	14484.01
2016-17	13203.70	26.15	13229.85	117.12	926.32	965.84	102.71	15341.84
Total	56302.53	69.14	56371.57	526.01	4247.23	4651.35	778.86	66675.02
Average	11260.51	13.83	11274.31	105.20	849.45	930.27	155.77	13335.00
Average %	84.44	0.10	84.54	0.79	6.37	6.98	1.17	100

Source: Annual Reports of ITC Limited from **2012-13 to 2016-17**

The total segment results earned by ITC Ltd. have shown increasing trend throughout the period of study. It was Rs. 10586.36 Crore in 2012-13 which increased to Rs. 15341.84 Crores in 2016-17. The five years average total segment results displayed a figure of 13335 Crores. The segment results from FMCG - Cigarettes (84.44 percent) was the highest among the different segments of ITC Ltd followed by Paper and Packaging (6.98 percent), Agri Business (6.37 percent), Paper Boards, other segments (1.17 percent), Hotels (0.79 percent) and FMCG - others (0.10 percent) .

Segment Assets

Segment Assets are those operating assets that are used by a segment in its operating activities and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis.

The table 4 highlights the segment assets of ITC for the period from 2012-13 to 2016-17

Table 4 Segment Assets

Table 4
Segment Assets of ITC Ltd
For the period from 2012-13 to 2016-17
(Rs. Crores)

Year	FMCG			Hotels	Agri Business	Paper Boards, Paper and packaging	Others	Total
	Cigarettes	Others	Total					
2012-13	7240.69	3277.88	10518.57	4309.68	1906.16	5462.31	821.01	23017.73
2013-14	8416.95	4258.63	12675.58	4531.28	2908.61	5857.48	929.95	26902.90
2014-15	8647.38	4922.38	13569.76	5225.95	2878.75	5919.52	855.40	28449.38
2015-16	8531.08	6238.11	14769.19	5470.24	3231.28	6020.39	809.90	30301.00
2016-17	8573.92	7257.61	15831.53	5849.59	3255.76	6313.82	771.74	32022.44
Total	41410.02	25954.61	67364.63	25386.74	14180.56	29573.52	4188.00	140693.45
Average	8282.004	5190.92	13472.93	5077.35	2836.11	5914.70	837.60	28138.69
Average %	29.43	18.45	47.88	18.04	10.08	21.02	2.98	100

Source: Annual Reports of ITC Limited from 2012-13 to 2016-17

The total segment assets owned by ITC Ltd. have shown increasing trend throughout the period of study. It was Rs. 23017.73 Crore in 2012-13 which increased to Rs. 32022.44 Crores in 2016-17. The five years average total segment assets displayed a figure of 28138.69 Crores. It can be observed that the segment assets of FMCG - Cigarettes (29.43 percent) was the highest among the different segments of ITC Ltd followed by Paper Boards, Paper and Packaging (21.02 percent), FMCG - others (18.45 percent), Hotels (18.04 percent), Agri Business (10.08 percent) and other segments (2.98 percent).

Segment Liabilities

Segment Liabilities are those operating liabilities which result from the operating activities of a division and either are directly attributable to the division or can be allocated to the division on a reasonable basis.

The table 5 highlights the segment liabilities of ITC for the period from 2012-13 to 2016-17

Table 5 Segment Liabilities

Table 5
Segment Liability of ITC Ltd
For the period from 2012-13 to 2016-17
(Rs. Crores)

Year	FMCG			Hotels	Agri Business	Paper Boards, Paper and packaging	Others	Total
	Cigarettes	Others	Total					
2012-13	1958.81	727.64	2686.45	297.38	506.80	509.18	240.07	4239.88
2013-14	2189.23	839.52	3028.75	305.53	732.13	544.40	262.76	4873.57
2014-15	2301.36	870.90	3172.26	369.74	601.72	495.68	223.17	4862.57
2015-16	2754.52	1186.92	3941.44	363.99	519.41	510.39	218.79	5554.02
2016-17	2561.31	1411.58	3972.89	446.94	723.60	623.85	209.52	5976.80
Total	11765.23	5036.56	16801.79	1783.58	3083.66	2683.50	1154.31	25506.84
Average	2353.05	1007.31	3360.36	356.72	616.73	536.70	230.86	5101.37
Average %	46.13	19.75	65.88	6.99	12.09	10.52	4.53	100

Source: Annual Reports of ITC Limited from 2012-13 to 2016-17

The total segment liabilities of ITC Ltd. have shown increasing trend throughout the period of study. It was Rs. 4239.88 Crore in 2012-13 which increased to Rs. 5976.80 Crores in 2016-17. The five years average total segment liabilities displayed a figure of 5101.37 Crores. It can be observed that the segment liabilities of FMCG - Cigarettes (46.13 percent) was the highest among the different segments of ITC Ltd followed by FMCG - others (19.75 percent), Agri Business (12.09 percent) Paper Boards, Paper and Packaging (10.52 percent), Hotels (6.99 percent), and other segments (4.53 percent).

Segment Capital Expenditure

The table 6 highlights the segment capital expenditure of ITC for the period from 2012-13 to 2016-17

Table 6 Segment Capital Expenditure

Table 6
Segment Capital Expenditure of ITC Ltd
For the period from 2012-13 to 2016-17
(Rs. Crores)

Year	FMCG			Hotels	Agri Business	Paper Boards, Paper and packaging	Others	Total
	Cigarettes	Others	Total					
2012-13	574.69	366.40	941.09	818.85	90.45	690.31	82.91	2623.61
2013-14	1021.27	465.67	1486.94	297.60	84.35	662.90	73.87	2605.66
2014-15	613.96	718.74	1332.70	984.91	214.42	154.14	93.18	2779.35
2015-16	256.05	814.71	1070.76	384.18	130.38	349.76	28.16	1963.24
2016-17	262.35	1157.41	1419.76	472.19	160.63	560.63	10.46	2623.67
Total	2728.32	3522.93	6251.25	2957.73	680.23	2417.74	288.58	12595.53
Average	545.66	704.59	1250.25	591.55	136.05	483.55	57.72	2519.11
Average %	21.66	27.97	49.63	23.48	5.40	19.20	2.29	100

Source: Annual Reports of ITC Limited from 2012-13 to 2016-17

The total segment capital expenditure incurred by the ITC Ltd have shown fluctuating trend throughout the period of study. It ranged between 1963.24 Crores being the lowest in 2015-16 and Rs. 2623.67 Crores in 2016-17 being the highest during the period of study. The five years average total segment capital expenditure displayed a figure of Rs. 2519.11 Crores. The segment capital expenditure incurred by FMCG - others (27.97 percent) was the highest among the different segments of ITC Ltd followed by Hotels (23.483 percent), FMCG - Cigarettes (21.66 percent), Paper Boards, Paper and Packaging (19.20 percent) , Agri Business (5.40 percent) and other segments (2.29 percent).

Geographical Segment Reporting

The table 7 highlights the geographical segment reporting of ITC for the period from 2012-13 to 2016-17

Table 7 Geographical Segment Reporting

Table 7
Geographical Segment Reporting of ITC Ltd
For the period from 2012-13 to 2016-17
(Rs. Crores)

Year	Segment Revenue from External Customers			Segment Assets/Non Current Assets		
	Within India	Outside India	Total	Within India	Outside India	Total
2012-13	38559.42	5361.34	43920.76	22042.15	975.58	23017.73
2013-14	42899.39	6347.89	49247.28	25477.33	1425.57	26902.90
2014-15	45732.96	7026.12	52759.08	18385.10*	949.49*	19334.59*
2015-16	48606.30	6066.87	54673.17	19638.05*	974.01*	20612.06*
2016-17	51796.82	6491.13	58287.95	21816.13*	1009.85*	22825.98*
Total	227594.89	31293.35	258888.20	107358.76	5334.50	112693.26
Average	45518.98	6258.67	51777.65	21471.75	1066.90	22538.65
Average %	87.91	12.09	100	95.27	4.73	100

Source: Annual Reports of ITC Limited from 2012-13 to 2016-17

* Represent Non Current Assets only

The geographical segment reporting highlights the increasing trend in revenue earned by ITC Ltd in domestic market while in the outside India market it was fluctuated during the study period from 2012-13 to 2016-17. The five years average displayed that domestic market contributed 87.91 percent and the outside India market contributed 12.09 percent of the total average revenue earned during the period of study. It is also observed that the ITC Ltd's five years average investment in assets/non-current asset in India was 95.27 per cent being the highest while average investment in assets/non-current asset outside India it was 4.73 percent.

CONCLUSION

The present case study is focused on the segment revenue, segment expenses, segment result, investment in current/non-current assets, segment liabilities and segmental capital expenditure of the of each segment of ITC Ltd, mainly classified on the basis of business segment and geographical segment. It is clearly indicated that segments which have high sales and high net income encourage the company to invest more in such profit-making segments in comparison to low sales with low net income segments. It can be observed that the segment FMCG – Cigarettes has contributed 61.55 percent of revenue earned, 84.44 percent in segment results and 29.43 percent of segment assets during the period of study being the highest among the different segments of ITC Ltd. It is also observed that there was an improvement from year to year in segment reporting by ITC Ltd. The company has satisfactorily accomplished segment reporting by classifying their business and geographical segments. ITC is following the accounting standard for the purpose of segment reporting in its financial statement reporting, and the company has significantly used the segment reporting information for taking their various investment judgments.

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