



Segmental Disclosures By Wipro And Infosys:

ABSTRACT

Dr. M. R. Shollapur

Consolidated financial statements tend to hide information from external reporting. Disaggregation of the financial statement of a company into different segments is necessary to project the transparency of its performance to the valued investors.

Accordingly, an accounting standard on segment reporting has come into effect with a view to establishing guidelines for segment-wise disclosure of information in annual reports and to enable investors and other parties to evaluate performance of individual segments. This paper examines segmental disclosure practices by the two leading companies viz. Wipro and Infosys and evaluates the contents of segmental disclosures in providing desired information to investors and other parties.

Corporate financial reporting entails communication of accounting information through financial statements of a corporate enterprise to various groups concerned with the performance of the enterprise. The requirements and practices of financial disclosures change from time to time, and keep pace with the dynamic business environment. In India, the economic reforms of 1991 gave rise to a volatile business environment. In response, the corporate sector initiated strategic business diversification to combat volatility. The corporate enterprises expanded their scope by including a variety of industries, diverse customer groups, and widely scattered markets. As a result, the practice of financial reporting through consolidated financial statements was found inadequate in providing detailed picture of their

performance. Segmental disclosures were not only peculiar to diversified companies but also to companies operating in specialized line(s) of activity(s). The increasing public interest in corporate affairs, the growing awareness among shareholders to know the details of performance of various sub-units, etc., necessitated formulating principles for reporting financial information about different types of products an enterprise produces and different geographical areas in which it operates. As a result, a separate accounting standard on Segment Reporting has come into effect in India since 2001. Consequently, the corporate enterprises began to comply with this standard in their corporate reporting.

Against this background, an attempt has been made in this paper to examine and evaluate the segmental disclosures in corporate financial reporting. It is a comparative study of Wipro and Infosys, the two leading corporate enterprises in India.

The following are the objectives of the study:

1. To identify segmental disclosures in corporate financial reporting;
2. To check the compliance of the accounting standard on segment reporting in segmental
3. Disclosures;
4. To evaluate the contents of segmental disclosures in providing information required for investors and other parties and in the process identify the gaps in the segment disclosures between a diversified company a highly specialized service providing company.

 Senior Lecturer, Post-graduate Department of Studies & Research in Commerce,
 Karnatak University, DHARWAD-580003. (India).

Research Methodology

This study examines the segmental disclosures by a diversified company (Wipro) and a company engaged in offering highly specialized services (Infosys). An index of segment disclosures under Indian Generally Accepted Accounting Principles (GAAP) is constructed for the purpose of analysis. This index has three parts with eleven items. The first part introduces the two items addressing the efforts of the companies in evaluating the standard on segment reporting and disclosure of accounting policies adopted for segment reporting. The second part of the

index focuses on business segments with eight items. The third part of the index addresses the geographical segments with one item for analysis. This study is based on secondary data obtained from the annual reports of these two companies covering a period of three years (i.e. from 2000-01 to 2002-03) prepared under the Indian GAPP. The study is constrained by this time frame as such reporting standards are of recent development in India.

Section - I

Segment reporting: a Conceptual Framework

A segment is a part of an organization. Normally, we would expect either medium sized organizations or large organizations to be segmented, but that is by no means always bound to be the case (Williamson 1998). The segments are distinguishable components of an enterprise. Each of these segments is engaged in providing a different product(s) or in providing services to a wide range of customers. These segments possess different rates of profitability, different levels of risks and different opportunities for growth. Such differences cannot be easily identified in a consolidated financial report.

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 (Guruswamy 1994). 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 (Koncank 1974). Information about the segment contributes to investor 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.

Section - II

Accounting Standard on Segment Reporting

About forty years ago, the need for segment reporting was felt for the first time in the USA. When the Senate Sub-Committee in USA on Anti-Trust in American industry could not make any sense from the aggregation of financial

information submitted by large conglomerate firms. Since then, the need for segment reporting has been increasingly felt (Reddy and Satish 2001). A Statement on Financial Accounting Standard No. 14 (SFAS 14) was issued in 1976 that provided guidelines for segment reporting. SFAS No. 18, 21, 24 and 30 have been issued as amendments to SFAS No. 14. Finally, SFAS No.131 entitled " Disclosures about Segments of an Enterprise and Related Information" was published in 1997. SFAS No. 131 provides necessary guidelines to help public business enterprises report information about operating segments and related disclosures, as well as products and services, geographic areas and major customers. Thus, the information required to be reported according to Standard No, 131 is a disaggregation of consolidated financial information. The purpose of such disaggregated information is to assist financial statement users in analyzing and understanding the enterprise's financial strengths..

As a follow-up of the above developments in USA, the Institute of Chartered Accountants of India (ICAI) issued Accounting Standard No. 17 (AS-17) on Segment Reporting. AS-17 is mandatory for enterprises whose equity or debt securities are listed in a recognized stock exchange in India and for enterprises that are in the process of issuing equity or debt securities that will be listed on a recognized stock exchange in India.

As per SFAS-131 and AS-17, for a segment to be reportable, it must account for at least 10% of the following:

- ◆ Total revenue
- ◆ Combined operating profit
- ◆ Combined identifiable assets of all segments

A segment identified as a 'reportable segment' in the preceding annual report will automatically continue to be identified whether or not it meets the required threshold.

In the following section, the application of AS-17 in financial disclosures of Wipro and Infosys and an evaluation of segmental disclosures have been discussed.

Section - III

Evaluation of segmental disclosures by Wipro and Infosys

Wipro Limited was incorporated in 1945 as Western India Vegetables Products Ltd. The company was initially

engaged in manufacture of hydrogenated vegetable oil. Over the years, the company has diversified into different areas. The company provides a comprehensive range of Information Technology (IT) services, software solutions and research and development services in the areas of computer hardware and software design to leading companies worldwide. The company also provides business process outsourcing (BPO). The company has a profitable presence in the Indian markets for consumer products. It opened up a new line of business in April 2002 to address the IT requirements of the emerging health care and life sciences market. The company has the head-office in Bangalore, and has operations in North America, Europe and Asia.

Infosys was incorporated in 1981 as Infosys Consultants Private Limited under the Indian Companies Act, 1956. It was renamed as Infosys Technologies Private Limited in 1992 and in the same year as Infosys Technologies Limited when it became a public limited company. Infosys is a leading global IT company engaged in delivering a comprehensive range of end-to-end solutions to customers. The company has seventeen branches located in different parts of India. It offers services like consultancy, software development, software re-engineering, systems integration, package evaluation and implementation software maintenance, business process management services (BPM). It also provides proprietary software products for banking industry. Infosys has won a number of awards for its outstanding performance. The Best Annual Report award of the Institute of Chartered Accountants of India for the seventh successive year (2002-03) is noteworthy.

The discussion on evaluation of disclosures under AS-17 requires the identification of suitable items of segmental disclosures and construction of an index of segment disclosures. Accordingly, the segmental disclosures in corporate reporting of Wipro and Infosys are presented in Table-1 obtained from the annual reports of Wipro and Infosys.

It is evident that the identified items in the Table are useful to investors and other stakeholders for evaluating the performance of segments of the companies. Content analysis of indexed items is given below:

1) **Evaluation of Accounting Standard:** ICAI gives wider

Table- 1: Segmental disclosures by Wipro and Infosys under Indian GAAP.

Sl No.	Items of segmental Disclosures	Wipro Ltd.	Infosys Ltd.
1	A. Introduction Evaluation of Accounting Standard	No	Yes
2	Disclosure of Accounting policies adopted for segment reporting	Yes	Yes
	B. Business Segments		
3.	Classes of business segments	Yes	Yes
4.	Segment revenue	Yes	Yes
5	Segment expenses	No.	Yes
6	Segment result (profit)	Yes	Yes
7	Segment fixed assets	Yes	No
8	Depreciation/ Amortization	Yes	No
9	Current assets and liabilities	Yes	No
10	Return on capital employed	Yes	No
	C. Geographical Segments		
11	Classes of geographical segments	Yes	Yes

as a whole. A statement relating to these accounting policies adopted by the companies in preparation of segment reports need to be disclosed in their reports.

Discussing the basis of preparation of financial statements, Wipro states that the financial statements have been prepared in accordance with the Indian Generally Accepted Accounting Principles (Annual Report 2002-03, p.94). It further states the management of Wipro accepts the responsibility for the integrity and objectivity of these financial statements. In the annual reports of Wipro it is stated that *the segment report of Wipro Ltd. and its consolidated subsidiaries and associates has been prepared in accordance with the Accounting Standard 17 issued by the*

Institute of Chartered Accountants of India. A similar statement has also been made by Infosys every year in its reports: The accounting principles consistently used in the preparation of financial statements are also consistently applied to record income and expenditure in individual segments.

3) Classes of business segments: A 'business segment' is a distinguishable component of a company engaged in providing an individual product or a group of related products or services. The business segments are designed on the basis of nature of products/ services, technology, types of market, class of customers, and distribution channels. These are unique to each business segment. Risks and returns are unique to each business segment. The information relating to business segments in respect of the production process, type of class of customers, the methods used to distribute the products/services help the investors and other parties to be well informed of the risk factor of each segment.

The six business segments of Wipro as on March 31, 2003 are:

(a) **Global IT Services and Products Segment** - provides research and development services for hardware and software design to technology and telecommunications companies and software application development services

publicity to Exposure Draft (ED) to enable target groups (corporate enterprises) to understand and evaluate the standards. Based on these reflections, ED will be finalized and the accounting standard would be issued. This process of preliminary evaluation of the standard enables the companies to make necessary preparations for financial disclosures. Hence the investigator is required to find out whether the companies have fully perceived the norms and procedures of segment reporting.

The Annual Report of Wipro for the year 2000-01 provides segment wise business performance for the year ended March 31, 2001, but does not clearly mention whether the AS-17 and its evaluation is under consideration. Whereas, INFOSYS has made a special mention that this standard is on the anvil in their report for 2000-01. The company observes: *The ICAI has issued Accounting Standard on Segment Reporting ...that is applicable to the financial statements of the company and are mandatory, effective from accounting period on April, 2001. The company has evaluated the effect of these standard (s) becoming mandatory and adopted the accounting standard on segment reporting* (Annual Report 2000-01, p.70).

2) Disclosure of accounting policies adopted for segment reporting: Segment information should be prepared and presented in conformity with the accounting policies adopted for preparing and presenting financial statements

SEGMENTAL DISCLOSURES BY WIPRO & INFOSYS

to corporate enterprises;

(b) **India and Asia Pac IT Services and Products Segment** - focuses primarily on addressing the IT and electronic commerce requirements of companies in India and Asia Pacific region;

(c) **Consumer Care and Lighting Segment** - manufactures, distributes, and sells soaps, toiletries, lighting products and hydrogenated cooking oils for Indian market;

(d) **Health Science Segment** - is a newly established segment (April 2002) to address the IT requirements of the emerging healthcare and life science market;

(e) **IT Enabled Services Segment** - is a newly created segment (July 2002) on acquiring Spectramind. This segment provides BPO services to large global corporations in US, UK, Australia and other developed markets; and

(f) **Others** - include Wipro's other lines of business such as Wipro Fluid Power (mobile construction equipment business) Corporate Activities such as treasury, legal, accounting and human resources etc.

Infosys chiefly specializes in providing information technology and services, delivered to customers worldwide in various industry segments. Accordingly, Infosys has five business segments as on March 31, 2003: (a) Financial services companies, (b) Manufacturing companies, (c) Companies in the telecommunications, (d) Retail industries, and (e) Others such as utilities, transportation, and logistics companies.

On the basis of the degree of risk and return, business segments are deemed to be as primary segments in both these companies. Accordingly, detailed segment disclosures are expected to be made in the corporate annual reports.

4) Segment revenue: Segment revenue is the revenue that is directly attributable to a segment. It results from the sale of goods / services by the segment. AS-17 entails the companies to disclose sales to unaffiliated customers and sale / transfer to other industry segments of the enterprise. These monetary values of goods / services transferred by each segment represent their gross accomplishment against the efforts made by them during each year. In view of its significance in measuring the performance of business segments, segment revenues generated by various business segments are examined.

Wipro discloses the segment-wise revenue in a separate

statement entitled 'Segment wise business performance statements'. Besides, growth in revenue, share of segment revenue to total revenue are also disclosed. The trends in the segment revenue reveals that the Global IT Services and Products segment have the maximum share (66%), followed by India and Asia Pac IT Services and Products (19%). The remaining segments collectively constitute 15%.

Infosys also discloses segment-wise revenue. However, the share of each segment revenue is not disclosed. From the amounts of segment revenues, it can be seen that the Financial services segment has the maximum share (37%), followed by Manufacturing segment (16% -17%), Telecom sector (15%), Retail sector (12%), and Others (18%-20%).

5) Segment expenses: Segment expenses are the expenses resulting from the operating activities of a segment that are directly attributable to the segment. They also include a portion of an expense that can be allocated on a reasonable basis to the segment. The segment expenses represent monetary outflow or utilization of resources by each segment in providing goods/services. They further represent the efforts of the segment in revenue generation. The information on these expenses would help the stakeholders in evaluating the performance of each segment.

Segment-wise expenses are not directly disclosed in the segment-wise business performance statements of Wipro. There is no mention of segmental expenses in management discussion and analysis. However, information relating to segment-wise operating margin is provided and on its basis the segment expenses can be ascertained. However, the composition of segment expenses in terms of cost of goods sold, administrative and selling and distribution expenses are not published.

In case of Infosys, segment-wise expenses are provided under Schedule 13. The expense-mix comprising of identifiable operating expenses and allocated expenses is also provided. Further, the basis of this categorization is clearly spelled out in its annual reports: *Direct expenses in relation to segments are categorized based on items that are individually identifiable to that segment, while the remainder of the costs are categorized in relation to the associated turnover of the segment.*

6) Segment result (profit): The performance of each segment is judged on the basis of its results as indicated by

profits (gross profit/ operating profit/ net-profit) earned by each segment. Gross profit is the result of the relationship between sales revenue and cost of goods/services sold by each segment. An increased amount of this profit signifies acquisition of raw materials and other inputs at favourable prices, efficient utilization of segment assets, low cost of production. Further, this amount of profit itself provides adequate coverage for operating expenses of the segment. The remainder of the profit is the operating profit. Thus, the segment's operating profit indicates managerial ability of the segment to operate segment business with sufficient success. There would be segment specific interest costs if a portion of segment expenses were financed out of segment specific borrowing. After deducting it from segment operating profit, the remainder represents the segment net-profit before tax. This profit figure reveals the operational and financial performance of the segments.

Wipro presents operating profit of each business segment in segment-wise performance reports. In addition, the share of each segment and the percentage growth in this profit are also provided. Global IT Services & Products segment earns the maximum operating profit followed by IT Enabled Services, Consumer Care & Lighting segments. However, interest is shown as common cost. It implies that there is no segment specific borrowing that was specifically deployed in business segments.

In case of Infosys, segment-operating profit is presented after deducting operating expenses and allocable expenses from the revenue. Financial services segment has the maximum operating profit followed by segments such as Other industries, Telecom industries, Manufacturing industries, and Retail industries. The question of interest cost does not arise because Infosys is a debt-free company.

7) Segment fixed assets: Segment fixed assets represent the investments made by a segment in assets that are used to produce goods/offer services. They signify a major source of revenue potential of the segments and hence this disclosure is a significant input to investors, creditors, etc. for taking appropriate decisions. Hence, information on segment fixed assets assumes significance.

Wipro presents information on fixed assets (net) on each segment. Global IT Services & Products has the highest value of fixed assets, followed by IT Enabled Services, Consumer Care & Lighting, etc.

In case of Infosys, segment-wise fixed assets are not disclosed and a clarification to this effect is clearly provided

in the annual reports of the company: *Fixed assets used in the company business are not identified to any of the responsible segments as they are used interchangeably between segments. Management believes that it is currently not practicable to provide segment disclosures relating to total assets since meaningful segregation of the data is onerous.*

8) Depreciation/Amortization: Each business segment uses fixed assets in carrying out its operations and the cost of such assets consumed during the year is to be ascertained and matched with the revenues generated by their use in business. Allocation of the asset cost to the periods receiving benefits from the asset is necessary to provide periodic information on the results of the operation of the segments to investors, lenders, management and others who use the information.

In case of Wipro, segment-wise depreciation is disclosed. This amount is maximum with Global IT Services & Products, followed by India & Asia Pac IT Services, IT Enabled Services segments. In case of Infosys, the amount of depreciation constitutes a significant component of total expenses. Yet, the segment-wise depreciation is not provided. Instead, they are treated as unallocable expenses. The company gives its justification to such treatment in annual reports in these words: *Certain expenses such as depreciation, which form a significant component of the total expenses, are not specifically allocable to specific segments, as the underlying services are used interchangeably. The company believes that it is not practical to provide segment disclosures relating to those costs and expenses and accordingly these expenses are separately disclosed as 'unallocated' and directly charged against total income.*

9) Current assets and liabilities: The business segments should generate cash and similar assets to be able to meet their short-term commitments. This necessitates the business segment to possess current assets fairly greater than current liabilities. The short-term financial strengths and the credibility of the segment lie in its liquidity position. In order to test this, the details of segment related current assets and current liabilities are essential.

Wipro discloses segment related current assets and current liabilities. The current assets of Wipro include cash, investments, trade receivables, and other assets. Trade receivables constitute a major share of current assets.

Similarly, segment related current liabilities are also disclosed without break-up. The liquidity position as revealed by current ratios of each segment appears quite satisfactory.

In case of Infosys, the details of segment-wise current assets and current liabilities are not disclosed. However, it provides a clarification stating that *liabilities contracted have not been identified to any responsible segment. Accordingly, no disclosure relating to segment liabilities are made.*

10) Return on capital employed: The management team of each segment would be interested in knowing the operational efficiency of the segment. Similarly, the intelligent shareholders too may be curious to know the segment specific contribution in ensuring adequate return on their investments. In this context, return on capital employed (ROCE) i.e. profit in relation to investment can be used as an important measure of profitability. ROCE measures the profitability of long term funds. Higher the ratio, more efficient is the use of capital employed.

In case of Wipro, the information relating to segment-wise ROCE is disclosed only for three segments viz. Global IT Services and Products, India & Asia Pac IT Services, and Consumer Care & Lighting. ROCE is the highest in Global IT Services and Products segment, followed by Consumer Care & Lighting segment, India & Asia Pac IT Services. However, ROCE in these segments is showing a decreasing trend during the last three years.

In case of Infosys, the segment-wise break-up of assets and liabilities are not provided. Hence, the amount of capital employed in each segment cannot be ascertained. As a result, segment-wise rates of ROCE cannot be calculated in case of Infosys.

11) Geographical Segments: If a company has operations extended in foreign markets, geographical segmentation is made. A geographical segment is a distinguishable component of an enterprise that is engaged in providing products/services within a particular environment. Similarity of economic and political conditions, relationship between operations in different geographical areas, proximity of operations, special risks associated with operations in a particular area, etc. are considered in identifying geographical markets. The geographical concentration/ distribution of clientele is a matter of interest to stakeholders. High concentration of business could lead to volatility because of political and economic

factors in target markets. Dispersion in geographical business coverage is desired. Segmental disclosures by geographic location seem likely to promote a better understanding of corporate strategy.

Wipro has three geographical segments: (a) India, (b) US and (c) Rest of the world. It has opened sales and marketing offices in Canada, Europe, France, Germany, Japan, Sweden and UK.

Infosys has four geographic segments: (a) North America comprising the USA, Canada, and Mexico, (b) Europe including continental Europe (both East and West), Ireland and UK, (c) Rest of the world comprising of all other places except those mentioned above, and (d) India. More than 70% of the revenue comes from the North American segment, 18% revenue comes from Europe, 7% from Rest of the world; only about 2% revenue is generated from India.

The geographical segments have been identified in secondary segment reporting. Hence, there are no other additional disclosures regarding geographical segments.

Section-IV CONCLUSIONS

1. Wipro provides more detailed information on segmental performance than Infosys. In case of the former, the financial sources, asset patterns, operations are unique to each segment. As a result, there is a greater scope of allocability of these items to each specific segment. In the latter, however, the assets, liabilities and overheads tend to be utilized interchangeably between the segments. As a result, the segment-wise break-up of assets and liabilities becomes impracticable. Any attempt to disaggregate them tends to be subjective.

2. In segmental disclosures, there is no scope of concealment of segment specific loss. Health Care segment in case of Wipro, for instance, suffered operating loss during 2002-03. This could not have been revealed if segmental disclosures were not made. Thus, the segment reporting betrays the weakness of segments.

3. The total performance of a corporate enterprise is a summative index of performance of each segment of an enterprise. Segment disclosures help understand the performance of each segment. The ranking of performance of business segments on the basis of operating profit of Wipro and Infosys during the period covered under this study is presented in Table-2

Table-2: Ranking of business segments

Wipro	Infosys
1. Global IT Services & Products Segment	1. Financial Services companies,
2. India & Asia Pac IT Services and Products Segment	2. Others
3. Consumer Care & Lighting Segment	3. Telecom companies
4. IT Enabled Services Segment	4. Manufacturing companies
5. Others	5. Retail industries
6. Health Science Segment	

Similarly, the ranking of performance of geographical segments on the basis of revenue is presented in Table-3

Table-3: Ranking of geographic segments

Wipro	Infosys
1. US	1. North America
2. India	2. Europe
3. Europe	3. Rest of the world
4. Rest of the world	4. India

SUGGESTIONS

In case of companies with identical manufacturing environments, segmental break-up of other operating costs is not possible and hence excluded for constructing the measure of performance evaluation. Accordingly, the analysis of segmental performance is restricted to simple measure like gross-profit to sales. The use of this ratio for evaluating segmental performance becomes incomplete if the unallocable costs (common costs) are relatively substantial in relation to allocable costs. In such situations, a separate measure called ratio of unallocable costs (common costs) to allocable costs can be used to ensure the dependability of the ratio of gross-profit to sales. If the ratio of unallocable costs (common costs) to allocable costs is low, it indicates the presence of relatively few common costs that are excluded from charging to segments. The exclusion of the minimum amount of common costs may not materially affect the performance of the segments. Hence, the ratio of gross profit to sales would be dependable, and vice-versa.

Common costs are inherent in a company producing different products or offering different services. As a result, there needs to be a proactive interfacing between financial accounting and cost accounting functions in the companies. Above all, the accounting standard on segment reporting requires establishment of a system of accumulation, absorption and allocation of costs to segments. The basis of allocation of common costs should be spelled out along with other financial disclosures in the annual reports.

AS-17 requires redefining business and geographical

segments for the primary reporting format and secondary format on the basis of degree of risk and return of each segment. The management's perception of risk-return rates of each segment should be spelled out in the annual reports.

The corporate annual reports should include a snap shot of SWOT (strengths and weaknesses, opportunities and threats) analysis of each segment. This analysis in segment reporting should be updated every year. This facilitates grasping risk exposure of each segment and evaluating the segmental performance objectively.

ACKNOWLEDGEMENT

I thank Dr. Ravi Korishettar, Karnatak University, Dharwad (India) for helping me improve the clarity of presentation and Dr. Suneel Maheshwari, Marshall University, Huntington, (USA) for his comments and suggestions on the initial draft of this paper.

REFERENCES

1. Agarwal, R.K. 2001. *Accounting standards*. New Delhi: Hind Law Publishers.
2. Agarwal, R.S. 1995. *The theory of corporate disclosure*. *Journal of Accounting and Finance*, IX (1): 68-75.
3. DangaI, R.C. 1997. *Emerging trends in corporate financial reporting*. Pages 319-327 in *Modern trends in Accounting* (Batra G.S, ed). New Delhi. Deep and Deep Publications.
4. Guruswamy, S. 1994. *Issues in segment reporting*. Pages 235-244 in *Current issue in Accounting* (Mohan Rao et.al.). New Delhi. Krishna Publishers.
5. Kochanek, R. F. 1974. *Segment financial disclosures by diversified firms and security prices*. *Accounting Review*, p. 258.
6. Lal, Jawahar. 1985. *Financial reporting by diversified companies*. New Delhi: Vision Books.
7. Porwal, L.S. 2001. *Accounting theory*. New Delhi: TMH Publishing Company.
8. Reddy, Y.V & Satish, R. 2001. *Segment reporting in India and abroad: A comparative study*. *The Indian Journal of Commerce*, 54: 19-28.
9. Williamson, D. 1998. *Cost and management accounting*. New Delhi. PHI Publications.