

Are Recent Segment Disclosures of Indian Firms Useful?

An Empirical Investigation

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Abstract

The ultimate objective of the financial statement is to give reliable information, which is to be relevant and therefore useful in economic decisions making. Thus a company which operates in different industrial sectors and geographical areas need to provide information about its various segments and the relative important of each in order to understand the company, the economic environment in which it operates and the development of the situation of the company. Earlier empirical studies carried out in developed countries have documented that disaggregated data published together with the annual report enable analysts, investors and other user groups of company reports to understand better the situation of a firm and to make predictions regarding the companies future profitability with greater accuracy and greater confidence.

Our study contributes to the existing literature by providing some of the first evidence on the usefulness of segment disclosures in developing countries especially in the Indian context. Since 1-4-2001 the Securities and Exchange Board of India (SEBI) required the Indian firms to disclose segment data in their annual financial statements. ICAI have come out with AS17- that deals with Segmental Reporting.

Using a survey instrument we examine whether the Indian investors find these segment disclosures is useful. Our study found that investors perceive that segment data aid them in forecasting consolidated sales and net income. However, the results also show that investors are concerned that Indian firms do not define segments meaningfully and consistently and are arbitrary in the allocation of common cost. These results have implications for the investors in Indian stocks, financial analysts and other regulatory bodies such as Institute of Chartered Accountants of India (ICAI), Securities and Exchange Board of India (SEBI), Ministry of Finance (MoF) and Department of Company Affairs (DCA).

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