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# CONTENTS

Sr. No.	TITLE & NAME OF THE AUTHOR (S)	Page No.
1.	<b>BASAVESHWARA AND MAHATMA GANDHI: THOUGHTS ON EQUALITY</b> <i>DR. KICHIDI CHANNAPPA</i>	1
2.	<b>ROLE OF IRDA IN INSURANCE SECTOR AN ANALYTICAL STUDY</b> <i>PREETI DIXIT &amp; DR. SANJEEV MAHROTRA</i>	5
3.	<b>EFFECT OF EMPLOYEE EMPOWERMENT ON JOB PERFORMANCE IN BANKING SECTOR</b> <i>G. SREELAKSHMI &amp; DR. D. SURYACHANDRA RAO</i>	10
4.	<b>PERFORMANCE OF NATIONAL PENSION SCHEME IN INDIA</b> <i>ANANTH.S &amp; BALANAGA GURUNATHAN.K</i>	13
5.	<b>PROTECTION OF WOMEN AGAINST DOMESTIC VIOLENCE ACT, 2005: A CRITICAL ANALYSIS</b> <i>DR. ARCHANA BHATIA</i>	17
6.	<b>TACIT KNOWLEDGE MANAGEMENT: A REVIEW</b> <i>SUBASHINI R &amp; VELMURUGAN G</i>	20
7.	<b>A STUDY ON ICT INITIATIVES IN THE SALE OF AGRICULTURAL PRODUCE AT APMC's IN KARNATAKA</b> <i>NAGARAJU.R &amp; DR. PRALHAD. P. RATHOD</i>	23
8.	<b>ETHICAL WORKPLACE CULTURE: A KEY TO EMPLOYEE SATISFACTION</b> <i>DR. SUPRIYA CHOUDHARY</i>	27
9.	<b>COMPARATIVE STUDY OF FAME AND SEQUENCE ANALYSIS FOR IDENTIFICATION OF BACTERIA FROM INDUSTRIAL WATER OF KRIBHCO</b> <i>N.J. NAIK</i>	31
10.	<b>GROWTH OF RETAIL INDUSTRY IN INDIA</b> <i>DR. PAWAN KUMAR SINGH &amp; DR. SHRIKRISHNA TRIPATHI</i>	36
11.	<b>SEGMENT REPORTING: AN ESSENTIAL TOOL FOR STAKEHOLDERS (A CASE STUDY OF SEGMENT REPORTING OF SAUDI ARABIA COMPANY)</b> <i>DR. ABHINNA BAXI BHATNAGAR</i>	40
12.	<b>IMPACT OF E-COMMERCE IN INDIAN MSMEs</b> <i>GURMEEN KAUR</i>	45
13.	<b>AN OVERVIEW OF MUTUAL FUND TOWARDS INVESTOR'S PERCEPTION</b> <i>N. SAKTHI SELVA ROHINI</i>	49
14.	<b>TALENT MANAGEMENT IN EDUCATION SECTOR</b> <i>NAGESH C L</i>	52
15.	<b>CUSTOMER SATISFACTION OF AIRTEL CELLULAR SERVICE IN CUMBUM TOWN, THENI DISTRICT, TAMILNADU</b> <i>DR. A. SULTHAN MOHIDEEN, M. MOHAMED ISHAQ &amp; M. MOHAMED ILYAS</i>	55
16.	<b>E-GOVERNANCE: A CHALLENGE FOR INDIA</b> <i>DR. MALIKA BHIYANA &amp; RAVI KUMAR BARWAL</i>	61
17.	<b>ENTREPRENEURIAL LEADERSHIP STYLES AND ORGANISATIONAL PRODUCTIVITY OF FINANCIAL SECTOR IN CAMEROON</b> <i>NKAM MICHAEL CHO, MUSIBAU AKINTUNDE AJAGBE, LAWRENCE UCHENNA OKOYE &amp; EKANEM EDEM UDO UDO</i>	64
18.	<b>WOMEN's MENTAL HEALTH IN INDIA: ISSUES AND CHALLENGES</b> <i>DR. BASALINGAMMA S H &amp; DR. RASHMI RANI AGNIHOTRI H.R</i>	71
19.	<b>AAJEEVIKA: A MISSION TO ENHANCES LIVELIHOOD AND MAKES SELF EMPLOYMENT OF RURAL PEOPLE AND WOMEN</b> <i>RICHA VERMA &amp; AMBUJ SRIVASTAV</i>	75
20.	<b>CONSUMER BEHAVIOUR REGARDING INDIAN BRANDED GOODS: A STUDY OF APPAREL INDUSTRY OF LUDHIANA</b> <i>SUKHVINDER KAUR</i>	78
	<b>REQUEST FOR FEEDBACK &amp; DISCLAIMER</b>	83

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## SEGMENT REPORTING: AN ESSENTIAL TOOL FOR STAKEHOLDERS (A CASE STUDY OF SEGMENT REPORTING OF SAUDI ARABIA COMPANY)

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### ABSTRACT

*The users of financial statements have different utilities for the financial information's. The users of accounting information's are the stakeholders and they are mainly concerned with financial information of the various segments of business. Segment reporting is one of the tools for their decision making regarding the amount of investment in the era of diversification. The present case study highlights the segment reporting of "Almarai" Saudi Arabia FMCG Company. The critical analysis of segment reporting is carried out and how it is useful for the external users. The first part of the paper discussed about the segment reporting, its objectives, needs and accounting standards. The second part depicts the accounting procedures and utility of accounting information's for external users. The last part of the study concluded the findings, suggestions and recommendations.*

### KEYWORDS

segment reporting, segment ratio, IAS-14, IFRS-8, external users, GAAP, diversification, segment return on assets.

### INTRODUCTION

The financial statements are prepared according to Generally Accepted Accounting Principles (GAAP) and following the international accounting standards which are presently known as IFRS. Segment reporting is a newly developed IFRS, which indicates the importance of operating segments of companies in the financial disclosures of corporate reports especially in the era of diversification.

Segment reporting is useful to the stakeholders to take the decisions and it assists them to decide in which segment of business, they should invest more or which segment, they should ignore for their investments. External users of accounting information can rate the financial pulse of various segments by review the various segments of business.

**Segment:** A segment is a part or division of business which may be classified on the basis of its products, services or on the basis of geographical areas. The classification of segment is differing from company to company and it depends on the nature of the business.

### ACCOUNTING STANDARD FOR SEGMENT REPORTING

The brief backdrop of the segment reporting standard can be sum up as follows-

Segment reporting for the first time pointed out **probably** in the **March 1980**, the exposure draft E-15 "Reporting information by segment" was presented and after long journey, the standard 'IAS-14 –Segment reporting' was issued in **August 1997 and effective from probably on** or after 1<sup>st</sup> July 1988 and currently this standard the IAS 14 known by IFRS 8.

The segments are mainly classified as follows-

- (a) Business segment- It is a part of division of an entity that comprises of a single products & services or a group of products and services.
- (b) Geographical Segments-It is based on products and services within a particular economic environment.

### OBJECTIVE OF THE STUDY

The main objective of the case study is to find out whether the segment reporting is useful to stakeholders, especially for the investors point of view for their decision making regarding the investments.

### REVIEW OF LITERATURE

The segment reporting is considered as an important measure in the era of diversification and number of research papers and articles has been published covering various aspects of need, utilities and significance of segment reporting.

Nancy B. Nicholas, Donna L. Street and Ann Tarca, in their paper "**The Impact of segment reporting under the IFRS 8 and SFAS 131 Management Approach: A Research Review**": evaluates the impact of adopting the management approach for segment reporting. We review studies of the effect of the application of SFAS 131 and IFRS 8 on the number of reported operating segments and items of disclosure, segment reporting gaps and reconciliations, entity wide geographic disclosures, and competitive harm and decision usefulness of segment information.

Raju Hyderabad and Kalyanshetti Pradeepkumar in their publication "**An Appraisal of Segment Reporting Practices of Indian IT Industry**" pointed out that a firm reporting by segments leaves more information in the hands of stakeholders and helps to improve the quality of decisions undertaken by them. AS-17 in India mandates listed and other companies to report information by segments. The present paper analyzes such segmental reporting practices of IT companies in view of their changing customer profile and geographical existence. The study finds the Indian IT companies to identify a few segments and business segment is the primary segment. Multiple-listed companies identify more segments than single stock exchange listed companies and revenue is the basic criteria used for identifying reportable segments.

Mitresh Kundalia in his book "**Segment reporting with document splitting in the SAP General ledger**" discussed comprehensive step-by –step configuration information for using documenting spilling and Balance score card in the new General ledger.

Clive. R. Emmanuel, Neil Garrod in their book "**Segment Reporting: International issues and evidences**" highlights the major factors influencing accounting regulation of segmental disclosures worldwide. It presents the debate on segment from the point of view of the users, prepares and pronouncement body and provides a comparative analysis of worldwide legislation on segment reporting.

Samuel Jebaraj Benjamin, Saravanan, M. Srikamaldevi, Uthiyakumar Murugaiah in their paper "**A Study of Segment Reporting Practices: a Malaysian Perspective**" analyzed the segment reporting in Malaysian perspective highlights evidence on a fraction of Malaysian companies that do not provide any segment reports at all in contrast to their direct competitors who comply.

They also highlight that proprietary costs motive theory seem to hold true for selected companies, where companies which experience high profits margin are the ones who choose not to disclose segment information.

Prof. Kalola Rima A, "**Segment reporting in India as a new and growing concept of Corporate Accounting**" pointed out the fundamental concepts of segment reporting and its significance in today's corporate world.



Karamjeet Singh, in his paper "Segment reporting: A comparative study of the India, US and Japan companies" critically examine the segment reporting in India, US and Japan. The main objective highlighted that "Is there any differences in segment disclosure in these countries?" and also compare the Accounting standard for the segment reporting in such countries.

Herrmann, Don, Thomas, Wayne, in their paper "Segment reporting in the European Union: Analyzing the" focused on analysis of segment reporting practices of firms in the European Union and identifies factors which potentially influence the quality of disclosure.

Albrecht, W. David, Chipalkatti, and Niranjana published an article in their paper "New Segment Reporting" focused on rules and standards on segment reporting.

## RESEARCH METHODOLOGY

The present paper is based on descriptive research work and the main goal is to describe and to analyze, the interest of stakeholder in more profitable segments. The data collected on the basis of secondary information mainly the extract from the published reports of Almarai Company and it is purely secondary data, mainly comprises of financial second hand information for the last five years from the year 2010 to the year 2015.

## SEGMENT REPORTING IN SAUDI ARABIA COMPANIES

The efforts have been made to critically analyze the significance of the segment reporting especially in the era of diversification, for this purpose Almarai Company evaluated as follows-

### ALMARAI

Today Almarai is well known recognized brand in food Industry with outstanding infrastructure incorporating centralized farms and advanced processing plant. The Arabic word 'Almarai' means Pastures. According to the annual report published by Almarai Company the growth of company is based on infrastructure mix that incorporates world class farms, production, operations and distributions systems. As per the data available and quoted in the company website, that the company holstein cows produces almost double the amount of milk of the European cows. They have fleet of almost 1,000 tankers, tractors heads, trailers and nearly about 3000 vans undertakes over 100,000 trips annually. The company's vehicles cover more than 190 million kilometers to deliver dairy, juices, bakery and poultry products to more than about 89 sales depots and near about 48,000 customers across six GCC states. According to the various annual reports published by Almarai Company from the year 2005 to 2015 highlights the following-

In the year 2005, Almarai list on Tadawal, Saudi Arabia stock exchange, putting up 30% of the company's shares at SAR 750.0 million. In the year 2007, it acquires western bakery, entering in the bakery sector for the first time. In the year, 2009 Almarai acquires HAIL agriculture development company (HADCO) venturing into the poultry sector. In the same year, Almarai partners with PepsiCo to expand its dairy and beverages business beyond the gulf region. In the year 2013, production begins at Almarai's new Hail poultry facilities in Saudi Arabia. In the year 2014 Almarai acquires full ownership of its infant's nutrition's business, IPNC. In the year 2015, Almarai completed 10 years as listed company having consistently expanded its business.

### PROFILE

The key highlights of the company can be review from the following snapshot of company.

TABLE 1

Name of company	Almarai Co. Ltd
Type	Public
Industry	Consumer Products
Sub -Industry	Food processing
Sector	Consumer staple (Food items)
Year of Foundation	1977
Registered office or Headquarters	Riyadh ,KSA
Products	Dairy liquids, juices ,poultry, bakery, infant drinks
Revenue from sales (as per the year ended 2015)	(SAR million) 13,794.6
Net Income (as per year the ended 2015)	(SAR million) 1915.7
Share holders' equity (as on 31st DEC. 2015)	(SAR million) 10,358.4
EPS (as per year 2015) based on net income	SAR 3.13 (Basic)

(Sources: Consolidated financial statements, Annual Reports, 2015, www.almarai.com)

A brief review of the segment reporting of Almarai can be sum up as follows-

Almarai in their published reports furnishing the segment reporting annually and regularly mainly they have divided into two segments-

- 1) Business Segment wise
- 2) Geographic segment wise

The data for the Almarai Company has taken and collected for the six years from the period of 2010 to the year 2015 from the published annual reports of Almarai Company.

According to the published financial Reports of Almarai Company year for the 2010 and 2011 and as it is mentioned in the reports "The group principal's business activities involve manufacturing and trading of dairy and juices products under the Almarai, bakery products under the brand L'usine and 7 days, poultry products under the Alyoum brand and horticulture products as well as other activities include investment in infant nutrition and Zain".

Table No-1, highlight the segment reporting for the selected financial information's of Almarai Company for the year 2010 and 2011.

TABLE NO. 1: HIGHLIGHT THE SEGMENT REPORTING OF ALMARAI (2010 and 2011)

SAR'000	D&J	Bakery	Poultry	Arab.&Hort.	Other Activities	Total
<b>31 December 2011</b>						
Sales	6,606,206	1,037,019	319,210	321,531	-	<b>8,283,966</b>
Third Party sales	6,592,805	966,374	319,210	72,600	-	<b>7,950,989</b>
Depreciation	(331,114)	(90,278)	(39,006)	(58,696)		<b>(519,094)</b>
Share of results of Associates and Joint ventures	(23,985)	-	5,098	-	(23,411)	<b>(42,298)</b>
Impairment loss	-	-	-	-	(160,237)	<b>(160,237)</b>
Income before minority interest	1,204,680	118,032	(33,478)	52,658	(194,955)	<b>1,146,937</b>
Share of Net Assets in Associates and Joint venture	489,704	-	34,723	-	10,318	534,745
Addition to noncurrent assets	1,561,970	242,548	1,184,266	502,171	313,661	3,804,616
Noncurrent assets	7,050,651	1,741,696	1,769,980	1,474,993	1,030,193	13,067,513
Total Assets	9,064,765	1,920,117	1,937,961	1,696,964	1,034,010	15,653,817
Total Liabilities	(7,676,394)	(281,452)	(187,144)	(202,708)	(528,467)	(8,876,165)
<b>31 December 2010</b>						
Sales	5,910,086	873,045	176,135	245,274	-	7,204,540
Third Party sales	5,885,867	821,211	176,135	47,697	-	6,930,910
Depreciation	(278,916)	(76,488)	(23,708)	(45,850)	-	(424,962)
Share of results of Associates and Joint ventures	(6,351)	-	4,709	-	(4,271)	(5,913)
Income before minority interest	1,198,658	116,912	(10,530)	17,279	(15,349)	1,306,970
Share of Net Assets in Associates and Joint venture	513,689	-	32,764	-	16,229	562,682
Addition to noncurrent assets	1,633,303	411,004	261,487	-	344,678	2,650,472
Noncurrent assets	6,304,313	1,620,194	621,783	1,047,601	816,954	10,410,845
Total Assets	8,070,426	1,787,018	688,706	1,204,056	821,011	12,571,217
Total Liabilities	(5,395,390)	(273,440)	(69,604)	(121,740)	(525,661)	(6,385,835)

Source: Annual published reports of Almarai, 2011, 2010, p.p-74, annual report 2011 KSA, www.almarai.com

(In the above table "D & J" means Dairy and Juices and with the other segments based on products. On the other hand, "other activities" includes the investment in Zain and infant nutrition's.)

From the above Table No. -1 it depicted that the sale of each product was increased from the year 2010 to year 2011 and also there was reasonable increase in income with proportionate increase in sales for all the products except the poultry.

For the year 2010, if we compare the sales among the various products, it indicated that Dairy & Juices achieved highest sales figures following by bakery, arable & horticulture and poultry came at last. On the other hand, if we compare the respective sales with income only poultry and other activities have negative sign. From the above figures it is visible that company invested more in the noncurrent assets in those segments which have higher profits.

TABLE NO. 2: HIGHLIGHT THE GEOGRAPHICAL SEGMENT REPORTING OF ALMARAI (2010 and 2011)

(SAR million)sis(SAR Millions)	SS Sales		Non-CNon Current Assets s	
	2011	2010	2011	2010
Saudi Arabia	5,656.4	4,935.3	12,003.3	9,763.9
Other GCC Countries	2,198.5	1,932.0	169.9	126.5
Other Countries	96.1	63.6	894.3	520.4
Total	7951.0	6930.9	13067.5	10,410.8

Source: Annual published reports of Almarai, 211, 2010- KSA, www.almarai.com

From the above Table No-2, it highlighted the geographical analysis, which is divided into domestic market, GCC other than domestic market and other countries. In the above table, sales are compared with the total Noncurrent assets (which means the amount invested in the fixed assets) and it depicted the increasing investment in the noncurrent assets proportionate to the increment in the sales of various geographical segments of Almarai company.

TABLE NO. 3: HIGHLIGHT THE ANALYSIS OF SALES GIVEN BY PRODUCT GROUP (2010 and 2011)

	2011 SAR'000	2010 SAR '000
Fresh Dairy	3,475,719	3,168,709
Long Life Dairy	761,135	658,911
Fruit Juice	888,110	745,143
Cheese and butter	1,446,635	1,282,423
Bakery	966,374	821,211
Poultry	319,210	176,135
Arable and Horticulture	72,600	47,697
Other Dairy	21,206	30,681
<b>Total</b>	<b>7,950,989</b>	<b>6,930,910</b>

Source: Annual published reports of Almarai, 2011, 2010- KSA, www.almarai.com

From the above Table No-3 the analysis of sales given by the products group for the year 2010 to 2011 highlighted the upward trend in the sales of all the products except in the case of other dairy products which is decreased from 30,681 to 21,206 (SAR000) from the year 2010 to 2011.

According to the published financial Reports of Almarai Company for the year 2012, the group principal's business activities involve manufacturing and trading of dairy and juices products under the Almarai, Beyti and Teeba brands, bakery products under the brand L'usine and 7 days, poultry products under the Alyoum brand and horticulture products as well as other activities.

TABLE NO. 4: HIGHLIGHT THE BUSINESS SEGMENT REPORTING OF ALMARAI (2012 and 2013)

SAR'000	D&J	Bakery	Poultry	Arab.&Hort.	Other Activities	Total
<b>31 December 2013</b>						
Sales	8,868,185	1,445,116	792,332	430,602	4,501	11,540,736
Third Party sales	8,835,807	1,445,116	792,332	141,426	4,501	11,219,182
Depreciation	(930,050)	(136,709)	(174,578)	(71,196)	(18,087)	(1,330,620)
Share of results of Associates and Joint ventures	-	-	(637)	(1,726)	(27,604)	(29,967)
Income before Non controlling interest	1,705,444	139,387	(338,626)	68,074	(73,907)	1,500,372
Share of Net Assets in Associates and Joint venture	204	--	33,883	203,950	13,335	251,372
Addition to noncurrent assets	2,089,622	172,073	1,074,861	239,991	33,004	3,609,551
Noncurrent assets	9,029,306	1,797,191	4,503,283	1,591,155	1,010,709	17,931,725
<b>Total Assets</b>	<b>13,398,859</b>	<b>2,035,137</b>	<b>4,993,868</b>	<b>1,825,909</b>	<b>1,026,197</b>	<b>23,279,970</b>
<b>31 December 2012</b>						
Sales	7,988,323	1,290,645	504,350	386,032	83	10,169,433
Third Party sales	7,972,603	1,290,645	504,350	115,315	83	9,882,996
Depreciation	(832,798)	(114,150)	50,340)	(68,408)	(1)	(1,065,697)
Share of results of Associates and Joint ventures	(6,740)	--	4,297	--	(22,140)	(24,583)
Income before Non controlling interest	1,436,526	107,065	(96,800)	30,880	(37,761)	1,439,910
Share of Net Assets in Associates and Joint venture	204	--	36,886	--	11,679	48,769
Addition to noncurrent assets	2,594,310	180,457	1,833,192	21,568	109,327	4,738,854
Noncurrent assets	8,184,109	1,786,702	3,559,923	1,433,157	993,734	15,957,625
<b>Total Assets</b>	<b>11,046,965</b>	<b>2,002,503</b>	<b>3,728,592</b>	<b>1,736,202</b>	<b>1,004,386</b>	<b>19,518,648</b>

Source: Annual published reports of Almarai, 2012, 2013- KSA, www.almarai.com

From the above Table No-4, it is clearly indicated that in the year 2012 the dairy & juices achieved the highest sales and at the same time it is observed that, it has largest amount of investment for current assets in this sector. On the other hand, in the year 2013, it clearly highlighted that dairy and Juices segment scored highest sales figures with the large amount of investment in the noncurrent assets respectively. This clearly showed that from the year 2012 to 2013 that company invested more in those segments which have more profits in comparison to other segments.

TABLE NO. 5: HIGHLIGHT THE GEOGRAPHICAL SEGMENT REPORTING OF ALMARAI (2012 and 2013)

G/A (SAR million)sis(SAR Millions)	SS Sales		Non-Current Assets s	
	2012	2013	2012	2013
Saudi Arabia	6,650,596	7,276,782	14,053,017	16,074,769
Other GCC Countries	2,575,357	2,874,201	300,535	329,810
Other Countries	657,043	1,068,199	1,527,146	1,604,073
<b>Total</b>	<b>9,882,996</b>	<b>11,219,182</b>	<b>15,957,625</b>	<b>17,931,725</b>

Source: Annual published reports of Almarai, 2012, 2013- KSA, www.almarai.com

The table no 5- highlight the geographical segmentation reporting of Almarai indicated that from the year 2012 to 2013, there was an upward trend in sales for all the geographical areas, but domestic markets (Saudi Arabia) achieved the highest sales increased with the proportionates increased in the investment of noncurrent assets. The above figures and analysis depicts the investment decision based on the profitability of the particular geographical segments.

TABLE NO. 6: HIGHLIGHT THE BUSINESS SEGMENT REPORTING OF ALMARAI (2014 and 2015)

(SAR million)	Dairy and Juice	Bakery	Poultry	Other Activities	Total
	SAR'000	SAR'000	SAR'000	SAR'000	SAR'000
<b>31-Dec-14</b>					
Sales	9,901.9	1,532.9	1,022.8	148.0	12,605.6
Depreciation	(913.0)	(161.0)	(298.1)	(81.8)	(1,453.9)
Share of Result of Associates and Joint Ventures	0.0	0.0	(3.3)	(4.9)	(8.2)
Net Income	2,017.4	150.5	(397.3)	(96.3)	1,674.3
Additions to Non-Current Assets	2,532.4	132.6	520.7	228.2	3,444.0
Non-Current Assets	11,330.2	1,499.4	4,682.3	1,525.4	19,037.3
Total Assets	14,943.9	1,815.7	5,229.8	1,959.5	23,948.9
Return on Sales	20.4%	9.8%	-38.88%	-65.1%	13.3%
<b>Return on Total Assets</b>	<b>13.5%</b>	<b>8.3%</b>	<b>-7.6%</b>	<b>-4.9%</b>	<b>7.0%</b>
<b>31-Dec-15</b>					
Sales	10,740.9	1,625.8	1,262.3	165.5	13,794.6
Depreciation	(1,030.3)	(168.2)	(303.5)	(85.8)	(1,587.8)
Share of Result of Associates and Joint Ventures	0.0	0.0	2.5	(39.8)	(37.3)
Net Income	2,0958.8	205.0	(214.0)	(171.1)	1,915.7
Additions to Non-Current Assets	3,250.0	574.6	622.9	240.9	4,688.4
Non-Current Assets	12,411.7	2,003.9	4,926.8	1,873.6	21,216.0
Total Assets	17,165.1	2,126.6	5,440.9	2,638.4	27,370.9
Return on Sales	19.5%	12.6%	-17.0%	-103.3%	13.9%
<b>Return on Total Assets</b>	<b>12.2%</b>	<b>9.6%</b>	<b>-3.9%</b>	<b>-6.5%</b>	<b>7.0%</b>

Source: Annual published reports of Almarai, 2014, 2015- KSA, www.almarai.com

The Table No-6 indicated that business segment consist of Dairy and Juices products achieved the highest sales in both the years 2014 and 2015. On the other hand, the net income is also very high in case of "Dairy & Juices" product of Almarai for the year 2014 and 2015.

From the table no-6 if we calculate the segment return on total assets for each product, we can observe that in the year 2014, Dairy and Juices had the highest return on Assets ratio that is 13.5 % in comparison to other products for the year 2014.

In case of the year 2015 also the segment return on total assets (Segment return on total assets= Net Income /Total Assets) for dairy & Juices is achieved highest rate of 12.2 in comparison to other products of Almarai.

From the above analysis, it is clearly showed that Almarai is following the pattern trend of investment in those segments which achieved more profits, as in the present case study it clearly highlighted that there is more investment of noncurrent assets in the segment of Dairy & Juices in comparison to other products of

Almarai. Even it can be observed that "ratio of return on total assets" for a particular segment is negative in case of losses and in such situations, the proportionate investments in noncurrent assets is also comparative low with the other products

### LIMITATION OF THE STUDY

The data is purely secondary and based on the actual performance and collected after the publication of annual reports. The data regarding the associated liabilities for each segment is not available; therefore, the segment liabilities are not reconciled with the segment assets. Due to non availability of segment liability, it cannot reconcile to entity liability.

### SCOPE OF FURTHER RESEARCH

There is a scope of further research on the segment reporting where the other financial components like liabilities, depreciation & amortization, non cash expenses, equity and operating cost of each segment can be compared and clearly analyze the use of segment reporting for decision making of investment in noncurrent assets.

### FINDINGS AND SUGGESTIONS

The present case study is focused on the revenue, the net income and the investment in noncurrent assets of each segments of Almarai Company, 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.

From the study, it clearly indicated that in case of business segment Dairy and juices have highest investment in comparison to Bakery, poultry and other activities. The return on sales (19.5%) for the year 2015 is the highest for 'Dairy and Juices' on the other hand there is negative trend in the poultry and other activities.

The (ROA) "segment return on Total Assets" (12.2%) for the year 2015 is the highest for 'Dairy and Juices' on the other hand there is negative trend in the poultry and other activities.

The company is more interested to invest in the Dairy and juices products which covered a wide range of product length and product width.

The company should also have same segment accounting policies as these used in the consolidated financial statements.

In case, if the assets used jointly by two or more segments are allocated to segment, the related revenue and expenses must also be allocated according to the segment respectively.

The companies should also put efforts to compare the liabilities associated with the segment to reconcile the particular segment assets and liabilities.

### CONCLUSION

The Almarai Company is improving from the year to year in their segment reporting. The company has a satisfactorily segment reporting by classifying their business and geographical segments. The Almarai Company is following the accounting standard for the purpose of segment reporting in its financial statements reporting and company significantly using the segment reporting information for taking their various investment judgments for the purpose of their segment investment decisions.

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