LETTER OF TRANSMITTAL

25th April, 2016

James Bakul Sarkar

Assistant professor

School of Business and Economics

United International University

Dear Sir,

Here is the term paper of BAS compliance on Shinepukur Ceramics Limited (SCL), which you asked us to submit last April 25.

To make the report complete, we hve collected the necessary information what we believe to be most complete information avoidable. We could not provide you all the information because of limitation of time.

We sincerely hope that our analysis will help to understand the BAS compliance of Shinepukur Ceramics Limited (SCL). We truly appreciate this term paper.

Sincerely,

Md. Nazmul Ula – 114 131 053

Prossenjit Kumer Podder Shepon – 114 131 054

Md. Humayun Uddin – 114 131 056

Anika Jarin – 114 132 001

Sagor Dey – 114 132 002

Md. Moin Or Rashid Arik – 114 133 012

TABLE OF CONTENTS

Company Overview: 1
- Mission 2
- Management 2
- Operations: 2
- Plants of Shinepukur ceramics Ltd 3

Bangladesh Accounting Standards (BAS) 3
- Presentation of Financial Statements (BAS-1): 5
- Inventories (BAS-2): 7
- Statement of Cash Flows (BAS)-7: 10
- Accounting Policies, Changes in accounting estimates and errors (BAS-8): 11
- Event after the reporting period (BAS-10): 14
- Income Taxes (BAS-12): 15
- PROPERTY, PLANT, AND EQUIPMENT (BAS-16): 19
- Leases (BAS-17): 22
- Revenue (BAS-18): 26
- Employee Benefits (BAS-19): 27
- Accounting of Government Grants and Disclosure of Government Assistance (BAS-20): 30
- The Effects of Changes in Foreign Exchange Rates (BAS-21): 32
- Borrowing Costs (BAS-23): 34
- Related Party Disclosure (BAS-24): 36
- Earnings per Share (BAS-33): 37
- Interim Financial Reporting (BAS-34): 39
- Impairment of assets (BAS 36): 41
- Provisions, contingent liabilities and contingent assets (BAS-37): 43
- INTANGIBLE ASSETS (BAS-38): 45
- FINANCIAL INSTRUMENTS: RECOGNITION AND MEASUREMENT (BAS-39): 45
- INVESTMENT PROPERTY (BAS-40): 46

NONCURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS (BFRS-5): 47

FINANCIAL INSTRUMENTS: DISCLOSURES (BFRS-7): 49

Operating Segments (BFRS-8) 49

Consolidated Financial Statements (BFRS-10) 50

Reference A

EXECUTIVE SUMMARY

Shinepukur Ceramics Limited (SCL) is one of the leading and fastest growing Ceramics product companies in Bangladesh. Considering the importance of the financial condition, this term paper was designed on the BAS compliance of Shinepukur Ceramics Limited (SCL).

The following BAS/BFRS are available in **Shinepukur Ceramics Limited (SCL)** 2014:

BAS/BFRS No.	BAS/BFRS Title	Available/ Not Available
1	Presentation of Financial Statements	Available
2	Inventories	Available
7	Statement of Cash Flows	Available
10	Events after the Reporting Period	Available
11	Construction Contracts	Not Available
12	Income Taxes	Available
16	Property, Plant & Equipment	Available
17	Leases	Available
18	Revenue	Available
19	Employee Benefits	Available
20	Accounting of Government Grants and Disclosure of Government Assistance	Not Available
21	The Effects of Changes in Foreign Exchange Rates	Available
23	Borrowing Costs	Available
24	Related Party Disclosure	Not Available
33	Earnings Per Share	Available
34	Interim Financial Reporting	Not Available
36	Impairment of Assets	Available
37	Provisions, Contingent Liabilities and Contingent Assets	Available
38	Intangible Assets	Not Available
39	Financial Instrument: Recognition and Measurement	Not Available
40	Investment Property	Not Available
BFRS 5	Non-current Assets Held for Sale and Discontinued Operations	Not Available
BFRS 7	Financial Instrument: Disclosure	Not Available
BFRS 8	Operating Segments	Not Available
BFRS 10	Consolidated Financial Statements	Not Available

INTRODUCTION

As financial globalization proceeds, international financial reporting and auditing standards are increasingly becoming important instruments of integration. These standards reflect the culture, history and the characteristics of accounting problems facing that country. In some countries, the professional bodies formulate the financial accounting standards, while in many others governments and regulators establish these standards. As a result much of the 20th century had witnessed a high degree of variation in the international accounting practices.

It is very necessary for every financial institution to follow same standards as it has the worldwide applicability. International Accounting Standards as adopted in Bangladesh in order to infer the quality of regulation and self-regulation in Bangladesh and to determine whether membership with Big 4 accounting firms, which provide superior technology, training and quality control, leads to higher quality as measured by compliance with disclosure requirements. Foreign investment dependence has necessitated the compliance with accounting standards, in particular with international accounting standards by the companies, more explicitly, financial institutions, of Bangladesh. To ensure the quality of reporting and step ahead with international accounting standards financial institution of Bangladesh should have to follow BAS (Bangladesh accounting standard).

COMPANY OVERVIEW

Shinepukur Ceramics Limited (SCL) is a member of BEXIMCO Group which is the Largest Private Sector Business Conglomerate in Bangladesh with about over 48,000 people worldwide in the permanent payroll, have over 300,000 shareholders, handling a diversified range of merchandise to and from Bangladesh. The Group's operations and investments across a wide range of industries including Textiles, Pharmaceuticals, Trading, Ceramics, Information & Communication Technologies, Media, Marine Food, Real Estate Development, Hospitality, Construction, Aviation, Financial Services and Energy.

Shinepukur Ceramics was registered in Bangladesh in 1997 and the Plants were commissioned in 1998.Commercial production of Porcelain Tableware started in April 1999 and Bone China in November 1999. SCL is located in the BEXIMCO Industrial Park, near Dhaka Export Processing Zone (DEPZ), 40 Km from Capital Dhaka City.

For the upper echelons of the Global Tabletop industry, Shinepukur produces World Class Bone China, using the top quality raw-materials and ingredients, sourced by highly reputed Manufactures from all corners of the Globe. These are meticulously crafted and transformed into exquisite Bone China tabletop, mirroring a unique blend of eye catching shapes, enviable translucency, durability, all of it with a Lead and Cadmium free glaze.

Complementing its superb range of Bone China, Shinepukur also offers Plain Porcelain, Ivory China and High Alumina tableware to cater for all different market segments. From Dinner to Tea Plates, from Soup Tureens to Soup Spoons, from Retail Tabletop to Industrial, Hotel ware and Airline in-Flight items. SCL offers a multifaceted choice of refined product lines, catering to the Omni changing market trends for novel shapes and patterns, setting new standards, and raising the Quality bar for the top end of this industry.

Today, Shinepukur is the leading Bone China and Porcelain Tableware Manufacturer and Exporter from Bangladesh, equipped with the most modern state-of-the-art and latest Machinery's from TAKASAGO, MINO and SKK of Japan, having more than 3,000 highly skilled & motivated employees, cutting-edge technology, world class product quality and its blue chip overseas customers. The Bone China Unit has in-fact been set up with the technology transfer from NIKKO Japan, coupled with extensive training facilities to our Production team.

In addition, Shinepukur Ceramics is equipped with the top-of-the-Line Testing and Quality Control Laboratory, own raw material disposal set-up, own captive gas-based Power generation capability, own water supply through Deep Tube well and Sanitary facilities. The facility has its own Medical Center with in-house registered doctor.

Tableware Production: About 10,000 Pieces of high quality Bone China and 60,000 Pieces of top class Porcelain Tableware are produced at SCL per day, that is about 3 million pieces of Bone China and 18 million pieces of Porcelain Tableware are produced at SCL per year. By last quarter of 2013, the Production capacity in SCL's Bone China Plant will be 7.00 million pieces per year that will include additional 4.00 million pieces after completion of its Bone China Unit-II. The Machineries of this new Unit have been sourced from Germany and Kilns from Takasago, Japan.

MISSION

Each of our activities must benefit and add value to the common wealth of our society. We firmly believe that, in the final analysis we are accountable to each of the constituencies with whom we interact; namely: our employees, our customers, our business associates, our fellow citizens and our shareholders.

MANAGEMENT

The company continues to be managed and run under the direct supervision / guidance of Mr. Salman F. Rahman, deputy Chairmen of Beximco group.

OPERATIONS

The company started its commercial operation of porcelain and Bone China units in the year 1999 and has been continuing as one of the fastest growing Company in the Industry.

Despite the complex economic issues worldwide along with increased competition from new entrants posing new challenges for every concern in this industry, this company is fully geared to meet these challenges and continues to perform well by focusing on product quality, product innovation, and customer's satisfaction and by improving the customer base.

At 2003 for installing the new machinery, the gross turnover stands at Tk. 1126.02 million with a growth of 11.94% as compared to previous year's turnover of Tk.1005.90 million.

Considering the rapid increase of demand of the products in foreign and domestic market, the management of the company took steps to expand its porcelain unit to double the existing production capacity and keep its share in the international and domestic markets.

PLANTS OF SHINEPUKUR CERAMICS LTD

Every Manufacturing company has the production plant to produce the products. This is also the manufacturing company. They divide their factory in the two plants they are:

- ✓ Decals Plant
- ✓ Packaging plant

Decals Plant:

This is the main production house of this company. In this house all products are produced Raw material to finished products.

Packaging plant:

This is the newly set up house for producing the Packaging items to increase their efficiency.

BANGLADESH ACCOUNTING STANDARDS (BAS)

BAS are developed by the ICAB and are based oil older IASs-generally those developed by the IASC rather than the improved IASs and the IFRSs developed by the IASB. The Technical and Research Committee of the ICAB develops the standards. Adoption requires approval of the ICAB Council. Adopted BASs are legally enforceable for listed companies under the SEC Rules. They are not mandatory or enforceable through the ICAB by-laws.

The auditor's report and basis of presentation note refer to conformity with international accounting applicable in Bangladesh. Accounting standards are authoritative statements of how particular types of transactions and other events should be reflected in financial statements. Accordingly, compliance with accounting standards will normally be necessary for the fair presentation of financial statements.

The application of BAS in the preparation, presentation, analysis, monitoring and evaluation of the financial statements and governance of corporate bodies is mandatory. This is in order to reflect the true and fair financial position of the entities with a view to safeguarding the interest of the stakeholders of all categories. We are aware that in the face of colossal corporate collapses caused by Enron, Parmalat and others, the credibility and transparency of the accounting profession was called into question around the globe in recent years and there was a loss of public confidence in the profession. In order to regain the lost public confidence in the accounting profession in Bangladesh, ICAB has taken a very laudable step by adopting the IAS as BAS. Up to July 2006, the ICAB has adopted 29 IASs, IASB Framework and four Bangladesh Financial Reporting Standards (BFRS), (See Appendix) As the official standards setting body of this country and also as a regulatory body of the accounting profession, ICAB was one of the first Institutes in this region to start adoption IAS as a process of stringent technical review and considering their applicability to our country. With the passage of' time, some of the IAS adopted by ICAB have been superseded, withdrawn or revised.

The present mechanism of setting accounting standards in Bangladesh is briefly discussed here. At present, the Technical and Research Committee (TRC) of the ICAB screens and evaluates IASs or IFRSs and recommends particular IAS or IFRS to the council of the ICAB for adoption. There is some legal backing to Bangladesh Accounting Standards (BASs) and Bangladesh Financial Reporting Standards (BFRSs) in that the Securities and Exchanges Rules, 1987 requires listed companies to prepare their financial statements in accordance with BASs and BFRSs.

HISTORY

Standard setting is a continuous process. As and when new standards are adopted by ICAB, these will be published for use by all concerned. Once adopted, the next biggest challenge is to ensure application of these standards, where applicable. ICAB has challenge big role to play in dissemination of these standards on a big scale and providing training, technical support and overall guidance not only to its members but also to nonmembers as well. In this respect, ICAB has to work in close cooperation with SEC, Stock Exchanges, Bangladesh Bank, Chambers of Commerce and Industries, NBR and other regulatory agencies.

PRESENTATION OF FINANCIAL STATEMENTS (BAS-1)

Definitions:

The following terms are used in this Standard with the meanings specified:

General purpose financial statements are those intended to meet the needs of users who are not in a position to require an entity to prepare reports tailored to their particular information needs.

Bangladesh Financial Reporting Standards (BFRSs) are Standards and Interpretations adopted by the Bangladesh Accounting Standards Board (BASB). They comprise:

- International Financial Reporting Standards;
- International Accounting Standards; and
- Interpretations developed by the International Financial Reporting Interpretations Committee (IFRIC) or the former Standing Interpretations Committee (SIC).

Objective of BAS 1:

The objective of BAS 1 (2007) is to prescribe the basis for presentation of general purpose financial statements, to ensure comparability both with the entity's financial statements of previous periods and with the financial statements of other entities. BAS 1 sets out the overall requirements for the presentation of financial statements, guidelines for their structure and minimum requirements for their content. Standards for recognizing, measuring, and disclosing specific transactions are addressed in other Standards and Interpretations.

Scope:

BAS 1 applies to all general purpose financial statements that are prepared and presented in accordance with Bangladesh Financial Reporting Standards (BFRSs).

General purpose financial statements are those intended to serve users who are not in a position to require financial reports tailored to their particular information needs.

Objective of financial statements: To meet that objective, financial statements provide information about an entity's:

- ✓ Assets
- ✓ liabilities
- ✓ equity
- ✓ income and expenses, including gains and losses
- ✓ contributions by and distributions to owners
- ✓ Cash flows.

Components of financial statements

A complete set of financial statements includes:

- ✓ a statement of financial position (balance sheet) at the end of the period
- ✓ a statement of profit or loss and other comprehensive income for the period
- ✓ a statement of changes in equity for the period
- ✓ a statement of cash flows for the period
- ✓ notes, comprising a summary of significant accounting policies and other explanatory notes

Fair presentation and compliance with BFRSs

The financial statements must "present fairly" the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events, and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the Framework. The application of BFRSs, with additional disclosure when necessary, is presumed to result in financial statements that achieve a fair presentation.

Going concern

The Conceptual Framework notes that financial statements are normally prepared assuming the entity is a going concern and will continue in operation for the foreseeable future.

BAS 1 requires management to make an assessment of an entity's ability to continue as a going concern. If management has significant concerns about the entity's ability to continue as a going concern, the uncertainties must be disclosed. If management concludes that the entity is not a going concern, the financial statements should not be prepared on a going concern basis, in which case BAS 1 requires a series of disclosures.

Accrual basis of accounting

BAS 1 requires that an entity prepare its financial statements, except for cash flow information, using the accrual basis of accounting.

Consistency of presentation

The presentation and classification of items in the financial statements shall be retained from one period to the next unless a change is justified either by a change in circumstances or a requirement of a new BFRS.

Materiality and aggregation

Each material class of similar items must be presented separately in the financial statements. Dissimilar items may be aggregated only if they are individually immaterial.

However, information should not be obscured by aggregating or by providing immaterial information, materiality considerations apply to the all parts of the financial statements, and even when a standard requires a specific disclosure, materiality considerations do apply.

Offsetting

Assets and liabilities, and income and expenses, may not be offset unless required or permitted by a BFRS.

Comparative information

An entity is required to present at least two of each of the following primary financial statements:

- ✓ Statement of financial position*
- ✓ statement of profit or loss and other comprehensive income
- ✓ separate statements of profit or loss
- ✓ statement of cash flows statement of changes in equity
- ✓ Related notes for each of the above items.

Reporting period

There is a presumption that financial statements will be prepared at least annually. If the annual reporting period changes and financial statements are prepared for a different period, the entity must disclose the reason for the change and state that amounts are not entirely comparable.

SHINEPUKUR CERAMICS LIMITED

The presentation of these financial statements is in accordance with the guidelines provided by BAS 1: presentation of Financial Statements.

The Financial Statements Comprises:

- ✓ A statement of financial position as at the end of the year 2014;
- ✓ A statement of profit or loss and other comprehensive income for the year 2014;
- ✓ A statement of changes in equity for the year 2014;
- ✓ A statement of cash flows for the year 2014;
- ✓ Notes, comprising a summary of significant accounting policies and other explanatory information; and
- ✓ A statement of financial position as at the beginning of the earliest comparative periods as the company applied accounting policies retrospectively and made a retrospective restatement of items in its financial statements.

INVENTORIES (BAS-2)

Definitions:

Inventories are assets:

(a) Held for sale in the ordinary course of business;
(b) In the process of production for such sale; or
(c) In the form of materials or supplies to be consumed in the production process or in the rendering of services.

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Objective:

The objective of this Standard is to prescribe the accounting treatment for inventories. A primary issue in accounting for inventories is the amount of cost to be recognized as an asset and carried forward until the related revenues are recognized. This Standard provides guidance on the determination of cost and its subsequent recognition as an expense, including any write-down to net realizable value. It also provides guidance on the cost formulas that are used to assign costs to inventories.

Scope:

This Standard applies to all inventories, except:

(a) Work in progress arising under construction contracts, including directly related service contracts;
(b) Financial instruments; and
(c) Biological assets related to agricultural activity and agricultural produce at the point of harvest

Measurement of inventories:

Inventories shall be measured at the lower of cost and net realizable value.

Cost of inventories

The cost of inventories shall comprise all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Costs of purchase:

The costs of purchase of inventories comprise the purchase price, import duties and other taxes, and transport, handling and other costs directly attributable to the acquisition of finished goods, materials and services. Trade discounts, rebates and other similar items are deducted in determining the costs of purchase.

Other costs

Examples of costs excluded from the cost of inventories and recognized as expenses in the period in which they are incurred are:

(a) Abnormal amounts of wasted materials, labor or other production costs;

(b) Storage costs, unless those costs are necessary in the production process before a further production stage;
(c) Administrative overheads that do not contribute to bringing inventories to their present location and condition; and
(d) Selling costs.

<u>Recognition as an expense</u>

1. When inventories are sold, the carrying amount of those inventories shall be recognized as an expense in the period in which the related revenue is recognized
2. Some inventories may be allocated to other asset accounts, for example, inventory used as a component of self-constructed property, plant or equipment. Inventories allocated to another asset in this way are recognized as an expense during the useful life of that asset.

<u>Disclosure:</u>

The financial statements shall disclose:

(a) The accounting policies adopted in measuring inventories, including the cost formula used;
(b) The total carrying amount of inventories and the carrying amount in classifications appropriate to the entity;
(c) The carrying amount of inventories carried at fair value less costs to sell;
(d) The amount of inventories recognized as an expense during the period;
(e) The amount of any write-down of inventories recognized as an expense in the period in accordance with paragraph.

<u>SHINEPUKUR CERAMICS LIMITED</u>

Inventories are carried at the lower of cost and net realizable value as prescribed by BAS 2: inventories. Cost is determined on weighted average cost basis. The cost of inventories comprises of expenditure incurred in the normal course of business in bringing the inventories to their present location and condition. Net realizable value is based on estimated selling price less any further costs expected to be incurred to make the sale.

STATEMENT OF CASH FLOWS (BAS)-7

DEFINITIONS:

- ✓ Cash comprises cash on hand and demand deposits.
- ✓ Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.
- ✓ Cash flows are inflows and outflows of cash and cash equivalents.
- ✓ Operating activities are the principal revenue-producing activities of the entity and other activities that are not investing or financing activities.
- ✓ Investing activities are the acquisition and disposal of long-term assets and other investments not included in cash equivalents.
- ✓ Financing activities are activities that result in changes in the size and composition of the contributed equity and borrowings of the entity.

Objective of BAS 7

The objective of BAS 7 is to require the presentation of information about the historical changes in cash and cash equivalents of an entity by means of a statement of cash flows, which classifies cash flows during the period according to operating, investing, and financing activities.

SCOPE:

The statement of cash flows is prepared in terms of BAS 7 and must be presented as an integral part of the financial statements in the form of a separate statement.

An entity shall prepare a statement of cash flow in accordance with the requirements of this Standard and shall present it as an integral part of its financial statements for each period for which financial statements are presented.

Presentation of the Statement of Cash Flows

Cash flows must be analyzed between operating, investing and financing activities.

Key principles specified by BAS 7 for the preparation of a statement of cash flows are as follows:

- ✓ ***Operating activities*** are the main revenue-producing activities of the entity that are not investing or financing activities, so operating cash flows include cash received from customers and cash paid to suppliers and employees
- ✓ ***Investing activities*** are the acquisition and disposal of long-term assets and other investments that are not considered to be cash equivalents
- ✓ ***Financing activities*** are activities that alter the equity capital and borrowing structure of the entity

- ✓ Interest and dividends received and paid may be classified as operating, investing, or financing cash flows, provided that they are classified consistently from period to period
- ✓ Cash flows arising from taxes on income are normally classified as operating, unless they can be specifically identified with financing or investing activities
- ✓ For operating cash flows, the direct method of presentation is encouraged, but the indirect method is acceptable

The direct method shows each major class of gross cash receipts and gross cash payments.

The indirect method adjusts accrual basis net profit or loss for the effects of non-cash transactions.

SHINEPUKUR CERAMICS LIMITED

The Statement of Cash Flows has been prepared in accordance with the requirements of BAS 7: Statement of Cash Flows. The cash generated from operating activities has been reported using the Direct Method as prescribed by the Securities and Exchange Rules, 1987 and as encouraged by BAS 7 whereby major classes of gross cash receipts and gross cash payments from operating activities are disclosed.

ACCOUNTING POLICIES, CHANGES IN ACCOUNTING ESTIMATES AND ERRORS (BAS-8)

Definitions:

Accounting policies are the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements.

A change in accounting estimate is an adjustment of the carrying amount of an asset or a liability, or the amount of the periodic consumption of an asset, that results from the assessment of the present status of, and expected future benefits and obligations associated with, assets and liabilities. Changes in accounting estimates result from new information or new developments and, accordingly, are not corrections of errors.

Material Omissions or misstatements of items are material if they could, individually or collectively; influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.

Objective:

1. The objective of this Standard is to prescribe the criteria for selecting and changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and corrections of errors. The

Standard is intended to enhance the relevance and reliability of an entity's financial statements and the comparability of those financial statements over time and with the financial statements of other entities.

2. Disclosure requirements for accounting policies, except those for changes in accounting policies, are set out in BAS 1 Presentation of Financial Statements.

<u>Scope:</u>

1. This Standard shall be applied in selecting and applying accounting policies, and accounting for changes in accounting policies, changes in accounting estimates and corrections of prior period errors.
2. The tax effects of corrections of prior period errors and of retrospective adjustments made to apply changes in accounting policies are accounted for and disclosed in accordance with BAS 12 Income Taxes.

<u>Accounting for changes of policy</u>:

Changes in accounting policy will therefore be rare and should be made only if:

(a) The change is required by an BFRS; or
(b) The change will result in a more appropriate presentation of events or transactions in the financial statements of the entity, providing more reliable and relevant information.

The standard highlights two types of event which do not constitute changes in accounting policy:

(a) Adopting an accounting policy for a new type of transaction or event not dealt with previously by the entity
(b) Adopting a new accounting policy for a transaction or event which has not occurred in the past or which was not material

Adoption of a BFRS

Where a new BFRS is adopted, resulting in a change of accounting policy, BAS 8 requires any transitional provisions in the new BFRS itself to be followed. If none are given in the BFRS which is being adopted, then you should follow the general principles of BAS 8.

Disclosure Certain disclosures are required when a change in accounting policy has a material effect on the current period or any prior period presented, or when it may have a material effect in subsequent periods.

(a) Reasons for the change/nature of change
(b) Amount of the adjustment for the current period and for each period presented
(c) Amount of the adjustment relating to periods prior to those included in the comparative information

(d) The fact that comparative information has been restated or that it is impracticable to do so.

<u>Changes in accounting estimates</u>

Estimates arise in relation to business activities because of the uncertainties inherent within them. Here are some examples of accounting estimates:

(a) A necessary irrecoverable debt allowance
(b) Useful lives of depreciable assets
(c) Provision for obsolescence of inventory

The rule here is that the effect of a change in an accounting estimate should be included in the determination of net profit or loss in one of:

(a) The period of the change, if the change affects that period only
(b) The period of the change and future periods, if the change affects both Changes may occur in the circumstances which were in force at the time the estimate was calculated, or perhaps additional information or subsequent developments have come to light.

<u>Errors:</u>

Prior period errors must be corrected retrospectively. Errors discovered during a current period which relate to a prior period may arise through:

(a) Mathematical mistakes
(b) Mistakes in the application of accounting policies
(c) Misinterpretation of facts
(d) Oversights
(e) Fraud

Accounting treatment

Prior period errors: correct retrospectively. There is no longer any allowed alternative treatment. This involves:

(a) Either restating the comparative amounts for the prior period in which the error occurred, or
(b) When the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and equity for that period,

Various disclosures are required:

(a) Nature of the prior period error
(b) For each prior period, to the extent practicable, the amount of the correction:
- For each financial statement line item affected
- If BAS 33 applies, for basic and diluted earnings per share

(c) The amount of the correction at the beginning of the earliest prior period presented

SHINEPUKUR CERAMICS LIMITED

BAS 8 is not available in "SHINEPUKUR CERAMICS LIMITED".

EVENT AFTER THE REPORTING PERIOD (BAS-10)

Definition:

Event after the reporting period: An event, which could be favorable or unfavorable, that occurs between the end of the reporting period and the date that the financial statements are authorized for issue.

Adjusting event: An event after the reporting period that provides further evidence of conditions that existed at the end of the reporting period, including an event that indicates that the going concern assumption in relation to the whole or part of the enterprise is not appropriate.

Non-adjusting event: An event after the reporting period that is indicative of a condition that arose after the end of the reporting period.

Objective:

The objective of this Standard is to prescribe:

- When an entity should adjust its financial statements for events after the reporting period; and
- The disclosures that an entity should give about the date when the financial statements were authorized for issue and about events after the reporting period.

The Standard also requires that an entity should not prepare its financial statements on a going concern basis if events after the reporting period indicate that the going concern assumption is not appropriate.

Scope:

This Standard shall be applied in the accounting for, and disclosure of, events after the reporting period.

Accounting Treatment:

- Adjust financial statements for adjusting events - events after the balance sheet date that provide further evidence of conditions that existed at the end of the reporting period, including events that indicate that the going concern assumption in relation to the whole or part of the enterprise is not appropriate.
- Do not adjust for non-adjusting events - events or conditions that arose after the end of the reporting period.

- If an entity declares dividends after the reporting period, the entity shall not recognize those dividends as a liability at the end of the reporting period. That is a non-adjusting event.

Going concern issues arising after end of the reporting period

An entity shall not prepare its financial statements on a going concern basis if management determines after the end of the reporting period either that it intends to liquidate the entity or to cease trading, or that it has no realistic alternative but to do so.

Disclosure:

Non-adjusting events should be disclosed if they are of such importance that non-disclosure would affect the ability of users to make proper evaluations and decisions. The required disclosure is-

a) The nature of the event and
b) An estimate of its financial effect or a statement that a reasonable estimate of the effect cannot be made.

A company should update disclosures that relate to conditions that existed at the end of the reporting period to reflect any new information that it receives after the reporting period about those conditions.

Companies must disclose the date when the financial statements were authorized for issue and who gave that authorization. If the enterprise's owners or others have the power to amend the financial statements after issuance, the enterprise must disclose that fact.

SHINEPUKUR CERAMICS LIMITED

In compliance with the requirements of BAS 10: Events after the Reporting period, post balance sheet events that provide additional information about the company's position at the balance sheet date are reflected in the financial statements and events after the balance sheet date that are not adjusting events are disclosed in the notes when material.

INCOME TAXES (BAS-12)

Definition:

The following terms are used in this Standard with the meanings specified:

- ***Accounting profit*** is profit or loss for a period before deducting tax expense.
- ***Taxable profit*** (tax loss) is the profit (loss) for a period, determined in accordance with the rules established by the taxation authorities, upon which income taxes are payable (recoverable).
- ***Tax expense*** (tax income) is the aggregate amount included in the determination of profit or loss for the period in respect of current tax and deferred tax.

- ***Current tax*** is the amount of income taxes payable (recoverable) in respect of the taxable profit (tax loss) for a period.
- ***Deferred tax liabilities*** are the amounts of income taxes payable in future periods in respect of taxable temporary differences.
- ***Deferred tax assets*** are the amounts of income taxes recoverable in future periods in respect of:
    - ✓ Deductible temporary differences;
    - ✓ The carry forward of unused tax losses; and
    - ✓ The carry forward of unused tax credits.
- ***Temporary differences*** are differences between the carrying amount of an asset or liability in the statement of financial position and its tax base. Temporary differences may be either:
    - ✓ taxable temporary differences, which are temporary differences that will result in taxable amounts in determining taxable profit (tax loss) of future periods when the carrying amount of the asset or liability is recovered or settled; or
    - ✓ Deductible temporary differences, which are temporary differences that will result in amounts that are deductible in determining taxable profit (tax loss) of future periods when the carrying amount of the asset or liability is recovered or settled.
- ***The tax base*** of an asset or liability is the amount attributed to that asset or liability for tax purposes.

Objective:

The objective of this Standard is to prescribe the accounting treatment for income taxes. For the purposes of this Standard, income taxes include all domestic and foreign taxes which are based on taxable profits. Income taxes also include taxes, such as withholding taxes, which are payable by a subsidiary, associate or joint venture on distributions to the reporting entity.

The principal issue in accounting for income taxes is how to account for the current and future tax consequences of:

- The future recovery (settlement) of the carrying amount of assets (liabilities) that are recognized in an entity's statement of financial position; and
- Transactions and other events of the current period that are recognized in an entity's financial statements.

Recognition:

Current tax for current and prior periods shall, to the extent unpaid, be recognized as a liability. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess shall be recognized as an asset. Current tax liabilities (assets) for the current and prior periods shall be measured at the amount expected to be paid to (recovered from) the taxation authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

It is inherent in the recognition of an asset or liability that the reporting entity expects to recover or settle the carrying amount of that asset or liability. If it is probable that recovery or settlement of that carrying amount will make future tax payments larger (smaller) than they would be if such recovery or settlement were to have no tax consequences, this Standard requires an entity to recognize a deferred tax liability (deferred tax asset), with certain limited exceptions.

A deferred tax asset shall be recognized for the carry forward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilized.

Measurement

Deferred tax assets and liabilities shall be measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and deferred tax assets shall reflect the tax consequences that would follow from the manner in which the entity expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities shall not be discounted.

The carrying amount of a deferred tax asset shall be reviewed at the end of each reporting period. An entity shall reduce the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or that entire deferred tax asset to be utilized. Any such reduction shall be reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Disclosure:

BAS 12.80 requires the following disclosures:

Major components of tax expense (tax income). Examples include:

- ✓ Current tax expense (income)
- ✓ any adjustments of taxes of prior periods
- ✓ Amount of deferred tax expense (income) relating to the origination and reversal of temporary differences
- ✓ Amount of deferred tax expense (income) relating to changes in tax rates or the imposition of new taxes

- ✓ Amount of the benefit arising from a previously unrecognized tax loss, tax credit or temporary difference of a prior period
- ✓ Write down, or reversal of a previous write down, of a deferred tax asset
- ✓ Amount of tax expense (income) relating to changes in accounting policies and corrections of errors.

SHINEPUKUR CERAMICS LIMITED

Current Tax up to – 2012

Income Tax Assessment has been completed by the Tax Authority up to assessment year 2013 - 2014 (Accounting year 2012) and accordingly short provisions there against has been provided during the year 2014. However, a Writ petition No. 2659 0f 2015 against a letter dated 2402-2015 signed by DCT for additional tax Tk. 90,822,873 for the accounting years 2011 & 2012 corresponding assessment years 2012 -2013 & 2013 – 2014 (originated from a C & AG – Local revenue audit observation) is pending with the Honorable High Court.

Since the said letter has been served after finalization of the assessment under the income Tax Ordinance 1984 (which was accepted by the assesse company), the company (SCL) contests the additional Tax claim for Tk. 90,822,873, and accordingly, no provision for the said additional tax claim of Tk. 90,822,873 has been made in the current year's Statement of profit or Loss & Other Comprehensive income.

Current Tax – 2013

Against the tax provision of Taka 8,522,836, the tax authority made a provisional assessment order dated 31-08-2014 claiming total income tax of Taka 56,718,750 resulting an apparent short provision of Taka 48,195,914 for the accounting year 2013.

Since it was a provisional assessment order & company expects that as per final assessment the said claimed tax of Taka 56,718,750 will reduce, no provision, therefore, for the said 'apparent short provisions' has been made during the year 2014.

Current Tax – 2014

Applicable income Tax Rate is 35% on taxable income. However, Company enjoys tax rebate @ 50% against profit on export sales. Considering the tax rebate on the profit against export sales, income tax on the accounting profit becomes lower than minimum tax u/S 16CCC payable @ 0.30% on Gross receipts i.e., revenue & other income earned by the Company during the year.

Accordingly, based on the minimum tax calculation, income Tax provision for the year 2014 has been made. However, after final assessment by the authority, the said provision may be 'short' (as the tax assessing authority may disallow expenses at their discretion, thereby 'taxable income' may be higher than accounting profit).

Deferred Tax

Deferred tax is recognized in compliance with BAS 12: income Taxes, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and amounts used for taxation purposes.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences based on the laws that have been enacted or substantively enacted by the date of statement of financial position.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate income taxes levied by the same tax authority on the same taxable entity.

PROPERTY, PLANT, AND EQUIPMENT (BAS-16)

DEFINITIONS

Property, plant, and equipment

Tangible assets that are held for use in production or supply of goods and services, for rental to others, or for administrative purposes and are expected to be used during more than one period.
Cost: The amount paid or fair value of other consideration given to acquire or construct an asset.
Useful life: The period over which an asset is expected to be utilized or the number of production units expected to be obtained from the use of the asset.

Residual value

The estimated amount, less estimated disposal costs, that could be currently realized from the asset's disposal if the asset were already of an age and condition expected at the end of its useful life.

Depreciable amount: The cost of an asset less its residual value.

Depreciation: The systematic allocation of the depreciable amount of an asset over its expected useful life.

Fair value: The amount for which an asset could be exchanged between knowledgeable willing parties in an arm's-length transaction.

Objective

The objective of this Standard is to prescribe the accounting treatment for property, plant and equipment so that users of the financial statements can discern information about an entity's investment in its property, plant and equipment and the changes in such investment. The principal issues in accounting for property, plant and equipment are the recognition of the assets, the determination of their carrying amounts and the depreciation charges and impairment losses to be recognized in relation to them.

Scope

1. This Standard shall be applied in accounting for property, plant and equipment except when another Standard requires or permits a different accounting treatment.

This Standard does not apply to:

(a) Property, plant and equipment classified as held for sale in accordance with BFRS 5 Non-current Assets Held for Sale and Discontinued Operations;
(b) Biological assets related to agricultural activity
(c) The recognition and measurement of exploration and evaluation assets or
(d) Mineral rights and mineral reserves such as oil, natural gas and similar non-regenerative resources.

2. Other Standards may require recognition of an item of property, plant and equipment based on an approach different from that in this Standard. For example, BAS 17 Leases requires an entity to evaluate its recognition of an item of leased property, plant and equipment on the basis of the transfer of risks and rewards. However, in such cases other aspects of the accounting treatment for these assets, including depreciation, are prescribed by this Standard.
3. An entity using the cost model for investment property in accordance with BAS 40 Investment Property shall use the cost model in this Standard.

Recognition and Measurement

BAS 16 prescribes that an item of property, plant and equipment should be recognized (capitalized) as an asset if it is probable that the future economic benefits associated with the asset will flow to the entity and the cost of the asset can be measured reliably. Future economic benefits occur when the risks and rewards of the asset's ownership have passed to the entity.

The standard also discusses the accounting treatment of parts of property, plant and equipment which may require replacement at regular intervals and the capitalization of inspection costs.

Items of property, plant and equipment should be measured at cost, which includes its original purchase price, any costs necessary to bring the asset to the location and condition for its intended use, and the estimated cost of dismantling and removing the asset and restoring the site.

Measurement after recognition

BAS 16 permits two accounting models for measurement of the asset in periods subsequent to its recognition, namely the ***cost model*** and the ***revaluation model.***

- Under the ***cost model***, the carrying amount of the asset is measured at cost less accumulated depreciation and eventual impairment. Under the cost model, the impairment is always recognized as expense.

- Under the ***revaluation model***, the asset is carried at its revalued amount, being its fair value at the date of revaluation less subsequent depreciation and impairment, provided that fair value can be determined reliably.
    - If a revaluation results in an increase in value, it should be credited to equity, unless it represents the reversal of a revaluation decrease of the same asset previously recognized as an expense, in which case it should be recognized as income.
    - An asset should also be impaired in accordance with BAS 36 *Impairment of Assets* if its recoverable amount falls below its carrying amount. Recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. An impairment cost under the revaluation model is treated as a revaluation decrease to the extent of previous revaluation surpluses. Any loss that takes the asset below historical depreciated cost is recognized in the income statement.

Depreciation:

The depreciable amount should be allocated on a systematic basis over the asset's useful life. That is, the mark-down in value of the asset should be recognized as an expense in the income statement every accounting period throughout the asset's useful life. The useful life of the asset is determined by taking into account expected usage, physical wear and tear, technical or commercial obsolescence arising from changes in production or market demand and legal limits on its use. In addition, the depreciation in each accounting period of the asset's useful life should reflect the pattern which the asset's economic benefits are expected to be consumed by the entity.

Disclosure

BAS 16 requires an entity to disclose in its financial statements for each class of property, plant and equipment:

- the basis for measuring carrying amount
- the depreciation method(s) used
- the useful lives or depreciation rates
- the gross carrying amount and accumulated depreciation and impairment losses
- a reconciliation of the carrying amount at the beginning and the end of the period, showing:
    - additions
    - disposals
    - acquisitions through business combinations
    - revaluation increases or decreases
    - impairment losses

SHINEPUKUR CERAMICS LIMITED

Property, plant and equipment (including assets acquired under finance lease) are capitalized at cost of acquisition and subsequently stated at cost revalued amount less accumulated depreciation in compliance with the requirements of BAS 16: property, plant and Equipment. The Cost of acquisition of an asset comprises its purchase price and any directly attributable cost of bringing the assets to its working condition for its intended use inclusive of inward freight, duties and non-refundable taxes.

LEASES (BAS-17)

DEFINITIONS:

Lease: An agreement whereby the lessor conveys to the lessee in return for payment the right to use an asset for an agreed period of time.

Finance lease: A lease that transfers substantially all the risks and rewards of ownership of an asset. Title need not necessarily be eventually transferred.

Operating lease: A lease that is not a finance lease.

Minimum lease payments: The payments over the lease term that are required to be made. For a lessee, this includes any amounts guaranteed to be paid; for a lessor, this includes any residual value guaranteed to the lessor.

Accounting treatment:

LEASES IN THE FINANCIAL STATEMENTS OF LESSEES:

Finance Leases

1. At the commencement of the lease term, a lessee shall recognize an asset and a liability at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. The appropriate discount rate in the present value calculation is the rate implicit in the finance lease—that rate which discounts the lease payments to the fair value of the asset plus any initial direct costs of the lessor.
2. The impact of this treatment is to reflect the economic substance of the transaction. The lessee has acquired an asset for the substantial part of its useful life and expects to obtain substantially all the benefits from its use. In other words, the lease arrangement is merely a financing vehicle for the acquisition of an asset.
3. Subsequent to initial recognition, the lease payments are apportioned between the repayment of the outstanding liability and the finance charge so as to reflect a constant periodic rate of interest on the liability. Methods of calculation vary and include sum of the digits, which is a rough approximation, and more complex amortization models.

4. The asset needs to be depreciated over its expected useful life under IAS 16, using rates for similar assets. However, if there is no reasonable certainty that ownership will transfer to the lessee, then the shorter of the lease term and the useful life should be used.

Disclosures for Finance Leases

The following disclosures for finance leases are required in addition to those required by the financial instruments standards:

a. For each class of asset, the net carrying value at the balance sheet date
b. A reconciliation between the total of the minimum lease payments and their present value
c. The total of the future minimum lease payments analyzed as to
d. Not later than one year;
e. Later than one year but not later than five years; and
f. Later than five years
g. Contingent rents
h. Total future minimum lease payments expected to be received under no cancelable subleases
i. A general description of the lessee's material leasing arrangements

Operating Leases

1. Lease payments under operating leases shall be recognized as an expense on a straight-line basis over the lease term unless another basis is more representative of the pattern of the user's benefit, even if the payments follow a different pattern.
2. It is important to recognize the impact of incentives in operating leases. Often incentives to enter into operating leases take the form of up-front payments, rent-free periods, and the like. These need to be appropriately recognized over the lease term from its commencement.

Disclosures for Operating Leases

In addition to the disclosures required by the financial instruments standards, these disclosures are required:

a. Total future minimum lease payments under no cancelable operating leases for each of the following:
    - Not later than one year;
    - Later than one year and not later than five years; and
    - Later than five years.

b. Total future minimum lease payments expected to be received under noncancelable subleases
c. Lease and sublease payments and contingent rents recognized as an expense
d. A general description of the significant leasing arrangements

LEASES IN THE FINANCIAL STATEMENTS OF LESSORS:

Finance Leases

1. Lessors shall recognize assets held under finance leases as a receivable equal to the net investment in the lease. The net investment in the lease is the aggregate of the minimum lease payments and any unguaranteed residual value discounted at the rate implicit in the lease.
2. Due to the definition of the interest rate implicit in the lease—that rate which discounts the lease payments to the fair value of the asset plus the initial direct costs of the lessor—the initial direct costs of the lessor are automatically included in the receivable. The direct costs of the lessor are those costs directly attributable to negotiating and arranging a lease.
3. Subsequent to initial recognition, finance income is recognized based on a pattern reflecting a constant rate of return on the net investment in the lease. Receipts under the finance lease are apportioned to the gross investment, as a reduction in the debtor, and to the finance income element.

Disclosures for Finance Leases

In addition to the requirements of the financial instruments standards, these disclosures are required:

a. A reconciliation between the gross carrying amount of the investment in the lease and the present value of the future minimum lease payments receivable
b. The gross investment in the lease and the future minimum lease payments for each of the following:
    - Not later than one year
    - Later than one year but not later than five years
    - Later than five years
    - Unearned finance income
    - Unguaranteed residual value
c. Doubtful recoverable lease payments
d. Contingent rents recognized as income
e. A general description of the significant leasing arrangements

Operating Leases

- ✓ Lessors shall show assets subject to operating leases in the financial statement in accordance with the nature of the asset—motor vehicles, plant and equipment, and so on.
- ✓ Lease income from operating leases shall be recognized in the income statement on a straight-line basis over the lease term unless another basis reflects better the nature of the benefit received. As mentioned earlier, any incentives should be considered.
- ✓ Depreciation on the asset subject to a lease is recognized as an expense and should be determined in the same manner as similar assets of the lessor. Additionally, the lessor should apply the principles of IAS 16, 36, and 38 as appropriate.
- ✓ Initial direct costs of negotiating and arranging the lease shall be added to the cost of the asset and expensed over the lease term in the same pattern as the income is recognized.

Disclosures for Operating Leases

In addition to the requirements of the financial instruments standards, these disclosures are required:

a. The future minimum lease payments under non-cancelable operating leases for each of the following:
    - Not later than one year
    - Later than one year but not later than five years
    - Later than five years

b. Contingent rents recognized as income

c. A general description of the significant leasing arrangements

SALE AND LEASEBACK TRANSACTIONS AND OTHER TRANSACTIONS INVOLVING THE LEGAL FORM OF A LEASE

1. Very often entities enter into complex financing arrangements involving lease-like arrangements. Careful analysis of such arrangements needs to be undertaken to ensure that the substance of the transaction is properly reflected, not just the legal form.
2. In the case of an operating lease, if the sale price is below fair value and the loss is compensated by future lease payments at below market price, then the loss should be deferred and amortized in proportion to the lease payments over the useful life of the asset.
3. If the loss is not compensated by future lease payments, it should be recognized immediately.
4. If the sale price is above fair value and the rentals are above the normal market rates, the excess over fair value should be deferred and amortized over the useful life of the asset.

SHINEPUKUR CERAMICS LIMITED

In compliance with the BAS: 17 Leases, costs of assets acquired under finance lease along with obligation there against have accounted for as assets and liabilities respectively of the company, and the interest element has been charged as expenses.

REVENUE (BAS-18)

Definition: Gross inflow of economic benefits during the period resulting from an entity's ordinary activities is considered "revenue," provided those inflows result in increases in equity, other than increases relating to contributions from owners or equity participants. Revenue refers to the gross amount (of revenue) and excludes amounts collected on behalf of third parties (such as taxes and other transactions where the entity is acting as an agent).

"Revenue" should be distinguished from "gains." Revenue arises from an entity's ordinary activities. Gains, however, include such items as the profit on disposal of noncurrent assets, or on retranslating balances in foreign currencies, or fair value adjustments to financial and nonfinancial assets. Generally, recognition should be when it is probable that **future economic benefits** will flow to the entity and when these benefits can be **measured reliably**.

Scope: BAS 18 covers the revenue from specific types of transaction or events.

- **Sale of goods** (manufactured products and items purchased for resale)
- **Rendering of services**
- Use by others of entity assets yielding **interest, royalties and dividends.**

Interest, royalties and dividends are included as income because they arise from the use of an entity's assets by other parties.

A sale of goods encompasses *both* goods produced by the entity for sale to others and goods purchased for resale by the entity. The rendering of services involves the performance by the entity of an agreed-upon task, based on a contract, over a contractually agreed period of time.

Recognition: The principal issue in the recognition of revenue is its *timing*—at what point is it probable that future economic benefit will flow to the entity and can the benefit be measured reliably. Revenue is generally recognized as earned at the point of sale, because at that point four criteria will generally have been met:

- The product or service has been provided to the buyer.
- The buyer has recognized his liability to pay for the goods or services provided. The converse of this is that the seller has recognized that ownership of goods has passed from himself to the buyer.
- The buyer has indicated his willingness to hand over cash or other assets in settlement of his liability.
- The monetary value of the goods or services has been established.

Measurement: Revenue is to be measured at the fair value of the consideration received or receivable. In most cases, the value is easily determined by the sales contract after taking into account trade discounts or rebates. When a transaction takes place, the amount of revenue is usually decided by the agreement of the buyer and seller. The revenue is actually measured, however, as the fair value of the consideration received, which will take account of any trade discounts and volume rebates. If the revenue is receivable more than 12 months after it has been earned it will usually be discounted to present value.

Disclosure: The Standard requires the following disclosures:

- The accounting policies adopted for the recognition of revenue, including the methods for determining stage of completion for the rendering of services
- The amount of each significant category of revenue recognized during the period, including
  - Sale of goods
  - Rendering of services
  - Interest
  - Royalties
  - Dividends
- The amount of revenue recognized from the exchange of goods or services included in each category.

Reporting of Shinepukur Ceramics Limited:

- ✓ In compliance with the requirements of BAS 18: Revenue, revenue from receipts from customers against sales is recognized when products are dispatched to customers, that is, when the significant risk and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods.

- ✓ Receipts from customers comprise sales price against export sales and domestic sales.

- ✓ Export sales are considered as revenue at FOB value. Usually export sales are transacted in FOB basis. Where export sales are carried out other than at FOB price, additional costs are added to FOB price, accordingly those added costs (Ocean Freight, Commission Payable, Cost of Insurance etc.) if any, are net off to arrive at FOB value of the said export sales in order to be uniformed in revenue recognition

EMPLOYEE BENEFITS (BAS-19)

Definition: All forms of consideration to employees in exchange for services rendered or for the termination of employment. Employee benefit is a long and complex standard covering both short-term and long-term benefits. The complications arise when dealing with post-employment benefits. Employee benefit costs are inherently complex and their accounting is both problematic and controversial.

<u>Scope</u>: The scope of this standard identifies 4 categories of employee benefits as follows –

(1) *Short-term employee benefits,* such as wages, salaries, vocational holiday benefit, sick pay, profit sharing or bonus plans paid within 12 months of the end of the period, and nonmonetary benefits, such as medical care and so on, for current employees.
(2) *Postemployment benefits,* such as pensions, postemployment medical benefits, and postemployment life insurance.
(3) *Termination benefits,* such as severance pay.
(4) *Other long-term employee benefits* including long service leave or sabbatical leave.
Postemployment benefits are categorized as either defined contribution plans or defined benefit plans.

<u>Recognition:</u> The objective of employee benefit accounting is primarily the appropriate determination of periodic cost. BAS 19 is intended to prescribe the following –

1) When the cost of employee benefits should be recognized as a liability or an expense and the amount of the liability or expense that should be recognized.
2) A liability should be recognized when an employee has provided a service in exchange for benefits to be received by the employee at some time in the future.
3) An expense should be recognized when the entity consumes the economic benefits from a service provided by an employee in exchange for employee benefits.

<u>Measurement</u>: The principal objectives of pension accounting are to measure the compensation cost associated with employees' benefits and to recognize that cost over the employees' respective service periods. The relevant standard, IAS 19, is concerned only with the accounting aspects of pensions (and other benefit plans). The funding of pension benefits is considered to be financial management and legal concerns, and accordingly, is not addressed by this pronouncement.

The entity should use the projected unit credit method to determine the present value of its defined benefit obligation, the related current service cost, and past service cost. This method looks at each period of service, which creates an additional increment of benefit entitlement. The method then measures each unit of benefit entitlement separately to build up the final obligation. The whole of the postemployment benefit obligation is discounted. The use of this method involves a number of actuarial assumptions. These assumptions are the entity's best estimate of the variables that will determine the final cost of the postemployment benefits provided.

These variables include assumptions about mortality rates, change in retirement age, and financial assumptions, such as discount rates and benefit levels.

<u>Disclosure</u>: For defined benefit plans, as would be expected, much more expansive disclosures are mandated. These include-

1) A general description of each plan identifying the employee groups covered
2) The accounting policy regarding recognition of actuarial gains or losses
3) A reconciliation of the plan-related assets and liabilities recognized in the statement of financial position
4) The amount of plan assets represented by each category of the reporting entity's own financial instruments or by property which is occupied by, or other assets used by, the entity itself.

Reporting of Shinepukur Ceramics Limited:

The company maintains both contribution plan and defined benefit plan for its eligible permanent employees.

The company's employee benefits include the following:

a) Defined Contribution Plan (Provident Fund)

The company contributes to a registered provident fund scheme (defined contribution plan) for employees of the company eligible to be members of the fund in accordance with the rules of the provident fund constituted under an irrecoverable trust. All permanent employees contribute 10% of their basic salary to the provident fund and the company also makes equal contribution.

The company recognizes contribution to defined contribution plan as an expense when an employee has rendered services in exchange for such contribution. The legal and constructive obligation is limited to the amount it agrees to contribute to the fund.

b) Defined Benefits Plan (Gratuity)

Employees are entitled to gratuity benefit after completion of minimum five years of services in the company. The gratuity is calculated on the latest applicable basic pay and is payable at the rate of one month basic pay for every completed year of service.

c) ***Short-term Employee Benefits***

Short-term employee benefits include salary, bonuses, leave encashment etc. Obligations for such benefits are measured on an undiscounted basis and are expensed as the related service is provided.

d) Contribution to Workers' Participation/Welfare Funds

This represents 5% of net profit before tax contributed by the Company as per provisions of Bangladesh Labor Act 2013 (amendment) and is payable to workers as defined in the said law.

e) ***Group Insurance Scheme***

Employees of the company are covered under group life insurance scheme.

ACCOUNTING OF GOVERNMENT GRANTS AND DISCLOSURE OF GOVERNMENT ASSISTANCE (BAS-20)

Definition: Government grant is a form of government assistance that involves the transfer of resources to an entity in return for past or future compliance (by the entity) of certain conditions relating to its operating activities. It excludes:

- Those forms of government assistance that cannot reasonably be valued
- Transactions with governments that cannot be distinguished from the normal trading transactions of the entity.

It is common for entities to receive government grants for various purposes (grants may be called subsidies, premiums, etc.). They may also receive other types of assistance which may be in many forms.

Scope: BAS 20 deals with the accounting treatment and disclosure requirements of grants received by entities from government. It also mandates disclosure requirements of other forms of government assistance. The Standard provides four exclusions:

1) Special problems arising in reflecting the effects of changing prices on financial statements or similar supplementary information.
2) Government assistance provided in the form of tax benefits (including income tax holidays, investment tax credits, accelerated depreciation allowances, and concessions in tax rates).
3) Government participation in the ownership of the entity.
4) Government grants covered by BAS 41.

Recognition:

Criteria for Recognition

Government grants are provided in return for past or future compliance with certain conditions. Thus grants should not be recognized until there is *reasonable assurance* that both

• The entity will comply with the conditions attaching to the grant; and

• The grant(s) will be received.

Recognition Period

The Standard discusses two broad approaches with respect to the accounting treatment of government grants—the "capital approach" and the "income approach." It is fairly evident that BAS 20 is not in favor of the capital approach, *"Government grants should be recognized as income, on a systematic and rational basis, over the periods necessary to match them with the related costs."*

In setting out this rule, the Standard expands it further and lays down additional principles for recognition of grants under different conditions. These rules are explained in the case studies.

Principle 1: "Grants in recognition of specific costs are recognized as income over the same period as the relevant expense."

Principle 2: "Grants related to depreciable assets are usually recognized as income over the periods and in the proportions in which depreciation on those assets is charged."

Principle 3: "Grants related to non-depreciable assets may also require the fulfillment of certain obligations and would then be recognized as income over periods which bear the cost of meeting the obligations."

Principle 4: "Grants are sometimes received as part of a package of financial or fiscal aids to which a number of conditions are attached."

Principle 5: "A government grant that becomes receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the entity with no future related costs should be recognized as income of the period in which it becomes receivable."
Sometimes grants are awarded for the purposes of giving immediate financial support to an entity.

Measurement:

- ✓ **Presentation of grants related to assets**

There are two choices here for how government grants related to assets (including non-monetary grants at fair value) should be shown in the statement of financial position:

a) Set up the grant as *deferred income.*
b) *Deduct the grant* in arriving at the *carrying amount* of the asset.

These are considered to be acceptable alternatives and we can look at an example showing both.

- ✓ **Presentation of grants related to income**

These grants are a credit in profit or loss, but there is a choice in the method of disclosure:

a) Present as a **separate credit** or under a general heading, eg 'other income'
b) **Deduct from the related expense**

Some would argue that offsetting income and expenses in the statement of profit or loss is not good practice. Others would say that the expenses would not have been incurred had the grant not been available, so offsetting the two is acceptable. Although both methods are acceptable, disclosure of the grant may be necessary for a proper understanding of the financial statements, particularly the effect on any item of income or expense which is required to be separately disclosed.

Disclosure:

Disclosure is required of the following.

- *Accounting policy* adopted, including method of presentation

- *Nature and extent* of government grants recognised and other forms of assistance received
- *Unfulfilled conditions and other contingencies* attached to recognised government assistance.

Reporting of Shinepukur Ceramics Limited:

BAS 20 is not available in "SHINEPUKUR CERAMICS LIMITED".

THE EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES (BAS-21)

Definition:

.

Exchange difference: The difference resulting from reporting the same number of units of a foreign currency in the presentation currency at different exchange rates.

Functional currency: The currency of the primary economic environment in which the entity operates, which thus is the currency in which the reporting entity measures the items in its financial statements, and which may differ from the presentation currency in some instances.

Objective:

The objective of BAS 21 is to prescribe how to include foreign currency transactions and foreign operations in the financial statements of an entity, and how to translate financial statements into a presentation currency. Foreign currency is a currency other than the functional currency of the reporting entity (e.g., the Japanese yen is a foreign currency for a Euro-reporting entity). Foreign currency financial statement is financial statements that employ as the unit of measure a foreign currency that is not the presentation currency of the entity. Foreign currency transaction is a transaction whose terms are denominated in a foreign currency or require settlement in a foreign currency.

Scope: The scope of BAS 21 applies to-

1) Accounting for transactions and balances in foreign currencies, except for those derivative transactions and balances that are within the scope of BAS 39, *Financial Instruments: Recognition and Measurement*. However, those foreign currency derivatives that are not within the scope of BAS 39 (e.g., some foreign currency derivatives that are embedded in other contracts), and the translation of amounts relating to derivatives from its functional currency to its presentation currency are within the scope of this standard;
2) Translating the financial position and financial results of *foreign operations* that are included in the financial statements of the reporting entity as a result of consolidation, proportionate consolidation or the equity method; and
3) Translating an entity's financial statements into a *presentation currency*. BAS 21 does not apply to the presentation, in the statement of cash flows, of cash flows arising from transactions in a foreign currency, or to the translation of cash flows of a foreign operation.

Recognition: In the context of recognition of exchange differences from settlement of monetary items arising from foreign currency transactions, transaction date refers to the date at which a foreign currency transaction (e.g., a sale or purchase of merchandise or services the settlement for which will be in a foreign currency) occurs and is recorded in the accounting records. Exchange differences arising on monetary items are reported in profit or loss in the period, with one exception.

The exception is that exchange differences arising on monetary items that form part of the reporting entity's net investment in a foreign operation are recognized in the group financial statements within a separate component of equity. They are recognized in profit or loss on disposal of the net investment.

The exchange difference arising on monetary items that form part of the reporting entity's net investment in a foreign operation is recognized in profit or loss in the entity financial statements.

If a gain or loss on a nonmonetary item is recognized in equity (e.g., property, plant, and equipment revalued under BAS 16), any foreign exchange gain or loss element is also recognized in equity.

Measurement: If the investor's presentation currency differs from the foreign entity's functional currency, the foreign entity's financial statements have to be translated into the presentation currency when preparing consolidated financial statements. In accordance with BAS 21, the method used for translation of the foreign currency financial statements from the functional currency into the presentation currency is essentially what is commonly called the *current (closing) rate* method under US GAAP.

The following rules should be used in measuring the financial statements of a foreign entity:

1) All assets and liabilities in the current year-end statement of financial position, whether monetary or nonmonetary, should be translated at the closing rate in effect at the date of that statement of financial position.
2) Income and expense items in each statement of comprehensive income should be translated at the exchange rates at the dates of the transactions, except when the foreign entity reports in a currency of a hyperinflationary economy, in which case they should be translated at the closing rates.
3) All resulting exchange differences should be recognized in other comprehensive income and reclassified from equity to profit or loss on the disposal of the net investment in a foreign entity.
4) All assets and liabilities in *prior period* statements of financial position, being presented currently (e.g., as comparative information) whether monetary or nonmonetary, are translated at the exchange rates (closing rates) in effect at the date of each of the statements of financial position.

Disclosure: An entity should disclose-

- The amount of exchange differences recognized in profit or loss but not differences arising on financial instruments measured at fair value through profit or loss in accordance with BAS 39

- Net exchange differences classified in a separate component of equity and a reconciliation of the amount of such exchange differences at the beginning and end of the period
- When the presentation currency is different from the functional currency, disclosure of that fact together with the functional currency is required, and is the reason for using a different presentation currency
- Any change in the functional currency of either the reporting entity or significant foreign operation and the reasons for the change.

Reporting of Shinepukur Ceramics Limited:

The Financial records of the company are maintained and the financial statements are stated in Bangladesh Taka. Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction date.

The monetary assets and liabilities, if any, denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchanges ruling at that date. Exchange differences are charged off as revenue expenditure in compliance with the provisions of BAS 21: The Effects of Changes in Foreign Exchange Rates. However, as a requirement of the companies Act 1994, exchange loss relating to foreign currency loan has been capitalized to relevant fixed assets being procured under the said obligation.

BORROWING COSTS (BAS-23)

Definition: Interest and other costs that an entity incurs in connection with the borrowing of funds is called borrowing cost. Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets (defined as those taking a substantial period of time to prepare for intended use or sale) are capitalized to the cost of those assets. Borrowing costs may include interest expense calculated using the effective interest method, finance charges in respect of finance leases, or certain exchange differences arising from foreign currency borrowings.
Qualifying asset: An asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

Scope: The Standard is to be applied in accounting for (i.e., recognizing) borrowing costs. Although the benchmark treatment under the Standard is to expense borrowing costs, the allowed alternative treatment permits capitalization of such costs. Not all kinds of borrowing costs are to be capitalized. Borrowing costs that are *directly attributable* to the acquisition, construction, or production of a qualifying asset are to be capitalized as part of the cost of that asset. Furthermore, once such an accounting policy is selected, it must be used for all qualifying assets.

The Standard applies only to borrowing costs relating to external borrowings and not to equity. Therefore, the Standard does not deal with the imputed or actual cost of equity, including preferred capital not classified as equity.

Recognition:

Benchmark Treatment

Under the benchmark treatment, borrowing costs shall be recognized as an expense in the period in which they are incurred. When the benchmark treatment for recognizing borrowing costs is used, these costs are expensed regardless of how they are applied.

Allowed Alternative Treatment

Under the allowed alternative treatment, borrowing costs that are directly attributable to the acquisition, construction, or production of a qualifying asset shall be capitalized as part of the cost of that asset. Capitalization of borrowing costs that are directly attributable to the acquisition, construction, or production of a qualifying asset as part of the cost of the asset is possible only if both these conditions are met:

• It is probable that they will result in future economic benefits to the entity.

• The costs can be measured reliably.(If borrowing costs do not meet these criteria, then they are expensed.)

Under the revised standard, to the extent that borrowing costs relate to the acquisition, construction or production of a "qualifying asset," they should be capitalized as part of the cost of the asset. All other borrowing costs should be expensed as incurred.

BORROWING COSTS ELIGIBLE FOR CAPITALIZATION

When borrowings are taken specifically to acquire, construct, or produce an asset, the borrowing costs that relate to that particular qualifying asset are readily identifiable. In such circumstances, it is easy to quantify the borrowing costs that would need to be capitalized by using the process of elimination, that is, capitalizing the borrowing costs that would have been avoided had the expenditure on the qualifying asset not been made. Difficulties arise, however, if borrowings and funding are organized centrally, say, within a group of companies. In such cases, a weighted-average capitalization rate may be applied to the expenditures on the qualifying asset. When funds borrowed specifically to finance a qualifying asset are not utilized immediately, and instead the idle funds are invested temporarily until required, the borrowing costs that are capitalized should be reduced by any investment income resulting from the investment of idle funds. Borrowing costs capitalized in a period cannot exceed the amount of borrowing costs incurred by the entity during that period.

Disclosure: An entity shall disclose its accounting policy for the recognition of borrowing costs, the amount of borrowing costs capitalized during the period, and the capitalization rate used to determine the amount of borrowing costs eligible for capitalization.

Reporting of Shinepukur Ceramics Limited:

This has been dealt with the requirements of BAS 23: Borrowing Costs.

Borrowing costs relating to projects in commercial operation are recognized as expenses in the year in which they are incurred. In respect of projects that have not yet commenced commercial production, borrowing costs are debited to capital work in progress.

RELATED PARTY DISCLOSURE (BAS-24)

Definition: BAS 24 is primarily a disclosure standard. It is concerned to improve the quality of information provided by published accounts and also to strengthen their stewardship roles.

Related party is a person or a close member of that person's family is related to a reporting entity if that person-

1) Has control or joint control over the reporting entity.
2) Has significant influence over the reporting entity.
3) Is a member of the key management personnel of the reporting entity or of a parent of the reporting entity

An entity is related to a reporting entity if any of the following conditions apply:

1) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
2) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
3) Both entities are joint ventures of the same third party.
4) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
5) The entity is a postemployment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
6) The entity is controlled or jointly controlled by a person identified above.
7) A person identified in 1.above has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Related-party transactions: Related-party transactions are dealings between related parties involving the transfer of resources or obligations between them, regardless of whether a price is charged for the transactions.

Scope: The requirements of BAS 24 are to be applied in-

a) Identifying related-party relationships and transactions
b) Identifying outstanding balances between an entity and its related parties
c) Identifying the circumstances in which disclosure of items in (a) and (b) is required
d) Determining the disclosures that are to be made about those items

The Standard is very clear that its provisions apply to disclosure of related-party transactions and outstanding balances in the *separate financial statements* of a parent company, venture, or investor as, very often, such financial statements may be physically separate from the consolidated financial statements.

BAS 24 lists the following which are not necessarily related parties:

a) Two entities simply because they have a director or other key management in common
b) Two venturers, simply because they share joint control over a joint venture
c) Certain other bodies, simply as a result of their role in normal business dealings with the entity:
    i. Providers of finance
    ii. Trade unions
    iii. Public utilities
    iv. Government departments and agencies

d) Any single customer, supplier, franchisor, distributor or general agent with whom the entity transacts a significant amount of business, simply by virtue of the resulting economic dependence.

Disclosure: BAS 24 provides examples of situations where related-party transactions may lead to disclosures by a reporting entity in the period that they affect.

- Purchases or sales of goods (finished or unfinished, meaning work in progress)
- Purchases or sales of property and other assets
- Rendering or receiving of services
- Agency arrangements
- Leasing arrangement
- Transfer of research and development
- License agreements
- Finance (including loans and equity participation in cash or in kind)
- Guarantees and collaterals
- Commitments linked to the occurrence or nonoccurrence of particular events, including executory contracts (recognized and unrecognized).

Reporting of Shinepukur Ceramics Limited:
BAS 24 is not available in “SHINEPUKUR CERAMICS LIMITED”.

EARNINGS PER SHARE (BAS-33)

Definition: *Earnings per share* (EPS) are widely used by investors as a measure of a company's performance and are of particular importance in:

(a) Comparing the results of a company over a period of time
(b) Comparing the performance of one company's equity against the performance of another company's equity, and also against the returns obtainable from loan stock and other forms of investment.

Earnings per share are a measure of the amount of profits earned by a company for each ordinary share. Earnings are profits after tax and preference dividends. EPS determining the number of shares to be used in the computation and gives limited guidance on the computation of the profit figure.

<u>Scope</u>: BAS 33 has the following scope restrictions:

(a) Only companies with (potential) ordinary shares which are publicly traded need to present EPS (including companies in the process of being listed).
(b) EPS need only be presented on the basis of consolidated results where the parent's results are shown as well.
(c) Where companies choose to present EPS, even when they have no (potential) ordinary shares which are traded, they must do so in accordance with BAS 33.

<u>Recognition</u>: BAS 33 includes guidance on appropriate recognition dates for shares issued in various circumstances. An entity may increase or reduce its ordinary shares without a change in its resources. Examples of this are bonus issues, stock dividends, share splits (i.e., where shares are issued for no consideration), and reverse share splits (consolidation of shares). In these cases, the weighted-average number of shares is adjusted in line with the transaction as if the event had occurred at the beginning of the period. All periods presented should be adjusted for such events. If the bonus issue, stock dividend, and other similar events occurred after the balance sheet date but before the financial statements are authorized, then the earnings per share calculations should reflect these changes. This applies also to prior periods and to diluted earnings per share.
Basic and diluted earnings per share are also adjusted for

- The effects of errors and adjustments resulting from changes in accounting policies, accounted for retrospectively but not adjusted for
- Changes in assumptions used in earnings per share calculations or for conversion of potential ordinary shares into ordinary shares.

<u>Measurement</u>: Basic EPS should be calculated by dividing the net profit or loss for the period attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period.

$$\text{Basic EPS} = \frac{Net\ profit\ or\ (loss) attributable\ to\ ordinary\ shareholders}{Weighted\ average\ number\ of\ ordinary\ shares\ outstanding\ during\ the\ period}$$

Earnings are calculated as

- Amounts attributable to the ordinary equity holders in respect of profit or loss from continuing operations and net profit or loss
- After all expenses including taxes and minority interests
- After cumulative preference dividend *for period* whether declared or not
- After noncumulative preference dividend declared *for period*
- After other adjustments relating to preference shares

Disclosure: An entity should disclose the following-

(a) The amounts used as the numerators in calculating basic and diluted EPS, and a reconciliation of those amounts to the net profit or loss for the period
(b) The weighted average number of ordinary shares used as the denominator in calculating basic and diluted EPS, and a reconciliation of these denominators to each other.

Reporting of Shinepukur Ceramics Limited:

This has been calculated in compliance with the requirements of BAS 33: Earnings Per Share by dividing the basic earnings by the weighted average number of ordinary shares outstanding during the year.

Basic Earnings (Numerator)
This represents earnings for the period attributable to ordinary shareholders. As there was no preference dividend, minority interest or extra ordinary items, the net profit after tax for the year has been considered as fully attributable to the ordinary shareholders.

Weighted Average Number of Ordinary Shares Outstanding during the year (Denominator)

Current Year (2014)
The total number of shares has been considered as the Weighted Average number of Shares outstanding during the year 2014.

Earlier Year (2013)
The total number of shares has been considered as the Weighted Average Number of Shares outstanding during the year 2013.The basis of computation of number of shares as stated above is in line with the provisions of BAS 33: "Earnings per Share".

Diluted Earnings per Share
No diluted EPS is required to be calculated for the year, as there was no scope for dilution during the year under review.

INTERIM FINANCIAL REPORTING (BAS-34)

Definition:
Interim financial report*:* An interim financial report refers to either a complete set of financial statements for an interim period (prepared in accordance with the requirements of BAS 1), or a set of condensed financial statements for an interim period (prepared in accordance with the requirements of BAS 34).

Interim period: A financial reporting period shorter than a full financial year (e.g., a period of three or six months).

Interim financial reports are financial statements covering periods of less than a full fiscal year.

Objective: The purpose of BAS 34, *Interim Financial Reporting*, is to set out the minimum content of such a report and to describe the recognition and measurement principles in interim financial statements. The basic objective of interim reporting is to provide frequent and timely assessments of an entity's performance.

However, interim reporting has inherent limitations. As the reporting period is shortened, the effects of errors in estimation and allocation are magnified. The proper allocation of annual operating expenses to interim periods is also a significant concern.

Furthermore, interim financial reporting is expected to provide information specifically about the financial position, performance, and change in financial position of an entity. The objective is general enough to embrace the preparation and presentation of either full financial statements or condensed information.

Recognition: BAS 34 recognizes the usefulness of additional information if the business is seasonal by encouraging for those businesses the disclosure of financial information for the latest 12 months, and comparative information for the prior 12-month period, in addition to the interim period financial statements.

That the recognition and measurement guidance in BAS 34 applies equally to a complete set of interim financial statements as to condense interim financial statements. Thus, a complete set of interim financial statements would include not only the disclosures specifically prescribed by this standard, but also disclosures required by other BFRS.

For example, disclosures required by BFRS 7, such as those pertaining to interest rate risk or credit risk, would need to be incorporated in a complete set of interim financial statements, in addition to the selected note disclosures prescribed by BAS 34.

Measurement: Measurements for interim reporting purposes should be made on a "year-to-date" basis, so that the frequency of the entity's reporting should not affect the measurement of its annual results.

The same definitions and recognition criteria apply whether dealing with interim or annual financial reports.

BAS 34 requires the entity to consider these points:

- Revenues that are received seasonally, cyclically, or occasionally within a financial year should not be treated differently from in the annual financial statements.
- Costs and expenses are recognized as incurred and are not treated differently in the annual financial statements.
- Income tax expenses should be recognized based on the best estimate of the weighted average annual income tax rate expected for the full financial year.

- It is recognized that the preparation of interim reports will often require the greater use of estimates.

<u>Disclosure</u>: If the entity's interim financial report is in compliance with BAS 34, that fact should be disclosed. An interim financial report should not claim compliance with BFRS generally unless it complies with all applicable International Financial Reporting Standards and interpretations of the Bangladesh Financial Reporting Interpretations Committee (BFRIC).

BAS 34 requires disclosure of earnings per share (both basic EPS and diluted EPS) on the face of the interim statement of comprehensive income. This disclosure is mandatory whether condensed or complete interim financial statements are presented. However, since EPS is only required (by BAS 33) for publicly held companies, it is likewise only mandated for interim financial statements of such reporting entities.

<u>Reporting of Shinepukur Ceramics Limited:</u>

BAS 34 is not available in "SHINEPUKUR CERAMICS LIMITED".

IMPAIRMENT OF ASSETS (BAS 36)

<u>Definition:</u> Impairment is determined by comparing the carrying amount of the asset with its recoverable amount.

This is the higher of its fair value less costs of disposal and its value in use

<u>SCOPE</u>

The purpose of the Standard is to ensure that assets are carried at no more than their recoverable amount if an asset's carrying value exceeds the amount that could be received through use or through selling the asset, then the asset is impaired and BAS 36 requires an entity to make provision for the impairment loss.

BAS 36 also sets out the situations where an entity can reverse an impairment loss. The Standard does apply to:

- Subsidiaries, associates, and joint ventures
- Property, plant, and equipment
- Investment property carried at cost
- Intangible assets and goodwill

<u>IDENTIFYING AN IMPAIRMENT LOSS</u>

An entity has to assess at each balance sheet date whether there is any indication that an asset is impaired. Additionally, even if there is no indication of any impairment, these assets should be tested for impairment:

- An intangible asset that has an indefinite useful life
- An intangible asset that is not yet available for use
- Goodwill that has been acquired in a business combination

BAS 36 sets out the events that might indicate that an asset is impaired. These are:

- External sources, such as a decline in market value, increases in market interest rates, the carrying amount of net assets being valued at more than the stock market value of the entity, and economic, legal, or technological changes that have had an adverse effect on the entity
- Internal sources of information, such as physical damage to an asset, or its obsolescence, or an asset becoming idle, or if the asset is part of a restructuring, or if the entity's performance has suffered during the period, or if there has been a significant decline or reduction in the cash flows generated or to be generated from the asset

<u>Measuring the recoverable amount of the asset</u>

The recoverable amount of an asset should be measured as the HIGHER VALUE of:

(a) The asset's fair value less costs of disposal
(b) Its value in use

An asset's fair value less costs of disposal is the price that would be received to sell the asset in an orderly transaction between market participants at the measurement date, less direct disposal costs, such as legal expenses.

(a) If there is an active market in the asset, the fair value should be based on the market price, or on the price of recent transactions in similar assets.
(b) If there is no active market in the asset it might be possible to estimate fair value using best estimates of what market participants might pay in an orderly transaction.
(c) Fair value less costs of disposal cannot be reduced, however, by including within costs of disposal any restructuring or reorganization expenses, or any costs that have already been recognized in the accounts as liabilities.
(d) The concept of 'value in use' is very important.
(e) The value in use of an asset is measured as the present value of estimated future cash flows (inflows minus outflows) generated by the asset, including its estimated net disposal value (if any) at the end of its expected useful life.

<u>Reporting on Impairment:</u>

(a) Financial Assets

Accounts receivable and other receivables are assessed at each reporting date to determine whether there is any objective evidence of impairment. Financial assets are impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. Objective evidence that financial assets are impaired can include default or delinquency by a debtor, indications that a debtor or issuer will enter bankruptcy, etc.

(b) Non-Financial Assets

An asset is impaired when its carrying amount exceeds its recoverable amount. The company assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the company estimates the recoverable amount of the asset. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. Carrying amount of the asset is reduced to its recoverable amount by recognizing an impairment loss if, and only if, the recoverable amount of the asset is less than its carrying amount. Impairment loss is recognized immediately in profit or loss, unless the asset is carried at revalued amount. Any impairment loss of a revalued asset shall be treated as a revaluation decrease.

Reporting: BAS 36 is not available in "SHINEPUKUR CERAMICS LIMITED"

PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS (BAS-37)

Definition

Provision: A liability of uncertain timing or amount

Liability: A present obligation of an entity arising from past events, the settlement of which is expected to result in an outflow of resources embodying economic benefits.

Contingent liability:

(a) A possible obligation arising from past events whose existence will be confirmed only by the occurrence or nonoccurrence of one or more uncertain future events that are not completely within the control of the entity; or

(b) A present obligation that arises from past events but is not recognized because either it is not possible to measure the amount of the obligation with sufficient reliability or it is not probable that an outflow of resources will be required to settle the obligation.

Contingent asset:

A possible asset arising from past events and whose existence will be con-firmed only by the occurrence or nonoccurrence of one or more uncertain future events that are not completely within the control of the entity.

SCOPE

The requirements of BAS 37 are applicable to recognition and measurement of all provisions, contingent liabilities, and contingent assets *except*

(a) Those resulting from executory contracts, other than onerous contracts

(b) Those covered by other Standards

Recognition

BAS 37 states that a provision should be recognized as a liability in the financial statements when:

- An entity has a present obligation (legal or constructive) as a result of a past event
- It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation
- A reliable estimate can be made of the amount of the obligation

Measurement of provisions:

The amount to be recognized as a provision is the best estimate of the expenditure required to settle the present obligation at the balance sheet date. While a reliable estimate is usually possible, in rare circumstances, it may not be possible to obtain a reliable estimate. In such cases, the liability is to be disclosed as a contingent liability (and not recognized as a provision).

"Best estimate" is a matter of judgment and is usually based on past experience with similar transactions, evidence provided by technical or legal experts, or additional evidence provided by events after the balance sheet date.

Risks and uncertainties surrounding events and circumstances should be considered in arriving at the best estimate of a provision.

• If a group of items is being measured, it is the "expected value."

• If a single obligation is being measured, it the "most likely outcome."

Reporting by Shinepukur Ceramics Limited

The amount recognized as a provision should be the best estimate of the expenditure required to settle the Present obligation at the end of the reporting period. A provision is recognized in the statement of financial position when the company has legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provision is ordinarily measured at the best estimate of the expenditure required to settle the present obligation at the date of statement of financial position. Where the effect of time value of money is material, the amount of provision is measured at the present value of the expenditure expected to be required to settle the obligation.

INTANGIBLE ASSETS (BAS-38)

Definition:

An intangible asset is an identifiable non-monetary asset without physical substance the asset must be:

(a) Controlled by the entity as a result of events in the past
(b) Something from which the entity expects future economic benefits to flow

SCOPE

The Standard is to be applied in accounting for all intangible assets except

- Those that are within the scope of another Standard
- Financial assets as defined in BAS 39, *Financial Instruments: Recognition and Measure ment*
- Mineral rights and expenditure on the exploration for, or development and extraction of, minerals, oil, natural gas, and similar no regenerative resources

RECOGNITION AND MEASUREMENT

An item may be recognized as an intangible asset when it meets the definition of an intangible asset (see above) and meets these recognition criteria:

- It is probable that the expected future economic benefits that are attributable to the asset wi ll flow to the entity; *and*
- The cost of the asset can be measured reliably.
- Initially, intangible assets shall be measured at cost. The cost of separately acquired intangi ble assets comprises
- Purchase price, including any import duties and nonrefundable purchase taxes, less discoun ts and rebates; *and*
- Directly attributable costs of preparing the asset for use.

Reporting: BAS 38 is not available in “SHINEPUKUR CERAMICS LIMITED”.

FINANCIAL INSTRUMENTS: RECOGNITION AND MEASUREMENT (BAS-39)

Definition:

A financial instrument gives rise to a financial asset of one entity and a financial liability or equity instrument of another.

SCOPE

In general, BAS 39 applies to all entities in the accounting for both

• Financial instruments; and

• Other contracts that is specifically included in the scope.

Recognition

A financial asset or financial liability should be recognized in the statement of financial position when the reporting entity becomes a party to the contractual provisions of the instrument. Notice that this is different from the recognition criteria in the Conceptual Framework and in most other standards. Items are normally recognized when there is a probable inflow or outflow of resources and the item has a cost or value that can be measured reliably.

Measurement of financial instruments

Under BFRS 9 all financial assets should be initially measured at cost = fair value plus transaction costs. Financial liabilities should be measured at transaction price if fair value of the consideration received.

Reporting: BAS 39 is not available in "SHINEPUKUR CERAMICS LIMITED".

INVESTMENT PROPERTY (BAS-40)

Definition:

Land or building, or part of a building, or both, held by the owner or the lessee under a finance lease to earn rentals and/or for capital appreciation, rather than for use in production or supply of goods and services or for administrative purposes or for sale in the ordinary course of business.

RECOGNITION

Investment property shall be recognized as an asset *when and only when*

• It is probable that future economic benefits will flow to the entity; *and*

• The cost of the investment property can be measured reliably.

MEASUREMENT

Measurement at Recognition

An investment property shall be measured initially at cost, including transaction charges.Again; the princ-iples for determining cost are similar to those contained in BAS 16, in particular for replacement and subsequent expenditure.

However, property held under an operating lease shall be measured initially using the principles containd in BAS 17, *Leases*
at the lower of the fair value and the present value of theminimum lease payments. A key matter here is that the item accounted for at fair value is *not the property itself* but the *lease interest*

Measurement after Recognition

- ✓ An entity shall select either the cost model or the fair value model for all its investment property
- ✓ There are, however, two exceptions. If an entity elects to classify property held under an operating
- ✓ Lease as investment property, and then it must select the fair value model for all its investment property.
- ✓ The second exception is if the entity has investment property backing liabilities that pay a return linked to the fair value of the assets; if so, regardless of which model is selected for measuring such Investment property, the entity continues to have a choice of models for its other investment property.

Reporting: BAS 40 is not available in "SHINEPUKUR CERAMICS LIMITED".

NONCURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS (BFRS-5)

Held for sale:

The carrying amount of a noncurrent asset will be recovered mainly through selling
the asset rather than through usage.

Disposal group: A group of assets and possibly some liabilities that an entity intends to dispose of in a single transaction.

SCOPE

The purpose of BFRS 5 is to specify the accounting for assets held for sale and the presentation and disclosure of discontinued operations.

The measurement provisions of this Bangladesh Financial Reporting Standard (BFRS) do not apply to deferred tax assets, assets arising from employee benefits, financial assets within the scope of BAS 39, noncurrent assets accounted for in accordance with the fair value model in BAS 40, noncurrent assets that are measured at fair value less estimated point-of-sale costs under BAS 41, and contractual rights under insurance contracts as defined in BFRS 4.

MEASUREMENT OF NONCURRENT ASSETS THAT ARE HELD FOR SALE

- Just before an asset is initially classified as held for sale, it should be measured in accordance with the applicable IFRS.
- When noncurrent assets or disposal groups are classified as held for sale, they are measured at the lower of the carrying amount and fair value less costs to sell.
- When the sale is expected to occur in over a year's time, the entity should measure the cost to sell at its present value. Any increase in the present value of the cost to sell that arises should be shown in profit and loss as a finance cost.

- Any impairment loss is recognized in profit or loss on any initial or subsequent write-down of the asset or disposal group to fair value less cost to sell.
- Any subsequent increases in fair value less cost to sell of an asset can be recognized in profit or loss to the extent that it is not in excess of the cumulative impairment loss that has been recognized in accordance with IFRS 5 or previously in accordance with IAS 36.
- Any impairment loss recognized for a disposal group should be applied in the order set out in BAS 36.
- Noncurrent assets or disposal groups classified as held for sale should not be depreciated.
- Any interest or expenses of a disposal group should continue to be provided for.

DISCLOSURE: NONCURRENT ASSETS

- Noncurrent assets held for sale and assets of disposal groups must be disclosed separately from other assets in the balance sheet. The liabilities must also be disclosed separately in the balance sheet.
- Several other disclosures are required, including a description of the noncurrent assets of a disposal group, a description of the facts and circumstances of the sale, and the expected manner and timing of that disposal.
- Any gain or loss recognized for impairment or any subsequent increase in the fair value less costs to sell should also be shown in the applicable segment in which the noncurrent assets or disposal group is presented in accordance with BAS 14.

Reporting: BFRS 5 is not available in “SHINEPUKUR CERAMICS LIMITED”.

FINANCIAL INSTRUMENTS: DISCLOSURES (BFRS-7)

SCOPE

- BFRS 7 applies to financial instruments. Refer to Chapter 25 on BAS 32 for a more detailed discussion of the definition of a financial instrument.
- In addition, BFRS 7, like BAS 32 and BAS 39, also applies to some contracts that do not meet the definition of a financial instrument but have characteristics similar to derivative financial instruments.
- This expands the scope of BFRS 7, BAS 32, and BAS 39 to contracts to purchase or sell nonfinancial items (e.g., gold, electricity, or gas) at a future date when, and only when, a contract has both of these two characteristics:
  (a) It can be settled net in cash or some other financial instrument, and
  (b) It is not for receipt or delivery of the nonfinancial item in accordance with the entities expected purchase, sale, or usage requirements. BAS 39 provides a more detailed discussion of this scope expansion**.**

Measurement

BFRS 7 requires disclosures about the carrying amounts of each of the categories of financial assets and financial liabilities defined in IAS 39. These disclosures are to be provided either on the face of the balance sheet or in the notes. The disclosure of carrying amounts by category helps users of financial statements understand the extent to which accounting policies for each category affect the amounts at which financial assets and financial liabilities are measured.

Reporting: BFRS 7 is not available in "SHINEPUKUR CERAMICS LIMITED".

OPERATING SEGMENTS (BFRS-8)

Scope

BFRS 8 applies to the separate or individual financial statements of an entity (and to the consolidated financial statements of a group with a parent):

- whose debt or equity instruments are traded in a public market or
- That files, or is in the process of filing, its (consolidated) financial statements with a securities commission or other regulatory organization for the purpose of issuing any class of instruments in a public market.

IDENTIFICATION OF OPERATING SEGMENTS

BFRS 8 defines an operating segment as a component of an entity:

- that engages in revenue earning business activities whose operating results are regularly reviewed by the chief operating decision maker The term 'chief operating decision maker' is not as such defined in IFRS8 as it refers to a function rather than a title. In some entities the function could be fulfilled by a group of directors rather than an individual and for which discrete financial information is available.

Reportable segments

IFRS 8 requires an entity to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria:

- its reported revenue, from both external customers and intersegment sales or transfers, is 10 per cent or more of the combined revenue, internal and external, of all operating segments, or
- the absolute measure of its reported profit or loss is 10 per cent or more of the greater, in absolute amount, of
    - ✓ the combined reported profit of all operating segments that did not report a loss and
    - ✓ the combined reported loss of all operating segments that reported a loss, or
- Its assets are 10 per cent or more of the combined assets of all operating segments.

Reporting: BFRS 8 is not available in "SHINEPUKUR CERAMICS LIMITED".

CONSOLIDATED FINANCIAL STATEMENTS (BFRS-10)

Scope

BFRS 10 *Consolidated Financial Statements* outlines the requirements for the preparation and presentation of consolidated financial statements, requiring entities to consolidate entities it controls. Control requires exposure or rights to variable returns and the ability to affect those returns through power over an investee.

Recognition

The objective of BFRS 10 is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. requires a parent entity (an entity that controls one or more other entities) to present consolidated financial statements defines the principle of control, and establishes control as the basis for consolidation set out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee sets out the accounting requirements for the preparation of consolidated financial statements defines an investment entity and sets out an exception to consolidating particular subsidiaries of an investment entity.

Reporting: BFRS 10 is not available in "SHINEPUKUR CERAMICS LIMITED".

CONCLUSION

It is simple to state that we need more transparency and accountability. BAS and BFRS are very important to all organizations. "SHINEPUKUR CERAMICS LIMITED" observes relevant rules and regulations of BAS and BFRS in preparing the financial statement. It is said that they complete almost everything of the observed rules and regulations of BAS. So it is expected that they should provide the fair value of financial assets and financial liabilities clearly that will be helpful for the people.

REFERENCE

- http://www.iasplus.com/en/standards/ias
- http://www.ifrs.org/Pages/default.aspx
- http://www.iasplus.com/en/standards
- https://en.wikipedia.org/wiki/International_Accounting_Standards_Board
- http://www.shinepukur.com/