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| **Client: XYZ Limited** |  | **Preparedby: ABC** | **Date: 01 January 2015** | **Ref: PAF 1.6** |
| **Yearend: 31 December 2014** | **Fileno:** | **Reviewedby: LMN** | **Date: 02 February 2015** |

**Significant accounting policies**

The accounting policies set out below have been applied consistently to all periods presented in these

financial statements.

Set out below is an index of the significant accounting policies, the details of which are available on the following pages:

1. Subsidiaries
2. Revenue
3. Foreign currency
4. Employee benefits
5. Finance income and finance costs
6. Income tax
7. Investment
8. Inventories
9. Property, plant and equipment
10. Intangible assets
11. Leased assets
12. Financial instruments
13. Share capital
14. Provisions
15. Impairment
16. Going concern
17. Contingencies
18. Statement of cash flows
19. Earnings per share (EPS)
20. Events after the reporting period

**(A) (i) Subsidiaries**

Subsidiaries are entities controlled by XYZ Limited. Control exists when XYZ Limited has the power togovern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries have been included in the consolidated financial statements from thedate that control commences until the date that it ceases. The accounting policies of subsidiaries havebeen changed when necessary to align them with the policies adopted by XYZ Limited.

**(B) Revenue Recognition**

**(i) Sale of goods**

Revenue is recognized upon invoicing the customers for goods sold and delivered. Sales are accounted fornet of value added tax, trade discount and allowances (if any). In case of cash delivery, revenue isrecognized when delivery is made and cash is received by the Company.

**(ii) Revenue arising from services**

Revenue from services rendered is recognized in income statement in proportion to the stage of completion of the transaction at the reporting date.

**(iii) Revenue arising from commission**

When the Group acts in the capacity of an agent rather than as the principal in a transaction, the revenue is recognized in the net amount of commission earned by the Group.

**(iv) Dividend income**

Dividend income is recognized when right to receive payment of such dividend is established.

**(v) Allocation of common service costs**

Common costs and facilities are allocated to entities based on common cost sharing agreement and followed consistently.

**(C) Foreign currency**

Foreign currency transactions are accounted for at exchange rate prevailing on the date of transaction.Monetary assets and liabilities denominated in foreign currencies at reporting date are translated at ratesruling at the statement of financial position date. All exchange differences are charged / credited to thestatement of comprehensive income.

**(D) Employee benefits**

**(i) Defined contribution plan (provident fund)**

The Company operates a recognized provident fund scheme where employees contribute 10% of theirbasic salary with equal contribution by the Company. The provident fund is considered as definedcontribution plan being managed by a Board of Trustees.

**(ii) Defined benefit plan (gratuity)**

The Company operates an unfunded gratuity scheme, provision in respect of which is made annuallycovering all permanent employees. The Employees' Gratuity Fund is being considered as defined benefitplan.

Defined benefit plan is a retirement benefit plan under which amounts to be paid as retirement benefitsare determined by reference to employees' earnings and year of services. The rate used to discount post-employment benefit obligations is determined by reference to the rate stated in the actuarial report.Actuarial valuation of gratuity scheme has been made in 2013 to assess the adequacy of the liabilitiesprovided for the schemes.

**(iii) Workers' profit participation fund**

The Company had created funds for workers as 'Workers' Profit Participation Fund' and 5% of the profitbefore charging such expense have been transferred to this fund.

**(E) Finance income and finance costs**

The Company’s finance income and finance costs include:

• interest income; and

• interest expense;

Interest income or expense is recognised using the effective interest method.

**(F) Income tax**

Income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in OCI (Other Comprehensive Income).

**(i) Current tax**

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the yearand any adjustment to tax payable or receivable in respect of previous years. It is measured using taxrates enacted or substantively enacted at the reporting period. The applicable tax rate for the Company is currently 27.5%

**(ii) Deferred tax**

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets andliabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

* temporary differences on the initial recognition of assets or liabilities in a transaction that is not a businesscombination and that affects neither accounting nor taxable profit or loss;
* taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporarydifferences to the extent it is probable that future taxable profits will be available against which they can beused. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is nolonger probable that the related tax benefit will be realised; such reductions are reversed when theprobability of future taxable profits improve.

**(G) Investment in shares**

In the separate financial statements of the Company, investment in subsidiaries, associates and joint ventures has been carried at cost as per International Accounting Standard 27 *Separate Financial Statements*.All other investments categorized under 'Investment available for sale' and 'Held-to-maturity' are carried at fair value.

In the consolidated financial statements of XYZ Limited, following valuation principles have been used:

***Investments in subsidiaries***- Investment in subsidiaries has been accounted for as per International Financial Reporting Standard 10 Consolidated Financial Statements. The investment is eliminated in full against the equity of acquiree measured at fair value at the date of acquisition as per International Financial ReportingStandard 3 *Business Combinations*.

***Investments available for sale***- These are valued at fair value and the change in fair value of investments available for sale is presented in comprehensive income statement and in statement of financial position. This is as per International Financial Reporting Standard 7 *Financial Instruments Disclosures*, International Accounting Standard 32 *Financial Instruments: Presentation* and International Accounting Standard 39*Financial Instruments: Recognition and Measurement*.

***Associates and joint ventures***- Associates are those entities in which XYZ Limited has significant influence,but not control, over the financial and operating policies. Joint ventures are those entities over whose activities XYZ Limited has joint control, established by contractual agreement and requiring unanimousconsent for strategic, financial and operating decisions. Associates and joint ventures are accounted for using the equity method (equity accounted investees). The consolidated financial statements include the XYZ Limited's share of the income and expenses of equity accounted invested, after adjustments to align theaccounting policies with those of the XYZ Limited, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases. This is in consistent with International Accounting Standard 28 *Investment in Associates*, International Financial Reporting Standard 11 *Joint Arrangements* and International Financial Reporting Standard 12 *Disclosure of Interests in other Entities*.

**(H) Inventories**

Inventories except materials in transit are measured at the lower of cost and net realisable value. The costof inventories is based on the weighted average method, and includes expenditure incurred in acquiringthe inventories, production or conversion costs and other costs incurred in bringing them to their existinglocation and condition. In the case of manufactured inventories and work-in-progress, cost includes anappropriate share of production overheads based on normal operation capacity.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimatedcosts of completion and selling expenses.

Stock- in-transit represents the cost incurred up to the date of the statement of financial position for theitems that were not received till to the date of reporting. Inventory losses and abnormal losses arerecognized as expenses.

**(I) Property, plant and equipment**

**(i) Recognition and measurement**

Items of property, plant and equipment are measured at cost or revaluation less accumulated depreciation. The items of property, plant and equipment were revalued in the year 2004, 2007 and 2010 by the firm of professional valuers on the basis of fair market value. When revalued assets are disposed off, the amounts included in the revaluation surplus are transferred to retained earnings. Capital work-in progress represents the cost incurred for acquisition and / or construction of items of property, plant andequipment that were not ready for use at the end of 2014 and these are stated at cost.

Cost includes expenditure that is directly attributable to the acquisition of asset. The cost of self constructed asset includes the cost of material, direct labour and any other costs directly attributable tobringing the assets to the working condition for their intended use.

Subsequent to initial recognition cost of replacing part of an item of property, plant and equipment isrecognized in the carrying amount of the item if it is probable that the future economic benefits embodiedwithin the part will flow to the Company and its cost can be measured reliably. All other repair andmaintenance expenses are charged to income statement as it is incurred.

**(ii) Depreciation**

All items of property, plant and equipment have been depreciated on straight line basis. Depreciation onadditions are charged at 50% of normal rates only in the year of acquisition and no depreciation ischarged in the year of disposal. Depreciation is charged at the rates varying from 2.5% to 20% dependingon the estimated useful lives of assets. No depreciation is charged for land and capital work-in-progress.The Company is following this policy consistently from past years.

The revalued items of property, plant and equipment are depreciated by writing off their revalued amountat the date of revaluation over their remaining estimated useful lives. The estimated useful lives for the current and comparative years are as follows:

|  |  |  |
| --- | --- | --- |
| ***In Year*** | **2014** | ***2013*** |
| Building | *40* | *40* |
| Plant and machinery | *10* | *10* |
| Furniture and fixture | *10* | *10* |
| Electrical and other office appliances | *10* | *10* |
| Office machinery | *5* | *10* |

Depreciation methods, useful lives and residual values are reviewed at each reporting date. Estimation ofuseful life of office equipment has been revised from 10 years to 5 years during the year 2014.

**(iii) Capitalization of borrowing costs**

Borrowing cost relating to acquisition of fixed assets is capitalized as per International Accounting Standard (IAS) - 23, *Borrowing costs* at the weighted average cost of borrowings. However, capitalization ofborrowing costs is ceased when acquisition of relevant asset is completed.

**(iv) Impairment**

The carrying amount of the entity's non-financial assets, other than inventories and deferred tax assets(considered as disclosed separately under respective accounting standards), are reviewed at eachreporting date to determine whether there is any indication of impairment. If any such indication exists,the asset's recoverable amount is reestimated. However, no such conditions that might be suggestive of aheightened risk of impairment of assets existed at the reporting date.

**(J) Intangible asset**

**(i) Goodwill**

Goodwill represents the excess of the cost of the acquisition over the Group's interest in the net value ofthe identifiable assets and liabilities of the acquiree on the date of acquisition.

**(ii) Software**

Software that is acquired by the Group, which has finite useful life, is measured at cost less accumulatedamortization and accumulated impairment losses.

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied inthe specific assets to which it relates.

**(iii) Amortization**

Amortization is charged in the income statement on a straight line basis over the estimated useful lives ofintangible assets other than goodwill. Amortization on additions are charged at 50% of normal rates onlyin the year of acquisition. Amortization is charged at the rates of 10-20% depending on the estimateduseful lives of assets and no amortization is charged in the year of disposal.

The estimated useful life for the current intangible asset is as follows:

**Useful life Normal rate**

Software 5-10 years 10-20 Percent

Amortization methods, useful lives and residual values are reviewed at each reporting date.

**(K) Leased assets**

**(i) Finance lease**

Leases in terms of which the Company assumes substantially all the risks and rewards of ownership areclassified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal tothe lower of its fair value and the present value of the minimum lease payments. Subsequent to initialrecognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

**Depreciation**

Depreciation is charged according to the policy applicable for the owned assets of the Company.

**Lease payments**

Minimum lease payments made under finance leases are apportioned between the finance expense andthe reduction of the outstanding liability. The finance expense is allocated to each period during the leaseterm so as to produce a constant periodic rate of interest on the remaining balance of the liability.

**(ii) Operating lease**

Payments made under operating leases are recognized in income statement on a straight line basis overthe term of the lease.

**(L) Financial instruments**

Non-derivative financial instruments comprise investments in shares and term deposit, trade receivables,cash and cash equivalents, trade payables and interest-bearing borrowings.

**(i) Financial assets**

The Company initially recognises receivables and deposits issued on the date when they are originated. Allother financial assets are initially recognised on the trade date.

The Company derecognises a financial asset when the contractual rights to the cash flows from the assetexpire, or it transfers the rights to receive the contractual cash flows in a transaction in whichsubstantially all of the risks and rewards of ownership of the financial asset are transferred, or it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain controlover the transferred asset.

The Company's financial assets comprise trade and other receivables, investment in shares and termdeposit and cash and cash equivalents.

***Trade and other receivables***

Trade receivables are recognized at original invoiced amount. Receivables are stated at netted off

provision for bad and doubtful debt and written off. Provision is made in the financial statements

considering the uncertainty of recovery at the date of the statement of financial position and bad debtsare written off when the debts became finally irrecoverable based on assessment and judgment made bysenior management of the Company.

***Investment in shares-other than the investment in subsidiaries, associates and joint ventures***

Investment in shares are non-derivative financial assets that are designated as available-for-sale. Initiallythey are recognized at cost and subsequent to initial recognition, they are measured at fair value andchanges therein, other than impairment losses and foreign currency differences on available-for-sale arerecognized in other comprehensive income and presented in fair value reserve in equity. When aninvestment is derecognized, the gain or loss accumulated in equity is reclassified to profit or loss.

***Investment in Term Deposit***

The Company has the positive intent and ability to hold term deposit to maturity, and as such financialassets are classified as held to maturity. Held-to-maturity financial assets are recognized at fair value plusany directly attributable transaction cost.

***Cash and cash equivalents***

Cash and cash equivalents comprise cash balances and all call deposits with original maturities of threemonths or less. Bank overdrafts that are repayable on demand and form an integral part of the Company'scash management are included as a component of cash and cash equivalents for the purpose only of thestatement of cash flows.

**(ii) Financial Liabilities**

The Company initially recognises financial liabilities on the transaction date at which the Companybecomes a party to the contractual provisions of the liability.

The Company derecognises a financial liability when its contractual obligations are discharged or

cancelled, or expired.

The Company's financial liabilities comprise trade and other payables and interest - bearing borrowings.

The Company recognises such financial liability when its contractual obligations arising from past eventsare certain and the settlement of which is expected to result in an outflow from the entity of resourcesembodying benefits.

**(vi) *Trade payables***

Trade payables are recognized at fair value.

**(vii) *Interest-bearing borrowings***

Interest-bearing borrowings are recognized initially at fair value less attributable transaction costs.Subsequent to initial recognition, interest-bearing borrowings are stated at amortized cost using theeffective interest method less any impairment losses.

**(viii) *XYZ Limited 20% Convertible Zero Coupon Bonds (ZCB)***

Zero Coupon Bonds are recognized initially at fair value less attributable transaction costs. Subsequent toinitial recognition, ZCBs are stated at amortized cost using the effective interest method.

**M. Share capital**

Ordinary shares are classified as equity. Incremental cost directly attributable to the issue of ordinary

shares are recognized as a deduction from equity, net of any tax effect.

**N. Provisions**

A provision is recognized in the statement of financial position when the Company has a legal or

constructive obligation as a result of a past event, it is probable that an outflow of economic benefits willbe required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

**O. Impairment**

**(i) Financial assets**

Financial assets are assessed at each reporting date to determine whether there is objective evidence ofimpairment. Objective evidence that financial assets are impaired includes:

* default or delinquency by a debtor;
* restructuring of an amount due to the Company on terms that the Company would not considerotherwise;
* indications that a debtor or issuer will enter bankruptcy;
* adverse changes in the payment status of borrowers or issuers; or
* observable data indicating that there is measurable decrease in expected cash flows from a companyof financial assets.

The Company considers evidence of impairment for these assets at both an individual asset and acollective level. All individually significant assets are individually assessed for impairment. Those found notto be impaired are then collectively assessed for any impairment that has been incurred but not yetindividually identified. Assets that are not individually significant are collectively assessed for impairment.Collective assessment is carried out by grouping together assets with similar risk characteristics.

In assessing collective impairment, the Company uses historical information on the timing of recoveriesand the amount of loss incurred, and makes an adjustment if current economic and credit conditions aresuch that the actual losses are likely to be greater or lesser than suggested by historical trends.

An impairment loss is calculated as the difference between an asset’s carrying amount and the presentvalue of the estimated future cash flows discounted at the asset’s original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account. When the Company considers thatthere are no realistic prospects of recovery of the asset, the relevant amounts are written off. If theamount of impairment loss subsequently decreases and the decrease can be related objectively to anevent occurring after the impairment was recognised, then the previously recognised impairment loss isreversed through profit or loss.

**(ii) Non-financial assets**

At each reporting date, the Company reviews the carrying amounts of its non-financial assets (other thandeferred tax assets) to determine whether there is any indication of impairment. If any such indicationexists, then the asset’s recoverable amount is estimated.

For impairment testing, assets are grouped together into the smallest group of assets that generates cashinflows from continuing use that are largely independent of the cash inflows of other assets or CGUs(Cash-generating units).

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs tosell. Value in use is based on the estimated future cash flows, discounted to their present value using apre-tax discount rate that reflects current market assessments of the time value of money and the risksspecific to the asset or CGU.

An impairment loss is recognised in profit or loss if the carrying amount of an asset or CGU exceeds itsrecoverable amount.

**P. Going concern**

During the year under review, OPQ Limited, a subsidiary of XYZ Limited, incurred a net loss of Tk.1,027,288,608 making an accumulated loss at the reporting date to Tk. 4,472,869,073. The Company'scurrent liabilities exceeded the current assets by Tk. 4,284,491,475at the reporting date. The paid upcapital of the Company at the closing date was Tk. 360,000,000. Its dues to banks and finance leaseCompany on the same date was Tk. 2,944,147,920. The management is, however, confident that theCompany will continue in operational existence for a foreseeable future on the basis of continued supportfrom the parent Company, XYZ Limited and improved trading conditions.

During the year under review, LMN Limited, a subsidiary of XYZ Limited, incurred a net loss of Tk.158,139,232 making an accumulated loss at the balance sheet date amounting to Tk.1,090,002,749 andthe Company's current liabilities exceeded the current assets by Tk. 1,341,573,534. The paid up capital ofthe Company at the closing date was Tk. 40,000,000, whereas its dues to Banks on the same date wasTk. 665,670,040. The management is, however, confident that the Company will continue in operationalexistence for a foreseeable future on the basis of continued support of the Company's banks andshareholders.

In view of the continued support and assurance from the Group and major shareholders, managementbelieves that it remains appropriate to prepare these financial statements on a going concern basis.

**Q. Contingencies**

**Contingent liability**

Contingent liability is a possible obligation that arises from past events and whose existence will beconfirmed only by the occurrence or non-occurrence of one or more uncertain future events not whollywithin the control of the entity.

The Company discloses contingent liability in the financial statements. A provision is recognised in the period in which the recognition criteria of provision is met.

**Contingent asset**

Contingent asset is a possible asset that arises from past events and whose existence will be confirmedonly by the occurrence or non-occurrence of one or more uncertain future events not wholly within thecontrol of the entity.

The Company does not recognise contingent asset.

**R. Statement of cash flows**

Cash flows from operating activities are presented under direct method as per IAS 7: Statement of cash flows.

**S. Earnings per share (EPS)**

The Company and the Group (which is made up of XYZ Limited and its subsidiaries and associates)present its basic earnings per share (EPS) for its ordinary shares. Basic EPS is calculated by dividing theprofit or loss attributable to ordinary shareholders of the Company / Group by the weighted averagenumber of ordinary shares outstanding during the year. Diluted EPS is determined by adjusting the profitor loss attributable to the ordinary shareholders and the weighted average number of ordinary sharesoutstanding for the effects of all dilutive potential ordinary shares. This has been shown on the face ofincome statement and computation of EPS is stated in note 30.

**T. Events after the reporting period**

Events after the reporting period that provide additional information about the Company's position at thereporting date or those that indicate the going concern assumption is not appropriate are reflected in thefinancial statements. Events after the reporting period that are not adjusting events are disclosed in thenotes when material.

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