# Corporate financial reporting practices in bangladesh: a case on leasing companie...

Business

Literature Review Lease Financing: Lease is a contract between the owner and the user of assets for a certain time period during which the second party uses an asset in exchange of making periodic rental payments to the first party without purchasing it. Under lease financing, the lessee regularly pays the fixed lease rent over a period of time at the beginning or at the end of a month, 3 months, 6 months or a year. At the end of the lease contract the asset reverts to the real owner. However, in case of long-term lease contracts, the lessee is generally given the option to buy the leased asset or renew the lease contract.

The three major types of leases are the operating lease, financial/capital lease and the direct financing lease. The operating lease is a short-term lease contract where the lessor bears all operating and repairing costs of the asset and the lessee pays periodic rental payments to the lessor, and where the lease is cancelable, and there is no bargain purchase option. Financial/capital lease is a long-term lease contract where the lessee bears all operating, repairing and maintenance costs, and makes periodic rental payments to the lessor.

The lease is not cancelable and the lessee has the option for bargain purchase or renewal of lease contract at the end of the original lease period. In a direct financing lease, the lessor leases the asset by manufacturing or by purchasing from the manufacturer to the lessee directly and the lessee makes regular rental payments to the lessor. The lessor holds the ownership of the asset until the end of the lease period and the lessee holds the possession of the asset. In addition to these major types, there are some other types of lease such as sale and lease and leveraged lease.

Legally, a leasing company is defined as one having the business of hiring plants or equipment or of financing their hire by others. The International Finance Corporation promotes leasing as a method of financing industrial development in the developing countries as a part of its capital market development strategies. International Financial Reporting Standards: International Financial Reporting Standards (IFRS) are Standards, Interpretations and the Framework adopted by the International Accounting Standards Board (IASB).

Many of the standards forming part of IFRS are known by the older name of International Accounting Standards (IAS). IAS were issued between 1973 and 2001 by the Board of the International Accounting Standards Committee (IASC). On 1 April 2001, the new IASB took over from the IASC the responsibility for setting International Accounting Standards. During its first meeting the new Board adopted existing IAS and SICs. The IASB has continued to develop standards calling the new standards IFRS. Structure of IFRS:

IFRS are considered a “ principles based” set of standards in that they establish broad rules as well as dictating specific treatments. International Financial Reporting Standards comprise: ??? International Financial Reporting Standards (IFRS) – standards issued after 2001 ??? International Accounting Standards (IAS) – standards issued before 2001 ??? Interpretations originated from the International Financial Reporting Interpretations Committee (IFRIC) – issued after 2001 ??? Standing Interpretations Committee (SIC) – issued before 2001

Requirements of IFRS: IFRS financial statements consist of (IAS1. 8): ??? a Statement of Financial Position ??? a comprehensive income statement ??? either a statement of changes in equity (SOCE) or a statement of recognised income or expense (“ SORIE”) ??? a cash flow statement or statement of cash flows ??? notes, including a summary of the significant accounting policies Comparative information is provided for the previous reporting period (IAS 1. 36).

An entity preparing IFRS accounts for the first time must apply IFRS in full for the current and comparative period although there are transitional exemptions (IFRS1. 7). On 6 September 2007, the IASB issued a revised IAS 1 Presentation of Financial Statements. The main changes from the previous version are to require that an entity must: ??? Present all non-owner changes in equity (that is, ‘ comprehensive income’ ) either in one statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income).

Components of comprehensive income may not be presented in the statement of changes in equity. ??? present a statement of financial position (balance sheet) as at the beginning of the earliest comparative period in a complete set of financial statements when the entity applies an accounting ???’balance sheet’ will become ‘ statement of financial position’ ???’income statement’ will become ‘ statement of comprehensive income’ ???’Cash flow statement’ will become ‘ statement of cash flows’. Rules applicable in Bangladesh:

In Bangladesh, Financial institutions have to follow the rules and regulations issued by the Securities and Exchange Commission. According to the " Securities and Exchange Commission (Issue of Capital) Rules, 2001" following are the required documents and process of submission of financial reports for approval by the SEC: (1)The company to which consent to the issue of capital is accorded shall complete audit of its financial statements and, hold its annual general meeting within such period as may be specified by the Commission at the time of according the consent. 2)The said company shall submit a copy of such audited financial statements and a copy of its annual report and the minutes of its annual general meeting within fourteen days of the completion of the audit or, as the case may be, holding of the annual general meeting. (3)The Commission may, on application and on good cause shown, extend the time for auditing the financial statements or submission of the financial statements to the Commission, as the case may be. (4)The said company shall furnish the Commission the following information, along with the supporting documents and evidence, namely:- (a)change of registered address; b)change of directors; (c)appointment of managing director; (d)change of business or opening of new business; (e)any material change that affects the affairs of the company. Lease Financing in Bangladesh Lease financing was first introduced in Bangladesh in the early 1980s. Industrial Development Leasing Company of Bangladesh Ltd. (IDLC), the first leasing company of the country, was established in 1986 under the regulatory framework of Bangladesh bank. It was a joint venture of the Industrial Promotion and Development

Company of Bangladesh Ltd. (IPDC), International Finance Corporation, and Korea Development Leasing Corporation.

Another leasing firm, the united leasing company Ltd. started its operations in 1989. The number of leasing companies grew quickly after 1994 and by the year 2000, rose to 16. The leasing business became competitive with the increase in the number of companies and wider distribution of their market share. There are, however, 6 other companies conducting leasing business in the country, although they do not use the word leasing in their names. In terms of money value, the leasing business in Bangladesh increased from Tk 41. 44 million in 1988 to Tk 3. 16 billion in 2000.

The leasing companies now operating in the country are Industrial Development Leasing Company of Bangladesh, United Leasing Company, GSP Finance Company (Bangladesh), Uttara Finance and Investments, Bay Leasing and Investment, Phoenix Leasing Company, Prime Finance and Investment, International Leasing and Financial Services, Union Capital, Vanik Bangladesh, Peoples Leasing and Financial Services, Bangladesh Industrial Finance Company, UAE-Bangladesh Investment Company, Bangladesh Finance and Investment Company, and First Lease International. Lease financing, as organized in Bangladesh, operates with the following objectives: . to assist the development and promotion of productive enterprises by providing equipment lease financing and related services; 2. to assist in balancing, modernization, replacement and expansion of existing enterprises; 3. to extend financial support to small and medium scale enterprises; 4. to provide finance for various agriculture equipment; and 5.

To activate the capital market by operating as managers to the issue, underwriters, or portfolio managers. The functions of a lease business include lease financing, short-term financing, house building financing, and merchant banking and corporate financing.

In this last group of functions, the leasing business in Bangladesh moved away from regular leasing activities and is now involved in stock-market related activities such as issue management, underwriting, trust management, private placement, portfolio management, and mutual fund operation. Broad capital market operations of the lease financing institutions include bridge financing, corporate counseling, mergers and acquisition, capital restructuring, financial engineering, and lease syndication.

Prominent among the sectors of the economy that now receive lease financing services are textiles, apparels and accessories, transport, construction and engineering, paper and printing, pharmaceuticals, food and beverage, chemicals, agro-based industries, telecommunications, and leather and leather products. Commercial banks and development finance institutions (DFIs) have been the traditional lending institutions in Bangladesh. In fact, the concept of lease financing is a relatively new one in the country. Initially, leasing companies had to adopt the role of educators to make Bangladeshi entrepreneurs aware of the benefits of leasing.

However, as DFIs demonstrated poor recovery and fund recycling performances, leasing got the opportunity to develop as an alternative source of funding. A few other factors also contributed to development of the leasing business in the country. For example, the commercial banks have been keener in providing trade financing and foreign exchange dealings rather than long-term loans because of the risks involved and their longer gestation period. The selection of lease proposals is relatively free from extraneous pressure and is subject to a quality level appraisal.

Under lease agreements in the private sector, projects are sanctioned and implemented expeditiously, resulting in benefits in time and cost savings. Private leasing companies also attract clients by providing relatively better services. The down payments in leasing are not high and the gestation period is low. Also, in case of lease financing, incidental costs incurred in the process of import clearing, installation, and commercial production are capitalized, which substantially reduce the initial investment. Leasing companies, however, face some problems in conducting their business in the country.

The relatively slow growth of the demand side compared to the fast growth of the lease business is one such problem. This leads many leasing companies to operate in partial capacity. The culture of loan default that prevails in the country is also a deterrent. Leasing companies often find it difficult to raise funds through short- or long-term borrowing from money and capital markets. They are hard pressed to deal with the financial assets because of the present laws of the country, which are also not fully enforceable.

Leasing business is gaining increased importance in the economy of Bangladesh with its gradual transformation from an agrarian to industrial one. The government periodically revises the trade and industrial policy to create a liberal business environment both for domestic and foreign investment. Increased investment in the energy sector as well as in power, transport, telecommunications, water and sanitation, and safe disposal of wastes is expected to bring further opportunities for leasing industries. Overview of the Organizations: Industrial Development Leasing Company of Bangladesh

IDLC (Industrial Development Leasing Company of Bangladesh) a multi-national joint venture public limited company and the first leasing and multi-product NON-BANK FINANCIAL INSTITUTION in Bangladesh. It was established at Dhaka in 1985. 45% of the company's shares are held by foreign sponsors, which include Korea Development Leasing Corporation (20%), Kookmin Bank, South Korea (10%), IFC (10%), and the Aga Khan Fund for Economic Development, Switzerland (2. 5%), and German Investment and Development Company (2. 5%). Domestic institutional sponsors hold 27. % of the shares and they are the CITY BANK LTD (11. 8%), IPDC i. e. , Industrial Promotion and Development Company of Bangladesh Ltd (8. 20%), and SADHARAN BIMA CORPORATION (7. 6%). The remaining 27. 4% of the shares are held by some institutions (17. 5%) and individual members of general public (9. 9%). On 31 December 2000, the authorised and paid up capital of IDLC were Tk 1, 000 million and Tk 150 million respectively. At that time, reserve funds of the company were Tk 222. 90 million and its total capital employed was Tk 2, 022. 77 million, which comprised total shareholders' equity (Tk 376. 5 million) and net long-term liability (Tk 1, 646. 12 million). The company's total net assets, which equaled total capital employed, comprised fixed assets (0. 47%), leased assets (87. 42%) and net current assets (12. 11%). Leased assets of the company included advances against leasing assets, direct long-term loans and investments, housing finance and miscellaneous current assets. The company commenced leasing business on 22 February 1986. It signed its first lease contract on 18 May 1986 and expanded institutional structure by opening a branch in CHITTAGONG on 1 October 1990.

It became a listed company in the Dhaka Stock Exchange on 20 March 1993 and in the Chittagong Stock Exchange on 25 November 1996. IDLC started to accept deposits after receiving the license from BANGLADESH BANK on 10 September 1994. On 7 February 1995, Bangladesh Bank gave it the license to operate as non-bank financial institution under the Financial Institution Act 1993. Bangladesh Bank also gave the license to IDLC in 1995 to operate as offshore financier in the country’s EXPORT PROCESSING ZONEs. In 1998, the SECURITIES AND EXCHANGE COMMISSION (SEC) allowed it to carry out merchant banking.

Up to 31 December 2000, IDLC provided a total of Tk 9, 603 million as financial support to 2, 295 projects, of which 1, 609 were in large and medium-scale industry sector and 686 were in small and cottage industry sector. The gross profits of IDLC consistently increased since its inception and its net annual incomes rose from Tk 30. 08 million in 1992 to Tk 89 million in 1997. In 1998, net incomes of the company had, however, dropped to Tk 48 million and thereafter, it grew again to Tk 70 million in 2000.

IDLC has a significant contribution to capital asset financing to private sector industries in Bangladesh. Its business focus in the early years was in the area of 3-5 years term financial leasing with particular emphasis on balancing, modernization, replacement and expansion of existing units. Driven by the demand for funds from different classes of people and the competition with other similar institutions, IDLC diversified its functional areas into other financial services including short-term finance, corporate finance and merchant banking activities.

In 1997, it expanded its range of services by introducing housing finance to individuals, developers and corporate bodies. Under its broader merchant banking functions, IDLC operates as issue manger, underwriter, trusteeship manager, bridge financier and investor in the private placement of shares and stocks. As a pioneer in LEASE FINANCING in Bangladesh, IDLC laid a foundation for the burgeoning growth of the leasing industry in the country. Prime Finance & Investment Limited Prime Finance and Investment Limited a NON-BANK FINANCIAL INSTITUTION engaged in leasing and merchant banking operations in Bangladesh.

It was incorporated on 10 March 1996 as a public limited company under the COMPANIES ACT 1994 and was licensed on 25 April 1996 by the BANGLADESH BANK under the Financial Institutions Act 1993. The company obtained license from the SECURITIES AND EXCHANGE COMMISSION on 25 July 1999 to conduct merchant banking. It commenced leasing operations on 15 July 1996 and merchant banking on 16 October 1999. At the time of establishment, its authorized and paid up capital was Tk 500 million and Tk 50 million respectively divided into ordinary shares of Tk 100 each.

The leasing unit of the company provides finance for capital machinery including construction equipment, marine equipment, energy generation equipment, office and office automation equipment and transport. Through this unit, the company provides micro finance under hire purchase scheme and working capital finance to the enterprises, as well as to individuals of different . profession through the this unit. The merchant banking unit is engaged in capital/stock market operations, which includes both fee and fund based services.

Specific capital market oriented activities of the company are issue management, underwriting of public issue of shares and debentures, direct trading in the securities market, bridge financing, portfolio management, and venture capital finance, etc. Up to 31 December 2000, the company acted as issue manager for 9 companies whose share value totaled at Tk 858 million, while it underwrote shares of 13 companies of a total value of Tk 156 million. The company started investment portfolio activities in November 1999 and up to 30 June 2001, it opened 49 investment accounts.

The number of lease contracts approved and executed by the company up to December 2000 was 112 with monetary value of Tk 252 million. Most lease financing activities were in large, medium, and small industrial units and a very few were in real estate, transport, and trade and commerce. Up to 31 December 2000, it provided a net amount of Tk 156. 60 million as financing to a total of 131 projects. Sources of funds of the company are shareholders' equity and long-term liabilities, which totaled Tk 168. 49 million in 2000. Shareholders' equity (Tk 53. 08 million) included share capital Tk 50 million, reserves and surpluses Tk 1. 5 million and profit for the year Tk 1. 93 million. The long-term liabilities (Tk 115. 41 million) were bank loan Tk 50 million, lease/security deposits Tk 30. 38 million, term deposits Tk 12. 60 million and portfolio investment deposit Tk 22. 42 million. Major components of the company's total assets in 2000 were its investments and advances that amounted to Tk 156. 60 million consisting of lease assets Tk 138. 09 million, advance for lease assets Tk 5. 14 million, hire purchase investment Tk 6. 70 million, and investment in shares and securities Tk 9. 34 million.

The company has a board of directors with the managing director as its chief executive and in 2001, it had a total of 21 of employees. Lanka Bangla Finance Limited LankaBangla Finance Limited (here in after referred to as LankaBangla or the Company), a joint venture nonbanking financial institution, was incorporated in Bangladesh on 05 November 1996 as a Public Limited Company under the Companies Act, 1994 and in the name ' Vanik Bangladesh Limited'. It started commercial operation in the year 1997 obtaining license from Bangladesh Bank under the Financial Institutions Act, 1993.

LankaBangla also obtained license from Securities and Exchange Commission vide No. MB-1. 064/98-05 to operate in the Capital Market as Merchant Banker. Subsequently it was renamed as LankaBangla Finance Limited on 27 April 2005. The Company went for public issue in 2006 and its shares are listed in Dhaka Stock Exchange and Chittagong Stock Exchange on 17 October 2006 and 31 October 2006 respectively. The Company has a subsidiary company named " LankaBangla Securities Ltd" (formerly Vanik

Bangladesh Securities Limited) with an equity interest of 99. 998% (15, 299, 694 shares of Tk. 0 each totaling Tk. 152, 996, 940) in the subsidiary company. The subsidiary is a private limited company incorporated under the Companies Act, 1994. The principal activity of the subsidiary is to deal with the securities as broker in the capital market having membership no. 132 with Dhaka Stock Exchange and 91 with Chittagong Stock Exchange. The Company has another subsidiary company named “ LankaBangla Asset management Company Limited” with an equity interest of 99. 998% (2, 499, 950 shares of Tk. 100 each totaling Tk. 24, 999, 500) in the subsidiary company.

With institutional shareholding structure, educated & motivated human resources, friendly working environment & dynamic corporate culture has enabled LBFL to be a diversified financial services providing institution of the country. Technical support provided by Sampath Bank Limited, Sri Lanka has been working as a catalyst to emerge LBFL as most innovative financial solution provider strictly in compliance with the rules & regulations of Bangladesh Bank. The shareholding structure of LBFL consists of Commercial Banks, Investment Bank, Corporate & prominent Industrialists from home & abroad.

In November 2006, the paid-up capital of LankaBangla was raised to Tk 350 million, through public subscription of Tk 90 million. Lanka Bangla now offers a wide range of financial services tailored to the needs of its customers Regulatory Framework: SEC Rules 1987 (Rules that are related to the preparation of financial Statements and Financial Reporting and Auditing):

The Bangladesh Gazette Extraordinary Published by Authority TUESDAY, SEPTEMBER 29, 1987 GOVERNMENT OF THE PEOPLE'S REPUBLIC OF BANGLADESH MINISTRY OF FINANCE Dhaka, the 28th September, 1987 [5. Maintenance of accounts and audit. – 1) Every member shall prepare once in every year a balance sheet and a profit and loss account, or a statement of income and expenditure, as the case may be, on the basis of the books of account and other documents as prescribed by rule 8. (2) Every member shall have his accounts audited by an auditor who is a chartered accountant and shall submit to the stock exchange concerned and the Commission the audited balance sheet and profit and loss account, or the statement of income and expenditure, as the case may be, along with the auditors' report within nine months after the end of the year concerned:

Provided that the Commission may extend the said period up to such time as it may deem fit. (3) Notwithstanding anything contained in this rule, a member shall also have his accounts audited by an auditor who is a chartered accountant appointed by the Commission, whenever such audit is required by the Commission in the public interest, and the auditor so appointed shall furnish his report to the Commission in such form and within such time as the Commission may specify: Provided that the fee for such audit and all other expenses in relation thereto shall be borne by the member concerned. 6. Maintenance of books of account and other documents by stock exchange. – (1) Every stock exchange shall prepare and maintain, as required by sub-section (1) of section 6, such books of account and other documents as will accurately disclose a true and fair picture of the state of affairs of the stock exchange at any point of time. (2) The books of account and other documents referred to in sub-rule (1) shall include- a) journals (or other comparable record), cash book and any other records of original entry forming the basis of entries into any ledger; (b) ledgers (or other comparable record) reflecting assets, liability, reserve capital, income and expense; (c) ledgers (or other comparable record) showing the position in respect of each member as on the settlement day of the securities which the member had bought or sold since the last preceding settlement day and which had been transferred through a clearing house maintained by the stock exchange ; (d) daily record of quotations and transactions of the stock exchange showing the time at which each transaction took place; (e) record of transactions with banks; (f) record of security deposits; (g) register of members; (h) register of authorized clerks; and (i) Minute books of the meetings of members, governing body and any committee of the general body of members or of the governing body. (3) The books of accounts and documents specified in this rule shall be preserved for a period not less than five years. (a) record of all balance of all ledger accounts in the form of trial balances to be prepared at least once at the end of the six months of every year of account; (b) record of transaction with the banks; c) contract books showing details of all contracts entered into by a member with other members of the exchange or counterfoils or duplicates or memos of confirmation issued to such other members; and (d) duplicates or counterfoils of memos of confirmation issued to customers. (2) The books of accounts and other documents referred to in sub-rule (1) shall be preserved for a period of not less than five years. [(3) All persons authorized to deal in securities on own account in any stock exchange shall furnish a report of any personal transactions in securities on settlement of each accounting period in Form " D” to the head of monitoring and surveillance department of the stock exchange. ] 9. Submission of annual report by stock exchange. (1) The annual report relating to the affairs of a stock exchange, as required by sub-section (2) of section 6 shall be submitted to the [C[Commission]ot less than fourteen days before the meeting of the shareholders of the stock exchange before which it is to be laid. (2) Every such report shall be accompanied by a copy of the balance sheet and profit and loss account of such year audited by an auditor who is a chartered accountant. 11. Submission of annual report by issuers. – [([(1) The annual report required by section 11 to be furnished by an issuer of a listed security shall include a balance sheet, profit and loss account and cash flows statement, and notes to the accounts, collectively herein after referred to as the financial statements. 2) The financial statements of an issuer of a listed security shall be prepared in accordance with the requirements laid down in the Schedule and the International Accounting Standards (IAS) as adopted by the Institute of Chartered Accountants of Bangladesh (ICAB) Explanation-In this sub-rule, International Accounting Standard refers to the accounting standards issued by the International Accounting Standards Committee. ][([(3) The financial statements of an issuer of a listed security shall be audited by a partnership firm of chartered accountants within the meaning of Bangladesh Chartered Accountants Order (P. O. 2 of 1973) consisting of not less than two partners in practice for a minimum of seven years none of whom were associated in any way with the issuer during the auditing period (which includes holding of securities by themselves or hrough spouse or any other relatives and their employees), in accordance with the International Standards of Auditing applicable in Bangladesh and the report of the Auditors shall be in Form " B" annexed to the schedule. Provided that, notwithstanding anything contained in this sub-rule, such financial statements may also be audited by an auditor appointed by the Commission, whenever such audit is deemed by the Commission necessary in the public interest and the auditor so appointed shall furnish his report to the Commission in such form and within such time as the Commission may specify: Provided further that the fee for such audit and all other expenses in relation thereto shall be borne by the issuer concerned. (4)Every issuer shall furnish the annual report, together with the balance sheet and the profit and loss account referred to in sub-rule (1) to the shareholders at least fourteen days before the general meeting of the shareholders of the issuer at which the report is to be laid before them and shall simultaneously furnish a copy of such report to the stock exchange or exchanges on which its securities are listed and to the 2[Commission][(8) [(8)An annual report referred to in sub-rule (1) shall, in addition to the matters required to be meluded therein by the Ordinance, these rules or any other law for the time being in force include such other statements, reports, documents, information or explanations relating to its affairs as the Commission may, by order in writing, require from time to time. ].[13. Submission of periodical report by issuer. Every issuer shall, within one month of close of the first half-year, transmit to the stock exchange in which its securities are listed, to the security holders and to the Commission half-yearly financial statements which shall be prepared in the same manner and form as the annual financial statements. ]EDULE [See[See rule

12(2)]Requirements as to Balance Sheet: The assets and liabilities shall be classified under the headings appropriate to the company's business, distinguishing as regards assets between fixed assets, long-term prepayments and deferred costs, investments, loans and advances and current assets, and as regards liabilities between share capital and reserves, long-term loans and deferred liabilities and current liabilities and provisions.

2.

Fixed assets:- (A) Fixed assets shall be distienguished bewteen tangible and intangible and shall be classified under appropriate sub-heads, duly itemized, such as : (i) tangible: (a) land (distinguish between free-hold and leasehold); (b) building (distinguishing between buildings on freehold land and those on leasehold land); (c) plant and machinery; (d) furniture and fittings; (e) vehicles; (f) capital work in progress including interest paid out of capital, if any; and (g) Others. (ii) intangible: (a) goodwill; (b) patents, copyright, trade marks and design; and (c) Others. B) Under each sub-head, other than capital work in progress, the original cost, and the additions thereto and deductions there from since the date of the previous balance sheet shall be stated and the aggregate amount written off, or provided or retained, up to the date of the balance sheet, by way of provision for depreciation or amortization or diminution in value shall be shown as deduction there from. (C) Where sums have been written off on a reduction of capital or revaluation of assets and where sums have been added by writing up the assets, every balance sheet subsequent to the reduction or revaluation or writing up shall show the original cost, the reduced or increased figures, as the case may be, along with the date of and amount of the reduction or increase made. D) In the case of a company which immediately before the commencement of these Rules, was providing for depreciation or amortization or diminution in value by way of lump sum charge to profit or loss account or as appropriation of profit, without allocating the amount so provided to different sub-heads, the amount retained in the books of the company at the commencement of the said Rules as provision or reserve for depreciation or amortization or diminution in value shall be allocated against the respective sub-heads. In every case where the original cost can not be ascertained without unreasonable expense or delay, the valuation shown by the books shall be given.

Such valuation shall be the net amount at which an asset stood in the books of the company as at the commencement of these rules after deduction of the amounts previously provided or written off for depreciation or amortization or diminution in value. 3. Long-term prepayments and deferred costs. – Long-term prepayments and deferred costs shall include prepayments for services or benefits to be received after twelve months from the date of the balance sheet. Any material items shall be stated separately together with the basis on which each item is being amortized or written off, and in respect of each item of deferred costs the reasons for carrying forward such costs shall be stated. 4.

Investments, loans and advances. – (A) There shall be shown under separate sub-heads the aggregate amounts respectively of the company’s (i) Investments in and loans and advances to subsidiary companies controlled firms and other associated undertakings, (ii) Investments in listed companies other than investments in subsidiary companies and other associated undertakings, (iii) Investments in un-listed companies other than investments in subsidiary companies, and other associated undertakings, (iv) Investments in debentures and bonds issued by a Government, Municipal Committee or other local authority, (v) Investments in immovable properties and vi) Other investments, loans and advances. (B) There shall be stated under sub-head 4(A) (i) the names of the subsidiary companies, controlled firms and other associated undertaking and the nature and extent of the investment made and loans and advances given in each case, showing separately, in the case of each subsidiary company and other associated undertaking, shares of different classes and of different paid-up values, debentures, loans and advances and, in the case of each controlled firm, the amount invested as capital and the amounts of loans and advances. In the case of loans and advances, the nature of collateral security shall be stated.

A company whose principal business is lending of money may give such information in consolidated form in the balance sheet and the details about the names and the extent of investments etc. in an annexure to the balance sheet. (C) There shall be stated under sub-head 4(A) (ii) the names of the bodies corporate (in every case with the name of the managing agent, if any) in whose shares or debentures or bonds, investments have been made and the nature and extent of the investment made in each case, showing separately, shares of different classes and of different paid-up values, nature of the debentures, e. g. whether straight, convertible or redeemable and the rate of interest etc.

A company whose principal business in lending of money may give such information in consolidated form in the balance sheet and the details about the names and the extent of investments etc. in an annexure to the balance sheet. (D) There shall be stated under sub-head 4 (A) (iii) the names of the unlisted companies (in every case with the name of the managing agent, if any) in whose shares or debentures or bonds investments have been made and the nature and extent of the investment made in each case, showing separately, shares of different classes and of different paid-up values, nature of debentures, e. g. whether straight convertible or redeemable and the rate of interest etc.

A company whose principle business is leading of money may give such information in consolidated form in the balance sheet and the details about the names and the extent of investments etc. in an annexure to the balance sheet. (E) There shall be stated under sub-head 4 (A) (iv) the names of the Governments Municipal Committees and other local authorities in whose debentures or bonds investments have been made and the nature and extent of the investment made in each case. (F) The mode of valuation of investments, e. g. cost or market value, shall be stated separately and, if investments in listed companies are valued otherwise than at market value, the aggregate amount of the market value thereof shall be shown. G) Loans and advances due for payment after a period of twelve months from the date of the balance sheet shall be shown under this head. (H) The following particulars shall be stated separately by way of a note in respect of sub-head 4(A) (vi): (a) aggregate amount due by directors (including the managing director), managing agents, managers and other officers of the company and any of them severally or jointly with any other person; and (b) aggregate amount due by associated undertakings. (I) Provisions, if any, made for diminution in the value of investments and in respect of losses of subsidiary companies shall be shown as deduction from the gross amounts of the respective sub-heads. 5.

Current assets :- (A) Current assets shall be classified under sub-heads appropriate to the company's affairs, including, where applicable, the following : (i) stores, spare parts and loose tools, distinguishing each from the other; (ii) stock-in-trade, distinguishing, where practicable, between (a) stock of raw materials and components, (b) work in progress, (c) stock of finished products and (d) other stock; (iii) Sundry debtors, which shall include amounts but in respect of goods sold or services rendered or in respect of other contractual obligations but shall not include the amounts which are in the nature of loans or advances. Debts considered good and debts considered doubtful or bad shall be separately stated.

Debts considered good shall be distinguished between those which are secured and those for which the company holds no security other that the debtor's personal security ; (iv) loans and advances due for repayment within a period of twelve months from the date of the balance sheet, showing separately the amounts due from subsidiaries, controlled firms and other associated undertakings and also the amounts lent out to employees of the company. Loans and advances considered good and loans and advances considered doubtful or bad shall be separately stated; (v) trade deposits and short term prepayments for which services or benefits are to be received within twelve months from the date of the balance sheet and current account balances with statutory authorities. (vi) bills receivable; (vii) interest accrued or interest outstanding ; viii) balances on current account with the managing agents, managers and directors, the maximum amount held by any of them at any time since the date of incorporation or since the date of the previous balance sheet, whichever is the later, being stated by way of a note ; (ix) tax refunds due from Government, showing separately excise duties, customs duties, sales tax, income-tax etc. and (x) cash and bank balances, distinguishing between (a) amount in hand, (b) amount in transit and (c) balances with banks and agents. (B) In the case of sub-heads 5(A) (i) and (ii) the respective basis of valuation shall be stated. If the basis such as " cost", " Market value" or " cost or market value, whichever is lower" is given, there shall also be given, to the extent practicable a general indication of the method of determining the " cost" or " market value" e. g. " average cost", " first-in, first out", or " last-in, first out". C) in respect of each of the sub-heads 5(A) (iii) and (iv) the following particulars shall be stated separately : (a) aggregate amount due by directors (including managing director), managing agents, managers and other officers of the company and any of them severally or jointly with any other person; (b) aggregate amount due by associated undertakings; (c) maximum amount of debts, under each of the preceding items (a) and (b) at any time since the date of incorporation of since the date of the previous balance sheet, whichever is the later (by way of a note). 6. Assets in respect of which different methods or bases of valuation or of provision for depreciation or diminution in value are used shall be regarded as assets of different classes. 7.

Preliminary expenses, discount allowed on the issue of shares and expenses incurred on the issue of shares or debentures, including any sums paid by way of commission or brokerage on the issue of shares or debentures, to the extent not written off or adjusted, shall be treated as assets and shown separately under each head. 8. Share capital and reserves :- (A) Share capital and reserves shall be classified under the following sub-heads : (i) paid up capital, distinguishing between different classes of preference and equity shares and the amount paid up in respect of each class. In the case of forfeited shares, the amount already paid thereon shall be added to the paid-up capital.

Calls paid in advance shall also be added to the paid-up capital; and (ii) reserves, distinguishing between capital reserves and revenue reserves. Capital reserves shall include capital redemption reserve, share premium account, surplus on revaluation of fixed assets, profit prior to incorporation or on reissue of forfeited shares or any reserve not available for distribution by way of dividend (to be specified), while revenue reserves shall include general reserve, dividend eqalisation reserve, other reserves created out of profit (to be specified), and unappropriate profit i. e. credit balance of profit and loss account after appropriations for the period to the date of balance sheet.

Additions to and deductions from each item of reserves shall be shown in the balance sheet under the respective items unless they are disclosed in the profit and loss account or a statement or a report annexed thereto. (B) There shall be shown in the balance sheet : (i) authorized share capital distinguishing between various classes of shares and stating the number and value of each class ; (ii) issued share capital, distinguishing between various classes of shares and stating the number and value in respect of each class ; (iii) subscribed share capital, distinguishing between various classes of shares and stating the number and value in respect of each class ; (iv) called up share capital, istinguishing between various classes of share and stating the number, value and the amount called up in respect of each calls; (v) calls unpaid as a deduction from called up share capital, distinguishing calls unpaid by (a) directors (including managing director), (b) managing agents, (c) managers, (d) officers and (e) others; (vi) paid up share capital, distinguishing in respect of each class between (a) shares allotted for consideration paid in cash, (b) shares allotted for consideration other than cash and (c) bonus shares and stating the number and value of each class; (vii) particulars of any option on unissued shares, such as amount of option, class of shares, issue price, period during which option is exercisable etc; (viii) in the case of redeemable preference shares, the terms of redemption or conversion, if any, together with the earliest date on which the company has power to redeem or the company or the holder of the shares has power to convert the shares; and (ix) in the case of subsidiary companies, the number of shares class held by the holding company as well as by the ultimate company, if any, and its subsidiaries. (C) Where circumstances permit, authorized, issued, subscribed, and paid up, capital or any two or more of them may be shown as one item. D) The word fund, in relation to any ‘ reserve’ shall be used only where such a reserve is represented by specifically earmarked Investment or other assets realizable as and when required at not less than the amount of fund. 9. Long term loans and deferred liabilities. – (A) Long-term loans and deferred liabilities shall mean loans and liabilities which become due for payment after twelve months from the date of the balance sheet. Deferred liabilities shall include such other liabilities as are under normal accounting principles appropriately so classified. (B) Long-term loans shall be classified as secured and unsecured, under each class shall be shown separately: (i) debentures ; ii) loans from banking companies and other financial institutions; (iii) loans for subsidiary companies, controlled firms and other undertaking; (iv) loans from directors (including managing director), managing agents and managers; and (v) other loans. (C) Where any of the long-term loans or any other deferred liabilities are secured otherwise than by the operation of law on any assets of the company the fact that the liabilities are so secured shall be stated, together with a statement of the assets upon which they are secured, and, where more than one class of liabilities is so secured, their relative priorities with respect to payment of interest and redemption. D) The rate of interest and terms of redemption or conversion, if any, of the debentures issued shall be stated, together with the earliest date on which they may be redeemed or converted into shares and it shall also be stated, if any, sinking fund arrangement exists. (E) There shall be stated, by way of a note or otherwise, particulars of any redeemed debentures which the company has power to reissue. (F) Where any of the company’s debentures are held by a nominee of, or a trustee for, the company, the amount thereof, calculated on the same basis as the total amount standing in the balance sheet in respect of the debentures of that class , shall, unless and until the debentures so held are reissued or canceled be shown as deduction from the total by way of a note. G) Deferred liabilities shall include items such as (i) deferred liability for taxation, (ii) consumer's deposits with utility companies and (iii) amounts allocated or set aside and retained for Workers' Participation Fund, provident fund, pension, gratuity insurance and other staff benefit schemes. Every material item shall be stated separately. 10. Current liabilities. – (A) Current liabilities shall mean liabilities due and payable (other than liabilities the payment of which may at the company's option, be postponed) within twelve months from the date of the balance sheet, together with such other liabilities as are under normal accounting principles appropriately so classified. B) Current liabilities and provisions shall, so far as they are appropriate to the company's business be classified under the following sub-heads: (1) Short-term loans, distinguishing between secured and unsecured and between loans taken from – (a) banking companies, and other financial institutions; (b) subsidiary companies, controlled firms and other associated undertakings; (c) directors (including managing directors), managing agents and managers; (d) installments of long-terms debt; and (e) others; (2) deposits; (3) creditors; (4) accrued expenses; (5) bills payable; (6) advance payment and unexpired discounts for the portion for which value is still to be given, e. g. , in the case of newspapers, clubs and steamship companies; (7) interest accrued on secured loans ; (8) interest accrued on unsecured loans; (9) other liabilities, if any (to be specified), e. . , unclaimed dividend, unpaid dividend; (10) provision for taxation, showing separately excise duties, customs duties, sales tax, income tax, etc. ; (11) proposed dividend; and (12) other provisions, if any (to be specified). (C) Where any short-term loans or any other liabilities of the company are secured otherwise than by the operation of law on any assets of the Company, the fact that the liabilities are so secured shall be stated, together with a statement of the assets upon which they are secured and where more than one class of liabilities is so secured, their relative priorities with respect to payment of interest and redemption. 11.

No liability shall stand in the balance sheet at a value less than the amount at which is its repayable (unless the quantum of repayment is at the option of the company) at the date of the balance sheet or, if it is not then repayable, at the amount at which it will first become so repayable thereafter, less where appropriate, a reasonable deduction for discount until that date. 12. There shall be added a foot-note to the balance sheet, showing separately :- (1) claims against the company not acknowledged as debt; (2) uncalled liability on partly shares; (3) arrears of fixed cumulative dividends on preference shares together with the period for which the dividends are in arrears. If there is more than one class of preference shares, the gross amount of dividends in arrears, on each such class, shall be stated separately; (4) the aggregate amount of contracts for capital expenditure remaining to be executed and not provided for; (5) other sums for which the company is contingently liable.

The aggregate amount of any guarantees given by the company on behalf of the directors (including managing director), managing agents, managers or other officers of the company or any of them severally or jointly with any other person shall be stated separately, and where practicable, the general nature and amount of each such contingent liability, if material, shall also be specified; and (6) Where determinable, the capacity of the industrial until, actual production and the reasons for shortfall, if any , except in a case where the Authority upon an application agrees that such information need not be disclosed in the public interest. 13. Where there has been any change in the basis of accounting, e. g. change in the mode of valuation of the stock-in-trade, change in the method of changing depreciation, such changes, together with the effects thereof, shall be stated by way of a note. 14. There shall be stated, by way of a note or otherwise- 1) the basis on which foreign currencies have been converted into taka; and (2) the general nature of any credit facilities available to the company under any contact, other than trade credit available in the ordinary course of business, and not availed of at the date of the balance sheet. 15. If in the opinion of directors, any of the current assets and investments, loans and advances do not have, on realization in the ordinary course of business, a value at least equal to the amounts at which they are stated, the fact the directors are of that opinion shall be stated by way of a note. 16. Except for the balance sheet for the year ending after the date of commencement of these rules, every balance sheet shall also give the corresponding amounts at the end of the immediately preceding accounting year for all items shown in the balance sheet.

This requirement shall, in the case of companies preparing quarterly or half-yearly accounts relating to the balance sheet as on the last day of the period which ended on the corresponding date of the immediately preceding year. 17. Where any items shown in the balance sheet or included in amounts shown therein cannot be determined with substantial accuracy, an estimated amount described as such shall be included in respect of that item together with the description of the item. 18. No provision with respect to the information to be given in the balance sheet shall be deemed to require the amount of any items that is of no material significance to be given separately. 19.

Any information required to be given in respect of any of the items in the balance sheet, if it cannot be included in the balance sheet itself, be furnished in a separate schedule or schedules to be attached to, and to form part of, the balance sheet. PART II REQUIREMENT AS TO PROFIT AND LOSS ACCOUNT 1. The profit and loss account shall be so made out as to disclose clearly the result of the working of the company during the period covered by the account and shall show, arranged under the most convenient heads, the gross income and the gross expenditure of the company during the period, disclosing every material feature and in particular the following :- A) (1) the turnover, that is, the aggregate amount for which sales are effected by the company, and the gross income derived from rendering giving or supplying services or benefits, and showing as deduction there from – (a) commission paid to sole selling agents; (b) commission paid to other selling agents; and (c) brokerage and discount of sales, other than the usual trade discount; (2) income from investments, showing separately income from each subsidiary company, from each controlled firms, from each associated undertaking and from other investments; (3) income by way of interest on loans and advances and other interest; (4) income from sale of bonus vouchers; 5) profit on sale of investments; (6) profit on sale of items of fixed assets; (7) profit in respect of transactions, of an exceptional or non-recurring nature, not usually undertaken by the company or not envisaged in the normal course of business; and (8) other income, showing separately every material item and the nature of each such items; (B) (1) the value of stock-in-trade, including raw materials and components, work in progress and finished products, as the commencement and the value at the end of the period; (2) purchase of raw materials and components and finished products; (C) expenditure on – (1) stores and spare parts consumed ; (2) fuel and power; 3) salaries and wages (including bonus, contributions to provident and other funds recognized under the Income Tax Ordinance, 1984 and expenses on staff welfare), distinguishing 1984 and expenses on staff welfare, distinguishing between manufacturing salaries and wages, if any, and other salaries and wages and also showing by way of a note the amount included in salaries and wages in respect of persons who are directors (including managing director) of the company ; (4) rent municipal rates and local taxes (excluding taxes on income and capital gains); (5) insurance; (6) repairs and maintenance (being repairs to and maintenance of the company’s fixed assets); and (7) patents, copyrights, trade marks, design, royalties and technical assistance; (D) the aggregate amount of auditors remuneration, whether fees , expenses r otherwise, for services rendered as auditors or in any other capacity showing separately the remuneration for services rendered as auditors and the remuneration for services rendered in any other capacity and stating the nature of such other services; (E) other expenses, showing separately every items of an exceptional or non-recurring nature and every material items ; (F) the amount provided for depreciation, renewals or diminution in value of fixed assets. The value of the assets by various groups, the additions or depletion's thereto, the rate at which depreciation is charged, the rate (s) at which depreciation, accelerated or for extra shifts, is charged shall be shown in the form of an annexure. Where such provision is not made by means of a charge for depreciation, the method adopted for making such provision shall be stated.

If no provision for depreciation or for extra shift depreciation is made during the period, the fact that no provision has been made and the reasons for not making it shall be stated, and the amount which should have been provided and the quantum of arrears of depreciation, if any, shall be disclosed. (G) (1) the amount of interest on borrowings, showings separately the amount of interest on the company's debentures, on other long term loans and on short term loans, and showing by way of a note the amount of interest on borrowings from the directors (including managing director), the managing agents and the managers; (2) loss on sale of investments; (3) loss on sale of items of fixed assets; (4) debts written off as irrecoverable; 5) provision for doubtful or bad debts; (6) provision for diminution in value of investments; (7) provision for losses of subsidiary companies, controlled firms and associated undertakings; where loss is actually incurred the extent of loss in the case of each subsidiary company, controlled firms and associated undertaking shall be disclosed; (8) remuneration of managing agents; (9) provision for taxation on income, capital gains and other tax or taxes, showing separately the provision for liability in respect of the profit of the period and the provision for liability deferred due to the difference between the rates of depreciation allowed for purposes of taxation on income nd those adopted by the company for the charge to profit and loss account and distinguishing, where applicable, between the provision for Bangladesh taxation and the provision for taxation elsewhere. Where the provision for taxation in respect of the profits of the period is reduced by the writing back of a part or the whole of the provision for deferred liability made in previous periods the amount written back shall be shown as deduction from the gross charge for taxation; and (10) other provision for meeting specific liabilities, contingencies or commitments. (H) (1) the amount set aside or proposed to be set aside as reserve showing separately the respective amounts in respect of the each item of reserve ; and (2) the amount of the dividend proposed. 2.

The profit and the loss arising from ‘ hedge’ and ‘ forward’ contracts, trading in ‘ futures’ and ‘ badla'(contango and backwardation), and other transactions of a similar nature carried forward or completed by ‘ meeting the difference’ and not resulting in actual purchase or sale of stock-in-trade, shall not be deducted from or added to the cost of item (B) (2) in paragraph 1 of this Part, and shall be shown separately in the profit and loss account. 3. There shall be stated by way of a note the respective amounts included in items (G) (4) and (5) of paragraph 1 of this Part for (a) debts due by the directors (including managing director) managing agents, managers and other officers of the company and any of them severally or jointly with any other person (b) debts due by associated undertakings. 4. The following shall be stated by way of a note – i) the aggregate amounts paid during the period to or in respect of, or provided during the period for payment to or in respect of, the directors (including managing director), managing agents and officers by the company and its subsidiary companies, controlled firms and other associated undertaking as fees, remuneration, allowances, commission, perquisites or benefits or in any other form or manner and for any services rendered, and shall give full particulars of such aggregate amounts, separately for the directors (including managing director), managing agents and officers, under appropriate heads such as : (a) fees; (b) managerial remuneration; (c) remuneration or commission based on net profit or turnover; (d) reimbursable expenses; e) pensions; gratuity ; company's contribution to provident, superannuation and other staff funds (showing by way of a note payments actually made out of such funds, during the period being amounts in excess of members' own subscriptions and interest thereon); compensation for loss of office and in connection with retirement from office; (f) buying commission, showing separately the amount provided for or paid to an associated undertaking of the managing agent or to an associated person of or partner in, or a director or officer of the managing agent or of the company; (g) selling agency commission, showing separately the amount provided for or paid to an associated undertaking of the managing agent or to an associated person of or partner in, or a director or officer of the managing agent or of the company; (h) other allowances and commission, including commission for guarantee, specifying the nature of the allowances and commission and the respective amounts; (i) other perquisites and benefits in cash or in kind stating their nature and where practicable, their approximate money values; (j) the amount of commission to the managing agents, to an associated person of the managing agent or to an associated person of a partner or a director or officer of the managing agent or of the company as selling or buying agents of other concerns in respect of contracts entered into by such concerns with the company; (k) the aggregate amounts of the company’s purchases from and sales of goods, material and services to the managing agents, to an associated undertaking of the managing agent or to an associated person of a partner or a director or officer of managing agent or of the company; (l) the calculation of the commissions payable by way of a percentage of net profit to the directors (including managing director), the managing agents or managers and showing the computation of net profits with relevant particulars ; and (m) the amounts if material, by which any items shown therein are affected by any change in the basis of accounting; (ii) in the case of a sale of an item of fixed assets otherwise than through a regular auction showing particulars of the original cost, accumulated depreciation charged thereon, the written down value, the sale prices, the mode of disposal (e. g. by tender or negotiation) and the particulars of the purchasers indicating whether such purchaser was a director or officer, managing agent or a shareholder owning 20 percent of the voting shares of the company. 5.

A company need not show the amount set aside as provisions other than those relating to depreciation, renewal or diminution in value of assets if, on application made by it, has been allowed by the Authority to do so on being satisfied that the disclosure of such information would be prejudicial to the interests of the company, but shall so frame or mark the heading covering the amount of such provision as to indicate that it has been so allowed by the Authority. 6. The profit and loss account shall be so drawn up as to disclose separately the manufacturing, trading and operation results. In the case of a manufacturing concern the cost of goods manufactured shall also be shown.

Where an undertaking has more than one unit of operation or line of business the working results of each such unit or line of business should be separately given. 7. (A) Except for the profit and loss account for the year ending after the date of commencement of these Rules every profit and loss account shall give the corresponding amounts for the immediately preceding accounting year for all items shown in the profit and loss account. (B) The requirement in sub-paragraph (A) shall, in the case of companies preparing quarterly or half yearly accounts relating to the profit and loss account for the period which ended on the corresponding date of the immediately preceding year. 8.

The information required to be given in respect of any of the items in the profit and loss account shall, if it can not be included in the profit and loss account itself, be furnished in a separate schedule or schedules to be attached to and to form part of, the profit and loss account. 9. In the case of a company not carrying on business for profit, the provisions of this Part shall have effect as if for references therein to profit and loss account references to income and expenditure account had been substituted. [Par[Part-III]UIREMENTS AS TO CASH FLOWS STATEMENT 1. The cash flows statement shall be so made out as to disclose clearly the cash flows of the company from its operating, investing and financial activities, disclosing every material feature and in particular, the following: (A)(1)the major classes of gross cash receipts and gross cash payments from operating activities, using the direct method. 2)interest paid on short term borrowing; and (3)taxes on income paid and/or deducted at sources. (B)(1)cash payments for acquisition of fixed assets, long-term payment and referred costs, investments, loans and advances; (2)cash receipts from sales of fixed assets, intangibles and other long-term assets; (3)cash receipts from repayments of long-term loans and advance; (4)acquisitions and disposals of subsidiaries and other business units; and (5)interest and dividend received. (C) (1) cash proceeds from issuing shares at par, premium and discount; (2) cash proceeds from issuing debentures, loans and other short or long term borrowings; (3) cash repayments of amounts borrowed; 4) Interest paid on long-term borrowings; and (5) dividend paid. 2. Investing and financing transactions that do not require the use of cash or cash equivalents should be excluded from the cash flows statements. Such transactions should be disclosed elsewhere in the financial statements in a way that provides all the relevant information about these investing and financing activities. 3. The amount of significant cash and cash equivalents held by the Company that are not available for its use should be disclosed. 4. The components of cash and cash equivalents at the balance sheet date together with a reconciliation of opening and closing balances thereof should be presented. 5.

Form ‘ A’ annexed to the Schedule shall be omitted. 6. In Form “ B” annexed to the Schedule, the existing Form of the Auditor Report shall be substituted by the following new Form of the Auditors Report: Form of the Auditors’ Report We have audited the accompanying financial statements for the period from…………………… to ……………. of……………… in accordance with the International Standards of Auditing as adopted by th