PROVISIONS CONTINGENT LIABILITIES AND CONTINGENT ASSETS
(IAS – 37)

Objective
The objective of this IAS is to ensure that appropriate recognition criteria and measurement bases are applied to provisions, contingent liabilities and contingent assets.

Scope
This IAS is applicable to all provisions, contingent liabilities and contingent assets except:
a) those resulting from executory non-onerous contracts
b) those covered by other IAS

Definitions
A provision is a liability of uncertain timing or amount.
A liability is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.
An obligating event is an event that creates a legal or constructive obligation that results in an enterprise having no realistic alternative to settling that obligation.
A legal obligation is an obligation that derives from:
(a) a contract (through its explicit or implicit terms);
(b) legislation; or
(c) other operation of law.
A constructive obligation is an obligation that derives from an enterprise’s action where:
(a) by an established pattern of past practice, published policies or a sufficiently specific current statement, the enterprise has indicated to other parties that it will accept certain responsibilities; and
(b) as a result, the enterprise has created a valid expectation on the part of those other parties that it will discharge those responsibilities.
A contingent liability is:
(a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the enterprise; or
(b) a present obligation that arises from past events but is not recognized because:
   (i) it is not probably that an outflow of resources embodying economic benefits will be required to settle the obligation; or
   (ii) the amount of the obligation cannot be measured with sufficient reliability.
A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the enterprise.
An onerous contract is a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.
A restructuring is a program that is planned and controlled by management, and materially changes either:
(a) the scope of a business undertaken by an enterprise; or
(b) the manner in which that business is conducted.

Provisions and other liabilities
Provisions can be distinguished from other liabilities such as trade payables and accruals because there is uncertainty about the timing or amount of the future expenditure required settlement.

Provisions and contingent liabilities
In a general sense, all provisions are contingent because they are uncertain in timing or amount. However, within this Standard the term ‘contingent’ is used for liabilities and assets that are not recognized because there existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the control of the entity. In addition, the firm ‘contingent liability’ is used for liabilities that do not meet the recognition criteria.

Recognition
Provisions
A provision shall be recognized when:
a) An entity has a present obligation (legal or constructive) as a result of a past event;
b) It is possible than an outflow of resources embodying economic benefits will be required to settle the obligation; and
c) A reliable estimate can be made of amount of the obligation. If these conditions are not met, no provision shall be recognized.

Present obligation
In rare cases it is not clear whether there is a present obligation. In the cases, a past event is deemed to give rise to a present obligation if, taking account of all available evidence, it is more likely than not that a present obligation exists at the balance sheet date.

Past event
A past event that leads to a present obligation is called an obligating event. For an event to be an obligating event, it is necessary that the entity has no realistic alternative to settling the obligation created by the event. This is the case only:
a) Where the settlement of the obligation can be enforced by law; or
b) In the case of a constructive obligation, where the event (which may be an action of the entity) creates valid expectations in other parties that the entity will discharge the obligation.

Contingent Liabilities
An enterprise should not recognize a contingent liability.
a) A contingent liability is disclosed in financial statements, unless the possibility of an outflow of resources embodying economic benefits is remote.
b) Where an enterprise is jointly and severally liable for an obligation, the part of the obligation that is expected to be met by other parties is treated as a contingent liability.
c) The enterprise recognizes a provision for the part of the obligation for which an outflow of resources embodying economic benefits is probable, except in the extremely rare circumstances where no reliable estimate can be made.

d) Contingent liabilities may develop in a way not initially expected. Therefore, they are assessed continually to determine whether an outflow of resources embodying economic benefits has become probable. If it becomes probable that an outflow of future economic benefits will be required for an item previously dealt with as a contingent liability, a provision is recognized in the financial statements of the period in which the change in probability occurs (except in the extremely rare circumstances where no reliable estimate can be made.)

**Contingent Assets**

An enterprise should not recognize a contingent asset.

a) Contingent assets usually arise from unplanned or other unexpected events that give rise to the possibility of an inflow of economic benefits to the enterprise. An example is a claim that an enterprise is pursuing through legal processes, where the outcome is uncertain.

b) Contingent assets are not recognized in financial statements since may result in the recognition of income that may never be realized. However, when the realization of income is virtually certain, then the related asset is not a contingent asset and its recognition is appropriate.

c) A contingent asset is disclosed in financial statements, where an inflow of economic benefits is probable.

d) Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognized in the financial statements of the period in which the change occurs. If an inflow of economic benefits has become probable, an enterprise discloses the contingent asset.

**Measurement**

The amount recognized as a provision shall be the best estimate of the expenditure required to settle the present obligation at the balance sheet date. This means that:

- Provisions for one-off events (restructuring, environmental clean-up, settlement of a lawsuit) are measured at the most likely amount.
- Provisions for large populations of events (warranties, customer refunds) are measured at a probability-weighted expected value.
- Both measurements are at discounted present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the liability.

In reaching its best estimate, the enterprise should take into account the risks and uncertainties that surround the underlying events. Expected cash outflows should be discounted to their present values, where the effect of the time value of money is material.

If some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement should be recognized as a reduction of the required provision when, and only when, it is virtually certain that reimbursement will be received if the enterprise settles the obligation. The amount recognized should not
exceed the amount of the provision. In balance sheet, reimbursement should be shown as an asset and provision should be shown at gross amount however, in income statement they can be netted off.

In measuring a provision consider future events as follows:
- forecast reasonable changes in applying existing technology
- ignore possible gains on sale of assets
- consider changes in legislation only if virtually certain to be enacted

Re-measurement of Provisions
- Review and adjust provisions at each balance sheet date
- If outflow no longer probable, reverse the provision to income.

Application of recognition and measurement rules
a) Future operating losses
   Provisions shall not be recognized for future operating losses.

b) Onerous contracts
   If an entity has a contract that is onerous, the present obligation under the contract shall be recognized and measured as a provision.

c) Restructuring
   The following are examples of events that may fall under the definition of restructuring:
   - Sale or termination of a line of business
   - Closure of business locations
   - Changes in management structure
   - Fundamental re-organization of company

Restructuring provisions should be accrued as follows:
Sale of operation: accrue provision only after a binding sale agreement. If the binding sale agreement is after balance sheet date, disclose but do not accrue
Closure or re-organization: accrue only after a detailed formal plan is adopted and announced publicly. A board decision is not enough.

Future operating losses: Provisions should not be recognized for future operating losses, even in a restructuring

Restructuring provision on acquisition (merger): Accrue provision for terminating employees, closing facilities, and eliminating product lines only if announced at acquisition and, then only if a detailed formal plan is adopted 3 months after acquisition.

A management or board decision to restructure taken before the balance sheet date does not give rise to a constructive obligation at the balance sheet date unless the entity has, before the balance sheet date:

a) stated to implement the restructuring plan; or

b) announced the main features the restructuring plan to those affected by it in a sufficiently specific manner to raise a valid expectation in them that the entity will carry out the restructuring.

If an entity starts to implement a restructuring plan, or announces its main features to those affected, only after the balance sheet date, disclosure is required under
IAS 10 Events after the Balance Sheet Date, if the restructuring is material and non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

Restructuring provisions should include only direct expenditures caused by the restructuring, not costs that associated with the ongoing activities of the enterprise such as:

- a) retraining or relocating continuing staff;
- b) marketing; or
- c) investment in new systems and distribution networks

### Examples of Provisions

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<th>Circumstance</th>
<th>Accrue a Provision?</th>
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<td>Restructuring by sale of an operation</td>
<td>Accrue a provision only after a binding sale agreement</td>
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<td>Restructuring by closure or re-organization</td>
<td>Accrue a provision only after a detailed formal plan is adopted and announced publicly. A Board decision is not enough</td>
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<td>Warranty</td>
<td>Accrue a provision (past event was the sale of defective goods)</td>
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<td>Land contamination</td>
<td>Accrue a provision if the company’s policy is to clean up even if there is no legal requirement to do so (past event is the obligation and public expectation created by the company’s policy)</td>
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<td>Customer refunds</td>
<td>Accrue if the established policy is to give refunds (past event is the customer’s expectation, at time of purchase, that a refund would be available)</td>
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<td>Offshore oil rig must be removed and sea bed restored</td>
<td>Accrue a provision when installed, and add to the cost of the asset</td>
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<td>Abandoned leasehold, four years to run</td>
<td>Accrue a provision</td>
</tr>
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<td>CA firm must staff training for recent changes in tax law</td>
<td>No provision (there is no obligation to provide the training)</td>
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<td>A chain of retail stores is self-insured for fire loss</td>
<td>No provision until an actual fire (no past event)</td>
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<tr>
<td>Self-insured restaurant, people were poisoned, lawsuits are expected but none have been filed yet</td>
<td>Accrue a provision (the past event is the injury to customers)</td>
</tr>
<tr>
<td>Major overhaul or repairs</td>
<td>No provision (no obligation)</td>
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<td>Onerous (loss-making) contract</td>
<td>Accrue a provision</td>
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PRACTICE QUESTIONS

QUESTION NO.1
M/S Rana Enterprises sold goods to customers but retain the title of the goods till the receipt of money. The goods are normally sold on three months credit and title of the goods also passed to the buyers after receipt of money. M/S Rana Enterprises also give warranty for three months for unsatisfactory performance. At the balance sheet date goods for which title has not been transferred and eligible for warranty are Rs. 1,250,000. The markup on these goods is 25%. Past experience tells that 80% goods have no claim, 10% returned but can be sold at the original value and remaining 10% have no value at all.

Calculate the amount of provision M/S Rana Enterprises should be created in the financial statements?  (8)

QUESTION NO. 2
Sara Limited is finalizing its accounts for the year ended December 31, 2007 before the finalization of account the following events came to the knowledge of the finance director.

1. The company owns a subsidiary in a foreign country. The government of that has communicated to the company on December 28, 2007 that it will expropriate assets of the subsidiary. The book value of the investment in the subsidiary at the year end was Rs. 50 million and fair market value Rs. 75 million. The foreign government has indicated that they will compensate the company only to the extent of 25% of the fair value of the investment in the subsidiary.

2. A damages claim of Rs. 2 million has been filled against the company for the breach of contract. The company’s lawyer is of the viewpoint that it is probable that the damages will be awarded to the plaintiff. It is not possible to reasonably estimate the amount of damages, at the year end. However, before the authorization of financial statements the court confirmed the claim at Rs. 500,000.

3. There was a fire at one of the warehouse of the company in January 5, 2008 stocks worth Rs 12 million were completely destroyed. The company stocks were under insurance to the extent of 25% of value.

4. The company has discontinued one of his business locations on November 30, 2007 and has been planning to shift affected employees to other business locations. The relocation cost estimated at the year end is Rs. 1.5 million.

5. One of the customers of the company has burnt himself during use of a product manufactured by Sara Limited just after the year end. The company has decided to resolve the matter out of court by paying damages of Rs. 1 million. The company has never created any provision regarding such damages as this event has never occurred in the past.

REQUIRED: Show how each of the above events will be dealt in the financial statement of the company for the year ended December 31, 2007.  (15)

QUESTION NO. 3
An oil exploration and production entity has an obligation, at the date of installation, to decommission an oilrig at the end of its twenty-year life in accordance with the local legislative requirements. The decommissioning costs for the rig are estimated to be Rs. 140,000,000 the company uses 10% discount rate for all its present value calculations.

Required: Discuss the accounting treatment of above obligation?  (5)

QUESTION NO. 4
M/S Junaid Ltd is a chain of retail outlets. The company has been in this trade for last many years and has developed a good reputation for its quality products and submissive attitude towards its customers. To improve the customer relationship the company has decided to launch full refund policy for customers who return the goods in original packaging within one month of the sale if goods are faulty and full cover of repair and maintenance for one year from the date sale of goods.

The accounting year end of Junaid Ltd is December 31, 2008. The loss on faulty goods is 100% under-written by the suppliers of Junaid Ltd. Junaid Ltd charges 25% margin on all goods it sells. The goods sold in the last month of the year are Rs. 500,000.

The management estimates that Rs. 200,000 is the expected cost of repair and maintenance relating to goods sold during the year. There exists no history of such provisions as the policy is announced first time in the current year.

**Required:**
Calculate the amount of provision to be recognized at the end of the year 2008? (6)

**QUESTION NO. 5**
The accountant of ALI Limited has come across the following accounting issues while finalizing the financial statements for the year ended December 31, 2009 and sought your opinion being the company IFRS consultant.

1. ALI Limited issued a 1 year warranty for defects on a single item of equipment that it delivered to its customer. At the company’s year end, the company is being sued by the customer for refusing to replace or repair the item of equipment within the warranty period, as ALI Limited believes the defect is not covered by the warranty, but instead has arisen because of the customer not following the instructions provided in the working manual of the equipment. Khan and Khan the company’s lawyer has advised ALI Limited that it is more likely than not that they will be held liable. This would result in the company being forced to replace or repair the equipment plus pay court costs and a fine amounting to approximately Rs. 100,000. Based on past experience with similar items of equipment, the company estimates that there is a 70% chance that the equipment would need to be replaced which would cost Rs. 400,000 and a 30% chance that the repair would only cost about Rs. 15,000. (5)

2. The company also manufactures small items of equipment which it sells through a retail network. The company sold 12,000 items of this type this year, which also have a 1 year warranty if the equipment fails to perform properly. Based on past experience, 5% of items sold are returned for repair or replacement. In each case, one third of the items returned are able to be repaired at a cost of Rs. 1,000 each, while the remaining two thirds are scrapped and replaced. The manufacturing cost of a replacement item is Rs. 10,000. (5)

3. ALI Limited has a contract to buy 1,000 Kilograms of copper from a China Co each month for Rs. 3,000 per Kilograms. From each Kilogram of copper ALI Limited make one role of cable. The company also incurs labor and other direct variable costs of Rs. 1,000 per role. Usually company can sell each role of cable for Rs. 4,500 but in late July 2009 the market price falls to Rs. 3,500 per role. The company is considering ceasing production since it thinks that the market may not improve. If the company decides to cancel the copper purchase contract without 2 months' notice it must pay a cancellation penalty of Rs 150,000 for each of the next two months. (5)

**Required:** Discuss the accounting treatment of the above situations?
QUESTION NO. 6
QUTAB Limited is a listed company, whose shares are trading on all the three stock exchanges of the country. The financial year end of the company is June 30, 2010. The financial statements of the company have been approved on September 05, 2010. The chief accountant of the company has come across the following events occurring after the reporting date.

a) During a board meeting held on July 15, 2010 the board decided to dispose off a location which is identified cash generating unit located in KHYBER PAKHTUNKHWA badly affected by the recent flood. The carrying value of the cash generating unit is Rs. 15.5 million but the recoverable is now significantly lower than the carrying value. The flood came in first week of June 2010.

b) During the month of August a local distributor of Chinese Company launched a new product at very low price, which forced the company to reduce its selling price even below cost to dispose of the entire stock. In the monthly meeting of board of directors, they decided to discontinue the production of said product. The discontinuation of production will result in redundancy payments of Rs. 2 million to employees currently involved in the production of said product.

c) During the year 2010, the company was sued by a large multinational company dealing in software development for using pirated software on its Information Technology equipments. The case was pending with the Court and the legal advisor of the company has advised for a provision of Rs. 5 million at the reporting date. The decision of the court came on August 20, 2010 and penalty of Rs. 10 million was confirmed by the court. On August 25, 2010 the company filed appeal against the court verdict in Higher Court. The legal advisor is still of the opinion the penalty should not exceed Rs. 5 million.

d) During audit for the year ended June 30, 2010, the auditors detected that some tangible assets of Rs. 500,000 are not traceable physically. The enquiry was initiated which concluded on August 31, 2010 that these assets were stolen by someone and are not recoverable. The company was however, insured against theft and claim was lodged with the insurance company. The insurance company has not confirmed the amount of claim; however, there is a possible chance that 50% of the claim will be accepted by the insurance company.

Required: Discuss the accounting treatment of above events in the financial statements of QUTAB Limited? (12)

QUESTION NO. 7
BWM Limited is a listed company on all three stock exchanges in Pakistan. After the year end but before the authorization of financial statements the chief accountant has come across the following events occurring after the year end.

a) BWM has been sued by a competitor for Rs. 10 million for infringement of a trade mark. The case was pending with the Honorable Court at the year end. The legal advisors of BWM Limited proposed a provision of Rs. 5 million to be recognized at the year end. The court has given the verdict and confirmed a penalty of Rs. 8 million.

b) BWM Limited carries its inventory at lower of cost and net realizable value (NRF). At the yearend BWM Limited carried its inventory at cost of Rs. 10 million. Due to severe negative trends and worst economic conditions inventory could not be
sold month after the year end. After one month BWM Limited decided to sell the inventory to a competitor for Rs. 5.5 million.

c) Due to heavy floods in the country after the reporting date the Government decided to increase the tax rate by 5% on all corporate entities. BWM Limited has recognized a provision for taxation in its financial statements at the rate applicable at the reporting date.

d) After the year end the Board of Directors proposed a final dividend of Rs. 10 per share. During the year the company has also declared two interim dividends on the end of first and third quarter.

Required: - discuss the implication of above events on the financial statements of BWM Limited?

(12)

QUESTION NO.8
IAS 37 Provisions, contingent Liability and contingent asset deals with the areas when and at what amount of provision to be recognized, provide definitions and discuss the accounting treatment by giving at least one example for the following: -

a) Provision
b) Contingent liability
c) Onerous contract
d) Restructuring
e) Contingent asset

(20)

QUESTION NO.9
ANE Limited is listed company engaged in providing brokerage services in Karachi, Lahore and Islamabad stock exchanges and you being audit trainee have come across the following issues during the audit.

a) A litigation has been started against the company during the year by one of its clients being aggrieved that one of the company worker has not acted according to the directions which resulted in a loss of Rs. 2 million. The phone call recorded by the company provides evidence that the company worker has not acted according to the directions. The company has started negotiations for out of court settlement and the said client is insisting for full claim. The company has not provided for the expenses at the year end.

b) Due to severe losses and low volumes on stock markets the board of directors of the company has decided to close down the office at Islamabad Stock Exchange and to redundant all the employees at said office. The plan has however, not been announce by the year end. The estimated cost of redundancy is Rs. 4 million.

c) The company has taken loan from a local bank of Rs. 40 million against creating charge on its investment in shares. Due to heavy losses the company has made a default in payment of interest and principal repayment. According to the agreement the bank has transferred the shares in its name and have filed suit for recovery of the balance amount. The default was made before the yearend however, the bank took the shares in its name and also filed suit for recovery of the balance amount after the year end. The company has not derecognized the investments and loan stands at the original value of Rs. 40 million.

d) The company has investments in many listed company shares but recorded at their cost of purchase Rs. 20 million during the year. The market value of
investment has fallen to Rs. 15.5 million by the year end and has further fallen to Rs. 10.5 million after the year end but before the authorization of financial statements.

e) Due to heavy losses the company has not made contribution to Employees Old Age Benefit Institution (EOBI) of Rs. 0.5 million. The amount not contributed is recognized however, the amount of penalty for not making timely contribution of Rs. 15,500 has not been provided for.

Required: discuss the appropriate accounting treatment of the above in the ANE Limited? (20)

QUESTION NO.10
An entity is finalizing its financial statements for the year ended December 31, 2013 and came across the following events after the reporting date. You being the Manager Reporting required discussing the implication of the following events on the financial statements.

a) The Government has changed the applicable corporate tax rate for the subsequent years from 35% to 30%. The current tax calculated at then applicable rate was Rs. 215,000 and deferred tax liability was Rs. 515,000. The announcement was made after the year end by the Prime Minister to attract foreign investment. (04)

b) A suit has been filed against the company by one of the customers of the company who got seriously injured by explosion of its electric equipment. The event happened after the year end however, goods were sold before the year end. This event can happen but chances of occurrence have been remote. The legal advisor of the company has advised for out of court settlement and the expected compensation is Rs. 1 million. (04)

c) During the last month of the year the company sold Rs. 1.5 million goods under warranty of six months. The provision has been recognized for the expected claims at Rs. 0.2 million, but the claims have soared to Rs. 0.3 million in the first three months. The management has decided to revise the amount of provision to Rs. 0.5 million. (04)

d) The entity has recognized the provision against dismantling and site restoration for Rs. 0.25 million. After the year end a new technology has been introduced, which has resulted in revision in expected cash outflows relating to dismantling and site restoration, which ultimately changed the present value of provision to be recognized. (03)

QUESTION NO.11
M/S Quality Products Limited (QPL) is in the process of finalizing the financial statements for the year ended December 31, 2013 and came across the following problems. The profit before the following adjustments is Rs. 1,250,250. The authorization date for the financial statements is March 31, 2014.

a) The tax rate applicable to the company has been changed from 35% to 34% on January 15, 2014.

b) Major fire broke out in the factory on February 15, 2014 and destroyed the stock valuing Rs. 50,000, the sale value of which is now nil.

c) A debtor from whom Rs. 30,000 were due went bankrupt because of a severe fire broke out in his factory on March 19, 2014.

d) Mr. Jamil an old customer lodged a claim for Rs. 20,000 against the company for loss of his health because of a medicine marketed by the company on January
15, 2014. The legal advisor is of the opinion that there is no chance of acceptance of claim.

e) The auditors of the company detected a fraud on March 15, 2014, the financial impact of which is Rs. 15,000 by the accountant of the company. The accountant resigned in February 2014. The amount defraud prior to year end is Rs. 5,000.

**Required:** Calculate the revised profit for the year after adjusting the impact of above events after the reporting date? (13)

**QUESTION NO.12**
Discuss the accounting treatment of the following:

a) The entity is an importer and whole seller of cell phones and normally maintains an inventory of fifteen to thirty days. A new competitor has entered into market after the year end which forced the entity to reduce the sale price even below cost. The information of new entrant was in existence at the reporting date.

b) The entity is calculating its deferred tax for financial year 2014, the Government has issued finance act 2014 in June 2014 in which it has changed the tax rate from 34% to 33% for companies in the tax year 2015. The current year current tax will however, be calculated at 34%.

c) The entity was reviewing the useful life of its property, plant and equipment at the year end and changed from 10 years to 8 years. The directors argue that the change in life will affect the calculation of depreciation for the next year and not the current year.

d) The entity also took certain Government construction projects in the previous year which are continuing in the current year as well. The entity was using survey method for calculating stage of completion but in the current year the project manager said the cost to cost basis will be more relevant. The directors argue that the prior year financial statements must also be changed retrospectively.

**QUESTION NO.13**
At the end of the year of an entity the following points are required to be resolved.

a) During the year entity sold goods Rs. 100,000 on credit to a customer but the party did not pay even after the year end and entity decided to initiate legal proceedings against the customer. The court confirmed the claim up to 70% of the amount due. The entity has created a provision of 100% of the amount due on the reporting date.

b) The fair value of investments held at the reporting date was Rs. 1.2 million, after the reporting date but before the authorization of financial statements the fair value has changed to Rs. 1.5 million.

c) The tax rate applicable for the entity for the tax year 2014 was 34% but after the year end the Government imposed additional 5% food surcharge for the year ended June 30, 2014.

d) The entity sells readymade garments, one of its customer filed legal claim for recovery of Rs. 1 million because his cloths were not properly stitched and people made fun of him in a family get together. The entity’s lawyer at the reporting date was of the view that there was a remote chance of acceptance of claim by the court. However after the year end but before the reporting date the court confirmed damages of Rs. 100,000.

**Required:** discuss the impact of above events on the financial statements for the year ended June 30, 2014? (10)

**QUESTION NO.14**
The following events have been identified by the auditors after the year end of the company.

a) One of the cases filed against the company by the income tax department before the Honorable Appellate Tribunal has been decided against the company, which has resulted in recognition of additional income tax amounting to Rs. 2 million, but no provision has been made by the company.

b) During the year company was sued by one of its old employees from terminating the job. The company has created no provision against that case but company’s legal advisor is of the opinion that the case may be decided in the favor of employee and company will be required to pay compensation amounting to Rs. 1.5 million.

c) The income tax rate has been changed through finance act passed before the yearend but the deferred tax provision is calculated on the old income tax rate. The difference in rate will result in recognition of extra deferred tax expense of Rs. 1.75 million.

d) The company has issued bonus shares after the year end but the basic and dilution earning per share is based on the old number of shares.

e) One of the operations of the company has been decided by the board of directors to be discontinued being loss making. The decision was taken before the yearend but communicated publically after the yearend. The operation is still presented as part of continuing operations in financial statements.

Required: Discuss the effect of above events on current year financial statements? (15)

QUESTION NO.15

You have been recently appointed the chief accountant of a listed company and have been asked to assist the auditors in the annual audit of the company. The audit trainee has given you the following list of outstanding points.

a) There has been sale of inventory after the year end at below cost price and inventory is appearing at cost in the statement of financial position. When you enquired from the relevant staff then you came to know that a new competitor entered in the market after the year end because of which the inventory was sold at below the cost price.

b) The company has not created a provision for a case pending before the honorable High Court, Karachi. You approached the legal advisor, who responded that an old employee of the company has filed this case being aggrieved because he was terminated in the last year. The legal advisor was of the opinion that there is remote chance that the claim will be awarded to him.

c) The company has offered right shares to its shareholders after the year but the share capital has not been changed accordingly.

d) The company has not written off a debtor from its books even the said party has been declared bankrupt by the Honorable Court. When you enquired, you came to know that said debtor was considered good at the reporting date but after the year end a major fire broke out at his factory and destroyed everything.

e) Mr. Jamil is the major supplier of the raw material of your company but has not been disclosed as related party in the financial statements.

Discuss the accounting treatment of above in the audited financial statements of the company (15)

QUESTION NO.16
Define the following and discuss the accounting treatment with relevant examples?

(10)

a) Events after the reporting date
b) Going concern
c) Authorization date
d) Dividends
ANSWERS TO PRACTICE QUESTIONS

ANSWER NO. 1

Total value of goods eligible  
Calculation of provision
On 80% goods  
On 10% goods which can be sold at original sale price
(125,000x25/125)
On 10% which have no sale value
Total
Rs.
1,250,000
NIL
25,000
125,000
150,000

ANSWER NO. 2

1) This will be an adjusting event and the investment in the subsidiary will be reduced to its recoverable value i.e. 18.75 million.
2) The enterprise should recognize the provision of Rs. 50,000 at the year end. The confirmation of claim is an adjusting event.
3) This will be a non-adjusting event and if the is material then both amount of loss and insurance claim to be disclosed in the financial statements.
4) The relocation cost does not qualify to be recognized as provision relating to discontinued operations. The expense has not been incurred at the year end, therefore, nothing to be recognized in the current year.
5) This will be a non-adjusting event as the event is isolated and this has never occurred in the past. The damages paid will be taken in the profit and loss account in the period of payment.

ANSWER NO.3

Management should include 22,680,000, the net present value of the decommissioning cost, in the carrying amount of the oilrig at the time of its installation. A provision for 22,680,000 is created because the obligating event is the installation of the oilrig. The amount included in PPE will be depreciated with the rest of the cost of the oilrig in the usual way. The accretion of the discount after the initial recognition of the provision should be recognized as interest expense.

The double entry required for the recognition of the asset and the liability will be:

Dr PPE – plant and machinery  22,680,000
Cr Provision - decommissioning  22,680,000

ANSWER NO. 4

Calculation of provision:
Provision for full refund policy is only of unrealized profit  
Provision for repair and maintenance
Rs.
125,000
200,000
325,000
ANSWER NO. 5

a) The provision will be required for court fees of Rs. 100,000 and provision for replacement amounting to Rs. 400,000 will also be recognized which result in total provision of Rs. 500,000.

b) Provision required is as under:

- Total items can be returned: 600
- Provision for repair (600/3 x 1,000) = Rs. 200,000
- Provision for replacement (660x2/3 x 10,000) = Rs. 4,000,000

Total provision is: Rs. 4,200,000

c) The provision will be recognized at lower of the following:

I. Exit damages payable Rs. 300,000
II. Loss on production (500 x 2,000) Rs. 1,000,000

Therefore, the provision should be recognized of Rs. 300,000 and contract should be cancelled.

ANSWER NO. 6

This question relate to events after the reporting date under IAS -10. These are the events which occur after the reporting date but before the authorization date of financial statements. These events are categorized as adjusting and non-adjusting. The events which confirm the conditions existing on the reporting date are adjusting and those which are independent of the conditions existing on the reporting date are non-adjusting events. The solution to different situations in the question is as under:

a) The cash generating unit will be written down to recoverable value as the flood came in early June, which is before the year end and condition exist on reporting date, however, the cash generating unit will not be classified as discontinued operation under IFRS 5 as the decision to dispose off was taken after the reporting date.

b) As the information relating to the competitor was not available at the year end and the event arises after the reporting date, the event is non-adjusting and no provision relating to redundancy will be created. The said business will also not be classified as discontinued operation.

c) The event is adjusting event and provision will also be restated to Rs. 10 million. The appeal status will be disclosed in notes.

d) The event is an adjusting one and assets should be written off and whole amount of loss should be charged to income statement. The recovery of claim from insurance company has not been confirmed if the chances are probable it can only be disclosed in the notes to accounts.

ANSWER NO. 7

This question relates with the events occurring after the reporting date. The events are discussed hereunder whether adjusting or non-adjusting.

a) The entity should adjust the amount of provision as the condition exists at the reporting date and the court decision has confirmed the penalty.

b) The event is adjusting and the inventory should be written down to Rs. 5.5 million.

c) The event is non-adjusting as the tax rate has been enacted after the reporting date.
d) The final dividend will be recorded in the next year and it is a non-adjusting event.

**ANSWER NO.9**

a) The company should recognize the full provision as the obligating event exists at the reporting date. The provision should be recognized for the full amount of Rs. 2 million.

b) As the plan has not been formerly announced by the year end therefore the obligating event does not exist at the reporting date and provision should not be recognized at the year end.

c) The company should derecognize the investments and the proportionate amount of loan settled by the bank, as the right to offset exists at the reporting date.

d) The write down in investments should be recognized as losses but only up to the fair value at the reporting date i.e. Rs. 15.5 million. The decline in market value after the reporting date is not an adjusting event.

e) As the obligating event exists at the reporting date therefore the provision for penalty should be recognized at the year end.

**ANSWER NO.10**

a) The tax rates announced after the yearend are not applicable and do not effects the tax calculation, whether current or deferred.

b) Although the goods are sold before the yearend but chances of occurrence considered were remote, further the explosion also occurred after the yearend. Therefore, there is no need to recognize the provision.

c) The provision should be revised and updated in the financial statements, a further expense of Rs. 0.3 million should be recognized.

d) The amount of provision should be revised and updated according to new information and reduction in provision should be incorporated in the current year financial statements.

**ANSWER NO.11**

<table>
<thead>
<tr>
<th></th>
<th>Rs.</th>
<th>Rs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Draft profit for the year</td>
<td>1,250,250</td>
<td></td>
</tr>
<tr>
<td>Add:</td>
<td></td>
<td>--</td>
</tr>
<tr>
<td>Less: Fraud</td>
<td>(10,000)</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>1,240,250</td>
</tr>
</tbody>
</table>

Note: All other events after the reporting date are non-adjusting and can only be disclosed in the financial statements if considered material.

**ANSWER NO. 12**

a) This is an adjusting event as the information of competitor exists on the reporting date therefore, the inventory should be written down to NRV and loss should be recognized in the current financial year.

b) As the deferred tax is tax of future years therefore the applicable tax rate for deferred tax will be 33% because the rate exists at the reporting date.
c) The change in accounting estimate is applicable on the year of change and on future years.
d) The change in method of calculation of stage of completion is also change in accounting estimate and is applicable on the year of change on future years.

**ANSWER NO. 13**
a) This is an adjusting event. As the court has confirmed the recovery up to 70% of the amount due therefore the debtor should be written off up to 30% of the amount due and provision in total should be reversed.

The double entry will be:

- **Provision for doubtful account** 100,000
- **Debtors account** 30,000
- **Profit or loss account** 70,000

b) This event is non adjusting event and will not affect the fair value of the date of reporting. The fair value is a point of time value and reflects the facts and circumstances of the particular date.

c) The change in tax rate or imposition of surcharge will also be a non-adjusting event and will not change the calculation of current or deferred tax because taxes are calculated according to the tax rate applicable on the reporting date.

d) The entity should create a provision of Rs. 100,000 as there is a probable chance that the claim will be accepted by court up to said amount.

**ANSWER NO. 14**
a) This is an example of an adjusting event and provision for additional tax should be recognized immediately amounting to Rs. 2 million as the cases have been filed against the company before the end of current year.

b) This is also an example of adjusting event and provision should be recognized amounting to Rs. 1.5 million as the legal advisor is of the opinion that there is a probable chance of awarding compensation to the employee.

c) The company should recognize the additional deferred tax expense because IAS 12 required that the deferred tax should be recognized at the tax rate substantively enacted by the reporting date. The additional deferred tax will result in decrease in profit and increase in provision for deferred tax for Rs. 1.75 million.

d) The bonus issue after the year end is an adjusting event for calculation of basic and dilutive earning per share (EPS) even announced after the year end. Therefore, not only the EPS both basic and dilutive of current year but previous year also will be recalculated after considering the bonus issue.

e) The operation will continue to be presented as continuing in the current year because the decision was announced after the year end, however, in the next year it will be presented as discontinued in the current year.

**ANSWER NO. 15**
a) This is an example of a non adjusting event as the competitor entered in the market after year end. Therefore, the inventory should remain at the cost and not reduced to net realizable value.
b) This is an example of a contingent liability but as the chances are remote, it will not be recognized or disclosed in the financial statements.

c) The right issue after year end is a non adjusting event and the share capital should not be changed.

d) This is also an example of a non adjusting event as the condition relating to this default does not exist at the reporting date. However, if the material amount is outstanding against this debtor it can be disclosed in the financial statements.

e) The major suppliers and customers are not related parties as normally they are not in a position to effect the decision making process of the entity.

ANSWER NO. 16

a) Events after the reporting date are favorable or un-favorable occur between the reporting date and authorization date of financial statements. They can be adjusting if confirm the conditions existing at the reporting date and non-adjusting events are those which are independent of the conditions of the reporting date. Examples of adjusting events are bad debts, change in the value of provision, examples of non-adjusting events are changes in the tax rates and value of investments.

b) Going concern means that entity will continue its operations in the foreseeable future and neither the management nor the circumstances are such that entity would not be to continue. If the entity is not going concern it has to prepare its financial statements on realizable value basis.

c) The date on which the governing body of the company normally the board of directors authorize the issuance of financial statements.

d) Dividends are the distribution to owners and recognized directly in the statement of changes in equity. The interim dividends declared in the year are recognized in the year in which they are declared and final dividend for the year is recognized in the year following the relevant year.
INTRODUCTION
On 30 November 2006, the International Accounting Standards Board issued IFRS 8 Operating Segments, which replaces IAS 14 Segment Reporting. IFRS 8 is mandatory for annual financial statements for periods beginning on or after 1 January 2009, although earlier application is permitted. Once IFRS 8 is effective, segment reporting under International Financial Reporting Standards and US Generally Accepted Accounting Principles will be converged except for some minor differences.

Identifying segments
IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the entity that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance. IFRS 8 states that a component of an entity that sells primarily or exclusively to other operating segments of the entity will meet the definition of an operating segment if the entity is managed that way.

Measurement of segment information
The IFRS requires the amount reported for each segment item to be the measure reported to the chief operating decision maker for the purposes of allocating resources to that segment and assessing its performance.

Disclosure
Disclosures include information about how the entity identifies its operating segments and the types of products and services from which each segment derives its revenues.
Interest revenue and interest expense must be reported separately for each reportable segment, if the amounts are included in the measure of segment profit or loss, or are otherwise regularly reported to the chief operating decision maker, unless the majority of the segment’s revenues are from interest and the chief operating decision maker relies primarily on net interest revenue when making resource allocation decisions and to assess segment performance.

Core principle
IFRS 8’s core principle is that an entity should disclose information to enable users of its financial statements to evaluate the nature and financial effects of the types of business activities in which it engages and the economic environments in which it operates. The Board does not elaborate on this core principle, but it is consistent with the Objective and Basic Principle in the US standard on this topic (SFAS 131 Disclosures about Segments of an Enterprise and Related Information), and with the broader objectives of financial reporting discussed in the IASB’s Framework for the Preparation and Presentation of Financial Statements.

Scope
IFRS 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.
However, when both separate and consolidated financial statements for the parent are presented in a single financial report, segment information need be presented only on the basis of the consolidated financial statements.

**Operating segments**

IFRS 8 defines an operating segment as follows.

An operating segment is a component of an entity:

- That engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity);
- Whose operating results are reviewed regularly by the entity’s chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance; and
- For which discrete financial information is available.

Not all operations of an entity will necessarily be an operating segment (nor part of one). For example, the corporate headquarters or some functional departments may not earn revenues or they may earn revenues that are only incidental to the activities of the entity. These would not be operating segments. In addition, IFRS 8 states specifically that an entity’s post-retirement benefit plans are not operating segments.

**Reportable segments**

**Aggregation Criteria**

Operating segments often exhibit similar long-term financial performance if they have similar economic characteristics. For example, similar long-term average gross margins for two operating segments would be expected if their economic characteristics were similar. Two or more operating segments may be aggregated into a single operating segment if aggregation is consistent with the core principle of this IFRS, the segments have similar economic characteristics, and the segments are similar in each of the following respects:

(a) the nature of the products and services;
(b) the nature of the production processes;
(c) the type or class of customer for their products and services;
(d) the methods used to distribute their products or provide their services; and
(e) if applicable, the nature of the regulatory environment, for example, banking, insurance or public utilities.

**Quantitative thresholds and aggregation**

Segment information is required to be disclosed about any operating segment that meets any of the following quantitative thresholds:

- its reported revenue, from both external customers and inter segment 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 (i) the combined reported profit of all operating segments that did not report a loss and (ii) 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. If the total external revenue reported by operating segments constitutes less than 75 per cent of the entity’s revenue, additional operating
segments must be identified as reportable segments (even if they do not meet the quantitative thresholds set out above) until at least 75 per cent of the entity’s revenue is included in reportable segments.

**Disclosure**

The disclosure principle in IFRS 8 is that an entity should disclose ‘information to enable users of its financial statements to evaluate the nature and financial effects of the types of business activities in which it engages and the economic environments in which it operates.’

**In meeting this principle, an entity must disclose:**

- General information about how the entity identified its operating segments and the types of products and services from which each operating segment derives its revenues;
- Information about the reported segment profit or loss, including certain specified revenues and expenses included in segment profit or loss, segment assets and segment liabilities and the basis of measurement; and
- Reconciliation of the totals of segment revenues, reported segment profit or loss, segment assets, segment liabilities and other material items to corresponding items in the entity’s financial statements.

In addition, there are prescribed entity-wide disclosures that are required even when an entity has only one reportable segment. These include information about each product and service or groups of products and services. Analyses of revenues and certain non-current assets by geographical area are required – with an expanded requirement to disclose revenues/assets by individual foreign country (if material), irrespective of the identification of operating segments. If the information necessary for these analyses is not available, and the cost to develop it would be excessive, that fact must be disclosed.

The Standard has also introduced a requirement to disclose information about transactions with major customers. If revenues from transactions with a single external customer amount to 10 per cent or more of the entity’s revenues, the total amount of revenue from each such customer and the segment or segments in which those revenues are reported must be disclosed. The entity need not disclose the identity of a major customer, nor the amount of revenues that each segment reports from that customer. For this purpose, a group of entities known to the reporting entity to be under common control will be considered a single customer, and a government and entities known to the reporting entity to be under the control of that government will considered to be a single customer.
Diagram for identifying reportable segments

1. Identify operating segments based on management reporting system (paragraphs 5-10)

2. Do some operating segments meet all aggregation criteria? (paragraph 12)
   - Yes: Aggregate segments if desired
   - No: Do some operating segments meet the quantitative thresholds? (paragraph 13)

3. Do some operating segments meet the quantitative thresholds? (paragraph 13)
   - Yes: Aggregate segments if desired
   - No: Do some remaining operating segments meet a majority of the aggregation criteria? (paragraph 14)

4. Do some remaining operating segments meet a majority of the aggregation criteria? (paragraph 14)
   - Yes: Do identified reportable segments account for 75 per cent of the entity’s revenue? (paragraph 15)
   - No: Report additional segment if external revenue of all segments is less than 75 per cent of the entity’s revenue (paragraph 15)

5. Do identified reportable segments account for 75 per cent of the entity’s revenue? (paragraph 15)
   - Yes: These are reportable segments to be disclosed
   - No: Aggregate remaining segments into ‘all other segments’ category (paragraph 16)
PAST PAPERS

Q.1
(a) Specify the criteria for identification of operating segments, in accordance with the International Financial Reporting Standards. (03 marks)
(b) Jay Limited is an integrated manufacturing company with five operating segments. Following information pertains to the year ended 31 March 2012:

<table>
<thead>
<tr>
<th>Operating segments</th>
<th>Internet revenue</th>
<th>External revenue</th>
<th>Total revenue</th>
<th>Profit/(loss)</th>
<th>Assets</th>
<th>Liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>38</td>
<td>705</td>
<td>743</td>
<td>194</td>
<td>200</td>
<td>130</td>
</tr>
<tr>
<td>B</td>
<td>-</td>
<td>82</td>
<td>82</td>
<td>(22)</td>
<td>44</td>
<td>40</td>
</tr>
<tr>
<td>C</td>
<td>-</td>
<td>300</td>
<td>300</td>
<td>81</td>
<td>206</td>
<td>125</td>
</tr>
<tr>
<td>D</td>
<td>35</td>
<td>-</td>
<td>35</td>
<td>10</td>
<td>75</td>
<td>60</td>
</tr>
<tr>
<td>E</td>
<td>38</td>
<td>90</td>
<td>128</td>
<td>(63)</td>
<td>50</td>
<td>25</td>
</tr>
<tr>
<td>Total</td>
<td>111</td>
<td>1,177</td>
<td>1,288</td>
<td>200</td>
<td>575</td>
<td>380</td>
</tr>
</tbody>
</table>

Required:
In respect of each operating segment explain whether it is a reportable segment. (09 marks)

Q-2
Gohar Limited (GL), a listed company, is engaged in chemical, soda ash, polyester, paints and pharma business. Results of each business for the year ended March 31, 2015 as follows:

<table>
<thead>
<tr>
<th>Business</th>
<th>Sales (Rs. m)</th>
<th>Gross profit (Rs. m)</th>
<th>Operating expenses (Rs. m)</th>
<th>Assets (Rs. m)</th>
<th>Liabilities (Rs. m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chemicals</td>
<td>1,790</td>
<td>1,101</td>
<td>63</td>
<td>637</td>
<td>442</td>
</tr>
<tr>
<td>Soda ash</td>
<td>216</td>
<td>117</td>
<td>57</td>
<td>444</td>
<td>355</td>
</tr>
<tr>
<td>Polyester</td>
<td>227</td>
<td>48</td>
<td>23</td>
<td>115</td>
<td>94</td>
</tr>
<tr>
<td>Paints</td>
<td>247</td>
<td>26</td>
<td>16</td>
<td>127</td>
<td>108</td>
</tr>
<tr>
<td>Pharma</td>
<td>252</td>
<td>31</td>
<td>12</td>
<td>132</td>
<td>98</td>
</tr>
</tbody>
</table>

Inter – segment sale by chemicals to polyester and soda ash is Rs. 28 million and Rs. 10 million respectively at a contribution margin of 30%. Operating expenses include GL’s head office expenses amounting to Rs. 75 million which have not been allocated to any segment. Furthermore, assets and liabilities amounting to Rs. 150 million and Rs. 27 million have not been reported in the assets and liabilities of any segment.

Required: -
In accordance with the requirements of International Financial Reporting Standards:
(a) determine the reportable segments of Gohar Limited; and (07)
(b) show how these reportable segments and the necessary reconciliation would be disclosed in GL’s financial statements for the year ended 31 March 2015.
A-1
(a) An operating segment is a component of an entity:
- That engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity);
- Whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess the performance; and
- For which discrete financial information is available.

- A business activity which has yet to earn revenues, such as a start-up, is an operating segment if it is separately reported on to the chief operating decision maker.

(b) As Jay Limited has both profit and loss making segments, the result of those in profit and those in loss must be totaled to see which is the greater:

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Profits (194+81 + 10)</td>
<td>285</td>
</tr>
<tr>
<td></td>
<td>Losses (22+63)</td>
<td>(85)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>200</td>
</tr>
</tbody>
</table>

So the 10% of profit or loss test must be applied by reference to Rs. 285 million.

<table>
<thead>
<tr>
<th>Segment</th>
<th>Reportable (Yes / No)</th>
<th>Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>Yes</td>
<td>Because it generates more than 10% of revenue.</td>
</tr>
<tr>
<td>B</td>
<td>No</td>
<td>Because it fails to meet any of the criteria specified in IFRS-8</td>
</tr>
<tr>
<td>C</td>
<td>Yes</td>
<td>Because it generates more than 10% of revenue.</td>
</tr>
<tr>
<td>D</td>
<td>Yes</td>
<td>Because it has more than 10% of assets.</td>
</tr>
<tr>
<td>E</td>
<td>Yes</td>
<td>Because its losses are more than 10% of absolute profit.</td>
</tr>
</tbody>
</table>

Check the 75% test is satisfied: \((705+300+90)/1,177 = 93%\)

A-2
(a) Determination of reportable segment

<table>
<thead>
<tr>
<th></th>
<th>Chemicals Rs. (m)</th>
<th>Soda ash Rs. (m)</th>
<th>Polyester Rs. (m)</th>
<th>Paints Rs. (m)</th>
<th>Pharma Rs. (m)</th>
<th>Total Rs. (m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>1,790</td>
<td>216</td>
<td>227</td>
<td>247</td>
<td>252</td>
<td>2,732</td>
</tr>
<tr>
<td>Less inter segment sales</td>
<td>(38)</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>Sales to external parties</td>
<td>1,752</td>
<td>216</td>
<td>227</td>
<td>247</td>
<td>252</td>
<td>2,694</td>
</tr>
<tr>
<td>Gross profit</td>
<td>1,101</td>
<td>117</td>
<td>48</td>
<td>26</td>
<td>31</td>
<td>1,323</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>(63)</td>
<td>(57)</td>
<td>(23)</td>
<td>(16)</td>
<td>(12)</td>
<td>(171)</td>
</tr>
<tr>
<td>Profit before tax</td>
<td>1,038</td>
<td>60</td>
<td>25</td>
<td>10</td>
<td>19</td>
<td>1,152</td>
</tr>
<tr>
<td>Assets</td>
<td>637</td>
<td>444</td>
<td>115</td>
<td>127</td>
<td>132</td>
<td>1,455</td>
</tr>
</tbody>
</table>
Criteria for reportable segment identification | Reporting segment identified | External sales identified
--- | --- | ---
1 | 10% of sales i.e. Rs. 373.2 million | Chemicals | 65.03%
2 | 10% of PBT i.e. Rs. 115.2 million | -- | --
3 | 10% of assets i.e. Rs. 145.5 million | Soda ash | 8.02% 73.05%

Further segments need to be identified

4 | Highest in terms of external sales | Pharma | 9.22%

82.27%

b) Disclosure in the financial statements of Gohar Limited

Operating segment results

<table>
<thead>
<tr>
<th>Chemicals</th>
<th>Soda ash</th>
<th>Pharma</th>
<th>others</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rs. (m)</td>
<td>Rs. (m)</td>
<td>Rs. (m)</td>
<td>Rs. (m)</td>
<td>Rs. (m)</td>
</tr>
<tr>
<td>Revenue from external customers</td>
<td>1,752</td>
<td>216</td>
<td>252</td>
<td>474</td>
</tr>
<tr>
<td>Inter segment sales</td>
<td>38</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenue from reportable segment</td>
<td>1,790</td>
<td>216</td>
<td>252</td>
<td></td>
</tr>
</tbody>
</table>

Other information

<table>
<thead>
<tr>
<th></th>
<th>Operating expenses</th>
<th>Revenue from external customers</th>
<th>Inter segment sales</th>
<th>Revenue from reportable segment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating expenses</td>
<td>63</td>
<td>216</td>
<td></td>
<td>252</td>
</tr>
<tr>
<td>Segment profit before tax</td>
<td>1,038</td>
<td></td>
<td></td>
<td>38</td>
</tr>
<tr>
<td>Segment assets</td>
<td>637</td>
<td></td>
<td></td>
<td>1,455</td>
</tr>
<tr>
<td>Segment liabilities</td>
<td>442</td>
<td></td>
<td></td>
<td>1,097</td>
</tr>
</tbody>
</table>

34.1 Reconciliation of reportable segment revenue, profits or losses and liabilities

<table>
<thead>
<tr>
<th></th>
<th>Reportable segment total</th>
<th>Other than reportable segment total</th>
<th>Elimination of inter segment transactions</th>
<th>Other adjustments</th>
<th>Gohar Limited total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>2,258</td>
<td>474</td>
<td>(38)</td>
<td>--</td>
<td>2,694</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>132</td>
<td>39</td>
<td>--</td>
<td>75</td>
<td>246</td>
</tr>
<tr>
<td>Segment profit before tax</td>
<td>1,117</td>
<td>35</td>
<td>(11)</td>
<td>(75)</td>
<td>1,066</td>
</tr>
<tr>
<td>Segment assets</td>
<td>1,213</td>
<td>242</td>
<td>--</td>
<td>150</td>
<td>1,605</td>
</tr>
<tr>
<td>Segment liabilities</td>
<td>895</td>
<td>202</td>
<td>--</td>
<td>27</td>
<td>1,124</td>
</tr>
</tbody>
</table>