



The Pakistan Accountant

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Editorial

This issue of 'Pakistan Accountant' is a milestone in the series of publication by the Institute. In its 177th meeting, the Council of the Institute has decided that the Institute's President be the Editor of the magazine. Underlying objective of this decision is to demonstrate Council's ownership for this important organ of the Institute. This step does not, in any manner denote a slightest doubt on the quality assurance by the Publications Committee, whose Chairman acted as 'Editor' in the past. That role has been retained as Joint Editor. This represents recognition of this important function of the Institute. In this age of knowledge dissemination there is a need for greater emphasis on publications. From now onwards the President and the Chairman of the Publications Committee would work as a team for this magazine, so that Institute strategies and actions are speedily reflected in the publications. It is reiterated that it is the Council's decision to support the efforts of the publication. Personal identification of the services rendered for the Institute has never been the intention of worthy Council Member's however it would not be unfair to appreciate the efforts of Mr. Abdul Rahim Suriya (Chairman, Publications Committee) and Mr. Ahmad Saeed (Vice President – South) in the past. We anticipate their continued support and zeal.

This edition is a special issue dealing with International Financial Reporting Standards (IFRSs). Importance and the need for this principal subject are well known to our membership. I would like to reiterate my statement in the 'Annual Report 2005' that we all should acknowledge the vision and farsightedness of our past Councils in 1980s and 1990s in adopting the international standards. Their vision is now bearing fruits and Pakistani qualified accountants have edge over others primarily on account of their practical expertise in IFRSs. We should also acknowledge the progressive attitude of the Securities and Exchange Commission of Pakistan (SECP) in accepting the Institute's recommendations in that respect and incorporating the compliance to IFRSs as regulatory requirement for listed entities. This approach is now being adopted throughout the world and 'Convergence' to international standards is a main task for almost all the professional institutes in the world including India, UK and the US. Pakistan now possesses an added advantage as we are way ahead in this race. It should be our duty to capitalize this added advantage. We all should be proud of the comments recently made in a press interview by Mr. Graham Ward, President, International Federation of Accountants (IFAC). Mr. Ward has placed the accounting profession in Pakistan at a very high pedestal. We acknowledge the international recognition. Soon we have to materialize the object of making Pakistan a 'Centre of Excellence' in the Accounting Profession.

There are numerous benefits of a global financial reporting framework. These include:-

- ◆ Greater comparability of financial information for investors;
- ◆ Greater willingness for cross-border investment;
- ◆ Lowering the cost of capital; and
- ◆ Efficient allocation of international resources and high economic growth.

It is, however, important to note that these benefits can be fully realized by countries, like us, when we improve investment environment in our country for which there is a dire need to remove misperception about security and other issues in the country. On the international forum, restrictions on mobility of manpower and services need to be addressed.

Whilst fully acknowledging the importance of IFRSs, we should be fully conscious of the need for a proper accounting framework for small and medium sized enterprises (SMEs) which account for almost eighty five (85) percent of our Gross Domestic Products (GDP). Institute has already developed a standard on this matter, which is expected to be formalized through corporate regulations by June 30, 2006.

Hopefully, the first booklet of Members' Information and Education Series (MIES-1, Basel II, An Overview) will be in your hand at the end of this week. Institute will, very soon, release the second booklet under the Members' Information and Education Series (MIES). This booklet will be on the subject of '**Challenges and Successes in Implementing International Standards: Achieving Convergence to IFRS and ISAs**'. This booklet would, in principle, be the reproduction of the report of IFAC on the matter prepared by Mr. Peter H. Y. Wong of Hong Kong.

Institute has been advised by General Pervez Musharraf, President of Pakistan and Mr. Shaukat Aziz, Prime Minister of Pakistan to play an interactive role in Public Sector Accounting in the country. This is a very important subject for sustained economic development of the country. Mr. Ian Ball, Chief Executive of IFAC, who himself is a world expert on the subject, has accepted our invitation to visit Pakistan again in May/June 2006. We would dilate on the subject further in our future issues.

I conclude this editorial with best wishes for the readers and leave the other matters to be taken up by the Joint Editor.

Editor



International Financial Reporting Standards

by Joint Editor

This issue of Pakistan Accountant has been dedicated for IFRSs. Taking this opportunity, I would like to update our members and students as follows:

Statements of International Accounting Standards issued by the Board of the International Accounting Standards Committee (IASC) between 1973 and 2001 are designated "International Accounting Standards" (IASs).

The International Accounting Standards Board (IASB) announced in April 2001 that its accounting standards would be designated "International Financial Reporting Standards" (IFRSs). Also it was announced by IASB that it would adopt all of the International Accounting Standards issued by the IASC.

The Interpretations of International Accounting Standards issued by the International Financial Reporting Interpretations Committee (IFRIC) (formerly, the "Standing Interpretations Committee" (SIC)) do not have the same status as IAS, but, in accordance with IAS 1, Presentation of Financial Statements, paragraph 11, "financial statements should not be described as complying with International Accounting Standards unless they comply with all the requirements of each applicable Standard and each applicable interpretation of the Standing Interpretations Committee".

IFRS Status in Pakistan

International Accounting Standards Board has, so far, issued seven standards of IFRS series namely:

- IFRS 1 - First-time Adoption of International Financial Reporting Standards
- IFRS 2 - Share-based Payment
- IFRS 3 - Business Combinations
- IFRS 4 - Insurance Contracts
- IFRS 5 - Non-current Assets Held for Sale and Discontinued Operations
- IFRS 6 - Exploration for and Evaluation of Mineral Resources
- IFRS 7 - Financial Instruments: Disclosures

IASB while announcing the IFRS regime clarified that the

International Financial Reporting Standards (IFRS) would comprise of:-

- ◆ IFRSs;
- ◆ International Accounting Standards (IASs); and
- ◆ Interpretations originated by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee (SIC).

Current status of IAS/ IFRS which have not been adopted yet:

All IAS have been adopted by ICAP and notified by SECP for listed companies except for:

- ◆ IAS 29 - *Financial Reporting in Hyper- Inflationary Economies*
- ◆ IAS 41 - *Agriculture*
- ◆ IFRS 1 - *First-time Adoption of International Financial Reporting Standards*
- ◆ IFRS 2 - *Share-based Payment*
- ◆ IFRS 3 - *Business Combinations*
- ◆ IFRS 4 - *Insurance Contracts*
- ◆ IFRS 5 - *Non-current Assets Held for Sale and Discontinued Operations*
- ◆ IFRS 6 - *Exploration for and Evaluation of Mineral Resources*
- ◆ IFRS-7 - *Financial Instruments*

Few IAS have been adopted, but these are not (not fully implemented or are deferred for application in the country).

These include:

- ◆ IAS 39, which has been deferred by State Bank of Pakistan for financial entities falling under its purview as it has prescribed recognition and measurement criteria of financial instruments for such financial entities separately.
- ◆ IAS 40 that has been adopted but deferred by State Bank of Pakistan for financial entities falling under its purview.



- ◆ Another issue arising is that from the periods beginning on January 1, 2005, IAS 22 and 35 have been withdrawn by IASB. However, both IAS 22 and 35 will continue to be applicable in Pakistan until adoption of IFRS 3 and 5.

IFAC's Statement of Membership Obligations (SMOs):

SMO 7 on International Financial Reporting Standards requires that:

Member bodies of IFAC should support the work of the IASB by notifying their members of every IFRS. Member bodies should use their best endeavors:

- (a) To incorporate the requirements of IFRSs in their national accounting requirements, or where the responsibility for the

development of national accounting standards lies with third parties, to persuade those responsible for developing those requirements that general purpose financial statements should comply with IFRSs, or with local accounting standards that are converged with IFRS, and disclose the fact of such compliance; and

- (b) To assist with the implementation of IFRSs, or national accounting standards that incorporate IFRSs.

Conflicting Requirements of Local Regulations and IASs

At the moment, there are certain requirements of Companies Ordinance, 1984 and its Fourth Schedule that are in conflict with the requirements of IASs. These requirements are summarized in the following table:

Companies Ordinance, 1984	IAS/IFRS
Surplus on Revaluation of Fixed Assets shown in the balance-sheet after Capital and Reserves.	Credited directly to equity under the heading of revaluation surplus. (IAS 16.37)
Redeemable preference share classified as "Subscribed share capital". Redemption allowed only out of profits.	Classified as Financial Liability if it provides for mandatory redemption by the issuer for a fixed or determinable amount at a fixed or determinable future date etc. (IAS 32.22)

To facilitate application of Revised Fourth Schedule, transitional relaxation has been granted by the SECP to the listed companies for the following items:

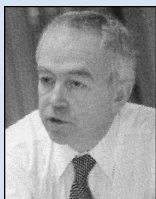
SECP Directive	IAS/IFRS
The Listed companies carrying deferred cost as on July 5, 2004 are allowed to treat such cost as per superceded Fourth Schedule. However, after July 5, 2004, any further deferral of costs will not be allowed.	The concept of deferred cost no more exists in the IAS.
The Listed companies having outstanding liabilities for foreign currency loans as on July 5, 2004 are allowed to capitalize fluctuation of exchange gain/ loss as per superceded Fourth Schedule upto 30th September 2007. Any exchange gain/loss on foreign currency loan contracted on or after July 5, 2004, will not be allowed to be capitalized.	The revised IAS 21 - The Effects of Changes in Foreign Exchange Rates (effective January 1, 2005) has withdrawn the requirement of old IAS 21, which allowed capitalization of exchange differences resulting from a severe devaluation or depreciation of currency.

The Regional Committees of ICAP have been organizing CPD programmes to appraise the members about recent development regarding IASs/IFRSs.

The Institute has reprinted the book on International Financial Reporting Standards after taking permission from IASB and is available for sale at Institutes' Offices.

Abdul Rahim Suriya
Joint Editor





Tweedie's perfect storm

*CFOs hit out against IFRSs at the end of August.
Sir David Tweedie answers the critics.*

Lesley Bolton

Sir David Tweedie sits comfortably in his office beneath a poster containing a headline from *The Scotsman*: 'The most hated accountant in Britain'. Nine months into the year when EU-listed companies had to begin using International Financial Reporting Standards (IFRS), the chairman of the International Accounting Standards Board (IASB) is sanguine about recent brickbats from companies struggling to make sense of the new requirements.

At the end of August, the chairman of the influential 100 Group of finance directors, Jon Symonds, complained that far from making accounts more transparent and easy to understand, IFRSs were producing information that just muddied the water.

'I understand his frustration,' says Tweedie. 'I'm glad it's not me. I wouldn't like to switch completely and utterly from UK standards that I've grown up with to a situation where suddenly they're all gone. We've never had to do that before. It's tough.'

'I suspect IAS 39 is interpreted by specialists within specialist departments. That means that about 1% of the profession understands it - that cannot be acceptable'

'This hasn't been an easy year. Embedding all these new systems and seeing numbers appear that you think, "goodness, where did that come from?" Well it comes from what the IASB inherited four years ago.

'We didn't choose the 2005 deadline. That was given to us. It gave us no time to sit back and make gradual changes. We had to get people ready for it. Had they chosen 2010 the standards would have been in better shape,' he says.

And of course it has all come in the same year as companies have had to comply with Sarbanes-Oxley, and a host of other regulations emanating from the EU. Almost a 'perfect storm', as Tweedie describes it.

Standard-setting begins now

For Tweedie, a watershed has been reached where the real standard-setting starts from now. He says that much of the grief being felt by companies is the result of a misconception that the

current IASB has written the standards. In fact most were inherited from the board's predecessor body, the International Accounting Standards Committee. In the past four years the IASB has been fixing and improving the inherited standards to meet the EU's deadline.

The biggest bugbear is the controversial financial instruments standard IAS 39, which is to be completely rewritten, and which Tweedie admits has been driving the IASB 'nuts' recently. 'We can't keep fixing this standard. We've got to change it. The longer we spend fiddling about with bits and pieces, we will never get anywhere. We're going to rewrite; we're going to move on.'

The project is part of a joint effort with the US's Financial Accounting Standards Board. As Tweedie explains, it is part of the 'roadmap' to equivalence with US standards (as a precursor to convergence) that will abolish the need for European companies listing in the US to reconcile to US GAAP by 2007-08 - a holy grail for the IASB.

However, in order for the US Securities and Exchange Commission to even begin to accept international standards, there had to be a standard on financial instruments and the inherited IAS 39 was it. 'Fair value was already in that. We have not added any more,' says Tweedie.

'People keep saying, you keep bringing in fair value. We didn't. The one bit of fair value we brought in was the fair value option. But it was an option. And people wanted it, because it removes a lot of the problems with hedging.

'Now what we've got to do is move forward from here. We need to get back to the sort of standards the UK understands.'

Principles v rules

Part of the challenge of the convergence project with the US is the conversion to principles-based standards. The problem with IAS 39 is that, in its size and complexity, with 200 Q&A, it actually resembles a US rules-based standard. Simplifying it means that judgments have to be made on the interpretation. This is a massive leap in imagination for a litigious country like the US.

Tweedie says: 'I suspect IAS 39 is interpreted by specialists within specialist departments. That means that about 1% of the profession understands it - that cannot be acceptable. We have got to replace

Executive Portrait

it with a standard that people feel intuitively has got the right answer and that means if they're principles-based, the only way we can make them non-complex is to have no exceptions.

That's what's wrong with IAS 39. It's got lots of exceptions and it's got exceptions to exceptions, and it ring-fences them and it just looks terribly complicated. We've got to get the standards back to the way the UK's once were where 98% of the people who want to use them understand them pretty easily.'

Performance reporting

Also known as reporting comprehensive income, performance reporting is one of the issues exercising CFOs. How do you present the information in the financial statements so that it improves its usefulness to users of the accounts?

Again a joint project has been established with the US. A joint international working group was set up to help the boards in December 2004. However, the first exposure draft is not due for publication until late this year.

While sympathetic to CFOs' concerns, Tweedie asks: 'Why have we got a controversy before an exposure draft is even out? And even if we had one out, it doesn't mean that it's a standard. We've changed standards before. We've reissued things.

'We just have to say, you tell us what you'd like and you tell us what's wrong with what we're doing. We don't need "form" letters - 100 letters all saying the same thing. One letter can change things. If we get a letter that says we think you're wrong and it contains a better idea, then we'll take it. Because what we're after is the right answer; we're not after our answer.'

He applies the same argument to the companies that maintain the IASB's approach does not reflect economic reality. 'What do they mean by that? Tell me the bit that's wrong.'

While the solutions don't come readily, according to Tweedie, 'now comes our big chance' 'We've picked 11 issues on the "roadmap", which are the big ones. They include consolidations, performance

reporting, financial instruments, insurance, pensions, leases and intangibles. Now's the chance to change them. But let's not forget the reason why we're doing all this. We don't want an accounting Tower of Babel out there. Everyone will benefit from the reduction in the cost of capital as the result of a transparent, global, single set of standards.'

First published in October 2005 issue of Accountancy Magazine (www.accountancymagazine.com) which is the journal of the Institute of Chartered Accountants in England & Wales.

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IASB and FASB will eventually merge, says Tweedie

International and US accounting standard-setters will eventually merge. This is the personal view of International Accounting Standards Board chairman Sir David Tweedie.

Tweedie, who has just under one more year of his current contract with the IASB to run, told Accountancy: 'US standards and ours will become so close that it will be senseless having two boards, and they will merge eventually'.

He explained that this wouldn't be in the near future but 'ultimately it doesn't make sense having two standards-setters producing the same standards'. He pointed out that the US represents half the world's capitalisation.

He said he had not made his mind up whether he would run for a second term. While there were 'certain other things' he would like to do, his job at the IASB 'isn't finished yet'. He would like to see through the abolition of the reconciliation to US GAAP, but conceded there were still many pressures from regional standard-setters. 'We could still lose it,' he told Accountancy.

Tweedie fielded criticisms voiced recently by UK companies which claim international standards are developing in the wrong direction and are producing confusing figures.

'The standards will be tough. We're dealing with some pretty complicated situations and we've got to try and make the standards understandable.' He urged companies: 'Join in. Say what you think. Don't just criticise. Say how you would do it. What we're after is the right answer; we're not after our answer.'

He told Accountancy that many of the problems emanated from inherited standards. 'We've come to a watershed now in the sense that our first four years weren't real standard-setting'.



IFRS 1 Adoption and Implementation in Pakistan

Maria Ahmed, ACA

Background

The Institute of Chartered Accountants of Pakistan (ICAP) has been a member of International Federation of Accountants (IFAC) since its inception and also its Committee International Accounting Standards Committee which later on became an independent organization as International Accounting Standards Board (IASB). The Institute has tried its level best to adopt all standards being issued by the two organizations except where a standard was in conflict with local corporate legal framework or was not very relevant to local environment. As a matter of fact where there was a conflict between a standard and local corporate framework, the Institute has tried to amend the latter and not the former.

In the year 2002, IASC was superseded by IASB which issued its first standard known as IFRS 1 in the year 2003 and has followed it by six more IFRS, none of which has so far been adopted by the Institute.

In this Article I have attempted to highlight the bottlenecks in adopting each IFRS particularly IFRS 1, the steps taken to overcome these bottlenecks and the progress made so far.

Why are we keen to adopt IAS / IFRS?

A question is often raised as to why we are keen to adopt IAS/ IFRS? The simple answer is that these standards are of high quality, understandable and enforceable. Application of these standards results in high quality, transparent and comparable information in the financial statements and helps the stakeholders in making economic decisions. It was for this reason that European Union also decided to adopt them from January 1, 2005 though every member country of EU had its own accounting standards which have now been superseded. Even the U.S FASB which considered its standards as very sacrosanct has come around and constituted a joint committee to converge the two set of standards.

International Financial Reporting Standards (IFRS)

IASB has so far issued seven standards of IFRS series namely:

IFRS 1 - First-time Adoption of International Financial Reporting Standards

IFRS 2 – Share-based Payment

IFRS 3 – Business Combinations

IFRS 4 – Insurance Contracts

IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations

IFRS 6 – Exploration for and Evaluation of Mineral Resources

IFRS 7 – Financial Instruments: Disclosures

IASB while announcing the IFRS regime clarified that the International Financial Reporting Standards (IFRS) would comprise of:

- ▶ IFRSs;
- ▶ International Accounting Standards (IASs); and
- ▶ Interpretations originated by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee (SIC).

One should therefore cast this doubt aside that the prefix of all "IAS" would be changed to "IFRS". In fact, the International Accounting Standards would continue to be referred to as "IAS", while all new IASB accounting standards will now be issued with the prefix "IFRS". For instance IAS 1 on Presentation of Financial Statements is still referred to as IAS 1 while IFRS 1 has been issued on the subject of First-time Adoption of International Financial Reporting Standards.

IFRS 1 - First-time Adoption of International Financial Reporting Standards

To start with, the ICAP should adopt IFRS 1 - First-time Adoption of International Financial Reporting Standards. This IFRS was issued by the IASB on June 19, 2003 and became effective for the financial statements covering periods beginning on or after January 01, 2004.



The key principle

The key principle of IFRS 1 is the requirement for full retrospective application of all IFRSs in force at the closing balance sheet date for the first IFRS financial statements. The first IFRS financial statements are to contain an "explicit and unreserved statement of compliance with IFRSs".

It may be argued that we are already complying with the International Accounting Standards as adopted by ICAP and notified by the SECP in the Official Gazette. It is feared that we may not be able to buy this argument anymore as IFRS 1 specifically mentions the following instances where the financial statements are not IFRS compliant despite application of IAS/IFRS because the entity presented its most recent previous financial statements:

- (i) under national requirements that are not consistent with IFRSs in all respects;
- (ii) in conformity with IFRSs in all respects, except that the financial statements did not contain an explicit and unreserved statement that they complied with IFRSs;
- (iii) containing an explicit statement of compliance with some, but not all, IFRSs;
- (iv) under national requirements inconsistent with IFRSs, using some individual IFRSs to account for items for which national requirements did not exist; or
- (v) under national requirements, with a reconciliation of some amounts to the amounts determined under IFRSs. (paragraph 3)

In light of the above, it appears that the financial statements currently being prepared in Pakistan are not IFRS compliant financial statements.

Current IAS Status

We are aware that all IAS have been adopted by ICAP and notified by SECP for listed companies except for:

- ▶ IAS 15 - Information Reflecting the Effects of Changing Prices: Compliance to this IAS is not mandatory as enterprises need not disclose the information required by IAS 15 in order that their financial statements conform with IAS.

Note: The International Accounting Standards Board had approved withdrawal of this IAS with effect from January 1, 2005.

- ▶ IAS 29 - Financial Reporting in Hyper- Inflationary Economies: IAS not relevant to the economic conditions of Pakistan as luckily we so far do not fall under the category of Hyperinflationary economies.

- ▶ IAS 41 - Agriculture: Adopted by the Institute, while SECP has declined to issue a notification regarding applicability of this IAS, taking the plea that time is not ripe for its application..

The Institute is currently considering six standards of IFRS series for adoption the status of which is given below:

- ▶ IFRS 2 - *Share-Based Payments*: recommended for adoption by the two Accounting and Auditing Standards Committees (AASCs) subject to necessary amendments in Public Companies (Employees Stock Option Scheme) Rules, 2001 issued by SECP.
- ▶ IFRS 3 - *Business Combinations*: recommended for adoption by the Professional Standards & Technical Advisory Committee (PS&TAC) as recommended by the two (AASC)s This IFRS supercedes IAS 22.
- ▶ IFRS 4 - *Insurance Contracts*: would necessitate amendments in Insurance Ordinance, 2000 and Regulations; deferred till finalization of phase II of the IASB's Insurance Project in order that all proposed amendments (resulting from the Insurance Project) are taken care of simultaneously.
- ▶ IFRS 5 - *Non-current Assets Held for Sale and Discontinued Operations*: recommended for adoption by the PS&TAC as recommended by the two (AASC)s. This IFRS supercedes IAS 35.
- ▶ IFRS 6 - *Exploration for and Evaluation of Mineral Resources*: approved for adoption by the PS&TAC as recommended by the two (AASC)s.
- ▶ IFRS 7 - *Financial Instruments: Disclosures*: being considered for adoption by the two AASCs. This IFRS supercedes IAS 30 and part of IAS 32 and will be effective from January 1, 2007.

The PS&TAC has already exposed IFRS 3, 5 and 6 to its members to seek their comments on proposed adoption of these IFRS. IFRS 2 will be exposed in January 2006.

IFRS 1 will be considered for adoption after we comply with the "key principle" stated earlier.



International Financial Reporting Standards

Even in case of IAS, there are a few exceptions, meaning that though an IAS has been adopted, it is not fully implemented or is deferred for application in the country. These include:

- ▶ IAS 39, which has been deferred by the State Bank of Pakistan for financial entities falling under its purview as it has prescribed its own recognition and measurement criteria for financial instruments for such financial entities separately.
- ▶ IAS 40 that has been adopted but deferred by the State Bank of Pakistan for financial entities falling under its purview.

Another issue arising is that from the periods beginning on January 1, 2005, IAS 22 and 35 have been withdrawn by IASB. However, both IAS 22 and 35 will continue to be applicable in Pakistan until adoption of IFRS 3 and 5.

Optional Exemptions and Mandatory Exceptions offered by IFRS 1

Coming back to IFRS 1, there are six optional exemptions that reduce the burden of retrospective application where the costs might exceed the benefits to users, and three mandatory exceptions where retrospective application is not permitted. Companies face a challenging combination of retrospective application, optional exemptions and mandatory exceptions. The transition to IFRS will still be complex. Companies will need to make significant changes to existing policies in order to comply with more complex areas of the standards, including financial instruments, pensions, deferred tax, provisions etc. The new disclosure requirements of IFRSs may require some companies to collect additional information.

The Six Optional Exemptions from other IFRSs available at the date of transition to IFRSs that are permissible to a first time adopter. Some of these exemptions are:

A first time adopter:

- i) may elect not to apply IAS 22 retrospectively

Other features of IFRS 1

The opening IFRS balance sheet includes all the assets and liabilities required by IFRSs; excludes any assets and liabilities not permitted by IFRSs; classifies all assets, liabilities and equity in accordance with IFRSs; and measures all items in accordance with IFRSs.

Transition to IFRSs involves:

- a) selection of accounting policies that comply with IFRSs (paragraphs 7-9).
- b) preparation of an *opening IFRS balance sheet at the date of transition to IFRSs* as the starting point for subsequent accounting under IFRSs (paragraphs 10-24). The date of transition to IFRSs is the beginning of the earliest comparative period presented in an entity's first IFRS financial statements.
- c) determination of estimates under IFRSs for both the opening IFRS balance sheet and other periods presented in an entity's first IFRS financial statements (paragraphs 25-27).
- d) presentation and disclosure in an entity's first IFRS financial statements and interim financial reports paragraphs 28-37).

The transitional provisions in some IFRSs apply to changes in accounting policies made by an entity that already uses IFRSs; they do not apply to a first time adopter's transition to IFRSs, except as specified in paragraphs 27-30 of the IFRS 1. (paragraph 9)

Same accounting policies shall be used in the opening IFRS balance sheet and throughout all periods presented in its first IFRS financial statements. Those accounting policies shall comply with each IFRS effective at the *reporting date* for its first IFRS financial statements except as specified in paragraph 13-34. (paragraph 7)

Different versions of IFRSs effective at earlier dates shall not be applied. (paragraph 8)

No exemptions from presentation and disclosure requirements in other IFRSs are provided in IFRS 1. (paragraph 35)

At least one year's comparative information under IFRSs shall be included in an entity's first IFRS financial statements. (paragraph 36)

Reconciliation of equity: An entity's first IFRS financial statements shall include reconciliation of its equity reported under previous GAAP to its equity under IFRSs for the date of transition to IFRSs and the end of the latest period presented in the entity's most recent annual financial statements under previous GAAP and reconciliation of its profit and loss reported under previous GAAP for the latest period in the entity's most recent annual financial statements to its profit and loss under IFRSs for the same period. (paragraph 39)

Interim financial reports shall disclose the same annual reconciliations as the annual financial statements. They also disclose a reconciliation of the net profit for the comparative interim period and of the equity at the end of that period. (paragraph 45)

Adjustments on applying IFRSs for the first time are required to be recorded in retained earnings or another equity category.



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to business combinations that occurred before the date of transition to IFRSs. (paragraph 15)

- ii) may elect to measure an item of property plant and equipment at its fair value as its deemed cost at that date and for each line item in the opening IFRS balance sheet, disclose the aggregate of those fair values and the aggregate adjustment to the carrying amounts reported under previous GAAP. (paragraphs 16 & 44)
- iii) may elect to recognize all cumulative actuarial gains and losses, even if it uses the corridor approach for later actuarial gains and losses. (paragraph 20)
- iv) need not comply with the requirements of IAS 21 "The Effects of Changes in Foreign Exchange Rates" for cumulative translation differences that existed at the transition date which means:
 - ▶ the cumulative translation differences for all foreign operations are deemed to be zero and
 - ▶ the gain or loss on a subsequent disposal of any foreign operation shall exclude translation differences that arose before the date of transition to IFRSs and shall include later translation differences. (paragraphs 21-22)
- v) need not separate the liability and equity component of a compound financial instrument, if the liability component is no longer outstanding at the date of transition to IFRSs. (paragraph 23)

The three Mandatory Exceptions include prohibition of retrospective application of de-recognition of financial assets and financial liabilities, Hedge accounting and Estimates. (paragraph 26)

Accounting Framework in Pakistan

The Institute, in its attempt to ensure compliance with the IAS/ IFRS, had issued the following new statement of compliance vide its Circular 01/2003 dated Feb 24, 2003:

"These financial statements have been prepared in accordance with approved

accounting standards as applicable in Pakistan and the requirements of Companies Ordinance, 1984. Approved accounting standards comprise of such International Accounting Standards as notified under the provisions of the Companies Ordinance, 1984. Wherever, the requirements of the Companies Ordinance, 1984 or directives issued by the Securities and Exchange Commission of Pakistan differ with the requirements of these standards, the requirements of Companies Ordinance, 1984 or the requirements of the said directives take precedence."

However, it is now felt that the above statement of compliance would not be sufficient to deal with the consequences of adoption of IFRS 1. Adoption of IFRS1 would not only affect the whole financial reporting framework being followed in Pakistan but it would also broaden the responsibilities of auditors for ensuring that each and every requirement of IAS/ IFRS and interpretations has been met, otherwise they would have to issue a qualified or disclaimer of opinion report.

Conflicting Requirements of Local Regulations and IAS

At the moment, there are certain requirements of Companies Ordinance, 1984 and its Fourth Schedule that are in conflict with the requirements of IAS. These requirements are summarized in the following table:

Companies Ordinance, 1984	IAS/IFRS
Surplus on Revaluation of Fixed Assets shown in the balance-sheet after Capital and Reserves.	Credited directly to equity under the heading of revaluation surplus. (IAS 16.37)
Redeemable preference share classified as "Subscribed share capital". Redemption allowed only out of profits.	Classified as Financial Liability if it provides for mandatory redemption by the issuer for a fixed or determinable amount at a fixed or determinable future date etc. (IAS 32.22)
SECP Directive	IAS / IFRS
<i>To facilitate application of Revised Fourth Schedule, transitional relaxation has been granted by the SECP to the listed companies for the following items:</i>	
The Listed companies carrying deferred cost as on July 5, 2004 are allowed to treat such cost as per superceded Fourth Schedule. However, after July 5, 2004, any further deferral of costs will not be allowed.	The concept of deferred cost more exists in the IAS.
The Listed companies having outstanding liabilities for foreign currency loans as on July 5, 2004 are allowed to capitalize fluctuation of exchange gain/ loss as per superceded Fourth Schedule upto 30th September 2007. Any exchange gain/loss on foreign currency loan contracted on or after July 5, 2004, will not be allowed to be capitalized.	The revised IAS 21 - <i>The Effects of Changes in Foreign Exchange Rates</i> (effects January 1, 2005) has withdrawn the requirement of old IAS 21, which allowed capitalization of exchange difference resulting from a severe devaluation or depreciation of currency.



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above, Prudential Regulations issued by State Bank of Pakistan also include following disparities that pose difficulties in implementing IAS 39:

- ▶ Ageing Criteria is based on the number of days mark-up/ interest or principal is overdue.
- ▶ Unrealized mark-up/ interest credited to suspense account except when realized in cash.
- ▶ Un-quoted securities are stated at cost.
- ▶ Export bill discounting through Rupee deposits is a hybrid financial asset, i.e. embedded derivative and a host contract that are not recorded separately.
- ▶ Staff loans are recorded at the amount of cash disbursed and income on such loans is recorded at the subsidized rates.

Audits conducted in accordance with both ISA and National Auditing Standards

The International Auditing and Assurance Standards Board of IFAC has also issued International Auditing Practice Statement 1014 to provide guidance where the auditor expresses an opinion on financial statements that are asserted by management to be prepared:

- ▶ Solely in accordance with International Financial Reporting Standards (IFRS);
- ▶ In accordance with both IFRS and a national financial reporting framework; or
- ▶ In accordance with a national financial reporting framework with disclosure of the extent of compliance with IFRS.

IAPS 1014 supplements guidance provided in International Standard on Auditing 700, The Auditor's Report on Financial Statements. Pakistan's accounting framework may be described to include simultaneous compliance with both IFRS and national GAAP (e.g. Fourth Schedule to the Companies Ordinance, 1984), for which IAPS 1014 states:

"Simultaneous compliance with both IFRSs and a national financial reporting framework is unlikely unless the country has adopted IFRSs as its national financial reporting framework or has eliminated all barriers for compliance with IFRSs."

This implies that simultaneous compliance would involve elimination of all deviations for compliance with IFRSs i.e. all requirements of local regulations that are in conflict with IAS/IFRS would have to be brought in line with the requirements of IAS/IFRS.

The Applicable Financial Reporting Framework:

To enhance the transparency and comparability of auditor's reports across international borders, the IAASB has issued revised, *ISA 700, The Independent Auditor's Report on a Complete Set of General Purpose Financial Statements*. The revised ISA 700 particularly adds reference of IFRS in the opinion paragraph of the auditor's report and provides new guidance on the auditor's consideration of whether an accounting framework is acceptable, and on the need for the auditor to consider whether the financial statements are misleading even when they comply in all respects with that framework and

IFAC's Statement of Membership Obligations (SMOs):

The Institute has also signed IFAC's Statements of Membership Obligations whereby we have committed to adopt IFRS as financial reporting framework of the country. Non-compliance of these obligations may endanger ICAP's membership with the IFAC.

Current ICAP Strategy

Currently ICAP has adopted following strategy for adoption of any IFRS/IAS:

1. The matter of adoption is first considered by the two AASCs, who identify any issues that may arise on adoption.
2. The matter is then referred to PS&TAC and then to the Council
3. PS&TAC after considering the local environment determines how the adoption and implementation could be facilitated i.e. whether sufficient transition period should be given to a particular sector or all sectors or the issue needs amendments in local regulations.
4. If the identified issues necessitate amendments in the local regulations then the matter is referred to the SECP and/ or SBP through Coordination committees of ICAP and SECP/SBP.



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5. After the satisfactory resolution of issues the PS&TAC and the Council reconsider the matter of adoption.
6. The Institute then recommends the adoption to the SECP for notification in the Official Gazette.

The Institute as part of its strategy has been persuading both the SECP and SBP to eliminate barriers in adoption of IAS/IFRS.

The developments in this regard include amendments to the Fourth Schedule to the Companies Ordinance, 1984 issued by SECP on July 5, 2004 after which almost all the conflicting requirements have been done away with and the duplications have also been eliminated.

At the Institute's request, SECP has also re-notified the IASs (only number and name) that were previously notified by reproducing full text of the IAS. This step was taken to avoid lengthy process of adoption and notification each time an IAS is revised as revision to IAS has now become a regular and frequent feature than ever before.

On the other hand, State Bank of Pakistan, as part of its vision to introduce the New Basel Capital Accord, is currently considering resumption of IAS 39 and 40 for the banks and DFIs for the periods beginning on or after January 1, 2007 (circular still not issued by the SBP). This would in turn lead to further revisions to its regulations (as new prudential regulations have already been issued for the corporate and commercial banking, small and medium enterprises and consumer financing etc).

In spite of the above developments, the Banking Sector would continue to remain non-compliant with IFRS till the start of financial year 2007.

Way Forward

In short, the Institute's decision to adopt IFRS 1 would necessitate following action:

- ▶ Persuading SECP to make necessary amendments in the Companies Ordinance, 1984 (CO84).
- ▶ Replacing the term IAS with IFRS in CO 84, form 35A and 35B etc.
- ▶ Adoption of IAS 41, and IFRS 1 to 7.
- ▶ Persuading SBP and SECP for full implementation of IAS

39 and 40 on Banks /DFIs and Insurance companies respectively.

- ▶ Accounting Framework to be identified as required by the Revised ISA 700.
- ▶ Issuance of a new Statement of Compliance, which should cater for listed companies, non-listed companies, and private companies having paid-up capital above rupees three million and other private companies as well as banking companies.

But the fact remains that even if ICAP considers and recommends adoption of IFRS in a timely manner, we will remain non-compliant with one or the other IFRS owing to slow and time consuming procedure of the amendments in the local regulations which normally involves more time than the transition period prescribed by the IFRS.

Conclusion

This Article gave a slight reflection of the difficulties that are likely to arise while adopting IFRS 1. In fact a lot of homework is required to be done at both the regulator and the corporate sector level before switching to the IFRS regime. Whilst we have discussed some of the amendments to be made by our regulatory bodies in the local statutes, the significant role to be played by our accountants should not be minimized.

The implementation of IFRS 1 would also depend on the eagerness with which our corporate sector would put in efforts to make their financial statements comparable and acceptable to the rest of the world.

About the Author:

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All views and information given in this article are her own and do not represent in any way the views of the Institute.



IFRS 2 Share-based Payment

Courtesy of: IAS Plus, February 2004, Special Edition

The International Accounting Standards Board (IASB) has issued International Financial Reporting Standard (IFRS) 2 Share-based Payment that will require share-based payments to be recognised as an expense. This is the first major standard which the IASB itself has developed and is designed to take a leadership position in what has historically been a difficult area for standard setters. Several standard-setting bodies around the world are expected to follow the IASB's lead. IFRS 2 is based on its preceding Exposure Draft, ED2, but there have been important changes especially in the measurement area.

The amount charged as an expense will be measured at the fair value of the goods or services received unless, for equity-settled transactions, that fair value cannot be estimated reliably. In these cases, which are deemed to include employee share options, the fair value of the equity instruments granted should be measured.

IFRS 2 defines a share-based payment as a transaction in which the entity receives or acquires goods or services either as consideration for its equity instruments or by incurring liabilities for amounts based on the price of the entity's shares or other equity instruments of the entity. The accounting requirements for the share-based payment depend on how the transaction will be settled, i.e. by the issuance of a) equity, b) cash, or c) equity or cash.

IFRS 2 contains considerable guidance dealing with application and implementation. However, as there is no single model for estimating the fair value of share-based payments or consensus for quantifying unique features of share-based payments in valuation models, considerable judgement will still be an essential ingredient in the valuation process.

The following pages highlight some of the more significant requirements of IFRS 2.

Scope

The concept of share-based payment is broader than employee share options. IFRS 2 encompasses the issuance of shares, or rights to shares, in return for services and goods.

Examples of items included in the scope of IFRS 2 are share appreciation rights, employee share purchase plans, employee share ownership plans, share option plans and plans where the issuance of shares (or rights to shares) may depend on market or related conditions.

IFRS 2 applies to all entities. There is no exemption for private or smaller entities. Furthermore, subsidiaries using their parent's or fellow subsidiary's equity as consideration for goods or services are within the scope of the Standard.

There are two exemptions to the general scope principle. First, the issuance of shares in a business combination should be accounted for under the appropriate standard, currently IAS 22 but shortly to be replaced by the Standard arising from ED 3 **Business Combinations**. However, care should be taken to distinguish share-based payments related to the acquisition from those related to employee services.

Second, IFRS 2 does not address share-based payment within the scope of paragraphs 8-10 of IAS 32 Financial Instruments: Disclosure and Presentation, or paragraphs 5-7 of IAS 39 Financial Instruments: Recognition and Measurement. Therefore, IAS 32 and 39 should be applied for commodity-based derivative contracts that may be settled in shares or rights to shares.

IFRS 2 does not apply to share-based payment transactions other than for the acquisition of goods and services. Share dividends, the purchase of treasury shares and the issuance of additional shares are therefore outside its scope.

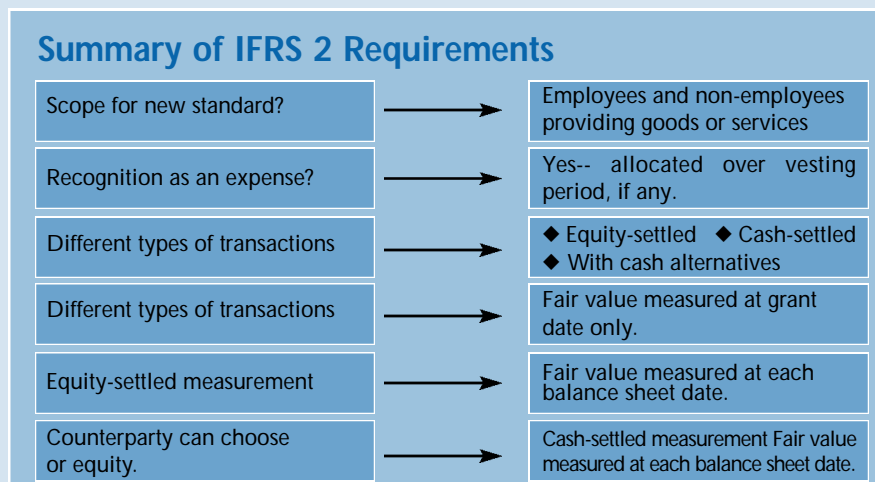
Recognition and Measurement

The issuance of shares or rights to shares requires an increase in a component of equity. IFRS 2 requires the offsetting debit entry to be expense when the payment for goods or services does not represent an asset. The expense should be recognised as the goods or services are consumed. For example, the issuance of shares or rights to shares to purchase inventory would be presented as an increase in inventory and would be expense only once the inventory is sold or impaired.



The issuance of fully vested shares, or rights to shares, is presumed to relate to past service, requiring the full amount of the grant-date fair value to be expense immediately. The issuance of shares to employees with, say, a three-year vesting period is considered to relate to services over the vesting period. Therefore, the fair value of the share-based payment, determined at the grant date, should be expense over the vesting period.

As a general principle, the total expense related to equity-settled share-based payment will equal the multiple of the total instruments that vest and the grant-date fair value of those instruments. In short, there is truing up to reflect what happens during the vesting period. However, if the equity-settled share-based payment has a market related performance feature,



the expense would still be recognised if all other vesting features are met. The following example provides an illustration of a typical equity-settled share-based payment.

Depending on the type of share-based payment, fair value may be determined

by the value of the shares or rights to shares given up, or by the value of the goods or services received. IFRS 2 has a rebuttable presumption that if the share-based payment is for goods or services other than employees, the share-based payment should be measure by reference to the fair value of the goods or services. If the share-based payment is to employees (or those similar to employees), the transaction should be measured by reference to the fair value of the equity instruments granted.

IFRS 2 requires the share-based payment transaction to be fair value for both listed and unlisted entities. However, there has been an important change from ED2 in that IFRS 2 permits the use of intrinsic value (i.e. fair value of the shares less exercise price) in those "rare cases" in which the fair value of the equity instruments cannot be reliably measured. However this is not simply measured at the date of grant. An entity would have to remeasure intrinsic value at each reporting date until final settlement.

Another key change from ED2, as noted above, is the distinction in the handling of market based performance

Illustration - Recognition of Employee Share Option Grant

Company grants a total of 100 share options to 10 members of its executive management team (10 options each) on 1 January 20X5. These options vest at the end of a three-year period. The company has determined that each option has a fair value at the date of grant equal to 15. The company expect that all 100 options will vest and therefore records the following entry at 30 June 20X5 - the end of its first six-month interim reporting period.

Dr. Share Option Expense	250	
Crt. Equity		250
	[(100 x 15)*1/6 periods]	

If all 100 shares vest, the above entry would be made at the end of each 6-month reporting period. However, if one member of the executive management team leaves during the second half of 20X6, therefore forfeiting the entire amount of 10 options, the following entry at 31 December 20X6 would be made:

Dr. Share Option Expense	150	
Crt. Equity		150
	[(90 x 15)* 4/6 periods]-[250+250+250]	

features from non-market features. Market conditions are those related to the market price of an entity's equity, such as achievement a specified share price or a specified target based on a comparison of the entity's share price with an index of share prices of other entities. Market based performance features should be included in the grant-date fair value measurement. However, the value of the equity instruments should not be reduced to take into consideration non-market based performance features or other vesting features.

Modifications, Cancellations and Settlements

The determination of whether a change in terms and conditions has an effect on the amount recognised depends on whether the fair value of the new instruments is greater than the fair value of the original instruments (both determined at the modification date).

Modification of the terms on which equity instruments were granted may have an effect on the expense that will be recorded. IFRS 2 clarifies that the guidance on modifications also applies to instruments modified after their vesting date. If the fair value of the new instruments is more than the fair value of the old instruments (e.g. by reduction of the exercise price or issuance of additional instruments), the incremental amount is recognised over the remaining vesting period in a manner similar to the original amount. If the modification occurs after the vesting period, the incremental amount is recognised immediately. If the fair value of the new instruments is less than the fair value of the old

instruments, the original fair value of the equity instruments granted should be expense as if the modification never occurred.

The cancellation or settlement of equity instruments is accounted for as an acceleration of the vesting period and therefore any amount unrecognised that would otherwise have been charged should be recognised immediately. Any payments made with the cancellation or settlement (up to the fair value of the equity instruments) should be accounted for as the repurchase of an equity interest. Any payment in excess of the fair value of the equity instruments granted is recognised as an expense.

New equity instruments granted may be identified as a replacement of cancelled equity instruments. In those cases, the replacement equity instruments should be accounted for as a modification. The fair value of the replacement equity instruments is determined at grant date, while the fair value of the cancellation instruments is determined at the date of cancellation, less any cash payments on cancellation that is accounted for as a deduction from equity.

Transition

All equity-settled share-based payments granted after 7 November 2002, that are not yet vested at the effective date of IFRS 2 which is for annual periods beginning on or after 1 January 2005, shall apply the provisions of IFRS 2. Entities are allowed and encouraged, but not required, to apply this IFRS to other grants of equity instruments if (and

only if) the entity has previously disclosed publicly the fair value of those equity instruments determined in accordance with IFRS 2.

The comparative information presented in accordance with IAS 1 shall be restated for all grants of equity instruments to which the requirements of IFRS 2 are applied. The adjustment to reflect this change is presented in the opening balance of retained earnings for the earliest period presented.

IFRS 2 amends paragraph 13 of IFRS 1, First-time Adoption of International Financial Reporting Standards, to add an exemption for share-based payment transactions. Similar to entities already applying IFRS, first-time adopters will have to apply IFRS 2 for share-based payment transactions on or after 7 November 2002. Additionally, a first-time adopter is not required to apply IFRS 2 to share-based payments granted after 7 November 2002 that vested before the later of a) the date of transition to IFRS, or b) 1 January 2005. A first-time adopter may elect to apply IFRS 2 earlier only if it has publicly disclosed the fair value of the share-based payments determined at the measurements date, in accordance with IFRS 2.

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IFRS 3 - Business Combinations and IFRS 5 - Non-current Assets Held for Sale and Discontinued Operations

Compiled by Directorate of Technical Services, ICAP

In March 2003, IASB issued IFRS 3 – Business Combinations and IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations.

With the issuance of IFRS 3 and 5, IASB Board also approved withdrawal of both IAS 22 and IAS 35 with effect from the periods commencing on January 1, 2005.

Prevailing Local Scenario

In Pakistan, both IFRS 3 and 5 have not been adopted. Consequently IAS 22 and IAS-35 will continue to be applicable until adoption of IFRS-3 and IFRS-5 respectively.

Rationale of Issuance of IFRS-3 & IFRS-5 by the IASB

IFRS 3

Prior to issuance of this IFRS, entities were permitted by IAS-22 to account for business combinations by using either pooling of interest method or the purchase method. Although IAS-22 restricted the use of the pooling of interests method to business combinations classified as uniting of interest method; nonetheless the option of two accounting methods provided alternative incentives for structuring the transactions in such a manner so as to achieve a desired accounting result, particularly given that the two methods produced quite different results.

IFRS-3 is the preliminary step to achieve the convergence of widely varying accounting practices of accounting for business combinations around the world. This IFRS has been issued in pursuance of IASB's belief that permitting similar transactions to be accounted for in dissimilar ways impairs the usefulness of the information provided to users of financial statements, because both comparability and reliability are diminished.

Highlights: IFRS 3

- (a) requires all business combinations within its scope to be accounted for by applying the purchase method.
- (b) requires an acquirer to be identified for every business combination within its scope. The acquirer is the combining entity that obtains control of the other combining entities or businesses.
- (c) requires an acquirer to measure the cost of a business combination as the aggregate of: the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the acquirer, in exchange for control of the acquiree; plus any costs directly attributable to the combination.
- (d) requires an acquirer to recognise separately, at the acquisition date, the acquiree's identifiable assets, liabilities and contingent liabilities that satisfy the following recognition criteria at that date, regardless of whether they had been previously recognised in the acquiree's financial statements:
 - (i) in the case of an asset other than an intangible asset, it is probable that any associated future economic benefits will flow to the acquirer, and its fair value can be measured reliably;
 - (ii) in the case of a liability other than a contingent liability, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and its fair value can be measured reliably; and
 - (iii) in the case of an intangible asset or a contingent liability, its fair value can be measured reliably.
- (e) requires the identifiable assets, liabilities and contingent liabilities that satisfy the above recognition criteria to be measured initially by the acquirer at their fair values at the acquisition date, irrespective of the extent of any minority interest.
- (f) requires goodwill acquired in a business combination to be recognised by the acquirer as an asset from the acquisition date, initially measured as the excess of the cost of the business combination over the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities recognised in accordance with (d) above.
- (g) prohibits the amortization of goodwill acquired in a business combination and instead requires the goodwill to be tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired, in accordance with IAS 36 Impairment of Assets.
- (h) requires the acquirer to reassess the identification and measurement of the acquiree's identifiable assets, liabilities and contingent liabilities and the measurement of the cost of the business combination if the acquirer's interest in the net fair value of the items recognised in accordance with (d) above exceeds the cost of the combination. Any excess remaining after that reassessment must be recognised by the acquirer immediately in profit or loss.
- (i) requires disclosure of information that enables users of an entity's financial statements to evaluate the nature and financial effect of:
 - (i) business combinations that were effected during the period;
 - (ii) business combinations that were effected after the balance sheet date but before the financial statements are authorised for issue; and
 - (iii) some business combinations that were effected in previous periods.
- (j) requires disclosure of information that enables users of an entity's financial statements to evaluate changes in the carrying amount of goodwill during the period.



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IFRS 5

This IFRS has for the first time introduced the concept of non-current assets held for sale and prescribed the requirements for the classification, measurement and presentation of non-current assets held for sale. The rationale behind the issuance of this IFRS and introduction of classification of assets that are held for sale is that it would substantially improve the information available to users of financial statements about assets to be sold.

- ▶ With companies clamoring for overseas capital and investors rushing to access foreign markets, the demand for financial reporting standards that transcend national borders has never been stronger than today's global scenario. International Financial Reporting Standards (IFRS) have attempted to fulfill this global role. Taking into account the global scenario and increasing number of mergers and acquisitions consequent to globalization, adoption of IFRS-3 would be inevitable.
- ▶ Adoption of IFRS 3 & 5 not only gives rise to disclosure of high quality, transparent and comparable information in financial statements.
- ▶ IFRS-5 replaces the disclosure requirements enunciated in IAS 35 with more transparent and high quality requirements and also prescribes some additional disclosure requirements
- ▶ The adoption of IFRS 3 & 5 will not bring any hardship or encumbrances to listed companies.
- ▶ The adoption of IFRS does not involve highly intricate and complex calculations.
- ▶ Taking into account the prevailing local corporate framework and corporate reporting skills and resources available in Pakistan, adoption of IFRS would not be a cumbersome exercise.

However, with regard to IFRS 3 it is pertinent to mention here that tax implications, engendering out of purchase method of acquisition and merger, would be a deterrent for companies to enter into merger and acquisition arrangements as this IFRS does not allow uniting of interest method for acquisitions and mergers.

Both IFRS 3 and 5 can be adopted as apparently there is no inconsistency between the local statutes and the IFRS which could hinder us from their adoption.

Highlights: IFRS 5

- (a) adopts the classification 'held for sale'.
- (b) introduces the concept of a disposal group, being a group of assets to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction.
- (c) specifies that assets or disposal groups that are classified as held for sale are carried at the lower of carrying amount and fair value less costs to sell.
- (d) specifies that an asset classified as held for sale, or included within a disposal group that is classified as held for sale, is not depreciated.
- (e) specifies that an asset classified as held for sale, and the assets and liabilities included within a disposal group classified as held for sale, are presented separately on the face of the balance sheet.
- (f) withdraws IAS 35 Discontinuing Operations and replaces it with requirements that:
 - (i) change the timing of the classification of an operation as discontinued. IAS 35 classified an operation as discontinued at the earlier of (a) the entity entering into a binding sale agreement and (b) the board of directors approving and announcing a formal disposal plan. The IFRS classifies an operation as discontinued at the date the operation meets the criteria to be classified as held for sale or when the entity has disposed of the operation.
 - (ii) specify that the results of discontinued operations are to be shown separately on the face of the income statement.
 - (iii) prohibit retroactive classification of an operation as discontinued, when the criteria for that classification are not met until after the balance sheet date.

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IFRS 6 - Exploration for and Evaluation of Mineral Resources

Compiled by Directorate of Technical Services

Background

The International Accounting Standards Board (IASB) issued International Financial Reporting Standard 6 *Exploration for and Evaluation of Mineral Resources* (IFRS 6). This IFRS provides, for the first time, guidance on accounting for exploration and evaluation expenditures, including the recognition of exploration and evaluation assets, and is the preliminary step to achieve the convergence of widely varying accounting practices for extractive activities around the world.

Rationale behind issuance of IFRS 6

The development of IFRS for extractive industry is a continuation of efforts on the part of IASB to bring consistency, harmony and transparency across the financial statements of oil & gas companies and between those of extractive and other industries.

The intent of IFRS 6 is to make **limited improvement** at this stage in the accounting practices for Exploration and Evaluation Expenditure (*i.e. Pre-production costs*) by permitting the reporting entities to continue using policies applied in their most recent financial statements, if they wish not to follow the treatment prescribed in IFRS 6.

The rationale behind this strategy is not to prescribe any such accounting treatment or principle, that might be reversed when the IASB undertakes a comprehensive review of accounting practices used by the entities engaged in the exploration for and evaluation of mineral resources.

Prevailing Practices in Pakistan

Salient statutes applicable to extractive industries are The Regulation of Mines and Oilfields and Mineral Development (Government Control) Act, 1948 (XXIV of 1948), The Territorial Waters and Maritime Zones Act, 1976 (LXXXII of 1976) and The Mines Act, 1923. Any specific reporting requirements pertaining to measurement, recognition and disclosure have not been prescribed in any statute. However, Pakistan Petroleum (Exploration and Production) Rules, 2001 provide guidance regarding nature of records to be

kept and nature and frequency of various reports required to be prepared by the extractive industries.

Presently, the financial statements of extractive companies are prepared in accordance with approved accounting standards as applicable in Pakistan and the requirements of the Companies Ordinance, 1984. Approved accounting standards comprise of such International Accounting Standards as notified under the provisions of the Companies Ordinance, 1984.

IFRS 6 – In Brief

IFRS 6 addresses the accounting for costs incurred in the exploration for and evaluation of mineral resources, but does not apply to pre-exploration activities and post exploration activities *i.e.* development activities. An entity is required to develop its accounting policies for pre-exploration and development activities in accordance with other IFRSs.

IFRS 6 is effective for annual periods beginning on or after January 1, 2006 while earlier adoption is encouraged with transitional relief for some comparative disclosures.

IFRS 6:

- a) permits an entity to develop an accounting policy for exploration and evaluation assets without specifically considering the requirements of paragraphs 11 and 12 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. Thus, an entity adopting IFRS 6 may continue to use the accounting policies applied immediately before adopting this IFRS. This includes continuing to use recognition and measurement practices that are part of those accounting policies.
- b) requires entities recognizing exploration and evaluation assets to perform an impairment test on those assets when facts and circumstances suggest that the carrying amount of the assets may exceed their recoverable amount.
- c) varies the recognition of impairment from that stipulated in IAS 36 *Impairment of Assets* but measures the impairment in accordance with that Standard once the impairment is identified.



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d) requires disclosure of information that identifies and explains the amounts recognized in its financial statements arising from the exploration for and evaluation of mineral resources, including:

- i) its accounting policies for exploration and evaluation expenditures including the recognition of exploration and evaluation assets.
- ii) the amounts of assets, liabilities, income and expense and operating and investing cash flows arising from the exploration for and evaluation of mineral resources.

Why should we adopt IFRS 6

Taking into account the present corporate financial reporting framework applicable for extractive industries and the salient requirements of IFRS, one perspective regarding adoption of

IFRS-6 is that we may adopt the IFRS as it would not burden the corporate entities with cumbersome and intricate reporting requirements

Reservations

There is another argument that adoption of IFRS 6 may be deferred until deliberations of the IASB's research project on the subject are finalized for the reason that certain reservations and controversies may arise with the adoption of IFRS-6 pertaining to following issues:

- Procedure and level of assessment prescribed for impairment prescribed in the IFRS
- Absence of directions pertaining to pre and post exploration expenses of extractive industries.

The subsequent phase of IFRS 6 has already begun as in April 2004, the IASB approved a research project to be

undertaken by national standard setters in Australia, Canada, Norway and South Africa and assisted by an advisory panel comprising of members from Oil and Gas and mining sectors, accounting firms, users and securities regulators from around the world.

Conclusion

Definitions and additional guidance provided in the IFRS are appropriate in overall context of petroleum industry and prevailing practices. However, in making an effort to cover all the extractive industries under one IFRS, the scope of this IFRS has turned to be very limited.

As a result, the definitions and additional guidance provided under IFRS 6 are not as comprehensive as the guidance available under SORPs (*Issued by Oil Industry Accounting Committee - UK*) and FAS-19 (US) for petroleum industry.

M. ADAM PATEL'S

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IFRS 7 Financial Instruments: Disclosures

Courtesy of: IAS Plus, October 2005, Special Edition

On 18 August 2005, the International Accounting Standards Board (IASB) issued IFRS 7 **Financial Instruments: Disclosures**. The Standard:

- adds new disclosures about financial instruments to those currently required by IAS 32 **Financial Instruments: Disclosure and Presentation**;
- replaces the disclosure requirements currently imposed on financial institutions by IAS 30 **Disclosures in the Financial Statements of Banks and Similar Financial Institutions**; and
- puts all of those financial instruments disclosures together in a new combined Standard. The remaining parts of IAS 32, which will be renamed **Financial Instruments: Presentation**, deal only with presentation matters, including classifying instruments as debt or equity, compound financial instruments, offsetting, and treasury shares.

This project had started out to develop a Standard on presentation and disclosure in the financial statements of financial institutions and similar entities, with a view to replacing IAS 30. However, in late 2002, the IASB made a fundamental change in the direction of this project. The final Standard applies to all entities.

IFRS 7 is effective for annual periods beginning on or after 1 January 2007, with earlier application encouraged. Early adopters are given some relief with respect to comparative prior period disclosures. Both IAS 30 and the disclosure requirements of IAS 32 are withdrawn.

Overview

IFRS 7 deals with the disclosure requirements in relation to all risks arising from financial instruments (with limited exemptions), and applies to any entity that holds financial instruments. The level of disclosure required depends on the extent of the entity's use of financial instruments and its exposure to financial risk.

The Standard retains many of the disclosure requirements currently within IAS 32 and IAS 30. However, there have been some editorial changes to the existing requirements as

well as some additional disclosure requirements added.

The overriding objective of the Standard is that preparers should provide disclosures that enhance a user's understanding of the entity's exposures to financial risks and how the entity manages those risks.

To this end, the Standard requires an entity to disclose:

- information on the significance of financial instruments to the entity's financial position and performance;
- the nature and extent of risk exposures arising from financial instruments (quantitative disclosures); and
- the approach taken in managing those risks (qualitative disclosures). Audit.Tax.Consulting.Corporate Finance.

An appendix of mandatory application guidance is part of the Standard. There is also an appendix of non-mandatory implementation guidance that describes how an entity might provide the disclosures required by IFRS 7.

Principal changes

The more significant changes from the disclosure requirements of IAS 32 and IAS 30 include:

- a new requirement to disclose the carrying amounts of financial assets and financial liabilities under each of the classifications in IAS 39 **Financial Instruments: Recognition and Measurement** (i.e. financial assets and financial liabilities designated as at fair value through profit or loss (FVTPL), held-to-maturity investments, loans and receivables, available-for-sale financial assets, and financial liabilities measured at amortised cost);
- new disclosure requirements regarding loans and receivables designated as at FVTPL;
- the requirement to disclose the fair value movement on financial liabilities designated as at FVTPL due to changes in credit risk has also been extended to include loans and receivables designated as at FVTPL. In addition, entities are required to disclose the method used to determine the amount of the change;



International Financial Reporting Standards

- ▶ new disclosure requirements where there is a difference between the fair value of a financial instrument at initial recognition and the amount that would be determined at that date using a valuation technique (known as "day one P&L"). IFRS 7 requires disclosure of the entity's accounting policy for recognising that difference in profit or loss, and the aggregate difference yet to be recognised in profit or loss at the beginning and end of the period and a reconciliation of changes in the balance of this difference;
- ▶ new disclosure requirements for financial assets that are either past due or impaired. IFRS 7 requires an analysis of the age of financial assets that are past due and, unless impracticable, an estimate of the fair value of collaterals held by the entity;
- ▶ where an entity records an impairment on a financial asset or a group of financial assets through an allowance account (e.g. for bad debts), as opposed to a direct reduction to the carrying amount of the financial asset, it shall disclose, for each class of financial asset, a reconciliation of changes in carrying amounts in that account during the period;
- ▶ separate disclosure of the amount of ineffectiveness recognised in profit or loss on cash flow hedges and hedges of net investments in foreign operations;
- ▶ separate disclosure of the gains or losses in fair value hedges arising from remeasuring the hedging instrument and on the hedged item attributable to the hedged risk;
- ▶ disclosure of the net gain or loss on 'held-to-maturity investments', 'loans and receivables' and 'financial liabilities measured at amortised cost'; and
- ▶ additional requirements on providing

sensitivity analysis of market risks and how changes in these risks would have impacted profit or loss and equity in the period.

Effective date

IFRS 7 is effective for annual periods beginning on or after 1 January 2007. Earlier application is encouraged, but not required. If an entity applies IFRS 7 for a period beginning before 1 January 2007, that fact should be disclosed.

Exemption from presentation of certain comparative information for early adopters

To encourage early adoption of IFRS 7, entities that already apply IFRSs and that elect to adopt IFRS 7 for a period beginning before 1 January 2006 are exempted from presenting comparative information for the disclosures required by paragraphs 31 to 42 of the Standard about the nature and extent of risks arising from financial instruments. Note that:

- ▶ this exemption is not available to entities adopting IFRS 7 in advance of its effective date (1 January 2007) but on or after 1 January 2006. The Board concluded that such entities do not need such relief, since they have a full calendar year after publication of the Standard to accumulate the necessary information; and
- ▶ the exemption does not extend to the accounting disclosures (in paragraphs 7 to 30 of the Standard) that are based on requirements previously in IAS 32. Existing users of IFRSs should not encounter difficulties in providing comparative information for these disclosures.

First-time adopters

Entities that adopt IFRSs for the first time before 1 January 2006, and that elect to adopt IFRS 7 in their first IFRS financial statements, are not required to present comparative information for

any of the disclosures required by IFRS 7 in those first financial statements. This exemption is intended to facilitate first-time adopters (e.g. with 31 December 2005 year ends) who wish to adopt IFRS 7 immediately, without having to adopt IAS 30 and IAS 32 for only one period.

Note that this relief is not available for entities adopting IFRSs for the first time in periods beginning on or after 1 January 2006 (but before 1 January 2007). Such entities can choose whether to apply IAS 30 and IAS 32, or IFRS 7, in their first financial statements but, if they elect to adopt IFRS 7, they are required to present comparative information.

Concurrent revisions to IAS 1

The IASB has also amended IAS 1, Presentation of Financial Statements to add requirements for disclosures of:

- ▶ the entity's objectives, policies and processes for managing capital;
- ▶ quantitative data about what the entity regards as capital;
- ▶ whether the entity has complied with any capital requirements; and
- ▶ if it has not complied, the consequences of such non-compliance.

These disclosure requirements apply to all entities, effective for annual periods beginning on or after 1 January 2007, with earlier application encouraged. Illustrative examples are added to IAS 1 as guidance.

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Fair value option frequently asked questions

by Sandra Thompson and Jeanine Pickering

Source: IFRS News – Financial instruments supplement, December 2005

The amended fair value option in IAS 39, Financial Instruments: Recognition and Measurement, like the previous 2003 version, does not contain detailed prescriptive guidance about when the fair value option can be applied. It uses a principles-based approach, supported by examples. This supplement addresses some commonly-asked questions that have arisen from the practical application of these principles.

The IASB published in June 2005 an amendment to the fair value option introduced by the 2003 revisions to IAS 39, Financial Instruments: Recognition and Measurement. The amendment addresses the concerns of some regulators that the original 'unrestricted' version of the fair value option might be applied inappropriately.

The amendment permits the irrevocable designation on initial recognition of a financial asset or financial liability as at fair value through profit or loss (FVTPL) only when the entity demonstrates that it falls within one (or more) of the following three criteria:

- 1) designation at FVTPL eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as 'an accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases (IAS 39.9(b)(i));
- 2) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the entity's key management personnel (as defined in IAS 24, Related Party Disclosures (as revised in 2003)), for example the entity's board of directors and chief executive officer (IAS 39.9(b)(ii)); or
- 3) the item proposed to be designated at FVTPL is a hybrid (combined) contract that contains one or more embedded derivatives unless:
 - ▶ the embedded derivative(s) does not significantly modify the cash flows that otherwise would be required by the contract; or

- ▶ it is clear with little or no analysis when a similar hybrid (combined) instrument is first considered that separation of the embedded derivative(s) is prohibited (IAS 39.11A).

This supplement addresses commonly asked questions about each of the above three criteria in turn.

Criterion 1: accounting mismatch (IAS 39.9(b)(i))

Question 1

What is the meaning of 'significant' in the context of 'eliminates or significantly reduces a measurement or recognition inconsistency'?

Solution

The IASB has not established a percentage, or a 'bright line', for the interpretation of 'significant'. Management should look at the objective of the proposed designation as at FVTPL. Comparing the accounting impact – ie, the measurement basis and the recognition of gains and losses – of all relevant items (including, for example, any funding that it is not proposed to be designated at fair value through profit or loss) before and after the designation will give an indication of whether an accounting mismatch has been eliminated or significantly reduced. It is clear from IAS 39.BC 75B that an effectiveness test similar to that used for hedge accounting is not required to demonstrate that a reduction in an accounting mismatch is significant. Further guidance is given in questions 2 and 3 below.

Question 2

An entity is about to originate 100 of fixed rate assets that, if not designated as at FVTPL, will be classified as available-for-sale, and 50 of fixed rate liabilities that, if not designated as at FVTPL, will be measured at amortised cost. The assets and liabilities share the same interest rate risk, as they are at fixed rates. Can the entity designate the entire 100 of assets and 50 of liabilities at FVTPL to significantly reduce the accounting mismatch between them?



Solution

No. Designating the entire 100 of assets at FVTPL eliminates a mismatch with the 50 of liabilities, but it opens up a new mismatch for the other 50 of assets that do not have matching liabilities. However, we should ask why the entity wishes to use the fair value option in such a case. For example, is there a preexisting derivative that offsets the other 50 of assets? Does the entity expect to issue a further 50 of liabilities with no more than a reasonable delay (and designate them at FVTPL) so as to eliminate the mismatch completely? Designation of the entire 100 of assets would be acceptable in such cases.

Question 3

An entity is about to issue a 10-year liability that, if not designated as at FVTPL, will be measured at amortised cost, and a nine-year derivative that it regards as related to the liability and whose risks offset those of the asset. The entity wishes to designate the liability as at FVTPL to eliminate the measurement and recognition inconsistency with the derivative. Although the relationship does not completely eliminate the economic exposure, can the entity still designate the liability as at FVTPL?

Solution

Yes. The difference in maturities does not prevent the entity from designating the liability as at FVTPL, provided there is a perceived economic relationship between the derivative and the liability. The fair value option does not require the elimination of economic volatility; it requires the elimination or significant reduction of an accounting mismatch. The notion of an accounting mismatch between an asset and a liability involves two propositions, as described in IAS 39.BC 75. Firstly, the asset and liability are measured, or the gains and losses are recognised, inconsistently. In the

above example, the liability is measured at amortised cost and the derivative is measured at fair value, hence the accounting mismatch. Secondly, there is a perceived economic relationship between the asset and liability – for example, they share a risk that gives rise to opposite changes in fair value that tend to offset.

Question 4

An entity is about to issue a nine-year liability that, if not designated as at FVTPL, will be measured at amortised cost, and a 10-year derivative that it regards as related to the liability and whose risks offset those of the asset. The entity designates the liability as at FVTPL to eliminate the measurement and recognition inconsistency that exists for the first nine years. At the start of year 10 (after the liability has been repaid), can the entity designate the derivative as a hedging instrument in a new hedge relationship?

Solution

Yes, provided the new hedge relationship meets all of the conditions for hedge accounting, including the expectation that it will be highly effective. IAS 39 permits the designation of preexisting derivatives as hedging instruments.

Question 5

A subsidiary is about to issue a liability to a third party and enter into a related interest rate swap with its parent. An accounting mismatch exists in the stand-alone accounts of the subsidiary, and it intends to designate the liability as at FVTPL. Can the group similarly designate the liability as at FVTPL in the consolidated accounts?

Solution

No. The swap cannot be used to designate the liability as at FVTPL in the consolidated accounts. The swap will be eliminated, and the 'mismatch' will not exist in the consolidated

financial statements. However, if the entity can identify an external swap or other instrument that gives rise to an accounting mismatch on a consolidated basis, this may justify designating the liability as at FVTPL in the consolidated accounts.

Question 6

It is necessary to demonstrate that there is an accounting mismatch in order to use the fair value option under IAS 39.9(b)(i). What is the extent of evidence that is required?

Solution

The evidence needs to identify the accounting mismatch for which the fair value option is to be used but, provided it meets this criterion, need not be extensive. It may be possible to use the same evidence for a number of similar transactions, depending on the circumstances – for example, by identifying a particular kind of accounting mismatch that arises from one of the entity's chosen risk management strategies. It is not necessary to have the extensive documentation required for hedge accounting, but the entity does need to provide evidence that the fair value option was designated at inception. Also, IAS 32/IFRS 7 require disclosure of the carrying amounts of assets and, separately, liabilities designated as at FVTPL. The evidence must therefore include precise identification of the assets and liabilities to which the fair value option has been applied.

Question 7

An accounting mismatch exists on initial recognition and the entity applies the fair value option. If subsequently the accounting mismatch ceases to exist, can the entity de-designate the fair value classification and change the measurement to amortised cost?



Solution

No. The designation is irrevocable. Once designated, the entity cannot change from fair value measurement to amortised cost. Even if one part of the position that gave rise to the accounting mismatch is derecognised (for example, because it is sold), the remainder of the position must continue to be measured at FVTPL.

Question 8

An entity originates a financial asset that is measured at fair value; it simultaneously issues a liability, which the entity considers related, that is measured at amortised cost. Six months later, the entity decides it wants to use the fair value option and designate the liability as at FVTPL to reduce the measurement inconsistency. Is the entity permitted to use the fair value option in this case?

Solution

No. Designation as at FVTPL may be made only on initial recognition.

Question 9

The fair value option does not require the entity to enter into all of the assets and liabilities at exactly the same time. A 'reasonable delay' is permitted as long as the remaining transactions are expected to occur (IAS 39.AG 4F). What is meant by 'reasonable delay'?

Solution

Reasonable delay is assessed on a case-by-case basis, based on what is reasonable in the circumstances. For example, a 'reasonable delay' could be a fairly short period in the case of entering into a derivative to offset some of the risks of an asset. A longer period could be justified if the delay arises from the need to assemble a portfolio of similar assets and arrange their funding. However, all financial assets and liabilities designated as at FVTPL must be accounted for on this basis

from their initial recognition (and not only from the time any offsetting position is entered into).

Question 10

Some entities may consider using the fair value option in place of fair value hedge accounting to overcome measurement or recognition inconsistencies. If the entity were to use fair value hedge accounting (for example, for a hedge of the interest rate risk on a fixed rate loan), it would adjust the carrying amount of the hedged item (the loan) for only changes in its fair value that are attributable to the hedged risk (interest rate risk). If the entity chooses the fair value option, can it similarly adjust the carrying amount of the designated item (the loan) only for changes in its fair value that are attributable to one risk (for example, interest rate risk)?

Solution

No. When the fair value option is used, the designated financial asset or financial liability is measured at full fair value, and the entire change in its fair value is recognised in the income statement. The instrument cannot be split into different portions or components of risk only some of which are measured at fair value.

Using the fair value option may not therefore have the same effect as using fair value hedge accounting. The two accounting treatments will have the same effect only when:

- ▶ the hedge relationship covers the entire change in fair value and is not limited to selected risks;
- ▶ hedge accounting is applied from the initial recognition of the hedged item; and

- ▶ hedge accounting continues until the hedged item is derecognised.

Question 11

Should all financial assets and financial liabilities in a portfolio giving rise to the measurement or recognition inconsistency be designated as at FVTPL, or can only some of the financial assets and liabilities in the portfolio be so designated? For example, an entity is about to originate 50 of assets and issue 100 of liabilities, all of approximately equal amount. Can it designate 25 of the assets and all 100 of the liabilities, assuming that a measurement inconsistency exists?

Solution

The entity can choose some assets or liabilities, provided doing so reduces the measurement or recognition inconsistency, as explained in IAS 39.AG 4G:

'It would not be acceptable to designate only some of the financial assets and liabilities giving rise to the inconsistency as at FVTPL if to do so would not eliminate or significantly reduce the inconsistency...'

The fair value option would not be permitted, as the designation of 25 of the assets and all 100 of the liabilities creates an additional accounting mismatch. However, if the entity wanted to designate, say, 25 of the assets and 25 of the liabilities, this would be acceptable.

An entity may wish to designate some but not all of the financial assets and financial liabilities as at FVTPL for a number of reasons. For example, it might want to designate only those items that do not have significant credit risk. Or it might want to take into account future funding plans for a portfolio of assets that will affect the extent of the accounting mismatch.



Criterion 2: managed on a fair value basis (IAS 39.9(b)(ii))

The criterion in IAS 39.9(b)(ii) can be analysed in three parts:

- 1) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis;
- 2) in accordance with a documented risk management or investment strategy; and
- 3) information about the group is provided internally on that basis to the entity's key management personnel.

(1) A group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis

Question 12

If entities are managing a portfolio using value at risk (VaR), is this sufficient to meet the requirement that it 'is managed and its performance is evaluated on a fair value basis'? Similarly, if a mutual fund or similar entity regularly publishes the fair value of the net assets in the fund, is this sufficient to meet the requirement?

Solution

No. VaR is a risk management technique. The portfolio's performance, however, is not evaluated on a fair value basis. Managing a portfolio using VaR is not therefore sufficient to meet the criterion in IAS 39.9(b)(ii). Similarly, merely publishing fair value information is not sufficient; the assets should be evaluated and managed on a fair value basis.

Question 13

Does management need to evaluate a portfolio on a full fair value basis or

can it evaluate on a risk-by-risk basis? For example, an entity originates fixed interest rate loans and manages the interest rate risk of this portfolio based on the fair value attributable only to interest rate changes.

Solution

Management should evaluate the portfolio on a full fair value basis. The fair value concept is a broader notion than hedge accounting, such that evaluating the performance of the portfolio for only some risks is not sufficient. If an entity's risk management policy and the resulting management information looks at changes in fair value for only some risks rather than the entire change in fair value, this will not be sufficient to justify use of the fair value option.

Question 14

IAS 39.AG41 gives examples of the application of IAS 39.9(b)(ii). AG41(a) deals with venture capital organisations, as follows:

'The entity is a venture capital organisation, mutual fund, unit trust or similar entity whose business is investing in financial assets with a view to profiting from their total return in the form of interest or dividends and changes in fair value. IAS 28 Investments in Associates and IAS 31 Interests in Joint Ventures allow such investments to be excluded from their scope provided they are measured at fair value through profit or loss. An entity may apply the same accounting policy to other investments managed on a total return basis but over which its influence is insufficient for them to be within the scope of IAS 28 or IAS 31.'

IAS 39.AG4J states that:

'an entity that designates financial instruments as at fair value through profit or loss on the basis of this condition shall so designate all

eligible financial instruments that are managed and evaluated together' [emphasis added].

If a venture capital organisation chooses the IAS 28 exemption by designating its investment in associates as at FVTPL, should the venture capital organisation also designate at FVTPL its other investments (over which it has insufficient influence for them to qualify as associates) that are managed on a total return basis as part of the same portfolio?

Solution

Yes, if an entity chooses the fair value option, it must be applied to all the financial instruments that are managed and evaluated together. However, the entity need not apply the fair value option to other portfolios if it manages and evaluates investments in associates to which the IAS 28 exemption is applied as a separate portfolio.

(2) In accordance with a documented risk management or investment strategy

Question 15

What extent of documentation is required to qualify as 'a documented risk management or investment strategy'? Is reference to a documented risk management strategy relating to other issues permitted?

Solution

The documentation does not need to be as extensive as is required for hedge accounting and may be on a portfolio basis rather than item by item. However, the documentation needs to identify clearly the items for which the fair value option is to be used. If the documentation relies on several other pre-existing documents, there needs to be an overall document that references these other documents and clearly demonstrates that the entity manages and evaluates the relevant financial assets or financial liabilities on a fair



value basis. The documentation also needs to be sufficient for the entity to meet the requirement in IAS 32.66(d)(ii) to disclose how the designation as at FVTPL is consistent with the entity's documented risk management strategy.

(3) Information about the group is provided internally on that basis to the entity's key management personnel

Question 16

What is meant by key management personnel? Does it imply that all of the entity's key management personnel should be provided with the information?

Solution

The term 'key management personnel' in IAS 39 has the same meaning as in the definition in IAS 24, Related Party Disclosures. That is:

'Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of the entity' (IAS 24.9).

It is acceptable for some and not all of key management to be provided with the required information about a group of financial assets/liabilities that is managed on a fair value basis.

Question 17

Can information provided to a subsidiary's key management personnel enable the fair value option to be used at the group level if the other requirements in IAS 39.9(b)(ii) are met?

Solution

It depends. Information provided to a subsidiary's key management personnel

alone is not enough to enable the fair value option to be used at the group level. However, if those management personnel also include key management of the group – such as a main board director who is included in the IAS 24 disclosures given in consolidated financial statements – the fair value option could be used. The information could alternatively be reported separately (for example, in a summary report) to key management personnel of the group and therefore meet the IAS 39 criteria.

Even if these conditions are not met, information provided to a subsidiary's key management personnel can enable the fair value option to be used at the subsidiary level provided the other requirements in IAS 39.9(b)(ii) are met.

Criterion 3: embedded derivatives (IAS 39.11A)

Question 18

Is there an established percentage for the interpretation of 'significantly modify'?

Solution

No. There is no bright-line test. Management needs to look at the substance and objective of the transaction.

Question 19

For which of the following hybrid products that contain embedded derivatives is the use of the fair value option not permitted?

- ▶ Prepayment options in mortgages;
- ▶ Interest rate caps and floors in floating rate loans;

- ▶ Extension options;
- ▶ Embedded foreign currency derivatives; or
- ▶ An embedded derivative whose underlying might be a nonfinancial variable that is specific to a party to the contract.

Solution

This question should be answered on a case-by-case assessment. If management and auditors with a reasonable knowledge and understanding of the requirements of IAS 39 are not sure whether an embedded derivative is required to be separated from the host contract, it is not apparent with little or no analysis whether separation is required, and the fair value option is permitted.

The subject of this supplement is the accounting requirements of the fair value option set out in IAS 39. Banks and their auditors should also be aware of the regulatory guidance that is being developed by the regulators on the use of the fair value option by banks. For further information, refer to the draft guidance prepared by the Basel Committee: 'Supervisory guidance on the use of the fair value option by banks under International Financial Reporting Standards', issued in July 2005.

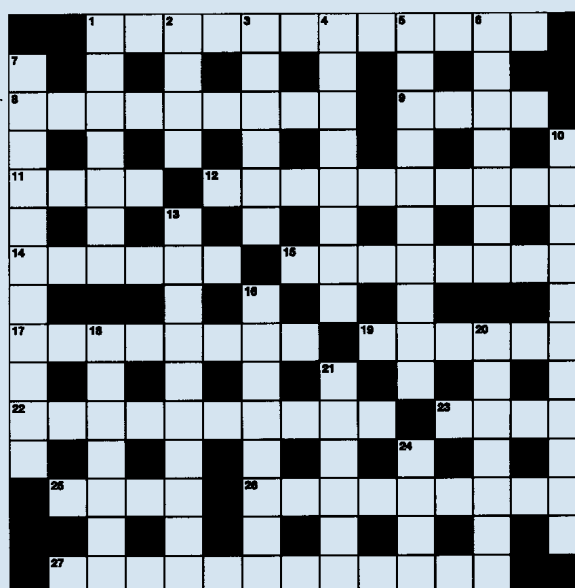
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IFRS News Crossword test your skills

Across

- 1 Payment for services rendered (12)
- 8 Under government supervision (9)
- 9 Bambi's father was one (4)
- 11 Secluded corner (4)
- 12 Financial instrument, eg, futures contract or option (10)
- 14 Be ambitious, seek to achieve (6)
- 15 Swift felines (8)
- 17 Clothes for legs (8)
- 19 Silver coin of ancient Greece (6)
- 22 Fair, honestly speaking (2,3,5)
- 23 Fruit, such as greengage or damson (4)
- 25 Legal document (British English) (4)
- 26 General increase in prices (9)
- 27 A parent company includes all subsidiaries and joint ventures when preparing this type of financial statement (12)



Down

- 1 Form new divisions (7)
- 2 Manipulate or exploit; cow's produce (4)
- 3 Spice from an East Indian tree (6)
- 4 Cautionary sign of danger/stop (3,5)
- 5 Solemn declarations in writing of wills (10)
- 6 Egg-shaped wind instrument (7)
- 7 Single act of business (11)
- 10 Ascertained dimension (11)
- 13 Document offering shares to the public (10)
- 16 Power of self-determination (4-4)
- 18 One of the Great Lakes (7)
- 20 Added up (7)
- 21 _____ up: increased in bulk, put on weight (6)
- 24 Place of trade eg, a market (4)

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Solutions on page 44



Global Convergence on IAS-12: Why Temporary and not Timing difference?

Yasir Khan, ACA

The evolutionary development of IAS 12 "Income Taxes" has covered a long way and also inspired several reporting frameworks all over the world. The reporting of income tax in the financial statements of an entity has always been a much debatable issue under different financial reporting frameworks including international scenario developed by IASB. Since its inception, it has covered a journey from *flow through* accounting leading to *partial provision* and at last to *full provision* accounting. The reporting aspects of income tax and specially deferred tax were and even today are by hook or by crook different under several financial reporting frameworks specifically under FRSs[1], the reporting framework in UK, issued by ASB[2]. The main focus in Pakistan and international scenario is IAS 12 "Income Taxes" but the study of most accomplished frameworks prevailing since the very beginning is of much import to understand the current sketch of IAS 12. These proficient reporting frameworks are mainly FRSs, standards issued by AASB[3] and US reporting standards conventionally known as SFASs[4] or US GAAP.

The entire accountancy world is going to converge and is on way to synchronization of reporting frameworks as much evidenced by adoption of IASs by various countries including those members of SAFA and most of the member countries of EU by the year 2005 for consolidated financial statements through EC directives and the recent changes in AASB Standards in parity with IASs/IFRSs. All these changes have resulted in the international consensus of shifting focus on "temporary" rather "timing" approach. However a few exceptions in the shape of FRSs still prevail in the world, founded on timing approach and constituting the main reporting framework in England and the Republic of Ireland. While others have already gone to complete underlying conceptual change from timing to temporary well after the revised IAS 12 issue. The major example is Accounting Standard AASB 1020 "Income Taxes" which superseded Accounting Standard AASB 1020 "Accounting for Income Tax (Tax effect accounting)" and was later itself amended by Accounting Standard AASB 1020A "Amendments to Accounting Standard 1020" and Australian Accounting Standard AAS 3. At last a refined accounting standard AASB 1020B, under pending status, has been finalized for application from 1st January 2005 in Australian reporting environment.

The concept of temporary difference, as opposed to timing difference, was evolved in Australian Accounting Standard AASB 1020 "Income Taxes" in December 1999. The International Accounting Standard 12 (original) was issued in 1979 named "Accounting for taxes on Income". This was later lagged by IAS 12 (reformatted 1994), IAS 12 (revised 1996), and the latest IAS 12 (revised 2000) "Income Taxes". The concept of timing difference was presented by the original IAS 12 in 1979 while this idea was shifted to complete change in 1996 by IAS 12 (revised) through conceptual basis of temporary differences. The same phenomenon was adopted by Australian Standards in 1998 in an attempt to be intact with global velocity.

However in some examples like FASB[5] Statements of Accounting Standards, the concept of temporary instead of timing difference has ever been present since the issue of FASB Statement 96 "Accounting for Income Tax (tax effect accounting)". The same ideas win through after a long time on international consensus.

IAS 12 revised in the year 2000 deals with reporting issues regarding income tax. IAS 12 bifurcates tax issue under current tax and deferred tax. The accounting and reporting treatment of current tax is the same under different frameworks. However the deferred tax has been differently treated under differing frameworks. Deferred tax liabilities and assets for the future tax consequences of events and transactions already recognized in an enterprise's financial statements or tax returns have to be accounted for and this issue leads to the two main streams of timing and temporary differences. In order to fully grasp the deferred taxation, a comprehensive study is first to be made about the incurrence of deferred tax. What is deferred taxation? How does it arise? What are the essential accounting treatments to reflect the true financial position and performance of the entity? How does the accounting treatment under IAS 12 differ from that described for well established English and Irish reporting environments? And most importantly, the impact of IAS 12 approach on performance appraisal and transparency of financial statements must be studied.

One reason to study FRSs and other frameworks together with IASs is to visualize the proficient frameworks existed



International Financial Reporting Standards

well before the very beginning of harmonization of reporting aspects all over the world by IASB. The International Accounting Standards later developed by IASB still envisage many basic rules and principles the FRSs, previous SSAPs[6] and US GAAP were founded on in view of international accord. There was even a time when IASs were alleged to be espoused from the American culture.

"The main argument is that, while IASs closely resemble US GAAP, [but] they don't necessarily accommodate or reflect the business culture of the rest of the world" - Ramona Dzinkowski (Eminent Canadian Economist)

IAS 12 before revision in 1996 was founded on the concept of timing differences instead of temporary differences but treated most of temporary differences in the same way as timing differences. The same rules, with a little bit divergence, were adopted by FRS 19 "Deferred Tax" issued in December 2000 in continuance of its old approach established by SSAP 15. Even today, the exact reporting framework as established by IAS 12 (original) exists in the shape of GAS[7]10. While studying timing and temporary differences, there seems to be no difference between the two but the very differences, which have to be visualized, cause the complete diversion from income statement to balance sheet for the identification and reporting of deferred taxation.

The definitions of timing differences, temporary differences, assets and liabilities are very significant and directly relate to the recognition of deferred assets and liabilities related to taxation in the financial statements. These items have been defined by different frameworks as under:

Timing Differences are:

"the differences between the taxable amount and pre-tax accounting profit

that originate in one reporting period and reverse in one or more subsequent reporting periods" - (Definition to AASB 1020 "Accounting for Income Tax (Tax effect accounting)")

"the differences between the years in which the transactions affect the taxable income and the years in which they enter into the determination of pretax financial income" - (Glossary to FASB Statement 96 "Accounting for Income Taxes" & (in substance) the same definition pertains to FRS 19 "Deferred Tax")

"the differences between the taxable profit (tax loss) and accounting profit (loss) that originate in one period and reverse in one or more subsequent period" - (Definition to IAS 12 "Accounting for Taxes on Income")

Temporary Differences are:

"the differences between the carrying amount of an asset or a liability in the statement of financial position and its tax base" - (Definition to AASB 1020B "Income Taxes")

"the differences between the tax base of an asset or liability and its reported amount in the financial statements" - (Glossary to FASB Statement 109 "Accounting for Income Taxes")

"the differences between carrying amount of an asset or liability in the balance sheet and its tax base" - (Definition to IAS 12 (revised 2000)

* (Temporary difference concept is not defined in FRS due to application of incremental liability approach instead of value adjustment approach)

Asset means:

"future economic benefits controlled by the entity as a result of past transactions or other past events" - (Definition to AASB 1020B "Income Taxes")

"probable future economic benefits obtained or controlled by a particular

entity as a result of past transactions or events" - (FASB Concept Statement 6-Elements of Financial Statements)

"rights or other access to the future economic benefits controlled by an entity as a result of past transaction or event" - (Statement of Principles-Conceptual Framework to FRS)

"a resource controlled by an entity as a result of past events, and from which future economic benefits are expected to flow to the enterprise" - (The Framework)

Liability means:

"future sacrifices of economic benefits that the entity is presently obliged to make to other entities as a result of past transactions or other past events" - (Definition to AASB 1020B "Income Taxes")

"an obligation of an entity to transfer economic benefits as a result of past transactions or events" - (Statement of Principles-Conceptual Framework to FRS)

"probable future sacrifices of economic benefits arising from present obligations of a particular entity to transfer assets or provide services to other entities in the future as a result of past transactions or events" - (FASB Concept Statement 6-Elements of Financial Statements)

"a present obligation of the enterprise arising from the past event, the settlement of which is expected to result in an outflow from the enterprise of resources embodying economic benefits" - (The Framework)

The definitions of timing and temporary differences, assets and liabilities as described by SP[8], the framework of IASs, AASB and Statement of Concepts for US GAAP have ever been the same (in substance). While studying the basic



concepts of assets and liabilities and their recognition criteria, there seem also no differences in basic frameworks. Even after this harmony, why different approaches of timing and temporary differences made their ways? Why timing approach, even after much criticism, still prevails in FRSs and some other frameworks like GASs? What was the reason of its subsistence even in IASs which are avowed to be very agile on the ground of international footing since their inception? The answer lies in interpretation of these concepts. The ASB does not agree with the conceptual arguments underpinning the requirements of IAS 12, AASB Standards and US GAAP. It is of the view that temporary difference approach leads the companies to excessive provisions for deferred taxation. It, therefore, takes a different conceptual approach.

The most important practical consequence is that unlike IAS 12 and US GAAP and AASB Standards, FRS 19 doesn't in general require deferred tax to be provided when non-monetary assets are revalued or when they are adjusted to their fair value on the acquisition of business. Whereas, the true identity of assets and liabilities in respect of deferral view has also been neglected in other frameworks for a long time and ultimately that shortcoming has been removed by change to value adjustment technique. Temporary differences arise in many situations which do not give rise to equivalent cumulative timing differences under many superseded timing frameworks and current FRSs framework of England and the Republic of Ireland. In this way, the concept of timing difference slowly lacked international consensus because all timing differences generate temporary differences but the overturn doesn't always apply. The following situations, on account of above view, were the main impetus behind the shift

and are specifically dealt with by IAS 12 for true and fair performance and position appraisal of an entity:

- (a) Acquisitions of entities or operations, where an acquiree's identifiable assets and liabilities are measured at fair values as at the date of acquisition and those fair values, recognised in the acquirer's financial report, differ from their tax bases. (ibid; paras 19, 66, 67 & 68)
- (b) Asset revaluations recognized in an asset revaluation reserve (ibid; para 20).
- (c) Components of convertible financial instruments classified as equity as per the requirements of IAS 32 pertaining to hybrid financial instruments whereas no parity adjustment is made by tax rule (ibid; para 23)
- (d) Investments in subsidiaries, branches, associates and joint venture entities and interests in joint venture operations, where the carrying amount of net assets recognised (including goodwill, where relevant) in the parent entity or consolidated financial report in relation to the investments or interests differs from the separately identifiable tax base of the investments or interests. (ibid; paras 39 & 44)
- (e) Exchange differences arising on the translation of integrated foreign operations for the purpose of preparing consolidated financial reports (ibid; paras 38 & 41).

Some of the above situations like revaluation of assets (in cases other than business combination) and unremitted earnings were dealt with by previous IAS 12 but in an inappropriate way. While all these transactions and events went unnoticed by the reporting frameworks all over the world for some time. At first, it was believed that

timing effects covered all temporary differences; e.g. the recognition of deferred tax as liability in case of timing difference of say Rs.10,000 due to taxability of sales on cash basis is completely in accordance with the basic norms developed by the Framework for Preparation and Presentation of Financial Statements (*referred to as The Framework*) which defines liability as the present obligation resulting from past event. The liability of 3,000 (assuming tax rate 30%) in year 1 has arisen on account of taxability of 10,000 in next years. The increased tax must be paid in future on account of credit sale in current period.

The concept of timing difference has ever prevailed in FRSs and past Australian Standard AASB 1020 pertaining to reporting requirements there. The timing difference basis of deferred taxation refers to the full provision to be made for the deferred tax assets and liabilities arising from timing differences between the recognition of gains and losses in the financial statements and their recognition in the tax computation. The general principle in underlying requirements is that deferred tax should be recognized as a liability or asset if the transactions/events that give the entity an obligation to pay more tax in future or a right to pay less tax in future have occurred (owing to recognition criteria for assets and liabilities) by the balance sheet date.

Taking the above example, there is a timing difference of 10,000 under FRS 19 because of credit sale in the year 1, which reverses in year 2 and causes the increased payment of tax as compared to accounting profit. The timing difference reverses on passage of time and the same is called temporary difference under equivalent IAS 12. Then what's the difference? The difference is that the concept of timing difference is focused on income

statement while the concept of temporary difference is focused on balance sheet and also encapsulates timing differences. The concept of timing difference under UK reporting environment is *pari materia* to IAS 12 previous concept of requiring the deferred tax provision only to be made for differences in relation to income statement. But the differences which escape income statement on initial recognition, even after being temporary differences, also escape deferred taxation. These differences include revaluation of non-monetary assets in due course and also on acquisition of subsidiary. The concept of temporary difference also captures such differences and deferred taxation thereto. This conceptual difference prevails between timing differences and temporary differences and its consequences are evident in clauses (a) to (e) above. The IASB takes the enlarged view of temporary difference instead of timing difference for reporting deferred taxation.

Example

Singora Enterprise has an asset with carrying value and tax base of \$1000. The asset is revalued at \$1500 and it causes a temporary difference of \$500 and the resulting deferred tax liability of \$150 (500 x 30%) assuming 30% tax rate.

Before revaluation, the depreciation charge for the year was \$100 (assuming 10% rate applicable on straight line method) but now it has increased to \$150. The difference of \$50 appearing in the income statement is not an admissible expense, neither now nor in future (permanent difference).

However, the amount of \$500 (difference between the tax base and carrying value) would be credited to the retained earnings

when the asset is sold or utilized internally to avail benefit.

In this case, while adopting timing difference approach no deferred tax is recognised concerning revaluation of asset. Timing approach escapes such liability where temporary approach does not.

It is evident that temporary differences are nothing but extended version of timing differences to coup with shortcomings identified thereto.

The reporting framework opened by FRS 19 prohibits the recognition of deferred taxation on timing differences on account of.

1. Revaluation of non-monetary assets without being any commitment by the firm to sell the asset in future. However deferred taxation is accounted for when these assets are marked to market.
2. A non-monetary asset being adjusted to its fair value on the acquisition of business.
3. The gain on sale of an asset is rolled over onto replacement assets.

Example

Singora Enterprise acquired a foreign subsidiary classified as foreign entity under IAS 21. The earnings of acquired entity are *FC 800 for year. Its net assets (unremitted earnings) are FC 1,250 and FC 2,050 at the end of years 1 and 2, respectively.

The foreign currency is functional currency (FC). For year 2, translated amounts are as follows:

	Foreign Currency	Exchange rate	Rupees
Unremitted earnings, beginning of the year	1,250	FC1 = Rs. 2.00	2,500
Earnings for the year	800	FC1 = Rs. 1.50	1,200
Unremitted earnings, end of year	2,050	FC1 = Rs. 1.80	3,690

4. The remittances of a subsidiary, associate or joint venture's earnings would cause tax to be payable, but no commitment has been made to the remittances of earnings.

Here the timing difference being failed to capture the differences affecting asset valuations in the balance sheet approach, normally called value adjustment approach which is at the core of temporary difference approach. Whereas the timing difference approach is based on the concept of so called incremental liability approach in accounting literature.

The main difference arises under situations described in (a), (b) and (c) above due to recognition of deferred liability or asset in the situation where the event or transaction causes the asset or liability to arise in its own right under incremental liability approach. The incongruity also arises in respect of demonstrably committed remittances and reasonable expectation of reversal of differences on remittances in situation (d) above. The above reporting requirement under frameworks to be dealt with under timing difference regime are quite contradictory to the temporary difference regime specified in IAS 12.

A Rs. 10 translation adjustment (2,500 + 1,200- 3,690) is cumulative translation adjustment account in shareholders' equity for year 2.

The parent expects that all of the foreign subsidiary's unremitted earnings will be remitted in the foreseeable future and a deferred tax liability is recognized for those unremitted earnings.

The parent accrues the deferred tax liability at a 20 percent tax rate (that is, net of foreign tax credits, foreign tax credit carry forwards, and so forth). An analysis of the net investment in the foreign subsidiary and the related deferred tax liability for year 2 is as follows:

	Net Investment (in Rs.)	Deferred Tax Liability (in Rs.)
Balances, beginning of year	2,500	500
Earnings and related taxes	1,200	240
Translation adjustment and related taxes	(10)	(02)
Balances, end of year	3,690	738

For year 2, Rs.240 of deferred taxes are charged against earnings, and Rs.02 of deferred taxes are credited directly to the cumulative translation adjustment account in shareholders' equity.

* (all figures in millions)

the definitions of asset and liability. These definitions are described in somewhat the same manner under all frameworks as the asset being a resource controlled by an enterprise as a result of past event and the liability being present obligation as a result of past event. The emphasizing words here are *past events*. The transactions or other events obligating the entity constitute past events and cause deferred tax liabilities or assets to be recognised due to temporary differences. However a prudent approach for the recognition of asset is required as per the Framework.

The US GAAP visualizes the approach of temporary differences in line with international consensus. However the incremental liability approach also made the way in ABP Opinion[9] 11 prior to SFAS 96 and its successor SFAS 109. SFAS 96 was first issued in 1987 while IAS 12 adopted temporary difference terminology and the resulting changes in 1996 and emulated much of SFAS 109 (1992) with some distinctions by requiring the use of liability method instead of deferred method (ibid; para 60). But there is still a major difference in respect of deferred tax asset which is to be recognized for all deductible temporary differences and furthermore a valuation allowance is to be created where the non-recovery of asset is more likely than not. The FASB of US has now signed a memorandum of understanding with IASB to streamline its standards with IASs/IFRSs, which is another step towards harmonization and adoption of International Accounting and Reporting Standards on global lines.

In this way IAS 12, after much debate, has succeeded in achieving greater transparency in the financial statements of an entity. The matter of recognition, measurement and presentation of deferred taxation is at last in conformity with the basic rules

IAS 12 & Temporary Difference Anomaly

Even after a shift from timing to temporary, there are also many differences between the tax base and book values of assets and liabilities on which the recognition of deferred taxation caused inappropriate reporting. IAS 12 several times reverts back to nullify such anomaly inherent in the definition of temporary differences. The nullifications of such anomalies are embarked upon by IAS 12 in following ways:

1. Non recognition of deferred taxation for goodwill not deductible for tax purpose (ibid; paras 15, 21& 21A).
2. Non recognition of deferred taxation on temporary difference arising on initial recognition, not in

case of business combination, of an asset or liability (ibid; paras 15, 24 & 33).

3. Non recognition of deferred taxation on temporary difference arising on recognition of exempt government grant where the government grant is accounted for as deferred income under IAS 20 (ibid; para 33).
4. Temporary differences arising on the existence of undistributed profits of subsidiaries, branches, associates and joint ventures where the enterprise controls the timing of reversal and the differences are not expected to reverse in foreseeable future (ibid; paras 39 & 44).

However, the recognition of deferred taxation is quite in accordance with



developed by the framework and all this is leading to the true and fair presentation and financial performance appraisal. The performance and position appraisal requires the completeness and accuracy of assets, liabilities, income, expenses and equity of an enterprise in terms of recognition, measurement and even most importantly the reporting.

IAS 12 & Performance and Position Appraisals

Not surprisingly, the deferred taxation assets and liabilities substantially affect the financial position and performance of an enterprise where the amounts are much material in relation to pretax profit, assets and liabilities. One can think of the consequences of inappropriate financial appraisals where the amount of deferred taxation exceeds millions in case of large scale business and in turn affecting EPS, gearing, ROCE and other ratios which are at the heart of performance and position measurement techniques used all over the world. The shift to temporary differences is an indispensable step towards transparency of financial statements and the recognition of deferred liabilities and assets in line with the basic concepts underlying the framework.

The evolutionary development of IAS 12 also elucidates the calculation of deferred taxation, which is an other effort towards true and fair presentation while still avoiding the complexity. e.g:

1. Use of future expected tax rate based on substantially enacted tax rates by

the balance sheet date for computation of deferred taxation (ibid; para 47).

2. The expected pattern of utilization of assets or liabilities for the calculation of deferred taxation (e.g. disposal of an assets or its use in business) (ibid; para 51).
3. The prohibition of use of discounting (though not in accordance with the general concept of discounting long term items) of deferred taxation (ibid; para 53).
4. Deferred taxation related to items charged or credited directly to equity (ibid; para 61).
5. Offset provisions relating to deferred taxation (ibid; para 74).

The requirement of IAS 12 as described in (c) is quite contradictory to the norms of accounting and reporting but the sacrifice in this respect is sought to avoid undue complexity of financial statements.

The accounting and reporting rules under IAS 12 appear to be complex, but they do accomplish the objective of keeping tax and financial accounting separate and independent of one another.

The different purposes for each accounting system must always be kept in mind. Tax Regulations in any country are designed to raise revenue, regulate business activity, encourage investment, and redistribute income between various social groups. Tax regulations are in a constant state of

flux and are the result of legislative compromises. Thus Income Tax returns have little relevance for potential investors since they simply reflect how aggressively the taxpayer has utilized the tax laws to report as little income as possible for taxation purposes. Accounting rules for deferred taxation under IAS 12 are developed to reflect the economic reality of a firm by providing relevant financial statements so that users can make informed decisions about a firm. Accounting does not change as frequently as tax regulations. The two accounting systems are completely separate. A change in accounting rules has no impact on taxable income while a change in tax rules will only affect the amount of tax expense reported for financial purposes. For these reasons, the accounting and reporting aspects of deferred taxation have been developed in such a way to accommodate the recognition of assets and liabilities pursuant to completeness concept described in the framework and all this has been achieved after over 60 years of debate.

Note: The views expressed in the article are solely of the author and Accountancy may or may not agree with them.

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Solutions to crossword on page 36

ACROSS: 1 Remuneration; 8 Regulated; 9 Stag; 11 Nook; 12 Derivative; 14 Aspire; 15 Cheetahs; 17 Trousers; 19 Stater; 22 On the level; 23 Plum; 25 Writ; 26 Inflation; 27 Consolidated. **DOWN:** 1 Regroup; 2 Milk; 3 Nutmeg; 4 Red light; 5 Testaments; 6 Ocarina; 7 Transaction; 10 Measurement; 13 Prospectus; 16 Free-will; 18 Ontario; 20 Tallied; 21 Beefed; 24 Mart.



Factors Conducive/Susceptible for a Successful Industrial Management

Amirali Kassim Merchant, FCA

Introduction

We have been hearing the word MANAGEMENT since decades. This terminology has assumed a great significance/domination since the evolution of great industrial revolution that took place in the Great Britain, which in fact has given birth to a new era, which is the emergence of an industrial development in the Great Britain. This process, with the passage of time, technological innovations and other dynamic related factors, has in turn given birth to, what may be termed as the concept of MANAGEMENT.

What does the term Management connote? Management in its generally accepted parlance is construed as "anything to be managed scientifically". The term science represents systematized knowledge of any subject. It may also be implied as anything done /performed in a disciplined manner under any rationale/logic.

In the light of the foregoing, the term management may be with reference to anything, say for example in the western countries there is a concept of WASTE MANAGEMENT which is one of the services performed by their Local Authorities. This is only a terminology used by them for an identical service that is being performed by any Metropolitan Corporation. But this write up basically/fundamentally contemplates management in relation to an industry, with special reference to the constituents which, when embodied / blended in a suitable manner, are most likely to result in to a sound, efficient, effective monitoring, control and smooth navigation of an industrial management in a successful manner. These constituents have been discussed in the following paragraphs.

Effective Leadership

Leadership, in the industrial management has a distinct/unique/special place to occupy. It is being looked upon as the core seat/vertebra thereof. A leader, in the accepted parlance, means a pioneer/torch bearer/any body to lead and guide others in any organization. The term "leader" in the industrial management means the "CHIEF EXECUTIVE OFFICER" (CEO). He is thus the key person at the helm of affairs in the day-to-day management of the

company. His principal functions, interalia, include the execution of plans and policies as framed by the apex body "Board of Directors", monitoring / co-ordinating the duties/functions of all the Departmental Heads etc.

In the western countries, a CEO is generally a person with caliber, aptitude, professional skills, acumen and a vision to steer the company out of any odd/ unfavorable circumstances. In many of the cases, he joins the company in a very junior capacity and rises to the top through hard work. In developing countries too, a change is rapidly taking place in a positive/dynamic manner that more and more CEOs are being appointed as persons with the requisite proficiency/expertise etc. In other words the traditional practice of succession in an inherited/ancestral manner is being rapidly replaced with merit as the sole criterion for this coveted post. Thus we are not far lagging behind with our western counterparts in this respect. He is accountable to the Chairman of the Board of Directors. In case, he is given a free hand in managing the affairs of the company, then his skills get blossomed and are most likely to result in the company to prosper with leaps and bounds. To conclude under this para, let it be added that achieving the GOALS of the company is the central/focal point of the multifarious duties that have been entrusted to him.

Legendary Board of Directors

An efficient, elegant and versatile Board, which comprises of a group of persons, plays a very vital role in the ultimate industrial progress of a company. Its composition must be a blend of persons with requisite proficiency in different disciplines. This in turn shall enable to run a company successfully.

In the western countries, it is a very common practice to observe that a Board represents Executives who have joined the organization in its earliest period and with the passage of time they grow and become fully seasoned and veterans and ultimately achieve a level that fully justifies them as being promoted to the Board of Directors.

Planning and policies formulation is construed to be the main function of any Board (in addition to many others) and



as such it is imperative that they must have a crystal clear vision of an impact of far-sightedness for running the SHOW in a prudent / wise manner. This significant aspect of planning and policies formulation has been further elaborated elsewhere in this write-up.

In developing countries there had been a practice in the past that "Family Heritage" was preferred, in an ab-initio manner as a CULTURE to be adopted in the selection of the members of a Board. This has now been widely replaced with the formulation of sound / tangible practices of the "good governance" in the corporate sector, with the result that we are now at a significant degree of PAR with our western counterparts. Again, in order to ensure that there is an environment of running the show of a company in a congenial / concord / harmonious manner, it is absolutely imperative that all undesirable / unhealthy DIFFERENCES among the Board be completely avoided, as these lead to a devastation of a company in the long run. Thus the concept that "united we stand" should be the sole motto of every unscrupulous Board of Directors.

Soundness in Decisions

A convention of some Chief Executives of industrial organizations was held in Dubai in the month of May 2005. At the conclusion thereof, they were approached by a few local journalists, who asked them for the significant contributory factors that made their companies so successful. Their reply being that their companies believed very strongly and laid much emphasis on "correct and timely decision making" as the prime factor to be taken cognizance of while planning for: production, sales, marketing, finance, human resources etc.

Based on the contents of the last mentioned para, it is thus a dogmatic opinion that a correct and timely decision making (which in fact is itself

a very wide subject) has a great "say" in the successful management of any industry. In order to fully ensure equilibrium, it is necessary that all decisions must bear the following ingredients:

- ◆ Be subject to an in-depth review /discussion.
- ◆ Are feasible / viable for a reasonable period of time.
- ◆ Are fully supported by tangible / sanguine calculations.
- ◆ Are completely free from the vice of fickle-mindedness.
- ◆ Have a consensus / concurrence, which is free from bias / prejudice / coercion.

Plans and Policies

The above stated two terms be read in conjunction with each other and that each is basically incomplete without the other. These are similar to any LEVER on which any given system hinges / rotates. Much depends upon the soundness / strength of these two elements. In fact it would not be possible to conceive of any significant industrial progress in their absence.

The process of formulation of business policies also depends upon the edifice / infrastructure of a company. This has a co-relation with the periodical management decisions. Decisions are in fact translated / transformed in their subsequent implementation, through the media of planning / policies. Policies are always with reference to the entire running of a company's industrial SHOW in a multi-faceted manner. All plans are management's reflection of its desires / intentions / vision, partaking the form of various statistical (and otherwise) MAPS. Sources of a company's policies can be gauged through the media such as: sales catalogs, advertising campaigns, annual report, articles & memorandum of association etc.

Problems Solving Skills

In today's industrial world, emergence of problems which may be of any category / class / nature is a very common feature, rather a routine beginning with the first day of the office and that these go on multiplying all through the day, as it progresses.

In industrially advanced countries of the world the vision and solution for any probabilities for surfacing of any problem has a different status as compared to this part of the sub-continent. They at the very outset, while planning their industrial operations, make the entire possible cushion / margin for any eventuality that may be encountered during the intervening period. In other words, they have a far sightedness that unforeseen elements / factors may inadvertently or otherwise creep in, resulting into any impediments.

The subject of problem solving skills is also very vast and that it is not possible to discuss the same at length in this write up. Following are however the KEY INDICATORS of a possible manner in which these may be dealt with.

1. Firstly, one may not agree but the veracity is that there is no such thing as any problem in the very first stage as well as in the accepted parlance of the word. It is the shortsightedness / inability as well as a complete absence of an INSIGHT OF ONE'S VISION to perceive any given phenomenon / element / substance / material / matter as a problem.
2. Secondly, examine the present status of each problem in a microscopic manner, striving at all times to ascertain / pin point the root cause thereof which has given rise thereto.

3. Thirdly, the suggested remedy is to face any given problem on: "as is where basis is." By strongly / courageously HOLDING OUT there against, solution shall undoubtedly emerge by an unshattered fight thereagainst. In sharp contrast to what has been stated above, if you withdraw yourself from a given problem, either halfway or with a half-hearted endeavor, then the emerging scenario shall be more aggravated / grim and that the problem under consideration may become formidable / nightmare/ uncontrollable.
4. Fourthly, go for various options / alternatives, each to be considered on its merits, because any SINGLE / SOLE option shall tend to serve as a mere stand-stillness.

Sharp Memory of the Management

Prima-facie the above mentioned factor does not appear to be gaining any weight as a conducive weapon for a successful industrial management. This is particularly true as we are in the era of rapidly changing information technology, wherein use of computers has become inevitable, which store/save all the typed data with precision. The sole reason to be assigned any degree of weight to this factor may be attributed to the psychological involvement to play its dominating role of sharp memory, to keep the events alive for a longer period of time, without any recourse to other INSTANT BACKUPS. Thus the only tangible advantage to be gained by any Management in relation to its sharp memory is that things get CLICKED / FLASHED instantly in support of any significant past events, partaking the nature of any important DECISIONS (or any other matters of an allied nature). Apart from above, there does not appear to be any other

tangible advantage to gauge or evaluate any other intrinsic worth in relation thereto.

Emotional Maturity of the Management

As a corollary to what has been stated above, an identical element / factor to ensure a reasonable degree of success in monitoring the industrial success is, the suggested measure of a COMPLETE ABSTINENCE AGAINST ANY ETHICAL / SENTIMENTAL BEHAVIOR OF THE MANAGEMENT. This is with special reference to reviewing the pros and cons of the various decisions that are under an active consideration by the Management. In other words, what we mean is that management decisions need to be based exclusively on tangible logic / rationales and not on any "sentimental human compassion" or any other identical inclination.

Time Management

All of us are hearing from sunrise to sunset that if money is lost then something is lost, but if time is lost then everything is lost and that time and tide do not wait for anybody. This phrase is however small in size, but has an implication of the highest weight / strength.

In this modern era of industrial management, time is construed as the most running out factor. Maximum utilization of time in relation to the following, shall serve most effectively the corresponding benefits arising therefrom to all concerned in the industrial management.

1. Convening of Board Meetings with strict adherence to sharp punctuality by each Director.
2. Discussion of each AGENDA at the Board meetings is in a manner that saves time by fully avoiding superfluous arguments and counter arguments.

3. Periodical meetings of the Departmental Managers be monitored in such a way that the company gains therefrom without any loss of time in the effective implementation of the OUTCOME and aiming at the maximum productivity emanating there from all the time.

4. Time to be applied with specific reference to a strict adherence by way of a fixation of DEADLINE against each earmarked activity.

It goes without saying that by time management, we do not mean at all that no provision be made for the loss of unavoidable time. It is but natural that all production, sales and other industrial activities do warrant, in an unabatable manner, some provision for the loss of time based on factors beyond control of any man of ordinary prudence. This factor needs to be taken cognizance of. Remember that time saving also tantamounts to cost savings as well.

Communication

We are presently in the world of rapid technological changes which are fast undergoing transformation / modification / improvement at an unimaginable velocity which is in line with keeping a pace with the means of communication, which have assumed a considerable significance in the world of industrial development today. By communication, it is hereby purported to connote in particular the effective role of INFORMATION TECHNOLOGY, more commonly being termed as "IT".

In order that an industry may thrive and attain a respectable status of its due share of development, it must have a well-designed MIS (Management Information System) in all its manifold aspects. Emphasis in this para is with special reference to the departmental manpower (in addition to the

productive usage of computers of the latest MAKE) that must be duly trained, together with the highest relevant qualifications and practical experience to their credit.

Usage of the latest tailored made software would undoubtedly be an added advantage. Increasing practice is being followed now a days in many industries to engage the services of CISA (Certified Information Systems Auditor). This is a development at par with that of a Certified Internal Auditor (CIA)

Super/Excellent Teams

A team has been defined as a group of individuals working in harmony with each other for attaining the goals of a company. Each company has its own targets / goals and that it strives / endeavors collectively to reach its destination through its teams, which work in different areas / dimensions. Thus there are teams in production / sales / maintenance / finance departments etc.

Without going into any detailed discussion about the functions / duties of each team in this para, (as each team has a number of distinct functions to perform), it can be said at this juncture that an ideal combination of manpower in any given industrial team, together with the degree of supremacy with which it works, not in any isolation, but in a co-coordinated manner, shall undoubtedly enable a company to perform most successfully, during the times of crisis / adversity / rainy days / hardship / trade recession or any phase of an economic recession through which it may unfortunately happens to pass or any such calamity of an unforeseen nature.

Members in any given industrial team are generally ACES in their respective discipline and as such it is up to the management of a given company, how to make an effective utilization of their

expertise / proficiency. The scientific manner, in which it blends their services, shall enable it to run most smoothly its day-to-day affairs.

The Role of Human Resources Management

The practical concept of Human Resources Management (HRM) has gained a momentum since last two decades in this part of the sub-continent. What does the term HRM denote? It simply means an efficient and effective utilization of manpower, commencing with the cycle of: (a) recruitment, (b) training, (c) motivation, and (d) ensuring co-ordination / congenial working environment. This, in a nutshell, is the synopsis of a HRM that is practically observed in any company.

HUMAN RESOURCES MANAGER:

In order to achieve, in an acceptable manner, what has been stated under (a) to (d) above, resort is being made by a company to engage the services of a Human Resources Manager. Stated below are the ingredients expected to be possessed by a HRM:

He must:

1. Have a Masters' degree in HRM.
2. Be able to develop effective HR strategies, while understanding the impact of an industrial culture, its application and the acceptable practices of the company, in vogue.
3. Have a good command over the skills of: confidentiality, inter-personal, presentation etc.
4. Be able to represent the company as its ambassador in a befitting manner as and when the need arises.
5. Be able to promote / foster team spirit.

Thus to sum up, the virtual success of an all time monitoring of the manpower of an industrial organization, fundamentally rests upon a HRM, who undoubtedly is one of the

members of the management team, at its appropriate level.

Financial Management

The term "Financial Management / Management Accounting / Managerial Finance", more or less connote the same meaning. No discussion, in this write up, would ever be complete without involving the principal role of FINANCE as the life-blood of any successful industrial management. Finance in itself is a very vast subject and as such it has been thought expedient to limit our discussion to the following:

Any prudent management to take due / timely notice of the redeemable features such as:

1. Financial plans that is BUDGETS by way of partaking their effective monitoring of variances.
2. Cognizance of the factors that give rise to constraints arising from the abnormality of the period between the inflow and the outflow of the FUNDS/RESOURCES.
3. Productive investment of surplus funds, wherever deemed feasible.

Role of Marketing

The concept of marketing, in this part of the sub-continent, is not old. This being primarily due to the fact that industries in this part of the world had never been subject to any cutthroat / stiff competition in an aggravated manner in the past, as is the emerging scenario of today. This was due to the commanding status of monopoly, which may not be in its entirety, of course. In the past there had been a concept of a Sales Manager only whose principal duty was confined to boost up the sales in volume with other relevant duties.

Marketing, in the modern industrial era, includes: sales, product research, designing for advertising of the company's products and many other



distinguishing features. Thus if there being no effective marketing activities, then there are many probabilities for a company's progress graph to be at its lowest ebb.

Marketing in itself is a complete cycle of processes of which sales being one of its constituents only. It is a very organized activity comprising of personnel of the highest caliber, who are well acquainted with the company's products in a technical manner. Following are the salient features of marketing that go to make this activity as one of the contributory factors in relation to a successful industrial management.

1. Recruitment of a seasoned Marketing Manager who being the Departmental Head, with a team of sub-ordinates in the allied discipline, having completed their Masters in marketing as the Major.
2. Development of marketing strategies that are in line with the changing requirements of the consumers' taste, design, fashion etc.
3. Market Research to be the core function, with highest degree of technological advancement therein.
4. An updated knowledge of the consumer goods market.
5. Designing of new / improved products from time to time.
6. Emphasis on advertising, thereby keeping the customers attached / retained to the company and with a vision of attracting new customers.

Improved Status of an all time Customer Service/ Public Relationship

The above stated categorically/ unequivocally forms a part of marketing, but the same has been separately discussed as it is of a paramount significance.

The one line secret of business success

as propagated by the "Industrial Wizards" of this modern industrial era is that "a customer is always a king", so called identical to that of any Monarch with royal prerogatives similar to that of any Crown. Thus success much depends on how he is being attended / taken care of.

One must never forget that the era of monopoly is fast vanishing, if not apparently then latently, caused by a cutthroat competition, which may be national, international or global. One of the suggested remedies to overcome this malady / vulnerable element is to take as much care of customers as possible. This is with special reference to "service after sales" such as contract for periodical maintenance, timely attendance to emergency calls, compliance with products warranties, and free replacement of any parts due to any inherent defects therein, sending greeting cards on festivals / special occasions etc. The degree of efficiency, with which the Customers Services Department renders services, authenticates / substantiates / corroborates its virtual standard of the diligence with which it performs its duties.

Vigilance in the Monitoring of Company's Competitors

There is a saying in English "keep your friends close, but keep your enemies closer". By enemies it is hereby meant business rivals, antagonists, or persons engaged in the same line of trade or industry.

Company's competitors need to be watched in perpetuity, in the specific context of: their marketing policies and how they act and react in line with the changing mercantile environment during a given period of time. The company's own well being / future prospects depend as to how to protect / safe guard itself against the vicious

intentions of its competitors. These could be in the form of any undue or any unwarranted price reduction, offering of sales incentives much beyond their normal acceptability, sales promotions which are not justified either by the prevailing season or by circumstances etc.

In some Service Industries, say for instance in General Insurance, it is hereby opined that due to a stiff / cutthroat competition among the insurers, they may be compelled to deviate from the prescribed legislation which govern underwriting, commission, claims, etc. Notwithstanding the fact that stringent legislative measures have been enforced now a days, yet the tempo of business competition and the related culture, cannot make them to desist from any unhealthy practices. Thus under the circumstances which are detrimental as well as cause an impairment, (in any of its manifold aspects), they may have to exercise vigilance against their competitors, in order to suitably adjust themselves and thus to restore an equilibrium against any such odds. The opinion stated above is with reference to companies in this part of the sub-continent.

Companies themselves stand in an advantageous position by carefully watching the footsteps of their rivals. They thus become conscious as well as remain alert if they are under deep slumber thereby enabling them to improve and render better services to their clients. In short, more intense the degree of competition, the more it becomes imperative for the companies to be on their guard against their trade policies and practices and thus by doing the needful, they stand to get ready as BIRDS TO FLY WITH WET WINGS.

Reaping the Benefits of "Internal Economies"

Any industrial set up irrespective of any class, nature or category to which



it belongs, if managed prudently and efficiently is bound to result in latent advantages so called internal economies which virtually speaking being BONUS thereto. This term does not connote any bye-product, such as molasses being a bye-product in the case of sugar. It positively means a gain or an advantage which has absolutely resulted as an outcome of an efficient HANDLING / ROUTING, in all its manifold aspects. Following are few examples of the philosophy as dealt with in this para.

1. Scientific routing of various "processes" with vigilance and the exercise of due care at their respective stages, (which have been set), say in relation to a given cycle of raw materials, is most likely to result in "an EXTRA YIELD", which otherwise would not have been possible. This extra yield, when converted into its corresponding pecuniary value, is an added monetary advantage to that industry in the form of a revenue surplus.
2. An all time untiring endeavor to prevent an abnormal degree of wastage of raw materials. This is of course over and above the permissible limit in any given industry.
3. Making best use of an acceptable environment of an ideal " SALES MIX." of the company's products, which are based on prevalent market conditions / opportunities, by way of a larger turnover of any product (among many others) of a given brand / quality, which ensures a better gross margin.
4. Company's own ability to derive "the most and the best" of the highest qualitative standard of performance from their Managers. This in other words, must be much above the parameters set by the company.
6. Striving hard to make a maximum utilization of the "rated capacity" of the plant, thereby enabling to absorb total fixed production overheads.

Continuously Striving for the Priceless Gem so Called Growth/Expansion

Growth has been construed as advancement, with reference to all the segments of an industry. There is a saying: "success is a journey and not a destination". This short sentence has a great impact in terms of its implications, when read in conjunction with an industrial management. You must have witnessed a number of companies, which have started with a modest beginning and have reached at the top with the passage of time. Growth in a given industry maybe in any or all of the following forms.

- ◆ Expansion of manufacturing facilities to manufacture new products...
- ◆ Addition of a new plant with better and improved capacity.
- ◆ Capturing of new markets within or outside the country.
- ◆ Acceleration of the pace of exports.
- ◆ Acquisition of a franchise of any foreign affiliated company.

Above stated are just a few examples of how a company flourishes / thrives, in any industrial sector with its overall GRAPH showing an upward trend with the passage of time.

Company's Untinted/ Unimpeached Image on Bourses so Called Stock Exchanges

As everybody has a social status in relation to the society to which he belongs, similarly every LISTED COMPANY is being looked upon in the specific context of its mercantile image it enjoys on the country's Stock Exchanges.

A company's progress is generally measured by its turnover, earnings, distribution by way of pay-out, building up of large revenue reserves,

ample net current assets etc., and many other significant matters as disclosed by its Annual Report. These have a direct co-relation by way of the price at which its shares are being quoted on the Stock Exchanges. In other words, a Stock Exchange is a place that reflects the economic status of a company; as to where does it stand in terms of eyes of others. Any rise or fall in the quoted prices of a company's shares is an INDICATOR to gauge any of its cyclical movements through which it passes.

Apart from the speculative environment at the Stock Exchanges, if any, (which may be of a shorter duration) a company's graph of its progress, in all its manifold aspects, FLASHES thereat, and higher the quoted prices, better is prima-facie the economic status of a company thereat.

Conclusion

What has been discussed / envisaged in this write up is by way of a GENERALITY and not with reference to any particular type of industry. Secondly, each of the para of this write up describes in specie, an ideal and suggested effective TOOLS / MEANS to a given end and not the end itself. This is mainly due to the reason that there being a number of variations / derivatives to play the role of SUBSTITUTES, if any, which in turn may emerge as a second line of action for any given industry. Lastly, this write up does not deal with any of the aspect, neither in principle nor in practice, of the most dynamic governing legislation, so called the " Securities & Exchange Commission" of any country.

About the Author:

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Obituaries



Shaukat Javed son of Ch. Nizam Din born on August 07, 1952 passed matriculation examinations from Govt. High School Khanewal in 1967, obtained B.Com Degree from the University of the Punjab in 1972, underwent 3 years articleship from August 25, 1973 with M/s Hameed Chaudri & Co., Chartered Accountants and passed the Chartered Accountants Final examinations held in May 1982.

He was admitted to membership of the Institute in September 1982 as an Associate member and was admitted to Fellowship in July 2001.

He had served M/s Hameed Chaudhri & Co., as qualified Assistant from August 1982 to June 1991 and then moved to Philippines. In December 1999 he proceeded to Dubai where he worked with M/s Gulf Textile Co. Ltd. as Finance Manager and served for around four years. He then again proceeded to Philippines in November 2003 where he tried to establish private business but later shifted to Dubai recently where he suffered a heart stroke. He then came over to Pakistan and underwent cardiac surgery at the Punjab Institute of Cardiologists where he expired on October 30, 2005 i.e. a week after he was surgically treated upon.

He left behind a sister and six brothers.

* * * * *



Maqbool Ahmad Akhtar son of Chaudry Muhammad Bashir born on December 12, 1955 matriculated from the Board of Intermediate and Secondary Education, Multan in 1972, obtained Bachelor's Degree in Arts from the University of Punjab in 1982 and on having completed the prescribed C.A. training with M/s Gardezi & Co., Chartered Accountants and passed the C.A final Examinations of the Institute held in April 1994, was admitted to membership with effect from August 09, 1994. He underwent various other examinations abroad in line with the profession and obtained Certificates viz., Certified Information System Auditor (CISA), Certified Financial Consultants (CFC) and membership of the Canadian Institute of Brokers and Lenders.

Mr. Akhtar had joined the Allied Bank of Pakistan in 1992 and held the position of Assistant Vice President at the time of joining as an Associate Member of the Institute. After a couple of years, he proceeded to Canada and established his own business there. In Toronto he was seriously ill and underwent medical treatment there for a few months and then preferred to come over to Pakistan for continuing the treatment.

He expired on December 04, 2005 at Lahore due to cardio pulmonary arrest.

He left behind a widow, a daughter, and two sons.

VCD's of CPD Activities Conducted by Southern Regional Committee ICAP

S.No.	Held on	Topic	CD's Qty	Cost of per CD Rs.50/-
01.	02.05.2003	SAFA International Conference	1	Rs. 50/-
02.	27.12.2003	Workshop on ISA-700: The Auditor's Report on Financial Statements Speaker: Mr. Asad Ali Shah, FCA (Karachi)	3	Rs. 150/-
03.	10.01.2004	Workshop on ISA-210: Terms of Audit Engagements & ISA-203: Documentation Speaker: Mr. Haroon Tabraze, ACA (Karachi)	2	Rs. 100/-
04.	24.01.2004	Workshop on ISA-300: Planning & ISA-310: Knowledge of the Business Speaker: Syed Mohammad Shabbar Zaidi, FCA (Karachi)	3	Rs. 150/-
05.	21.02.2004	Workshop on ISA-320: Audit Materiality & ISA-520: Analytical Procedures Speaker: Mr. Haroon Tabraze, ACA (Karachi)	2	Rs. 100/-
06.	06.03.2004	Workshop on ISA-240: The Auditor's Responsibility to Consider Fraud & Error in an Audit of Financial Statements & ISA-250: Consideration of Laws and Regulations in an Audit of Financial Statements Speaker: Mr. Shabbir Younus, FCA (Karachi)	3	Rs. 150/-
07.	20.03.2004	Workshop on ISA-400: Risk Assessment and Internal Control Speaker: Mr. Pervez Muslim, FCA (Karachi)	3	Rs. 150/-
08.	08.05.2004	Workshop on ISA-500: Audit Evidence ISA-501: Audit Evidence-Additional Consideration for Specific Items Speaker: Mr. Muhammad Asif Iqbal, ACA (Karachi)	3	Rs. 150/-
09.	22.05.2004	Workshop on ISA-540: Audit Accounting Estimates ISA-550: Related Parties Speaker: Mr. Shahid Hussain, ACA (Karachi)	2	Rs. 100/-
10.	12.06.2004	Workshop on ISA-545: Auditing Fair Value Measurements & Disclosures Speaker: Mr. Nadeem Yousuf Adil, FCA (Karachi)	1	Rs. 50/-
11.	28.07.2004	Seminar on How to Employ Compensation Motivationally to Facilitate planned change for better productivity Speaker: Mr. Tariq Saeed Session Chairman: Mr. Zaheer Baig (Karachi)	2	Rs. 100/-
12.	13.10.2004	Seminar on Business Success Through Human Resource Management Speakers: Mr. Leon Menezes, Syed Nusrat Ali Session Chairman: Mr. Farooq Hassan (Karachi)	2	Rs. 100/-
13.	29.11.2004	Seminar on Corporate Fraud-Responsibilities of the Board, Management and Auditors to Prevent and Deter Financial Crime Speaker: Mr. Asad Ali Shah, FCA Session Chairman: Mr. Kamran Mirza (Karachi)	2	Rs. 100/-
14.	17.12.2004	Seminar on Application of Section 122 of the Income Tax Ordinance 2001 on Finalised Assessments of Repealed Income Tax Ordinance 1979 Speaker: Mr. Shaukat Amin Shah, FCA (Multan)	2	Rs. 100/-
15.	30.12.2004	Seminar on Leadership Qualities & Seeing Business Opportunities beyond the Financial numbers Speaker: Mr. Zaheer Baig (Karachi)	3	Rs. 150/-
16.	06.01.2005	Seminar on Treasury Management Speakers: Mr. M. Rizvan Malik, Mr. Aezad Ata Session Chairman: Mr. Zafar Iqbal Sobani, FCA (Karachi)	3	Rs. 150/-
17.	27.01.2005	Seminar on Islamic Banking- A Complete Business Solution Speakers: Mr. Ahsan Saleem Dr. Imran Usmani Mr. Najam ul Hassan Session Chairman: Mr. Ebrahim Yacoob Sidat, FCA (Karachi)	4	Rs. 200/-
18.	03.02.2005	Seminar on Mutual Funds & Investments in Capital Market Speaker: Mr. Nasim Beg, FCA Session Chairman: Mr. Tariq Iqbal Khan (Karachi)	2	Rs. 100/-
19.	24.02.2005	Seminar on Audit: Adding Value Across the Board Speaker: Ms. Huma Pasha, FCA Session Chairman: Ahmed Dawood Patel, FCA (Karachi)	2	Rs. 100/-

VCD's of CPD Activities Conducted by Southern Regional Committee ICAP

S.No.	Held on	Topic	CD's Qty	Cost of per CD Rs.50/-
20.	10.03.2005	Seminar on Auditing in a Computer Information Systems Environment Speaker: Mr. Yazdi R. Sidhwa Session Chairman: Mr. Ahmed Saeed, FCA (Karachi)	3	Rs. 150/-
21.	19.03.2005	Workshop on ISA-600: Using the Work of Auditor ISA-610: Considering the Work of Internal Audit ISA-620: Using the Work of an expert Speaker: Mr. Pervez Muslim, FCA (Karachi)	2	Rs. 100/-
22.	30.03.2005	Seminar on Strategic Management- A must for Successful Business. Speaker: Mr. Masood Ali Khan Session Chairman: Ms. Uzma Bashir (Karachi)	3	Rs. 150/-
23.	02.04.2005	Workshop on ISA-260: Communication of Audit matters with those charged with governance ISA-560: Subsequent Events ISA-220: Quality Control for Audit Work Speaker: Mr. Haroon Tabraze, ACA (Karachi)	2	Rs. 100/-
24.	07.04.2005	Seminar on Basel II- An Evolutionary Approach Speaker: Mr. Ayaz Ahmed (Karachi)	2	Rs. 100/-
25.	16.04.2005	Workshop on ISA-505: External Confirmations ISA-570: Going Concern Speaker: Syed Faraz Anwer, Mr. Aryn Pirani FCA (Karachi)	2	Rs. 100/-
26.	26.04.2005	Pre-Budget Seminar 2005-2006 Speaker: Syed Mohammad Shabbar Zaidi, FCA, Mr. Ather Saeed (Karachi)	3	Rs. 150/-
27.	30.04.2005	Workshop on ISA-710: Comparatives ISA-720: Other Information in Documents containing Audited Financial Statements ISA-580: Management Representations Speaker: Mr. Nadeem Yousuf Adil, FCA (Karachi)	2	Rs. 100/-
28.	06.05.2005	SAFA International Conference 2005	4	Rs. 200/-
29.	06.05.2005	Inauguration SAFA 2005 Speech: Mr. Abbas Mirza (Karachi)	1	Rs. 50/-
30.	25.05.2005	Seminar on Implementing SBPGuideline using COSO Framework on Internal Control Speaker: Asad Ali Shah, FCA, Syed Liaquat Ali, FCA Session Chairman: Mr. Jameel Ahmad (Karachi)	3	Rs. 150/-
31.	02.06.2005	Seminar on Critical Factors for Successful I.T Project Speaker: Mr. Rasool Hoodbhoy Session Chairman: Mr. Ahmed Saeed, FCA (Karachi)	3	Rs. 150/-
32.	13.06.2005	The Federal Budget Seminar 2005-2006 Speakers: Syed Masoud Ali Naqvi, FCA Mr. Ebrahim Yacoob Sidat, FCA Syed Mohammad Shabbar Zaidi, FCA Session Chairman: Dr. Salman Shah (Karachi)	4	Rs. 200/-
33.	22.06.2005	Seminar on Recent Development at IFAC Education Committee Speaker: Mr. Abdul Rahim Suriya, FCA Session Chairman: Mr. Khaliq-ur-Rahman, FCA (Karachi)	1	Rs. 50/-
34.	27.07.2005	Seminar on Competence Requirements for Audit Professional (Exposure Draft IES 8) Speaker: Syed Fahim ul Hassan, ACA Session Chairman: Mr. Khaliq-ur-Rahman, FCA (Karachi)	2	Rs. 100/-
35.	26.10.2005	Seminar on Takaful- An Islamic Form of Insurance Speaker: Capt. M. Jamil Akhtar Khan Session Chairman: Mr. Abdul Rahim Abdul Wahab (Karachi)	2	Rs. 100/-
36.	17.11 2005	Seminar on Islamic Banking- Current Scenario & Way Ahead Speaker: Mr. Muhammad Imran Session Chairman: Mr. Pervez Said (Karachi)	3	Rs. 150/-
37.	30.11.2005	Seminar on Changes and Amendments in International Accounting Standards (IASs) Effective from 1, January 2005 Speaker: Mr. Fahim ul Hassan, ACA (Karachi)	3	Rs. 150/-
38.	29.12.2005	Workshop on Business Communication. Workshop Leader: Mr. S. Zaki Hasan (Karachi)	6	Rs. 300/-
39.	19.01.2006	Seminar on Business Valuation Speakers: Mr. Asim Siddiqui, Mr. Zeeshan Hussain (Karachi)	2	Rs. 100/-

Cirrhosis: A Comprehensive View

Dr. S. M. Wasim Jafri

Cirrhosis is the term used to describe a diseased liver that has been severely scarred, usually due to many years of continuous injury. The liver is a large organ (weighing about three pounds) that is located in the right upper abdomen, beneath the rib cage. It performs many functions that are essential to life, including:

- Cleansing toxins from the blood;
- Metabolising medications;
- Producing blood proteins that are essential for normal blood clotting;
- Manufacturing albumin, a protein that is required for maintaining normal fluid balance in the body;
- Producing fluids and enzymes that are required for normal digestion.

The liver is very efficient at repairing itself when it has been injured, which can occur with certain diseases like hepatitis. The process of healing involves the creation of scar tissue. Thus, repeated or continuous injury to the liver (such as occurs with heavy alcohol use) can cause scarring in the liver. The body is able to tolerate a partially scarred liver without serious consequences. However, eventually, the scarring can become so severe that the liver is no longer able to perform its normal functions.

What are the causes of Cirrhosis?

Cirrhosis has many causes. It is important to find out what caused your cirrhosis, because therapy and prognosis of the underlying conditions can vary. The majority of causes (95 per cent) can be identified with specific testing. No cause can be clearly identified in about five per cent of patients. Such patients are said to have "idiopathic" cirrhosis. Hepatitis A and E are self-limiting and do not lead to cirrhosis or chronicity. Hepatitis C virus leads to chronic hepatitis in over 75 per cent of cases and at least a third of them may develop cirrhosis. Hepatitis B, on the other hand, almost always leads to a carrier state if acquired in the first year of life. However, as time goes by, the cure rate increases and adults develop chronicity in less than 20 per cent cases.

Some of the more commonly recognised causes of cirrhosis include:

Chronic Hepatitis (B or C)
Longstanding alcohol abuse
Less common causes include:

- Hemochromatosis (a condition in which there is too much iron in the body);

- Non-alcoholic steatohepatitis (a condition in which fat and scar tissue accumulate in the liver for poorly understood reasons);
- Autoimmune hepatitis (a condition in which the body's immune system reacts against the liver);
- Primary sclerosing cholangitis (a disease of the large bile ducts);
- Primary biliary cirrhosis (a disease of the small bile ducts);
- Wilson's disease (a rare disease of copper metabolism);
- Biliary atresia (a disease of the bile ducts in children);
- Rare diseases of metabolism such as galactosemia and glycogen storage disease.

What are the symptoms of Cirrhosis?

People with cirrhosis may have no symptoms, may have symptoms related to the underlying cause of the liver disease, or may develop symptoms directly related to the cirrhosis.

Symptoms due to the underlying liver disease — some of the specific causes of liver disease have certain features that may continue to be present once cirrhosis has developed. For example, diseases caused by damaged bile ducts (such as primary biliary cirrhosis and primary sclerosing cholangitis) are commonly associated with itching (called pruritus), which can be severe. Patients with primary sclerosing cholangitis may develop jaundice, yellowing of the skin and eyes, due to blocked bile ducts, even when the liver does not suffer from cirrhosis. Fatigue is very common with many forms of chronic liver disease without cirrhosis.

Symptoms due specifically to cirrhosis — many people who have developed cirrhosis have no symptoms or have only fatigue, which is very common. However, as the cirrhosis progresses, symptoms invariably develop as the liver is no longer able to perform its normal functions. The rate at which this occurs depends upon the underlying liver disease, available treatments, and individual factors. In some patients, symptoms may not develop for years, even after the liver has become cirrhotic. In others, symptoms may never develop if the cause of the liver disease can be eliminated.

- Scarring makes it difficult for blood to flow through the liver. As a result, veins in other parts of the body outside the liver that are not accustomed to carrying large volumes of blood become engorged (these abnormally expanded blood vessels are referred to as "varices"). One place where varices are commonly found is in the oesophagus, the swallowing tube connecting the mouth with the stomach. When the pressure in the varices reaches a certain level, the varices burst, which can cause massive bleeding (known as variceal bleeding).



- The scarred liver and the decreased ability to manufacture blood proteins causes body fluids to accumulate, typically in the legs (edema) and abdomen (ascites, pronounced "a-SITE-ease") and sometimes in the lung (pleural effusion). Ascites causes the abdomen to enlarge. The ascites is also a rich medium for bacteria to grow in and is prone to getting infected. Infection of ascites is called "spontaneous bacterial peritonitis".
- Patients with cirrhosis are prone to bleeding. This is a result of two occurrences: First, levels of the normal blood cells (platelets) that are essential for clot formation can be severely decreased. Second, certain blood proteins made by the liver (called clotting factors) are decreased. These two processes lead to the easy bruising experienced by patients with cirrhosis. In addition, once bleeding starts (such as with variceal bleeding), it can be very severe.
- The inability to filter toxins properly can lead to a condition called "hepatic encephalopathy." In the early stages of this disorder, symptoms may be mild, such as disturbed sleeping. Advanced hepatic encephalopathy can be associated with confusion, delirium, and even coma. Advanced encephalopathy is often precipitated by bleeding or infection.
- Patients with cirrhosis have decreased function of their immune system and are therefore prone to getting bacterial infections.
- Malnutrition is very common in patients with cirrhosis. It may be apparent with muscle wasting in the temples and upper arms.
- Many patients with cirrhosis have some degree of jaundice. The degree of jaundice is reflected in a laboratory valued called the total bilirubin. A normal total bilirubin is less than 1 mg/dL. Once the bilirubin reaches 3 mg/dL, the whites of the eyes become yellow (called scleral icterus). Higher levels are associated with yellowing of the skin.
- People with cirrhosis are at increased

risk for developing liver cancer (hepatocellular carcinoma). The risk depends in part upon the underlying cause of cirrhosis.

How is Cirrhosis diagnosed?

A variety of different tests are used to confirm the presence of cirrhosis and to establish the underlying cause. Other tests are useful for determining the severity of cirrhosis and for screening for the possible complications of this condition.

Liver biopsy — This is the best way to confirm whether or not you have cirrhosis is a liver biopsy. It is most commonly performed by inserting a fine needle into the liver through which a small sample of liver tissue is obtained. Examination of the sample under the microscope can demonstrate whether cirrhosis is present. Before your doctor does this procedure, he or she will check whether or not you are at increased risk for bleeding by performing blood tests (usually a prothrombin time and a platelet count). Following the procedure, you will need to be monitored for several hours before you are discharged to go home.

Imaging tests — A variety of imaging tests, such as a CT scan, ultrasound, or MRI, can suggest the presence of cirrhosis because of the appearance of the liver or because of the findings of complications, such as varices or ascites. However, it is important to point out that these tests cannot replace a liver biopsy, which provides the most complete information about what is happening to your liver at the cellular level.

Physical examination — Patients with cirrhosis may have a number of findings on physical examination. These include:

- Jaundice
- A distended, fluid-filled abdomen (ascites)
- An enlarged liver or spleen
- Edema
- Enlarged breast tissue (in men)
- Redness of the palms (palmar erythema)
- Small, spider-like veins, usually on the chest and back (spider telangiectasias)
- Muscle wasting
- Atrophy of the testes
- Asterixis (spontaneous flapping of the hands when outstretched with the palms

facing forward, due to hepatic encephalopathy)

Laboratory tests — Laboratory tests often reveal the presence of typical features of cirrhosis, such as abnormal blood chemistries, low protein counts, low platelet counts, and increased bilirubin. However, these tests may be normal in people with early cirrhosis. Laboratory testing can often reveal the specific underlying cause.

How severe is the Cirrhosis?

Not all people with cirrhosis are alike. The severity of the cirrhosis can vary. Doctors sometimes classify the severity of the liver disease according to a classification system (the Child-Pugh classification) that has been used for many years. The Child-Pugh system recognises three degrees of severity (A, B, and C) based upon the degree of abnormality in blood tests and the presence of symptoms, such as ascites or confusion (encephalopathy). Not surprisingly, people with less severe forms of cirrhosis usually have fewer symptoms and are less likely to develop major complications related to cirrhosis.

Treatment

Major advances in the treatment of cirrhosis have been achieved in the past few decades. In particular, the recognition of the complications of cirrhosis has led to specific treatments aimed at preventing them. In addition, better treatments are available for those who have developed complications. One of the biggest advances is liver transplantation, a procedure in which the diseased liver is replaced with a new healthy liver. Some of the other advances include:

- The widespread use of certain medications (such as beta blockers) that can help reduce the pressure inside of varices and thereby decrease the chance of variceal bleeding;
- Early recognition of spontaneous bacterial peritonitis, which has permitted prompt treatment and prevention in some cases;
- The development of a procedure called "TIPS," in which the pressure within the



varices is decreased by placing a device within the liver that shunts a small amount of blood away from it. TIPS is usually reserved for patients with variceal bleeding in whom other measures have failed to control the bleeding. TIPS may also be of benefit in patients with ascites that cannot be controlled with medications;

- The development of treatments for hepatic encephalopathy;
- The development of specific treatments for the underlying liver disease.

General measures for patients with cirrhosis — Patients with cirrhosis should be seen regularly by their doctor, who will monitor for the development or presence of complications. In most cases, they should receive the following general health measures:

Vaccination — Patients with cirrhosis are typically vaccinated against hepatitis A and B. Pneumococcal vaccine and yearly influenza vaccine have also been recommended.

Avoidance of substances that can injure the liver — Patients with cirrhosis should not add insult to injury by consuming substances that can further damage the liver. The most common of these is alcohol, which should be avoided. You should also check with your doctor about all medications (prescription and non-prescription).

Screening for varices — Patients with cirrhosis should undergo an upper endoscopy to look for varices. This involves a short procedure in which a small tube with a camera on the end is swallowed. Patients with varices should generally be treated with beta blockers. Patients who have bled from varices may require a procedure known as "variceal band ligation" during which the varices are surrounded by small rubber bands, which stop blood flow to them. Variceal band ligation is usually performed in an outpatient setting during an endoscopy. Patients who have had recurrent bleeding despite variceal band ligation or those in whom bleeding cannot be controlled may require a TIPS procedure.

Treatment of ascites and edema — Ascites and edema are not only a cosmetic problem, but can lead to complications, particularly infection. Thus, these conditions should be treated, which usually involves diuretics (fluid pills). Some patients may not respond adequately to fluid pills alone. Such patients may require periodic direct drainage of the fluid (paracentesis) or a TIPS procedure.

Screening for hepatocellular carcinoma — Patients with cirrhosis usually undergo regularly screening for hepatocellular carcinoma (cancer of the liver) with a periodic ultrasound examination and blood tests.

Consideration for liver transplantation — Not all patients with cirrhosis will require a liver transplantation, and many are not eligible for one. However, because the waiting list for liver transplantation is lengthy (up to two years in some regions), it is important to make a decision about whether a patient should be evaluated for liver transplantation when they are still relatively healthy.

Screening for encephalopathy — Patients with cirrhosis can develop confusion, which is sometimes subtle. A change in your sleep pattern (insomnia or sleeping too much) may be an early sign. Thus, doctors usually ask questions to check for confusion and examine patients for signs of confusion. One such sign is involuntary hand flapping (called "asterixis") when the arms are extended and the hands are raised as if stopping traffic. In addition, some centres used specialised tests to detect subtle confusion. It is important to detect confusion since treatment is available and the confusion itself can lead to serious problems (such as an automobile accident).

Dietary advice — Patients with advanced cirrhosis may require specialised diets that contain reduced amounts of protein and salt. Salt restriction may also be helpful for patients with early cirrhosis who tend to accumulate fluid.

It is important to maintain nutritional status. Thus, a healthy diet with adequate calories and consumption of nutrient-rich foods is important. Your doctor can help you to be sure that your diet is adequate.

The benefit of vitamins, antioxidants and other supplements on the underlying liver disease has not been established. Some doctors recommend vitamin E supplementation in patients with chronic hepatitis C, since it appeared to have some benefit in clinical studies.

Exercise — Exercise is generally safe for patients with cirrhosis that is not in an advanced stage. However, exercise may increase the risk of variceal bleeding in patients with advanced disease (such as those who have ascites or varices). Thus, you should check with your doctor about your particular case.

LIVER TRANSPLANTATION — As mentioned above, liver transplantation involves the replacement of a diseased liver with a new healthy one. The majority of donated livers come from people who have suffered brain death for one reason or another. More recently, experience has increased with living donors, in whom only a portion of the liver is transplanted.

Approximately eight out of ten people will be alive one year after liver transplantation, and the majority of these will be alive five years after transplantation. This is compared to almost certain death in those with very advanced cirrhosis who do not receive a transplant. The prognosis after transplantation depends in part upon the underlying cause of the liver disease, some of which recur following transplantation. As an example, most patients who undergo transplantation for hepatitis C will develop recurrent hepatitis C after transplantation. A major problem is that the recurrent disease tends to progress relatively quickly in those with a transplanted liver when compared to hepatitis C in patients who have not undergone transplantation. Another major concern following transplantation is the balance between the powerful drugs used to suppress the immune system, which have many side-effects, and the risk of rejection of the transplanted organ.

The transplantation process is elaborate, involving an extensive screening process for eligibility. Thus, not all patients with cirrhosis are eligible, and only those with the most advanced, severe cirrhosis will be put on the transplant registry. Furthermore, not all patients with cirrhosis will require a transplantation since the disease can remain relatively stable for many years particularly if the cause of the cirrhosis (such as alcohol) is removed.



What treatments are on the horizon?

Treatments for various causes of liver disease are rapidly being developed, some of which may be helpful even after the disease has progressed to cirrhosis. As an example, corticosteroids (such as prednisone) used to treat one form of liver disease (autoimmune hepatitis) can lead to dramatic improvement, even for patients who already have developed cirrhosis. Another example is the use of interferon plus ribavirin in patients with hepatitis C. Successful treatment is not accomplished in all patients with hepatitis C, but in those in whom the virus can be eliminated, the liver's function can substantially improve while the degree of scarring lessens. Thus, it is important to consider available treatment options for many diseases even when cirrhosis has already developed.

Another exciting avenue of research is the development of drugs that are aimed at slowing or reversing the processes leading to cirrhosis. These have the potential for preventing some of the complications of liver disease even if the underlying cause

cannot be eliminated. Unfortunately, these drugs are still many years away from routine clinical application.

HERBAL AND NATURALISTIC THERAPIES — Several herbal and naturalistic therapies have been reported as having a benefit in patients with cirrhosis. None have clearly been proven to be effective, although some continue to be studied. Importantly, some herbal therapies can be severely toxic to the liver.

One herbal medication, silybum marianum (also known as milk thistle) appeared to have some benefit for patients with liver disease in some, but not all, studies, but the quality and quantity of the scientific research is very limited. Milk thistle appears to be safe, and thus many patients elect to try it.

IMPLICATIONS FOR YOUR FAMILY — A diagnosis of cirrhosis can be a tremendous shock to your family. Thus, it is important that close family members share in the education about the implications of the diagnosis. Some causes of cirrhosis are associated with an increased risk of liver

disease in family members. In particular, your family members should be tested if you have chronic infection with hepatitis B or C. In addition, some forms of liver disease, such as Wilson's disease and hemochromatosis, are inheritable and thus may require specific testing in family members.

WHERE TO GET MORE INFORMATION — Your doctor is the best resource for finding out important information related to your particular case. Not all patients with cirrhosis are alike, and it is important that your situation is evaluated by someone who knows you as a whole person.

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Excellence in Professional Education

Mr. Farhan Kasbati

Interviewed by Shakil Akhtar Qureshi, FCA

Mr. Farhan Kasbati is a new luminary of Chartered Accountancy. He has won three Gold Medals in final exam of Chartered Accountancy. He was awarded Gold Medals for marvellous accomplishment in the subjects of Advanced Auditing (Module E exam held in December 2004), Advanced Taxation and Business Finance Decisions (Module F exam held in June 2005).

Mr. Farhan hails from a middle class family and is a staunch follower of a principle taught by his parents **"Work hard and leave the rest to Allah as He is the best of planners"**. Moreover he is strong believer of **"Set the target first and then never look back"**.

After declaration of Chartered Accountancy exam results, he was requested to divulge his glittering success coverts to enlighten other students about ways and means to be espoused to outshine in professional exams. His riposte to assorted questions is replicated hereunder:

1. Why did you choose Chartered Accountancy profession?

- ◆ The inspiration to become a Chartered Accountant came from my father who is also from the same profession. Secondly, coming from a middle class family background I had to choose a profession which was financially rewarding and the lucrative job opportunities available today justify my decision.

2. How did you plan your studies for examinations of Chartered Accountancy?

- ◆ The most significant factor contributing towards my success is planning. Long before entering the CA profession I had weighed all the career options that were available to me and I selected CA. Once the target was set, I planned accordingly and never looked back.

For all my CA examinations, I always chalked out a plan as to how I would cover the course, where I would cover it from and the time to be allocated to each topic and subject as a whole. Another thing that I have always ensured is that my studies are exam focused i.e. it is important to understand the entire subject matter at hand keeping in view the time allocated to the subject.

3. To whom do you owe this enviable achievement i.e. your own hard work, your schooling / university / RAET / audit training background, your parents or sheer luck?

- ◆ I have always been taught by my parents to work hard and leave the rest to Allah, as He is the best of planners. I have followed this principle all my life.

4. Did you aim for GOLD MEDAL in final level examination of Chartered Accountancy well before exam?

- ◆ I have always wanted a gold medal however I never aimed for one. I think if one would aim for a gold medal in a particular

subject, it would lead to extra concentration on that particular subject resulting in a negative impact on rest of the subjects. As a consequence the overall result would be at risk.

5. Did you expect securing GOLD MEDAL after final exam?

- ◆ As an accountant, I have always believed in the prudence concept.

6. What is your advice to other students of Chartered Accountancy to excel in exam?

- ◆ I would advise them that there is no substitute for hard work and you can achieve anything you want to if you put your mind to it.

7. Are you satisfied with education and training scheme of ICAP? If not, what are your suggestions?

- ◆ The overall training and education scheme have helped me immensely to grow both professionally and as a person. However, I feel that ICAP needs to evolve its training programme in light of the best practices followed by renowned international accountancy bodies.

The main factor which distinguishes Chartered Accountancy from other accounting degrees is the training period. However, it is also a discouraging factor for a lot of students seeking to do chartered accountancy, owing to the fact that they don't have a good financial background hence they cannot afford to remain financially dependent on their family for such a long period of time. Keeping in view the aforesaid ICAP can remove this hurdle either by further shortening the training period or by an upward revision of the trainee stipend.

8. What do you want to do for the country in general and chartered accountancy profession in particular?

- ◆ Our country, like any other developing nation, requires skilled labour and Allhamdulillah I have succeeded in acquiring a skill and I intend to use it in contributing towards the economic betterment of our country by being a productive member of the society.

I believe that I owe a lot to this profession and I have to give something back to it. I intend to do this by imparting the knowledge gained, through the medium of teaching.

Mr. Shakil Akhtar Qureshi is a fellow member of Institute of Chartered Accountants of Pakistan and member of Publications Committee, Accounting and Auditing Standards Committee and Education Research Faculty of ICAP.

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