Before Abid Hussain – Executive Director

In the matter of

Crescent Jute Products Limited

Number and date of notice:	CSD/ARN/282/2016-3618-24 dated March 14, 2016
Date of hearing:	April 27, 2016
Present:	Mr. Gohar Aziz –Counsel Mr. Ahmed Saeed – Counsel Mr. Saifullah –Director Mr. M. Khurrum – Accounts Manager

ORDER

UNDER SECTION 492 READ WITH SECTION 476 OF THE COMPANIES ORDINANCE, 1984

This order shall dispose of the proceeding initiated against directors and chief executive ("respondent") of Crescent Jute Products Limited (the "Company") through show cause notice (the "SCN") dated March 14, 2016 under the provisions of Section 492 read with Section 476 of the Companies Ordinance 1984 (the "Ordinance").

2. The facts leading to this case, briefly stated, are that, review of the annual audited accounts of Crescent Jute Products Limited (the "Company") for the year ended June 30, 2014 and June 30, 2015 audited by Riaz Ahmed & Co. revealed that the during the year 2014 and 2015 the Company disposed of part of its Property, Plant and Equipment ("PPE") details of which are as follows:

	Year 2015	Year 2014
Sales consideration	Rs. 42.541 million	Rs. 228.183 million
Net book value	Rs.27.689 million	Rs. 88.813 million

3. The gain realized through Profit and loss account (" P&L") amounting to Rs. 40.085 million and Rs. 214.044 million for the years 2015 and 2014 respectively is composed of the following components:

	Year 2015	Year 2014
Realized Gain-gain on sale of asset	Rs. 14.851 million	Rs. 139.370 million
Unrealized Gain – derecognition of revaluation surplus	Rs. 16.916 million	Rs. 49.278 million
Misclassification of reversal of deferred tax	Rs. 8.317 million	Rs. 25.396 million

4. Para 41 of IAS-16 provides that;

"The revaluation surplus included in equity in respect of an item of property, plant and equipment may be transferred directly to retained earnings when the asset is derecognised. This may involve transferring the whole of the surplus when the asset is retired or disposed of. However, some of the surplus may be transferred as the asset is used by an entity. In such a case, the amount of the surplus transferred would be the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost. ***Transfers from revaluation surplus to retained earnings are not made through profit or loss."***

5. Unrealized gain of Rs.16.916 million and Rs.49.278 million for the years 2015 and 2014 respectively was to be transferred directly into 'retained earnings' instead of routing it through P&L, as per requirements of International Accounting Standard ("IAS") 16, 'Property, Plant and Equipment'.

6. Reversal of deferred tax liability amounting to Rs.8.317 million Rs.25.396 million for the years 2015 and 2014 respectively is misclassified as other income instead of recognizing effect thereof under the head of 'taxation' in the accounts for the respective years.

7. The aforementioned contraventions with the para 41 of IAS 16 by the Company, caused material misstatements, as substantiated below:

(Amounts in Rs)

Reference of Accounts	Particulars	Reported	Actual Amount that should have been reported	Difference	Percentage of over/(under) statement
2014	Profit after tax	165,034,786	115,756,320	49,278,466	30%
	EPS	6.94	4.87	2.07	30%
2015	Loss after tax	(6,936,257)	(23,852,954)	16,916,697	(245%)
	EPS	(0.29)	(1.00)	0.71	(245%)

8. The Company under Note 2.1(a) to the Accounts-2014 and Accounts-2015 has misreported that the Accounts are compliant with International Financial Reporting Standards ("IFRS") despite contraventions with IAS 16 in preparation of respective Accounts, as highlighted in preceding paragraph. It *prima facie* appears that Accounts-2014 and Accounts-2015 are misstated. Therefore, SCN was issued to the respondent under the provisions of Section 492 of the Ordinance.

9. The reply to SCN was submitted by the respondent vide letter dated March 19, 2016. The seriatim reply is summarized below.

- The Accounting treatment relating to disposal of property, plant and equipment followed by the Company is strictly in accordance with the provisions of Section 235(2) of the Ordinance as reproduce below;

  (2) ***Except and to the extent actually realised on disposal of the assets which are revalued,*** *the surplus on revaluation of fixed assets shall not be applied to set-off or reduce any deficit or loss, whether past, current or future, or in any manner applies, adjusted or treated so as to* ***add to the income, profit or surplus of the company,*** *or utilised directly or indirectly by way of dividend or bonus:*

- As the Commission did not have data relating to historical costs of property, plant and equipment and written down value of property plant and equipment based on historical costs, hence the computations made in the SCN especially of unrealized gain do not reflect the facts and correct calculations that are reflecting realization of surplus on revaluation on disposal of property, plant and equipment in both years are enclosed.

10. In order to provide opportunity of personal hearing; the case was fixed before the undersigned on April 27, 2016. Mr. Gohar Aziz, Mr. Ahmed Saeed, Mr. Saifullah and Mr. M. Khurrum appeared on behalf of respondents and maintained the same plea as per written submissions and further submitted that the Company is not a going concern and its operation are closed, it has no temptation/incentive to misclassify its income in profit or loss or equity.

11. Before proceeding further, it is necessary to advert to the following relevant provisions of Section 492 of the Ordinance, which states as under:

> *" Whoever in any return, report, certificate, balance sheet, profit and loss account, income and expenditure account, prospectus, offer of shares, books of accounts, application, information or explanation required by or for the purposes of any of the provisions of this Ordinance or pursuant to an order or direction given under this Ordinance makes a statement which is false or incorrect in any material particular, or omits any material fact knowing it to be material, shall be punishable with a fine not exceeding five hundred thousand rupees."*

12. In terms of the Commission's notification SRO 1003 (I)/2015 dated October 15, 2015, the powers to adjudicate cases under section 492 of the Ordinance have been delegated to the Executive Director (Corporate Supervision Department).

13. I have analyzed the facts of the case, relevant provisions of the Ordinance, arguments put forth by the respondent in writing during the hearing and observed the following;

- Where a Company revalues its fixed assets, the increase is not routed through P&L of the Company, rather in our case it is transferred to account called "surplus on revaluation of fixed asset account" and shown in the balance sheet of the Company after capital and reserves. Similarly, on the sale of asset which was revalued, its surplus cannot be routed through P&L of the Company.

- Section 235(2) of the Ordinance provides for classification of the revaluation surplus on the face of the balance sheet and imposes restriction on utilization of the revaluation surplus rather than providing for the accounting treatment and recognition of the proceeds from disposal of PPE. Accounting treatment and method for recognition of sale of PPE is provided in para 41 of IAS 16 as notified by the Commission in the official Gazette under Section 234 of the Ordinance. It states that the revaluation surplus included in equity in respect of an item of PPE may be transferred directly to retained earnings when the asset is derecognized. This may involve transferring the whole of the surplus when the asset is retired or disposed of. However, some of the surplus may be transferred as the asset is used by an entity. In such a case, the amount of the surplus transferred would be the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost. Transfers from revaluation surplus to retained earnings are not made through P&L."

- After reviewing all the available information it has been observed that the Company violated provision of IAS 16 by wrongly transferring revaluation surplus of Rs. 25 million (2014; Rs. 74.6 million) to P&L. Consequently, Accounts-2014 and Accounts-2015 were materially misstated and the respondents have made themselves liable under the provision of Section 492 of the Ordinance.

14. It has been observed that there is a general misconceived concept that the Ordinance requires companies to follow an accounting treatment on disposal of revalued assets which is different from IAS 16. Therefore, companies in certain cases are transferring revaluation surplus in respect of an item of PPE directly to P&L when the asset is derecognized. In this regard, it is clarified that on the sale of asset which was revalued, accounting treatment as provided in para 41 of IAS 16 is required to be followed. The case is hereby disposed of with warning to the respondent to be careful in future regarding compliance with applicable accounting standards and legal framework.

15. Moreover, the respondents are hereby directed under the provision of Section 473 of the Ordinance to correct the treatment of transferring of revaluation surplus of Rs. 25 million (2014; Rs. 74.6 million) in accordance with IAS 16 in the annual audited accounts of the Company for the year ended June 30, 2016.

Abid Hussain
Executive Director

Announced:
June 17, 2016
Islamabad