



Listed Companies Supervision Wing  
Offsite-II Department  
Supervision Division

**ORDER**

**Under Section 474 of the Companies Act, 2017**

**in the matter of**

**Frontier Ceramics Limited**

This Order shall dispose of the proceedings initiated against the directors (the "Respondents") of Frontier Ceramics Limited (the "Company") through the Notice No. EMD/233/584/2002-663-664 dated April 15, 2022 ("Notice") issued under the provisions of section 474 of the Companies Act, 2017 (the "Act").

2. The brief facts of the case are that review of annual audited financial statements of the Company for the year ended June 30, 2021 (the "Accounts") revealed that the Company has recognized provision for 'Freight costs' amounting to Rs. 14.047 million (2020: Nil) disclosed under Note-30 (Cost of Sales) and for 'Freight Charges' amounting to Rs. 29.075 million (2020: Nil) disclosed under Note-31 (Distribution Cost) to the Accounts.

3. In view of the above, necessary clarification and explanation was sought from the Company by Offsite Department (the "Department"). Various correspondence made with the Company on this matter is summarized below:

- a) The Department, vide letter dated February 02, 2022 sought clarification from the Company in this respect. The Company vide letter dated February 12, 2022 replied that it has made only provision and had not yet made any payment. Along with the reply the Company has only furnished list of 12 vendors/transporters in respect of provision of Rs. 14.047 million and list of 497 customers in support of provision made of Rs. 29.075 million, both prepared on the internally generated excel sheet.
- b) In view of the above-mentioned response received from the Company, the Department vide email dated February 14, 2022 to the Company, conveyed that the lists provided by it did not substantiate that the amounts were charged under respective heads, after negotiation/ insistence/ correspondence with the respective vendors and customers. Accordingly, the Company was advised to provide necessary correspondence to substantiate its stance along with addresses and contact information of all the respective vendors and customers. In response to the said email the Company vide



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letter dated February 21, 2022 claimed that provisions were recognized on the continuous demand from the vendors and customers to compensate them for high inflation and spike in petrol price.

- c) Since the lists on the internally generated excel sheet failed to substantiate the claim of the Company, the Department vide letter dated March 9, 2022, advised the Company to provide copy of ledger accounts along with supporting documents / correspondence with the vendors and customers to substantiate that the provisions were recognized on time to time request by those customers and vendors. The Company vide letter dated March 14, 2022 again contended that the provisions have been recognised on continuous formal requests of vendors and customers to compensate them against surge in petrol prices, without furnishing the requisite evidence as demanded. With regard to the request of the Department to provide copy of ledger accounts of the customers / vendors, the Company provided copy of ledger account of other payable wherein only two entries of Rs. 14.047 million and Rs. 29.075 million are appearing and no further break up or details were furnished by the Company.

4. The Department demanded the aforesaid information from the Company to ascertain that the provision for 'Freight costs' amounting to Rs. 14.047 million and for 'Freight Charges' amounting to Rs. 29.075 million, have been recognized after fulfilling all the conditions provided under para 14 of the IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, as reproduced below:

"14. A provision shall be recognised when:

- a) an entity has a present obligation (legal or constructive) as a result of a past event;
- b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- c) a reliable estimate can be made of the amount of the obligation.

**If these conditions are not met, no provision shall be recognised.**"

(emphasis added)

5. Since the Company failed to substantiate that the subject provisions meet the conditions stipulated under para 14 of the IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, they are liable to be reversed in the books of accounts of the Company and be reported in its upcoming financial statements for the year ending June 30, 2022 by restating the corresponding figures of the financial year ended June 30, 2021, so as to allow the books of accounts and the financial statements giving true and fair view of the state of affairs of the Company in accordance with the requirement of sub-section (1) of Section 220 and sub-section (1) of Section 225 of the Act as reproduced below:





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Sub-section (1) of Section 220 of the Act

"(1) Every company shall prepare and keep at its registered office books of account and other relevant books and papers and financial statements for every financial year which give a true and fair view of the state of the affairs of the company, including that of its branch office or offices, if any:"

Sub-section (1) of Section 225 of the Act

"(1) The financial statements shall give a true and fair view of the state of affairs of the company, comply with the financial reporting standards notified by the Commission and shall be prepared in accordance with the requirements contained in the Third Schedule for different class or classes of companies:"

6. Consequently, the Notice was served on the Respondents to make good the aforesaid defaults and undo the irregularities, affecting true and fair presentation of the Company's financial statements for the year ended June 30, 2021, in terms of sections 220 and 225 of the Act. The Notice further sought the intention of the Respondents to have opportunity of personal hearing to clarify their position. In response to the Notice, the Company Secretary, Mr. Rehman Khan Shinwari, on behalf of the Respondents, submitted the written reply vide letter dated May 07, 2022. The relevant extract of the reply is reproduced below:

*"As advised, we will review / revisit the provisions of 'Freight Cost' amounting to Rs. 14.047 million and 'Freight Charges' amounting to Rs. 29.075 million with regard to all conditions provided under para 14 of the IAS 37, "Provision, Contingent Liabilities and Contingent Assets" in the upcoming financial statements of the Company for the year ended June 30, 2022 and will confirm the status accordingly."*

However, the Respondents in reply to the Notice have not shown any intention to avail themselves the opportunity of personal hearing.

7. I have analyzed the facts of the case, relevant record, reply of the Respondents, applicable legal provisions, accounting and financial reporting framework and have observed the following:

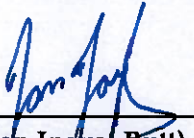
- a) The Company has failed to substantiate that the provision with respect to Freight Cost amounting to Rs. 14.047 and Freight Charges amounting to Rs. 29.075 million were made in the books of accounts for the year ended June 30, 2021, after fulling all the conditions stipulated under para 14 of the IAS-37, *Provision, Contingent Liabilities and Contingent Assets*.
- b) The Company has agreed to review / revisit the subject provisions in the context of the conditions provided under para 14 of the IAS-37, *Provision, Contingent Liabilities and Contingent Assets* in the upcoming financial statement for the year ending June 30, 2022.



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8. Therefore, in exercise of the powers conferred by section 474 of the Act, I hereby direct the Respondents to rectify the above-mentioned default affecting true and fair view of the financial statements of the Company. I further direct the Company to reverse the aforesaid provisions in the books of accounts and accordingly restate, in the forthcoming financial statements for the year ending June 30 2022, the relevant comparative figures of the financial year ended June 30, 2021, as per the guidelines of IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, so as to allow the books of accounts and the financial statements giving true and fair view of the state of affairs of the Company, in accordance with the requirement of sub-section (1) of Section 220 and sub-section (1) of Section 225 of the Act. It is pertinent to mention that in case of non-compliance of the direction given through this Order, the directors of the Company shall be liable for action under section 499 of the Act.

9. This Order is being issued without prejudice to any other action that may be required to be taken or is being taken by the Commission or its authorized officer in respect of any default, omission or violation of any provision of the Act or other administrated legislation by the Company or its officers.

  
(Imran Inayat Butt)  
Executive Director

Announced on July 18, 2022  
Islamabad