

**Guidelines**  
**On**  
**Quarterly Accounts**



Securities and Exchange Commission of Pakistan

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*This booklet is a guide only and should be read in conjunction  
with the relevant legislation and pronouncements*

## **INTRODUCTION**

Timely and reliable financial reporting helps investors, creditors and other stakeholders to understand an enterprise's capacity to generate earnings and cash flows and its financial condition and liquidity. This booklet is a guide to the laws and rules governing preparation of quarterly accounts (interim financial statements) by all listed companies as required under the Companies Ordinance, 1984 (the "Ordinance"). These guidelines shall also be followed by all listed commercial banks, investment banks, insurance companies, modarba companies, leasing companies etc. besides complying with the other requirements stipulated in the relevant laws governing these companies.

The booklet highlights the topic under the following three laws:

### **1. The Companies Ordinance, 1984**

Section 245 of the Ordinance lays down the provisions for the preparation and transmission of quarterly accounts to the Members, Stock Exchanges, Registrar and the Commission. Non-compliance with this statutory requirement attracts imposition of heavy penalties. As such, it is important that the directors, CEO, CFO, Company Secretary and any other persons responsible for preparation, approval and filing of quarterly accounts are aware of the filing deadlines and other related legal requirements.

### **2. International Accounting Standard 34 (Interim Financial Reporting)**

International Accounting Standard (IAS)-34 (the "Standard") prescribes the contents of an interim financial report, including minimum disclosure requirements. It also identifies the accounting recognition and measurement principles that should be applied in an interim financial report.

### **3. Code of Corporate Governance**

Code of Corporate Governance (the "Code") enforced through the stock exchange regulations also lays down provisions to be followed by the listed companies while preparing quarterly accounts.

The following topics relating to quarterly accounts may be referred from the SEC's Guide on "Accounts and Accounting Reference Dates":-

- i). Preparing and filing quarterly accounts; and
- ii). Contents of quarterly accounts.

## **CHAPTER 1**

### **PROVISIONS OF THE COMPANIES ORDINANCE, 1984**

Section 245 of the Ordinance sets out the provisions relating to transmission of quarterly accounts by listed companies. According to the said Section:

Every listed company shall:

- (a) Within one month of the close of first, second and third quarter of its year of account, prepare and transmit to the members and the stock exchange in which shares of the company are listed, a profit and loss account and a balance-sheet as at the end of that quarter, whether audited or otherwise; and
- (b) Simultaneously with the transmission of the quarterly profit and loss account and balance-sheet to the members and the stock exchange, file with the Registrar and the Commission at least three copies of the same.

1.2 The cumulative figures for the half-year, presented in the second quarter accounts are subject to a limited scope review by the statutory auditors. Such a review is not required for the first and third quarter accounts. (Commission's Circular 16 dated December 11, 2002).

1.3 As regards authentication and contents of quarterly accounts, the provisions of sub-section (1) and (2) of Section 241 of the Ordinance and IAS-34 as notified vide SRO.33 (I)/2000 dated January 27, 2000 shall apply to the quarterly accounts. (Commission's Circular 16 dated December 11, 2002).

1.4 The Commission, considering the practical difficulties faced by the company's management, has granted a general relaxation of one month to the listed companies, permitting them to circulate second quarter accounts with limited scope review by their statutory auditors within a period of two months of the close of second quarter. (Commission's Circular 9 dated March 19, 2003)

I.5 The listed companies finding it difficult to circulate quarterly accounts to their shareholders, may in lieu thereof, publish quarterly accounts in two leading morning newspapers, one in English and the other in Urdu language, having circulation in the Province in which stock exchange on which the company is listed, is situate. Such publication of quarterly accounts would be considered sufficient compliance with law as regards transmission of quarterly accounts to the shareholders. Notwithstanding this option, the listed companies must file quarterly accounts with the Commission, the Registrar and transmit the same to the concerned stock exchange (s) as required under Section 245 of the Ordinance. Further, they will also provide a copy of quarterly accounts free of cost, to shareholders on demand. (Commission's Circular 16 dated December 11, 2002).

1.6 The listed companies have been allowed to place quarterly accounts on their website subject to fulfillment of certain conditions, which will be treated compliance of the provisions of Section 245 of the Ordinance. (Commission's Circular 19 dated April 14, 2004).

1.7 Sub-section (7) of Section 237 of the Ordinance requires that provisions of Section 245 of the Ordinance shall apply to a holding company for preparing interim consolidated financial statements.

1.8 The quarterly accounts may be submitted through registered post or by delivery either in person or through an agent, against an acknowledgement of receipt. However, they would be deemed to have been received or delivered on the date, they are received by the Commission. [Rules 8, 9 and 10 of the Companies (General Provisions and Forms) Rules, 1985].

1.9 Directors are encouraged to give "director's review" on the interim financial statements which besides information about the affairs of the company and significant events, specifically include reasons for incurring losses, if any, during the period and the prospects of the company for the next quarter.

1.10 **Who is competent to authenticate?** The interim financial statements are required to be approved by the Board of Directors (the "Board"). The CEO and the CFO shall present the financial statements, duly endorsed under their respective signatures, for consideration and approval of the Board and the Board, after consideration and approval, authorize the signing of financial statements for issuance and circulation. The interim financial statements shall be signed by the chief executive and at least one director. If the chief executive for the time being is not in Pakistan, then the financial statements are to be signed by at least two directors present in Pakistan. However, in the aforesaid case, a statement signed by such directors explaining the reasons for non-authentication by the chief executive has to be subjoined to the balance-sheet and the profit and loss account or income and expenditure account. [Clause (xxiv) of the Code of Corporate Governance and Sections 241 & 245 of the Ordinance].

1.11 **What is the result of non-filing?** If a company fails to comply with any of the requirements of Section 245 of the Ordinance, every director, including chief executive and chief accountant of the company would be liable to a fine not exceeding one hundred thousand rupees and to a further fine of one thousand rupees for every day during which the default continues.

## **CHAPTER 2**

### **REQUIREMENTS OF THE INTERNATIONAL ACCOUNTING STANDARDS**

It is mandatory for the listed companies, in terms of Sub-section (3) of Section 234 of the Ordinance, to follow the requirements of the Standard for the preparation of quarterly accounts.

2.2 IAS-34 permits the companies to either publish a complete set of financial statements in conformity with IAS-I or a set of condensed financial statements with selected explanatory notes. Minimum contents of an interim financial report as per Para 8 of the Standard are as under:

- a) condensed balance sheet;
- b) condensed income statement/profit and loss account;
- c) condensed statement showing either (i) all changes in equity, or (ii) changes in equity other than those arising from capital transactions with owners and distributions to owners;
- d) condensed cash flow statement;
- e) selected explanatory notes.

2.3 Where an entity publishes a set of condensed financial statements, it should include at a minimum, each of the headings and sub totals that were included in the most recent annual financial statements and selected explanatory notes. Additional line items may be included if their omission would make the condensed financial statements misleading to the users.

2.4 Basic and diluted earnings per share are to be presented on the face of the interim income statement.

2.5 Following information should be included, as a minimum, in the notes to the interim financial statements:

- a) A statement that the same accounting policies and methods of computation are followed as per the last annual financial statements, or in case of deviation the nature and effect of the change;
- b) Explanatory comments about the seasonality or cyclicity of interim operations;
- c) Nature and amount of unusual items;
- d) Nature and amount of changes in estimates;
- e) Issuance, repurchase and repayment etc of debt and equity securities;
- f) Dividend paid be separately reported for ordinary and other shares;
- g) Segment results of primary basis of segment reporting;
- h) Material events subsequent to interim period;
- i) Changes in composition of enterprise during the period; and
- j) Changes in contingent assets/liabilities since last annual balance sheet date

2.6 If an enterprise's interim financial report is in compliance with this Standard, that fact shall be disclosed. An interim financial report should not be described as complying with the IAS unless it complies with all of the requirements of each applicable standard and each applicable Interpretation of the Standing Interpretation Committee. Specific

disclosures of each IAS are not required in interim report where it includes condensed financial statements.

2.7 Appendix “A” of the Standard illustrates the periods for which the interim financial report is required to be presented:

- (a) balance sheet as of the end of the current interim period and a comparative balance sheet as of the end of the immediately preceding financial year;
- (b) income statements for the current interim period and cumulatively for the current financial year to date, with comparative income statements for the comparable interim periods (current and year-to-date) of the immediately preceding financial year;
- (c) statement showing changes in equity cumulatively for the current financial year to date, with a comparative statement for the comparable year-to-date period of the immediately preceding financial year; and
- (d) cash flow statement cumulatively for the current financial year to date, with a comparative statement for the comparable year-to-date period of the immediately preceding financial year.

Illustration at the end of this booklet gives the guidance as to how the current and comparative figures are to be reflected in the quarterly accounts.

2.8 Appendix “B” of the Standard provides examples of applying the general recognition and measurement principles on certain specific items such as:

- a) Employees’ payroll taxes and insurance contributions
- b) Major planned periodic maintenance or overhaul
- c) Provisions
- d) Year-end bonuses
- e) Contingent lease payments
- f) Intangible assets
- g) Pensions
- h) Vacations, holidays and other short term compensated absences
- i) Other planned but irregularly occurring costs
- j) Measuring interim income tax
- k) Difference in financial reporting year and tax year
- l) Tax credits
- m) Tax loss and tax credit carry backs and carry forwards
- n) Contractual or anticipated purchase price changes
- o) Depreciation and amortization
- p) Inventories
- q) Net realizable value of inventories
- r) Interim period manufacturing cost variances
- s) Foreign currency translation gains and losses
- t) Impairment of assets

2.9 Appendix “C” of the Standard provides example of the following items where the use of estimates can be made in preparation of interim financial statements:

- a) Inventories
- b) Classifications of current and non-current assets and liabilities
- c) Provisions
- d) Pensions
- e) Income taxes
- f) Contingencies
- g) Revaluations and fair value accounting
- h) Inter-company reconciliations
- i) Specialized industries



## **CHAPTER 3**

### **REQUIREMENTS OF THE CODE OF CORPORATE GOVERNANCE**

Clause (xx) of the Code requires that the quarterly financial statements of listed companies shall be published and circulated along with Director's review on the affairs of the listed company for the quarter.

3.2 All listed companies shall ensure that half-yearly (second quarter) financial statements are subjected to a limited scope review by the statutory auditors in such manner and according to such terms and conditions as may be determined by the Institute of Chartered Accountants of Pakistan and approved by the Securities and Exchange Commission of Pakistan.

3.3 Only statutory auditors appointed to conduct the annual audit of a listed company can carry out a limited scope review of the company's half-yearly (second quarter) accounts (FAQ 25 of the Code).

3.4 As per Clause (xxxiii) of the Code, Audit Committee shall review the quarterly financial statements of the listed company, prior to their approval by the Board, focusing on:

- major judgmental areas;
- significant adjustments resulting from the review;
- the going-concern assumption;
- any changes in accounting policies and practices;
- compliance with applicable accounting standards; and
- compliance with listing regulations and other statutory and regulatory requirements

## ILLUSTRATION

A. *Listed Companies whose financial year-end is June 30* will need to reflect the current and comparative figures in their interim financial statements as under:

### Balance Sheet As At -----

Quarter	Current figures as at	Comparative figures as at
1 <sup>st</sup> Quarter	September 30, X1	June 30, X1
2 <sup>nd</sup> Quarter	December 31, X1	June 30, X1
3 <sup>rd</sup> Quarter	March 31, X2	June 30, X1

### Profit and Loss Account for the Period Ended -----

Quarter	Current figures		Comparative figures	
	For the quarter ended	Cumulatively up to period ended	For the quarter ended	Cumulatively up to period ended
1 <sup>st</sup> Quarter	September 30, X1	-	September 30, X0	—
2 <sup>nd</sup> Quarter	December 31, X1	December 31, X1 (6 months)	December 31, X0	December 31, X0 (6 months)
3 <sup>rd</sup> Quarter	March 31, X2	March 31, X2 (9 months)	March 31, X1	March 31, X1 (9 months)

### Cash Flow Statement for the Period Ended -----

Quarter	Current cumulative figures up to period ended	Comparative figures cumulatively up to period ended
1 <sup>st</sup> Quarter	September 30, X1 (3 months)	September 30, X0 (3 months)
2 <sup>nd</sup> Quarter	December 31, X1 (6 months)	December 31, X0 (6 months)
3 <sup>rd</sup> Quarter	March 31, X2 (9 months)	March 31, X1 (9 months)

### Statement of Changes in Equity for the Period Ended -----

Quarter	Current cumulative figures up to period ended	Comparative figures cumulatively up to period ended
1 <sup>st</sup> Quarter	September 30, X1 (3 months)	September 30, X0 (3 months)
2 <sup>nd</sup> Quarter	December 31, X1 (6 months)	December 31, X0 (6 months)
3 <sup>rd</sup> Quarter	March 31, X2 (9 months)	March 31, X1 (9 months)

### Presentation of Statement of Changes in Equity (A Specimen):

A specimen for "Statement of Changes in Equity" for the period of nine months is given below. Similar specimen may be used for other periods.

#### Statement of Changes in Equity For the period of nine months ended on March 31, 2005

	Amount in Rs. -----						
	Share Capital	Capital Reserve	Surplus on revaluation of fixed assets	Unrealized gain on available for sale investment	General Reserve	Accumulated Profit / loss	Total
Balance as at July 1, 2003							
Profit for the nine months ended on March 31, 2004							
Unrealized gain on available for sale investment							
Incremental depreciation for the period nine months from 1.7.2003 to 31.3.2004							
Interim Dividend							
Bonus							
Transferred to reserves							
Balance as at March 31, 2004							
Balance as at July 01, 2004							
Profit for the nine months ended on March 31, 2005							
Incremental depreciation for the period on nine months 1.7.2004 to 31.3.2005							
Interim Dividend							
Bonus during the period							
Transferred to reserves							
Balance as at March 31, 2005							

**B. Listed Companies whose financial year-end is September 30** will need to reflect the current and comparative figures in their interim financial statements as under:

**Balance Sheet As At -----**

<b>Quarter</b>	<b>Current figures as at</b>	<b>Comparative figures as at</b>
1 <sup>st</sup> Quarter	December 31, X1	September 30, X1
2 <sup>nd</sup> Quarter	March 31, X2	September 30, X1
3 <sup>rd</sup> Quarter	June 30, X2	September 30, X1

**Profit and Loss Account for the Period Ended**

<b>Quarter</b>	<b>Current figures</b>		<b>Comparative figures</b>	
	<b>For the quarter ended</b>	<b>Cumulatively up to period ended</b>	<b>For the quarter ended</b>	<b>Cumulatively up to period ended</b>
1 <sup>st</sup> Quarter	December 31, X1	-	December 31, X0	--
2 <sup>nd</sup> Quarter	March 31, X2	March 31, X2 (6 months)	March 31, X1	March 31, X1 (9 months)
3 <sup>rd</sup> Quarter	June 30, X2	June 30, X2 (9 months)	June 30, X1	June 30, X1 (9 Months)

**Cash Flow Statement for the Period Ended**

<b>Quarter</b>	<b>Current cumulative figures up to period ended</b>	<b>Comparative figures cumulatively up to period ended</b>
1 <sup>st</sup> Quarter	December 31, X1 (3 months)	December 31, X0 (3 months)
2 <sup>nd</sup> Quarter	March 31, X1 (6 months)	March 31, X1 (6 months)
3 <sup>rd</sup> Quarter	June 30, X2 (9 months)	June 30, X1 (9 months)

**Statement of Changes in Equity for the Period Ended-----**

<b>Quarter</b>	<b>Current cumulative figures up to period ended</b>	<b>Comparative figures cumulatively up to period ended</b>
1 <sup>st</sup> Quarter	December 31, X1 (3 months)	December 31, X0 (3 months)
2 <sup>nd</sup> Quarter	March 31, X2 (6 months)	March 31, X1 (6 months)
3 <sup>rd</sup> Quarter	June 30, X2 (9 months)	June 30, X1 (9 months)

**C. Listed Companies whose financial year-end is December 31** will need to reflect the current and comparative figures in the interim financial statements as under:

**Balance Sheet As At -----**

Quarter	Current figures as at	Comparative figures as at
1 <sup>st</sup> Quarter	March 31, X2	December 31, X1
2 <sup>nd</sup> Quarter	June 30, X2	December 31, X1
3 <sup>rd</sup> Quarter	September 30, X2	December 31, X1

**Profit and Loss Account for the Period Ended**

Quarter	Current figures		Comparative figures	
	For the quarter ended	Cumulatively up to period ended	For the quarter ended	Cumulatively up to period ended
1 <sup>st</sup> Quarter	March 31, X2	-	March 31, X1	--
2 <sup>nd</sup> Quarter	June 30, X2	June 30, X2 (6 months)	June 30, X1	June 30, X1 (9 Months)
3 <sup>rd</sup> Quarter	September 30, X2	September 30, X2 (9 months)	September 30, X1	September 30, X1 (9 months)

**Cash Flow Statement for the Period Ended -----**

Quarter	Current cumulative figures up to period ended	Comparative figures cumulatively up to period ended
1 <sup>st</sup> Quarter	March 31, X2 (3 months)	March 31, X1 (3 months)
2 <sup>nd</sup> Quarter	June 30, X2 (6 months)	June 30, X1 (6 months)
3 <sup>rd</sup> Quarter	September 30, X2 (9 months)	September 30, X1 (9 months)

**Statement of Changes in Equity for the Period Ended -----**

Quarter	Current cumulative figures up to period ended	Comparative figures cumulatively up to period ended
1 <sup>st</sup> Quarter	March 31, X2 (3 months)	March 31, X1 (3 months)
2 <sup>nd</sup> Quarter	June 30, X2 (6 months)	June 30, X1 (6 months)
3 <sup>rd</sup> Quarter	September 30, X2 (9 months)	September 30, X1 (9 months)

## **General Information**

The companies are encouraged to disclose addresses of their Registered Office and Factory along with telephone numbers and the names of following persons in their corporate profile attached to the interim report:

- Chief Executive
- Directors
- Auditors
- Members of Audit Committee
- Company Secretary
- Chief Financial Officer
- Share Registrar
- Bankers

The quarterly accounts may be titled as:

“Quarterly Accounts for the Period Ended-----”



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