

# **Accounting and Reporting by Retirement Benefit (IAS-26)**

## **Scope**

- This Standard shall be applied in the financial statements of retirement benefit plans (defined contribution or defined benefits) such as pension schemes, superannuation schemes, or retirement benefit schemes where such financial statements are prepared and. This Standard applies regardless of whether such a fund is created and regardless of whether there are trustees.
- All other Standards apply to the financial statements of retirement benefit plans to the extent that they are not superseded by this Standard.
- IAS 19 Employee Benefits is concerned with the determination of the cost of retirement benefits in the financial statements of employers having plans. Hence this Standard complements IAS 19.
- Retirement benefit plans with assets invested with insurance companies are subject to the same accounting and funding requirements as privately invested arrangements. Accordingly, they are within the scope of this Standard unless the contract with the insurance company is in the name of a specified participant or a group of participants and the retirement benefit obligation is solely the responsibility of the insurance company.
- This Standard does not deal with other forms of employment benefits such as employment termination indemnities, deferred compensation arrangements, long-service leave benefits, special early retirement or redundancy plans, health and welfare plans or bonus plans. Government social security type arrangements are also excluded from the scope of this Standard.
- This IAS is applicable to formal and informal both types of plans and use the word trustees for fund managers whether there exist any trust deed or not.

## **Definitions**

Retirement benefit plans are arrangements whereby an entity provides benefits for employees on or after termination of service (either in the form of an annual income or as a lump sum) when such benefits, or the contributions towards them, can be determined or estimated in advance of retirement from the provisions of a document or from the entity's practices.

Defined contribution plans are retirement benefit plans under which amounts to be paid as retirement benefits are determined by contributions to a fund together with investment earnings thereon.

Defined benefit plans are retirement benefit plans under which amounts to be paid as retirement benefits are determined by reference to a formula usually based on employees' earnings and/or years of service.

Where the plans have hybrid characteristics that will be classified as defined benefit plans.

Funding is the transfer of assets to an entity (the fund) separate from the employer's entity to meet future obligations for the payment of retirement benefits.

For the purposes of this Standard the following terms are also used:

Participants are the members of a retirement benefit plan and others who are entitled to benefits under the plan.

Net assets available for benefits are the assets of a plan less liabilities other than the

actuarial present value of promised retirement benefits.

Actuarial present value of promised retirement benefits is the present value of the expected payments by a retirement benefit plan to existing and past employees, attributable to the service already rendered.

Vested benefits are benefits, the rights to which, under the conditions of a retirement benefit plan, are not conditional on continued employment.

### **Defined Contribution Plans**

The financial statements of a defined contribution plan shall contain a statement of net assets available for benefits and a description of the funding policy.

The objective of reporting by a defined contribution plan is periodically to provide information about the plan and the performance of its investments. That objective is usually achieved by providing financial statements including the following:

- (a) A description of significant activities for the period and the effect of any changes relating to the plan, and its membership and terms and conditions;
- (b) Statements reporting on the transactions and investment performance for the period and the financial position of the plan at the end of the period; and
- (c) a description of the investment policies.

### **Defined Benefit Plans**

The financial statements of a defined benefit plan shall contain either:

- (a) A statement that shows:
  - i) The net assets available for benefits;
  - ii) The actuarial present value of promised retirement benefits, distinguishing between vested benefits and non-vested benefits; and
  - iii) the resulting excess or deficit; or
- (b) a statement of net assets available for benefits including either:
  - i) a note disclosing the actuarial present value of promised retirement benefits, distinguishing between vested benefits and non-vested benefits; or
  - ii) a reference to this information in an accompanying actuarial report.

If an actuarial valuation has not been prepared at the date of the financial statements, the most recent valuation shall be used as a base and the date of the valuation disclosed.

The actuarial present value of promised retirement benefits shall be based on the benefits promised under the terms of the plan on service rendered to date using either current salary levels or projected salary levels with disclosure of the basis used. The effect of any changes in actuarial assumptions that have had a significant effect on the actuarial present value of promised retirement benefits shall also be disclosed.

The financial statements shall explain the relationship between the actuarial present value of promised retirement benefits and the net assets available for benefits, and the policy for the funding of promised benefits.

Under a defined benefit plan, the payment of promised retirement benefits depends on the financial position of the plan and the ability of contributors to make future contributions to the plan as well as the investment performance and operating efficiency of the plan.

A defined benefit plan needs the periodic advice of an actuary to assess the financial condition of the plan, review the assumptions and recommend future contribution levels.

The objective of reporting by a defined benefit plan is periodically to provide

information about the financial resources and activities of the plan that is useful in assessing the relationships between the accumulation of resources and plan benefits over time. This objective is usually achieved by providing financial statements including the following:

- (a) A description of significant activities for the period and the effect of any changes relating to the plan, and its membership and terms and conditions;
- (b) Statements reporting on the transactions and investment performance for the period and the financial position of the plan at the end of the period;
- (c) Actuarial information either as part of the statements or by way of a separate report; and
- (d) a description of the investment policies.

#### Actuarial Present Value of Promised Retirement Benefits

The present value of the expected payments by a retirement benefit plan may be calculated and reported using current salary levels or projected salary levels up to the time of retirement of participants.

The reasons given for adopting a current salary approach include:

- (a) the actuarial present value of promised retirement benefits, being the sum of the amounts presently attributable to each participant in the plan, can be calculated more objectively than with projected salary levels because it involves fewer assumptions;
- (b) increases in benefits attributable to a salary increase become an obligation of the plan at the time of the salary increase; and
- (c) the amount of the actuarial present value of promised retirement benefits using current salary levels is generally more closely related to the amount payable in the event of termination or discontinuance of the plan.

Reasons given for adopting a projected salary approach include:

- (a) Financial information should be prepared on a going concern basis, irrespective of the assumptions and estimates that must be made;
- (b) Under final pay plans, benefits are determined by reference to salaries at or near retirement date; hence salaries, contribution levels and rates of return must be projected; and
- (c) Failure to incorporate salary projections, when most funding is based on salary projections, may result in the reporting of an apparent over funding when the plan is not over funded, or in reporting adequate funding when the plan is under funded.

The actuarial present value of promised retirement benefits based on current salaries are disclosed in the financial statements of a plan to indicate the obligation for benefits earned to the date of the financial statements. The actuarial present value of promised retirement benefits based on projected salaries is disclosed to indicate the magnitude of the potential obligation on a going concern basis which is generally the basis for funding. In addition to disclosure of the actuarial present value of promised retirement benefits, sufficient explanation may need to be given so as to indicate clearly the context in which the actuarial present value of promised retirement benefits should be read. Such explanation may be in the form of information about the adequacy of the planned future funding and of the funding policy based on salary projections. This may be included in the financial statements or in the actuary's report.

#### **Frequency of Actuarial Valuations**

In many countries, actuarial valuations are not obtained more frequently than every

three years. If an actuarial valuation has not been prepared at the date of the financial statements, the most recent valuation is used as a base and the date of the valuation disclosed.

### **Financial Statement Content**

For defined benefit plans, information is presented in one of the following formats, which reflect different practices in the disclosure, and presentation of actuarial information:

- (a) A statement is included in the financial statements that show the net assets available for benefits, the actuarial present value of promised retirement benefits, and the resulting excess or deficit. The financial statements of the plan also contain statements of changes in net assets available for benefits and changes in the actuarial present value of promised retirement benefits. The financial statements may be accompanied by a separate actuary's report supporting the actuarial present value of promised retirement benefits;
- (b) Financial statements that include a statement of net assets available for benefits and a statement of changes in net assets available for benefits. The actuarial present value of promised retirement benefits is disclosed in a note to the statements. The financial statements may also be accompanied by a report from an actuary supporting the actuarial present value of promised retirement benefits; and
- (c) Financial statements that include a statement of net assets available for benefits and a statement of changes in net assets available for benefits with the actuarial present value of promised retirement benefits contained in a separate actuarial report.

In each format a trustees' report in the nature of a management or directors' report and an investment report may also accompany the financial statements.

### **Valuation of Plan Assets**

Retirement benefit plan investments shall be carried at fair value. In the case of marketable securities fair value is market value. Where plan investments are held for which an estimate of fair value is not possible disclosure shall be made of the reason why fair value is not used.

Where plan investments are held for which an estimate of fair value is not possible, disclosure is made of the reason why fair value is not used.

### **Disclosure**

In addition to the statements and disclosures described above, the report of a retirement benefit plan is required to contain the following information.

- a) A statement of changes in net assets available for benefits.
- b) A summary of significant accounting policies
- c) A description / type of the plan and the effect of any changes in the plan during the period
- d) A description of the funding policy
- e) For defined obligation plans, the actuarial present value of the promised retirement benefits
- f) For defined obligation plans a description of the significant actuarial assumptions made
- g) The participants and whether they contribute to the plan
- h) Retirement benefits promised
- i) Termination terms

**XYZ ENERGY PAKISTAN (PRIVATE) LIMITED EMPLOYEES GRATUITY FUND**  
**STATEMENT OF NET ASSETS AVAILABLE FOR DISTRIBUTION**  
**AS AT JUNE 30, 2012**

	Note	2012 (Rupees)	2011 (Rupees)
<b>Investments</b>			
<b>Held to maturity - at amortized cost</b>			
Defence saving certificates	10	28,000,000	58,000,000
<b>Current assets</b>			
Interest receivable	11	521,964	1,663,439
Due from Sponsors		9,350,523	5,881,847
Balance with bank - current account		54,586,973	17,201,254
		64,459,460	24,746,540
<b>Total net assets</b>		<u>92,459,460</u>	<u>82,746,540</u>

The annexed notes from 1 to 15 form an integral part of these financial statements.

\_\_\_\_\_  
**TRUSTEE**

\_\_\_\_\_  
**TRUSTEE**

**XYZ ENERGY PAKISTAN (PRIVATE) LIMITED EMPLOYEES GRATUITY FUND**  
**STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR DISTRIBUTION**  
**FOR THE HALF YEAR ENDED JUNE 30, 2012**

	<b>Note</b>	<b>2012 (Rupees)</b>	<b>2011 (Rupees)</b>
Balance at beginning of the year		<b>82,746,540</b>	62,828,638
Contributions during the year	<b>12</b>	<b>9,016,354</b>	18,381,913
Income transferred from revenue account	<b>13</b>	<b>3,968,222</b>	7,282,521
		<b>12,984,576</b>	25,664,434
Gratuity paid to outgoing members		<b>3,271,656</b>	5,160,702
Profit paid to outstanding members		<b>-</b>	585,830
		<b>(3,271,656)</b>	(5,746,532)
Balance at end of the year		<b>92,459,460</b>	82,746,540

The annexed notes from 1 to 15 form an integral part of these financial statements.

\_\_\_\_\_  
**TRUSTEE**

\_\_\_\_\_  
**TRUSTEE**

**XYZ ENERGY PAKISTAN (PRIVATE) LIMITED EMPLOYEES GRATUITY FUND**  
**STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR DISTRIBUTION**  
**FOR THE HALF YEAR ENDED JUNE 30, 2012**

---

**1. INTRODUCTION**

The gratuity fund was established on January 15, 2006, and has been accorded approval under the Income Tax Ordinance 2001 on June 14, 2007. Funds consist of contribution of company and income arising from investment thereof.

Payments are made to the employees on retirement, resignation and discharge as specified in the rules of the trust.

**2. FUNDING POLICY**

Contribution is made by the company under the provisions of the scheme.

**3. ACCOUNTING CONVENTION**

These financial statements have been prepared under the historical cost convention except for the certain investments that are carried at amortized cost.

**4. TAXATION**

The income of the fund is exempt from tax under clause 57(3) of the second schedule to the income tax Ordinance 2001

**5. EXPENSE**

Expenses incurred for the administration of fund with the exception of bank charges are borne by the company.

**6. INVESTMENTS**

The fund determines the appropriate classification of its investments in accordance with the requirements of the International Accounting Standard 39; Financial Instruments; Recognition and Measurement (IAS 39) at the time of purchase.

Investments are initially recognized at cost inclusive of transaction cost. Investments categorized as held to maturity are stated at amortized cost using the effective interest rate method. Investments are derecognized when the right to receive cash flows from the investments have expired or have been transferred and the Fund has transferred substantially all risks and rewards of ownership.

**7. PROVISIONS**

Provisions are recognized when fund has a legal or constructive obligation as a result of past event and it is probable that an out flow of resources will be resulted to settle the obligation and a reliable estimate of the amount can be made.

**8. REVENUE RECOGNITION**

Income from saving account is recognized on accrual basis.

Income from defence saving certificates is accrued using effective interest rate method.

**9. PAYMENT OF BENEFITS**

Gratuity is payable to every permanent employee of the company on leaving the company's service. The benefits are assumed to be vested on end of each month of completed service.

	2012 (Rupees)	2011 (Rupees)
<b>10. Investments - Held to maturity</b>		
Defence saving certificates	-	30,000,000
Defence saving certificates	<b>9,000,000</b>	9,000,000
Defence saving certificates	<b>9,000,000</b>	9,000,000
Defence saving certificates	<b>10,000,000</b>	10,000,000
	<b>28,000,000</b>	58,000,000
<b>11. INTEREST RECEIVABLE</b>		
Opening balance	<b>1,663,439</b>	2,063,348
Add: Profit for the year	<b>3,968,222</b>	7,282,521
	<b>5,631,661</b>	9,345,869
Less: Received during the year	<b>(5,109,697)</b>	(7,682,430)
	<b>521,964</b>	1,663,439
<b>12. CONTRIBUTION TO GRATUITY FUND</b>	<b>9,016,354</b>	18,381,913
This represents amount contributed by the company on maturity basis.		
<b>13. REVENUE</b>		
Income on investments - Held to maturity	<b>3,968,288</b>	7,282,521
Less: Bank charges	<b>(66)</b>	-
	<b>3,968,222</b>	7,282,521
<b>14. DATE OF AUTHORIZATION</b>		
The financial statements were authorised for issue on _____ by the Board of Trustees of the fund.		
<b>15. GENERAL</b>		
Figures have been rounded off to the nearest Rupee.		
Figures of previous years have been re-arranged and re-grouped wherever necessary for the purpose of comparison.		

**TRUSTEE**

**TRUSTEE**



**XYZ**  
**STAFF PROVIDENT FUND TRUST**  
**STATEMENT OF NET ASSETS AVAILABLE FOR DISTRIBUTION**  
**AS AT JUNE 30, 2012**

	<b>Note</b>	<b>2012 (Rupees)</b>	<b>2011 (Rupees)</b>
<b>NON CURRENT ASSETS</b>			
Investments - Held to maturity	<b>4</b>	<b>5,400,000</b>	7,500,000
<b>CURRENT ASSETS</b>			
Current portion of investments - Held to maturity	<b>4</b>	<b>2,100,000</b>	-
Investments at fair value through profit and loss	<b>5</b>	<b>2,450,709</b>	2,308,756
Accrued interest		<b>2,454,169</b>	1,865,549
Loan to members	<b>6</b>	<b>418,225</b>	487,775
Cash and bank balances	<b>7</b>	<b>198,918</b>	447,253
		<b>7,622,021</b>	5,109,333
<b>CURRENT LIABILITIES</b>			
Provident fund payable to outgoing members	<b>8</b>	-	137,977
Profit payable to ex-members		<b>113,791</b>	113,791
Accrued and other liabilities		<b>15,000</b>	11,000
		<b>128,791</b>	262,768
<b>Net current assets</b>		<b>7,493,230</b>	4,846,565
<b>Net assets available for distribution</b>		<b>12,893,230</b>	12,346,565

The annexed notes 1 to 12 form an integral part of these financial statements.

\_\_\_\_\_  
**TRUSTEE**

\_\_\_\_\_  
**TRUSTEE**

XYZ  
OVIDENT FUND TRUST  
NET ASSETS AVAILABLE FOR DISTRIBUTION  
AR ENDED JUNE 30,2012

---

	Note	2012 (Rupees)	2011 (Rupees)
Balance at the beginning of the year		12,346,565	10,776,805
Contributions during the year	9	900,874	913,674
transfere	10	780,904	1,414,213
		1,681,778	2,327,887
Payments made to out going members		(1,135,113)	(758,127)
Balance at the end of the year		12,893,230	12,346,565
annexed			

---

TRUSTEE

---

TRUSTEE

**XYZ**  
**STAFF PROVIDENT FUND TRUST**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2012**

---

**1. THE FUND AND ITS LEGAL STATUS**

The fund was established on February 28, 1994 wide trust deed executed on February 28, 1994. Fund consist of contribution from XYZ, the employees and income arising from investment thereof. The official address of the trust is 111, Ferozpur Road, Lahore.

Payments are made to the employees on retirement, resignation and discharge as specified in the rules of the trust.

**2. FUNDING POLICY**

Contribution is made by the PSRD and employees at the rate of 8% of the employees' basic salary under the provisions of the scheme of the fund.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**3.1 Accounting convention**

These financial statements have been prepared under the historical cost convention except for the certain investments that are carried at fair value.

**3.2 Taxation**

The fund has been recognized by the Directorate of Income Tax vide letter No. J/C-11/2002-03/843 under the provisions of Income Tax Ordinance 2001, hence no provision for the current tax has been made according to the applicable tax rates.

**3.3 Expenses**

Expenses incurred for the administration of fund with the exception of bank charges are borne by the PSRD.

**3.4 Investments held to maturity**

These are the investments with fixed maturity and the trust has a positive intent and ability to hold till maturity. Held to maturity are initially measured at fair value plus transaction costs and subsequently at amortized cost using effective interest rate method.

**3.5 Investments at fair value through profit or loss**

Investments which are acquired principally for the purpose of selling in the near term or investments that are part of a portfolio of financial instruments exhibiting short term profit taking are designated and classified as investments at fair value through profit or loss. These are stated at fair value with any resulting gains or losses recognized directly in the revenue account.

Investments are derecognized when the right to receive cash flows from the investments have expired or have been transferred and the Fund has transferred substantially all risks and rewards of

**3.6 Provisions**

Provisions are recognized when fund has a legal or constructive obligation as a result of past event and it is probable that an out flow of resources will be resulted to settle the obligation and a reliable estimate of the amount can be made.

### 3.7 Revenue recognition

Income from saving certificates is accrued using effective interest rate method.

Income on term deposits and saving accounts with banks is proportionately accrued up to the statement of net assets date.

### 3.8 Payment of benefits

Provident fund is payable to every permanent employee of the XYZ on leaving the XYZ's service. The benefits are assumed to be vested on end of each month of completed service.

## 4. INVESTMENTS - HELD TO MATURITY

	Note	Certificate Number	Date of Maturity	Face Value	
				2012 (Rupees)	2011 (Rupees)
<b>NON CURRENT PORTION OF INVESTMENTS - HELD TO MATURITY:</b>					
Bank AL-Habib - Term Deposit Receipt	4.1	72084/7831	26-11-2013	2,000,000	2,000,000
Defence saving certificates	4.2	080028	29-08-2017	1,000,000	1,000,000
Defence saving certificates	4.3	251357	10-04-2019	500,000	500,000
Defence saving certificates	4.4	738919-23	26-12-2019	900,000	900,000
				2,400,000	2,400,000
Engro Rupiya Certificate	4.5	02098	31-12-2014	1,000,000	1,000,000
Innovative Housing Finance Limited	4.6	0000000029	31-12-2012	-	840,000
		0000000030	31-12-2012	-	1,260,000
				-	2,100,000
				5,400,000	7,500,000
<b>CURRENT PORTION OF INVESTMENTS - HELD TO MATURITY:</b>					
Innovative Housing Finance Limited	4.6	0000000029	31-12-2012	840,000	-
		0000000030	31-12-2012	1,260,000	-
				2,100,000	-
<b>Total investment - held to maturity</b>				<b>7,500,000</b>	<b>7,500,000</b>

**4.1** This represents the Term Deposit certificate issued by the Bank AL Habib Limited, Ichhra on November 27, 2008 and is bearing profit @16% per annum

**4.2** This represents the defence saving certificate of Rupees 1,000,000 purchased from National Savings Centre, Ichhra on August 29, 2007.

**4.3** This represents the defence saving certificate of Rupees 500,000 purchased from National Savings Centre, Ichhra on April 10, 2009

**4.4** This represents the defence saving certificates of Rupees 900,000 purchased from National Savings Centre, Ichhra on April 10, 2009

**4.5** These represent the 200 term Finance Certificates of Rs. 5000 each (Engro Rupiya Certificate) bearing fixed Profit rate of 14.5% per year payable every 6 months for a tenor of 3 years.

- 4.6** This represents the certificates issued by the Innovative Housing Finance Limited (IHFL) after its merger with Standard Chartered Investment Bank Limited (CSIBL) in accordance with payment plan communicated vide CSIBL letter dated April 12, 2007 and are bearing profit @ 8% per annum.

	Note	Market value	
		2012 (Rupees)	2011 (Rupees)
<b>5 INVESTMENTS AT FAIR VALUE THROUGH PROFIT AND LOSS</b>			
National Investment Trust (NIT) Units	<b>5.1</b>	<b><u>2,450,709</u></b>	<b><u>2,308,756</u></b>

- 5.1** This represents the investment in 71834 units @ Rupees 32.14 per unit (2011: 71,834 @ Rupees 32.14 per unit ) of National Investment Trust (NIT) measured at market value prevailing at the reporting

## 6. LOANS TO MEMBERS

Opening balance	<b>487,775</b>	319,675
Loan granted during the year	<b>238,400</b>	429,000
	<b><u>726,175</u></b>	<u>748,675</u>
Loan recovered during the year	<b>(307,950)</b>	(260,900)
	<b><u>418,225</u></b>	<u>487,775</u>

## 7. CASH AND BANK BALANCES

Balances with banks:		
- current account	<b>37,021</b>	37,021
- saving account	<b>161,897</b>	410,232
	<b><u>198,918</u></b>	<u>447,253</u>

## 8. PROVIDENT FUND PAYABLE TO MEMBERS

### Out going members:

Contributions	-	65,208
Profit	-	62,639
	-	127,847

### Deceased members:

Contributions	-	9,836
Profit	-	294
	-	10,130
	-	137,977

<b>9. CONTRIBUTIONS TO PROVIDENT FUND</b>	<b>9.1</b>	<b><u>900,874</u></b>	<b><u>913,674</u></b>
---	------------	-----------------------	-----------------------

- 9.1** This represents the amount contributed by the employees and by the PSRD on monthly basis.

	Note	2012 (Rupees)	2011 (Rupees)
<b>10. REVENUE ACCOUNT</b>			
<b>Income:</b>			
Interest on held to maturity investments		725,297	665,127
Gain on investment at fair value through profit and loss account		-	536,148
Dividend		284,358	287,337
Profit on PLS saving account		18,381	25,271
		<b>1,028,036</b>	1,513,883
<b>Expenditure:</b>			
Honorarium to staff		75,012	62,508
Loss on investment at fair value through profit and loss account		145,384	-
Bank charges		2,736	5,162
Printing and stationery		5,400	-
Audit Fee		18,600	32,000
		<b>247,132</b>	99,670
		<b>780,904</b>	1,414,213

#### 11. DATE OF AUTHORIZATION

The financial statements were authorized for issue on \_\_\_\_\_ by the Board of Trustees of the fund.

#### 12. GENERAL

Figures have been rounded off to the nearest Rupee.

---

TRUSTEE

---

TRUSTEE