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FAISALABAD ELECTRIC SUPPLY COMPANY LIMITED

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015**

Ernst & Young Ford Rhodes Sidat Hyder
Chartered Accountants
Eagle Plaza 75-West, Fazlul-Haq Road
Blue Area, P.O. Box 2388
Islamabad 44000, Pakistan

Tel: +9251 234 4160-62
Fax: +9251 234 4163
eyfrsh.isb@pk.ey.com
ey.com/pk



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AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of **Faisalabad Electric Supply Company Limited** (the Company) as at **30 June 2015** and the related profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

It is the responsibility of the Company's management to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the approved accounting standards and the requirements of the Companies Ordinance, 1984. Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above said statements are free of any material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the above said statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the above said statements. We believe that our audit provides a reasonable basis for our opinion and, after due verification, we report that:

- a) in our opinion, proper books of accounts have been kept by the Company as required by the Companies Ordinance, 1984;
- b) in our opinion;
 - (i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of accounts and are further in accordance with accounting policies consistently applied;
 - (ii) the expenditure incurred during the year was for the purpose of the Company's business; and
 - (iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Company;
- c) In our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof, conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at **30 June 2015** and of the profits, its cash flows and changes in equity for the year then ended; and
- d) in our opinion, no Zakat was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).

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Emphasis of matter paragraphs

We draw attention to the contents of:

- (i) note 25.1.1.1, where it has been explained that the Company has not recorded various credit notes received from the Central Power Purchasing Authority (CPPA), relating to the Company's share of borrowings obtained by the Federal Government, in order to settle the matter of circular debt in the country along with the related accrued mark-up thereon, amounting to Rs. 39,537 million and Rs. 8,648 million, respectively;
- (ii) note 25.1.1.2, where it has been explained that the Company has not recorded supplementary charges, amounting to Rs. 6,186 million, invoiced by CPPA to the Company on account of allocation of late payment charges to oil and gas companies; and
- (iii) notes 25.1.3 and 12.1, which describe various tax contingencies, arising from the matters discussed in the accompanying financial statements, and related amounts recovered by the tax authorities. The ultimate outcome of these matters cannot presently be determined, and hence, pending the resolution thereof, no provision for the same has been made in these financial statements.

Our opinion is not qualified in respect of the above matters.

Chartered Accountants

Audit Engagement Partner's Name: Sajjad Hussain Gill

Date: 4 January 2016

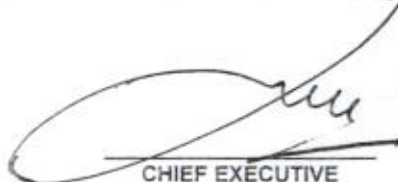
Place: Islamabad

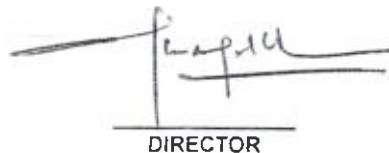
FAISALABAD ELECTRIC SUPPLY COMPANY LIMITED

**BALANCE SHEET
AS AT 30 JUNE 2015**

	Note	2015	2014 (Restated) (Note 5.4)	2013 (Restated) (Note 5.4)
		-----Rupees-----		
ASSETS				
NON-CURRENT ASSETS				
Fixed assets				
Property, plant and equipment	6	81,921,129,567	79,319,774,288	78,014,687,774
Long-term loans	7	114,872,567	155,851,487	140,909,717
Long-term deposits		2,140,585	2,109,905	2,059,795
		<u>82,038,142,719</u>	<u>79,477,735,680</u>	<u>78,157,657,286</u>
CURRENT ASSETS				
Stores, spares and loose tools	8	936,606,723	1,162,568,324	1,528,905,914
Trade debts	9	9,805,278,535	9,784,601,212	7,517,634,817
Current portion of long-term loans		45,099,679	51,053,844	44,561,487
Short-term advances	10	43,168,343	57,997,089	154,658,394
Interest accrued		30,144,067	42,987,689	39,354,735
Other receivables	11	32,999,522,402	20,928,368,890	5,568,494,211
Recoverable from tax authorities	12	11,009,050,537	12,188,633,334	9,975,586,687
Receivable from Government of Pakistan	13	8,863,504,084	6,393,485,252	31,028,117,915
Short-term investments	14	3,350,000,000	3,896,486,000	-
Bank balances	15	2,531,449,761	1,545,690,740	5,796,534,424
		<u>69,613,824,131</u>	<u>56,051,872,374</u>	<u>61,653,848,584</u>
TOTAL ASSETS		<u>151,651,966,850</u>	<u>135,529,608,054</u>	<u>139,811,505,870</u>
EQUITY AND LIABILITIES				
SHARE CAPITAL AND RESERVES				
Share capital				
Authorized capital				
5,000,000,000 (2014: 5,000,000,000) ordinary shares of Rupees 10/- each				
		<u>50,000,000,000</u>	<u>50,000,000,000</u>	<u>50,000,000,000</u>
Issued, subscribed and paid-up capital	16	10,000	10,000	10,000
Revenue reserve				
Accumulated profit / (loss)		23,384,874,905	19,383,936,449	(7,699,713,353)
		<u>23,384,884,905</u>	<u>19,383,946,449</u>	<u>(7,699,703,353)</u>
Deposit for shares	17	21,932,737,413	23,994,192,175	3,749,433,835
SURPLUS ON REVALUATION OF OPERATING FIXED ASSETS	18	28,163,846,610	28,673,686,348	29,014,866,271
NON-CURRENT LIABILITIES				
Long-term loans	19	1,308,256,233	1,155,543,985	1,498,873,504
Long-term security deposits	20	4,455,020,977	3,871,864,716	3,202,706,444
Long-term payable		-	-	11,501,670,000
Deferred liabilities				
Staff retirement benefits	21	31,199,325,354	24,707,229,469	20,416,157,019
Deferred taxation - net	22	-	-	-
Deferred credit	23	26,132,871,911	24,702,162,146	23,677,104,748
		<u>63,095,474,475</u>	<u>54,436,800,316</u>	<u>60,296,511,715</u>
CURRENT LIABILITIES				
Trade and other payables	24	14,675,534,309	8,222,989,621	53,529,956,918
Interest accrued on long-term loans		271,467,964	435,324,118	661,280,739
Current portion of long-term loans	19	128,021,174	382,669,027	259,159,745
		<u>15,075,023,447</u>	<u>9,040,982,766</u>	<u>54,450,397,402</u>
CONTINGENCIES AND COMMITMENTS	25	-	-	-
TOTAL EQUITY AND LIABILITIES		<u>151,651,966,850</u>	<u>135,529,608,054</u>	<u>139,811,505,870</u>

The annexed notes from 1 to 44 form an integral part of these financial statements.


CHIEF EXECUTIVE


DIRECTOR

FAISALABAD ELECTRIC SUPPLY COMPANY LIMITED
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 30 JUNE 2015

		2015	2014 (Restated)
	Note	-----Rupees-----	
Sale of electricity - net	26	99,993,302,349	105,861,285,962
Tariff differential subsidy	13	22,422,784,619	34,588,712,437
		<u>122,416,086,968</u>	<u>140,449,998,399</u>
Cost of electricity	27	(105,627,083,736)	(117,570,558,707)
Gross profit		<u>16,789,003,232</u>	<u>22,879,439,692</u>
Amortization of deferred credit	23	1,097,287,799	1,017,326,334
		<u>17,886,291,031</u>	<u>23,896,766,026</u>
Operating expenses			
Distribution costs	28	(11,055,072,838)	(9,799,411,402)
Administrative expenses	29	(1,912,737,669)	(1,699,590,034)
Customer services costs	30	(1,398,663,651)	(1,324,057,418)
(Provision) / Reversal for doubtful debts		(87,648,668)	1,045,483,013
		<u>(14,454,122,826)</u>	<u>(11,777,575,841)</u>
Operating profit		<u>3,432,168,205</u>	<u>12,119,190,185</u>
GoP subsidy advised by PEPCO		-	15,278,718,966
Other income	31	2,311,824,246	2,337,658,898
		<u>2,311,824,246</u>	<u>17,616,377,864</u>
		<u>5,743,992,451</u>	<u>29,735,568,049</u>
Finance costs	32	(207,989,006)	(249,017,046)
Profit before taxation		<u>5,536,003,445</u>	<u>29,486,551,003</u>
Taxation	33	(306,419,207)	-
Profit after taxation		<u>5,229,584,238</u>	<u>29,486,551,003</u>

The annexed notes from 1 to 44 form an integral part of these financial statements.



 CHIEF EXECUTIVE



 DIRECTOR

FAISALABAD ELECTRIC SUPPLY COMPANY LIMITED
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2015

	Note	2015 -----Rupees-----	2014 (Restated)
Net profit for the year		5,229,584,238	29,486,551,003
Other comprehensive income not to be reclassified to profit and loss account in subsequent periods:			
Actuarial loss relating to defined benefit plans	21.4	(2,044,904,727)	(2,744,081,124)
Total comprehensive income for the year		<u><u>3,184,679,511</u></u>	<u><u>26,742,469,879</u></u>

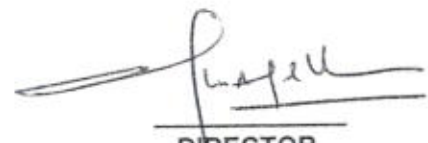
Surplus arising on 'revaluation of fixed assets' is presented under a separate head below equity as 'surplus on revaluation of assets' in accordance with the requirements specified by the Securities and Exchange Commission of Pakistan (SECP) vide its S.R.O.45(I)/2003 dated 13 January 2003 and Companies Ordinance, 1984 respectively.

The annexed notes from 1 to 44 form an integral part of these financial statements.

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 CHIEF EXECUTIVE



 DIRECTOR

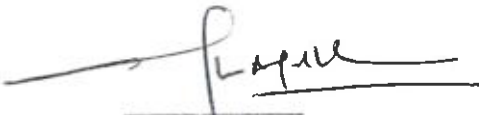
FAISALABAD ELECTRIC SUPPLY COMPANY LIMITED

**CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 JUNE 2015**

	Note	2015 -----Rupees-----	2014 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	33	4,814,833,171	2,566,247,165
Long-term security deposits received		583,156,261	669,158,272
Long-term deposits given		(30,680)	(50,110)
Employee benefits paid		(1,909,317,691)	(1,325,453,668)
Long-term loans recovered		46,933,085	(21,434,127)
Finance cost paid		(371,845,160)	(474,973,664)
Income tax paid		(130,125,365)	(41,746,684)
Net cash generated from operating activities		3,033,603,621	1,371,747,184
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditure incurred		(5,442,541,969)	(4,002,542,996)
Sale proceeds from disposal of fixed assets		3,248,000	-
Deferred credit received		2,527,997,564	2,042,383,732
Profit on bank deposits and short-term investments		418,901,410	453,874,633
Net cash used in investing activities		(2,492,394,995)	(1,506,284,631)
CASH FLOWS FROM FINANCING ACTIVITIES			
Re-payment of long-term loans		(241,343,750)	(259,159,745)
Receipt of long-term loans		139,408,145	39,339,508
Net cash used in financing activities		(101,935,605)	(219,820,237)
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS		439,273,021	(354,357,684)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF YEAR		5,442,176,740	5,796,534,424
CASH AND CASH EQUIVALENTS AT THE END OF YEAR	34	5,881,449,761	5,442,176,740

The annexed notes from 1 to 44 form an integral part of these financial statements.


CHIEF EXECUTIVE


DIRECTOR

FAISALABAD ELECTRIC SUPPLY COMPANY LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2015

	Share capital	Revenue reserve	Total
	Issued, subscribed and paid up	Accumulated profit / (loss)	
	-----Rupees-----		
Balance as at 01 July 2013 - as previously reported	10,000	(7,201,774,278)	(7,201,764,278)
Effect of rectification of error (refer to note 5.4)	-	(497,939,075)	(497,939,075)
Balance as at 01 July 2013 - restated	10,000	(7,699,713,353)	(7,699,703,353)
Net income for the year - restated	-	29,486,551,003	29,486,551,003
Other comprehensive income	-	(2,744,081,124)	(2,744,081,124)
Total comprehensive income for the year	-	26,742,469,879	26,742,469,879
Transfer from surplus on revaluation of operating fixed assets recognized directly in equity - net of deferred tax	-	341,179,923	341,179,923
Balance as at 30 June 2014 - restated	10,000	19,383,936,449	19,383,946,449
Net income for the year	-	5,229,584,238	5,229,584,238
Other comprehensive income	-	(2,044,904,727)	(2,044,904,727)
Total comprehensive income for the year	-	3,184,679,511	3,184,679,511
Transfer from surplus on revaluation of operating fixed assets recognized directly in equity - net of deferred tax	-	816,258,945	816,258,945
Balance as at 30 June 2015	10,000	23,384,874,905	23,384,884,905

The annexed notes from 1 to 44 form an integral part of these financial statements.



CHIEF EXECUTIVE



DIRECTOR

FAISALABAD ELECTRIC SUPPLY COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015

1. THE COMPANY AND ITS OPERATIONS

Faisalabad Electric Supply Company Limited is a public limited company incorporated on 21 March 1998 under the provisions of the Companies Ordinance, 1984. The Company was established to take over all the properties, rights, assets, obligations and liabilities of Faisalabad Area Electricity Board (FAEB) owned by Pakistan Water and Power Development Authority (WAPDA) and such other assets and liabilities as agreed. The principal activity of the company is distribution and supply of electricity to public within defined geographical territory. The registered office of the Company is situated at FESCO Headquarters, Abdullahpur, West Canal road, Faisalabad.

The Company took over certain properties, assets, rights, obligations and liabilities relating to distribution of electricity from WAPDA under Business Transfer Agreement (BTA) dated 29 June 1998. The details of assets, liabilities and related matters as provided under clause 1.1 of the BTA have been finalized with WAPDA through a Supplementary Business Transfer Agreement (SBTA).

2. STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with the approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) as are notified under the Companies Ordinance, 1984 and provisions of and directives issued under the Companies Ordinance, 1984. In case the requirements differ, the provisions or directives of the Companies Ordinance, 1984 shall prevail.

3. BASIS OF PREPARATION

These financial statements have been prepared on the basis of the historical cost convention except for staff retirement benefits, which are measured using actuarial techniques and freehold land, leasehold land and distribution equipment, which are stated using the revaluation model.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the financial statements in conformity with the approved accounting standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The estimates/ judgments and associated assumptions used in the preparation of the financial statements are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

These estimates / judgments and associated assumptions are reviewed on an ongoing basis. A revision to the accounting estimates is recognized in the period in which the estimates are revised, if the revision affects only that period, or in the period of the revision and future periods, if the revision affects both current and future periods.

The estimates / judgments and associated assumptions that have significant effects on the financial statements are as follows:

4.1 Property, plant and equipment

The Company reviews the appropriateness of the rates of depreciation, useful lives and residual values used in the calculation of depreciation on items of property, plant and equipment on a regular basis. Further, where applicable, an estimate of the recoverable amount of assets is made for possible impairment on an annual basis. In making these estimates, the Company uses the technical resources available inside/outside the Company, as appropriate. Any change in these estimates in the future might affect the carrying amount of items of property, plant and equipment, with a corresponding effect on the depreciation charge, impairment and amortization of deferred credit.

The Company measures certain items of property, plant and equipment (as disclosed in note 6.1) at revalued amounts, with changes in fair value being recognized directly in equity.

4.2 Stores, spares and loose tools

The Company reviews the carrying amount of stores, spares and loose tools on a regular basis and provision is made for obsolescence if there is any change in usage pattern and physical form of related stores, spares and loose tools.

4.3 Trade debts

Management reviews its trade debts at each balance sheet date to identify the existence of any doubtful debts and to assess whether a provision should be recorded in the profit and loss account. In particular, judgment by management is required in the estimation of the amount and timing of the future cash flows, when determining the level of provision required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the provisions.

4.4 Staff retirement benefits

Staff retirement benefits are provided to regular employees of the Company. Calculation of provision for staff retirement benefits requires assumptions to be made of the future outcomes, the principle ones being in respect of increase in remuneration, discount rate, average working life, inflation rate etc used to convert future cash flows to current values. Calculations are sensitive to changes in the underlying assumptions.

4.5 Taxation

The Company takes into account the current income tax law and decisions taken by the taxation authorities. Instances where the Company's views differ from the views taken by the income tax department at the assessment stage and where the Company considers that its view on items of material nature is in accordance with law, the amounts are shown as contingent liabilities.

Deferred tax assets are recognized for all unused tax losses and credits to the extent that it is probable that future taxable profit will be available against which such losses and credits can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits, together with future tax planning strategies.

4.6 Provisions

The assessment of provisions inherently involves the exercise of significant judgment as the outcome of the future events cannot be predicted with certainty. The Company, based on the availability of the latest information, estimates the values of contingent assets and liabilities which may differ on the occurrence / non-occurrence of uncertain future events. Based on the expected outcomes and lawyers' judgments, appropriate disclosure or provision is made in the financial statements.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years for which financial information is presented in these financial statements, unless otherwise stated.

5.1 Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Company operates. The financial statements are presented in Pak Rupees which is the Company's functional and presentation currency.

5.2 Changes in accounting policies and disclosures resulting from adoption of standards, amendments and interpretations during the year

The accounting policies adopted in the preparation of these financial statements are consistent with those of the previous financial year except as follows:

IAS 19 Employee Benefits – (Amendment) - Defined Benefit Plans: Employee Contributions

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IAS 32	Financial Instruments : Presentation – (Amendment) – Offsetting Financial Assets and Financial Liabilities
IAS 36	Impairment of Assets – (Amendment) – Recoverable Amount Disclosures for Non-Financial Assets
IAS 39	Financial Instruments: Recognition and Measurement – (Amendment) – Novation of Derivatives and Continuation of Hedge Accounting
IFRIC 21	Levies

The adoption of above accounting standards did not have any material impact on the Company's financial statements.

Improvements to IFRS

In addition to the above, improvements to various accounting standards have also been issued by the IASB and are applicable for the current year:

IFRS 2	Share-based Payment - Definitions of vesting conditions
IFRS 3	Business Combinations – Accounting for contingent consideration in a business Combination
IFRS 3	Business Combinations - Scope exceptions for joint ventures
IFRS 8	Operating Segments – Aggregation of operating segments
IFRS 8	Operating Segments - Reconciliation of the total of the reportable segments' assets to the entity's assets
IFRS 13	Fair Value Measurement - Scope of paragraph 52 (portfolio exception)
IAS 16	Property, Plant and Equipment and IAS 38 Intangible Assets – Revaluation method – proportionate restatement of accumulated depreciation / amortization
IAS 24	Related Party Disclosures - Key management personnel
IAS 40	Investment Property - Interrelationship between IFRS 3 and IAS 40 (ancillary services)

5.3 Standards, interpretations and amendments to approved accounting standards that are not yet effective

The following are the standards, interpretations and amendments, which have been issued but are not yet effective for the current financial year:

<u>Revision / improvements / amendments to IFRSs and interpretations</u>		<u>Effective date (annual periods beginning on or after)</u>
IFRS 10	Consolidated Financial Statements	01 January 2015
IFRS 10	Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 27 Separate Financial Statements – Investment Entities (Amendment)	01 January 2015
IFRS 10	Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 27 Separate Financial Statements – Investment Entities: Applying the Consolidation Exception (Amendment)	01 January 2016
IFRS 10	Consolidated Financial Statements and IAS 28 Investment in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendment)	01 January 2016

<u>Revision / improvements / amendments to IFRSs and interpretations</u>		<u>Effective date (annual periods beginning on or after)</u>
IFRS 11	Joint Arrangements	01 January 2015
IFRS 11	Joint Arrangements - Accounting for Acquisition of Interest in Joint Operation (Amendment)	01 January 2016
IFRS 12	Disclosure of Interests in Other Entities	01 January 2015
IFRS 13	Fair Value Measurement	01 January 2015
IAS 1	Presentation of Financial Statements - Disclosure Initiative (Amendment)	01 January 2016
IAS 16	Property, Plant and Equipment and IAS 38 intangible assets – Clarification of Acceptable Method of Depreciation and Amortization (Amendment)	01 January 2016
IAS 16	Property, Plant and Equipment IAS 41 Agriculture - Agriculture: Bearer Plants (Amendment)	01 January 2016
IAS 27	Separate Financial Statements – Equity Method in Separate Financial Statements (Amendment)	01 January 2016

The Company expects that the adoption of the above revisions, amendments and interpretations of the standards will not materially affect the Company's financial statements in the period of initial application.

Further, the following new standards have been issued by the IASB, which are yet to be notified by the SECP for the purpose of applicability in Pakistan:

<u>Standards issued by IASB but not yet notified by SECP</u>	<u>IASB Effective date (annual periods beginning on or after)</u>
IFRS 9 – Financial Instruments: Classification and Measurement	01 January 2018
IFRS 14 - Regulatory Deferral Accounts	01 January 2016
IFRS 15 - Revenue from Contracts with Customers	01 January 2017

5.4 Property, plant and equipment

a) Operating fixed assets

These are stated at cost less accumulated depreciation and accumulated impairment losses, if any, except for land, buildings and distribution equipment, which are stated at their revalued amounts less subsequent accumulated depreciation and impairment losses, if any.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials, direct labour and any other costs directly attributable to bringing the assets to a working condition for their intended use.

Depreciation is charged to income on a straight-line method so as to write-off the depreciable amount of an asset over its estimated useful life at the rates given in note 6.1 to the financial statements. Depreciation on depreciable assets is commenced from the month the asset is available for use up to the month preceding the month of disposal. Major renewals and improvements are capitalized. Minor replacement, repairs and maintenance are charged to profit and loss account.

An item of operating fixed assets is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on de-recognition of assets (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit and loss account, in the year the asset is derecognized.

B