POLICY AND PROCEDURE MANUAL FOR PROPERTY PLANT EQUIPMENT AND OTHER ASSETS

MONITORING CELL
FINANCE DIVISION, MINISTRY OF FINANCE

JUNE 2025

Government of the People's Republic of Bangladesh

Scheme on Strengthening of State-owned Enterprises' Governance
Strengthening Public Financial Management Program to Enable Service Delivery (SPFMS)

Finance Division, Ministry of Finance

Policy and procedures manual for property, plant, equipment and other assets

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List of Abbreviation

Abbreviation	**Description**
CEWIP	Capital Expenditure Work in Progress
CSR	Corporate Social Responsibility
CWIP	Capital work-in-progress
FDN	Fixed Asset Disposal Note
FATF	Fixed Asset Transfer Form
ADMINISTRATION DEPARTMENT	Human Resources and Admin Division
FD	Finance Division
FAMC	Fixed Asset Management Committee
PPE	Property, Plant and Equipment
AB	Autonomous Body
APA	Annual Performance Agreement
API	Application Program Interface
BMC	Budget Management Committees
DLI	Disbursement Linked Indicators
DLR	Disbursement Linked Results
EFT	Electronic Funds Transfer
ERD	Economic Relations Division
FD	Finance Division
IDA	International Development Association
iBAS++	Integrated Budget and Accounting System
IPE	Independent Performance Evaluation
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
IAS	International Accounting Standards
IPEG	Independent Performance Evaluation Guideline
IPEC	Independent Performance Evaluation Committee
LM	Line Ministry
MoF	Ministry of Finance
PECT	Program Execution and Coordination Team
PPE	Property Plant & Equipment
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PIS	Performance Improvement Strategy
PIT	Program Implementation Team

SABRE	State-owned Enterprises and Autonomous Bodies Budget, Reporting and Evaluation softwire
SC	Steering Committee
SOEs	State-owned Enterprises
SPFMS	Strengthening Public Financial Management Program to enable Service Delivery
TDM	Treasury and Debt Management Wing
TOE	Table of Organization & Equipment
ToR	Terms of Reference
FAMD	Fixed Asset Management Department
FOB	Free on Board
LC	Letter of credit

Scheme Outline

1.1 **Name of the relevant Program:** Strengthening Public Financial Management Program to Enable Service Delivery (SPFMS)

1.2 **Name of the Scheme:** Scheme on Strengthening of State-owned Enterprises' Governance

1.3 **Administrative Ministry/Division:** Finance Division, Ministry of Finance

1.4 **Implementing Department/Agency:** SOE Monitoring Cell and SOE Wing, Finance Division

1.5 **Duration of Scheme and Implementation Period:**

Duration		Implementation Period	
Years	**Months**	**Start date**	**End date**
6	7	December 1, 2019	June 30, 2026

Compliance Reference

This policy and procedure manual are based on General Financial Rules (GFR), the International Accounting Standards (IASs) and International Financial Reporting Standard (IFRSs). Since the standards/rules are continually updated and revised, subsequent legislation and interpretations could significantly affect the manual. In any case, any difference has found on fixed assets and lease recognition and recording, Accounting Standards and GFR will prevail and will get priority.

Part A

Property

Plant

&

Equipment

Part A- Property Plant and Equipment

The Finance Division, Ministry of Finance is pleased to issue this policy and procedure manual for accounting and financial reporting for *Property, plant, equipment and other assets*. Although many view the accounting for property, plant, and equipment to be relatively straightforward, there is limited technical guidance and there can be many areas that require judgment. Some areas, such as construction in process, capitalized software, impairment, and disposals, can be complex. In addition to these areas, this guide addresses a variety of other topics including accounting for asset acquisitions, asset retirement obligations, environmental obligations, insurance recoveries and research and development costs and funding arrangements.

This guide summarizes the applicable accounting literature, including relevant references to and excerpts from the relevant IAS and IFRS. It also provides our insights and perspectives, interpretative and application guidance, illustrative examples, and discussion on emerging practice issues.

This Policy and Procedure manual should be used in combination with a thorough analysis of the relevant facts and circumstances, review of the authoritative accounting literature, and appropriate professional and technical advice.

1. Introduction

This policy applies to all fixed assets owned by State-Owned Enterprises (SOEs) and Autonomous Bodies (ABs) (hereinafter “SOEs and ABs”). The purpose of this policy is to set forth the guidelines for the physical and reporting control over fixed asset of SOEs and ABs including acquisition, revaluation, impairment and disposal of fixed asset, meeting financial reporting needs of fixed asset and generating fixed asset management information. Above mentioned all policies of fixed assets would be in compliance with the International Accounting Standards (IAS), International Financial Reporting Standards (IFRS) and all applicable rules and regulations.

Asset management plays a pivotal role on SOEs and ABs performance area. Fixed assets are long-term physical assets, which include land, plant, and equipment investments. Property, Plant, and Equipment are real or tangible properties that are long-term assets and usually last longer than one-year. For SOEs and ABs, it is necessary to correctly report its PPE on its balance sheet. Most of the SOEs and ABs do not show depreciation or do not provide information on depreciation at all on its assets and also the asset registers are not regularly updated. Besides, assets are incorrectly accounted for. This manual will provide guideline and procedures for accounting fixed assets, through which fixed assets will be controlled and depreciated correctly and also proper recording of transactions will be applied.

If any organization needs to sell properties to collect or increase its capital, it is necessary to control over PPE. Although most fixed assets depreciate over time and are not readily turned into cash, certain assets will rise in value over time allowing a business the potential opportunity to collect cash. As one of the balance sheet’s significant sections, good accounting policies should be developed for Plant, Property, and Equipment (PPE). In the structuring of accounting policies for PPE, all the factors that are related to it, such as utility of an asset, appropriate model for determination of asset values, depreciation method for PPE, PPE impairment policy, initial and subsequent recognition criteria, and useful asset life are included.

The policy and procedure manual of property, plant, equipment and other assets for SOEs and ABs will be approved by the Finance Division. It will be developed by the SOE Monitoring Cell with technical assistance from consultant(s). Issued by the FD means that the policy will be communicated to all line ministries, SOEs and key stakeholders, who will duly publish and appropriately align with their own policies and procedures.

The manual will ensure the physical and financial control over fixed assets and depreciation, which will be adequately and correctly applied. It will address accounting for fixed assets, disposals and scrapping of fixed assets, revaluations of assets and delegation of authorities etc. Besides, it will clearly describe the rationale for the manual and its goal and objectives. In the accounting for fixed assets sections, the methodology of control accounts that is how depreciation of each major fixed asset category are maintained, will be elaborated. On the other hand, disposals and scrapping of fixed assets section will include the procedure and responsibility of assets sale, disposal and recording.

SPFMS will include knowledge exchange activities with countries conducting SOEs and ABs policy and procedure manual for property, plant, equipment and other assets in collaboration with international specialists and experts to work together with the SOE Monitoring Cell and SOE Wing. The manual will be approved by the Finance Secretary and it will be applicable for all SOEs and ABs after issuing Government order. The manual will be updated annually.

2. Objective of the manual

This policy establishes guidelines for the proper ***acquisition, recording, depreciation, maintenance, tracking, and disposal*** of fixed assets for SOEs and ABS to ensure:

- Accurate financial reporting
- Regulatory compliance (IFRS, GAAP, tax laws)
- Optimal asset utilization and safeguarding
- Prevention of fraud and misappropriation

SOEs and ABs follows its basic procurement policies and procedures as mentioned in the “SOEs and ABs Purchase and Procurement Policy” for the purchase of fixed assets. The basic objective of this policy is to define and describe a set of standard procedures and policies necessary to ensure that fixed assets are acquired, safeguarded, controlled, disposed-off and accounted for in accordance with SOEs and ABs policies and all applicable rules and regulations. This policy is intended to describe the standard policies required for:

3. Scope

This policy applies to all **tangible and intangible fixed assets** owned or leased by SOEs and ABs that meet the following criteria:

- **Cost ≥ [Capitalization Threshold, e.g., 5,000]**
- **Useful life > 1 year**
- Includes but is not limited to:
  - Land, buildings, machinery, vehicles
  - IT equipment, software, and furniture
  - Leasehold improvements

Exclusions: Consumables, inventory, and low-value items below the threshold.

• Categories of fixed assets;	(See section 5)
• Recognition of fixed asset;	(See section 6)
• Capitalization threshold	(See section 7)
• Acquisition of property, plant and equipment;	(See section 8)
• Receiving property, plant and equipment;	(See section 9)
• Depreciation charges on PPE;	(See section 10)
• Intangibles assets	(See section 11)
• Disposal or write off of PPE;	(See section 12)
• Derecognition of assets	(See section 13)
• Impairment	(See section 14)
• Revaluation;	(See section 15)
• Fixed asset transfer policy	(See section 16)
• Recording of fixed asset;	(See section 17)
• Fixed assets register	(See section 18)
• Disclosure, identification mark, maintenance, accountability statement etc.	See section 19 to 27

4. General Provision for PPE

(1) The SoEs and ABs or the holder of PPE shall ensure the adequate safety of the PPE.

(2) In order to ensure the safe and proper management of each PPE, the holder shall insure against every PPE to avoid loss with the coverage of all short of risk.

(3) **ASSET TAGGING** is the process of affixing tags or labels to assets to identify each one individually and track data from real-time location to maintenance history. These tags can be assigned to both fixed and moveable assets that are spread across multiple sites and warehouses. SOEs and ABs shall maintain proper tagging of all assets owned and controlled by them.

(4) **CONTROL OF FIXED ASSETS** refers to the systematic processes and safeguards implemented by an organization to ensure proper custody, tracking, valuation,

utilization, and protection of its fixed assets throughout their lifecycle. Effective control minimizes risks such as:

(a) Theft, loss, or misuse of assets
(b) Inaccurate financial reporting due to improper recording
(c) Non-compliance with accounting/tax regulations
(d) Inefficient maintenance, leading to premature asset failure

(5) The responsibility of maintaining proper books of Records of fixed assets and fixed assets register shall be with Finance and Accounts department.

(6) **DEPRECIATION CALCULATION** refers to the systematic allocation of an asset's cost over its useful life to reflect its consumption, wear and tear, or obsolescence in financial statements. It ensures that the expense of using the asset is matched with the revenue it generates (matching principle in accounting).

(7) **DISPOSAL OF FIXED ASSETS** refers to the removal of an asset from a company's financial records when it is no longer in use. This can happen due to:

(a) Sale (to a third party)
(b) Scrapping (if obsolete or damaged)
(c) Trade-in (for a new asset)
(d) Donation (charitable giving)
(e) Theft/Loss (written off after investigation)

Proper disposal ensures accurate financial reporting and compliance with tax laws.

5. Categories of fixed assets

Fixed assets included both tangible assets and intangible assets. Intangible assets and tangible fixed assets are classified into below broad categories as follows:

5.1 Tangible Assets

Asset category	For further details
1. Land	See section 5.1.1
2. Land Improvements	See section 5.1.2
3. Buildings	See section 5.1.3
4. Plant and Machinery (Including heavy equipment)	See section 5.1.4
5. Furniture and fixture	See section 5.1.5
6. Decoration and renovation	See section 5.1.6
7. Office equipment	See section 5.1.7
8. Electric equipment	See section 5.1.8
9. Computer and computer equipment	See section 5.1.9
10. Motor vehicle	See section 5.1.10
11. Network and IT Equipment / Technology Assets	See section 5.1.11
12. Tools	See section 5.1.12
13. Leasehold Improvements	See section 5.1.13
14. Infrastructure	See section 5.1.14

Asset category	For further details
15. Aircraft and other inter-alia assets	See section 5.1.15
16. VESSELS, shipping machinery and equipment's	See section 5.1.16
17. Other Tangible Assets (Artwork, Safety Equipment etc.)	See section 5.1.17
18. Intangible Assets	See section 5.1.18

5.1.1 Land

Land refers to the **permanent, non-depreciable real estate** owned by the company, including land improvement.

Inclusions:

i. **Surface Land** – Undeveloped plots, natural terrain
ii. **Subsurface Rights** – Mineral/water rights (if owned)
iii. **Air Rights** – Legal rights to use space above the property
iv. **Inherent Features** – Natural waterways, rock formations

5.1.2 Land Improvements

Land improvement refers to any **permanent** addition or alteration made to a plot of land that increases its usefulness, value, or aesthetic appeal, and importantly, has a limited useful life and depreciable.

i. **Embankment -** An embankment is a raised structure of earth, stone, or other material, typically built to support roads, railways, or to hold back water (as in flood defenses or canals).
ii. **Drainage systems – Surface drainage, Subsurface (underground) drainage, Slope drainage, Sewer system.**
iii. **Boundary wall for security, privacy, noise reduction purposes.**
iv. **Store yard – Fencing, paving, lighting etc.**

5.1.3 Buildings

A **building** is a **physical structure** (permanent or temporary) used for business operations, production, or administration. Building comprises freehold and long-term lease hold building. For example,

Category	Examples
Office Buildings	Headquarters, branch offices
Warehouses	Storage, logistics centers
Factories	Production facilities
Retail Stores	Shopping outlets
Infrastructure	Bridges, parking structures

5.1.4 Plant and Machinery (Including heavy equipment)

Plant and Machinery refers to tangible, movable assets used in production, operations, or service delivery, including:

i. Industrial equipment (e.g., cranes, conveyor systems)

ii. Manufacturing tools (e.g., presses, molds)
iii. Energy systems (e.g., generators, boilers)
iv. Specialized vehicles (e.g., forklifts, airport tugs)

A list of example items of 5.1.4 Plant and Machinery (Including heavy equipment) is attached with this policy as Annexure-4:

5.1.5 Furniture and fixture

Under this category of fixed asset all types of office furnishing items should be recorded. A list of example items of furniture & fixture is attached with this policy as Annexure-5:

5.1.6 Decoration and renovation

Decoration and renovation mean the decoration of the interior of a building or room, civil work, sanitary work especially with regard to color combination and artistic effect which shall be reported with Decoration and renovation. A list of example items of Decoration and renovation is attached with this policy as Annexure-6:

5.1.7 Office equipment

Under this category of PPE all types of office equipment should be recorded. A list of example items of office equipment is attached with this policy as Annexure-7:

5.1.8 Electric equipment

Under this category of PPE all types of electric equipment should be recorded. A list of example items of electric equipment is attached with this policy as Annexure-8.

5.1.9 Computer and Computer equipment

Under this category of fixed assets all types of computers and computer equipment should be recorded. A list of example items of computer and accessories is attached with this policy as “Annexure-9.

5.1.10 Motor vehicle

Under this category of fixed assets all types of vehicles should be recorded. Motor vehicles include both Motor cars and Motorcycles. A list of example items of Motor vehicle is attached with this policy as Annexure-10:

5.1.11 Network and IT equipment/ Technology Assets

Under this category of fixed asset all types of networks and IT equipment should be recorded. A list of example items of network and IT equipment is attached with this policy as Annexure-11.

5.1.12 Tools

Tools are portable, hand-held, or mechanical devices used to perform specific operational tasks. They are typically lower-value, high-utility items that may or may not qualify as fixed assets based on cost and lifespan. However, any tools with a value of Taka 5,000 and useful life more than one year should be capitalized as fixed assets. Industrial power tools, calibration equipment, Aircraft riveters, torque wrenches, Uranium Powerplant valuable tools etc. A list of example items of tools is attached with this policy as Annexure-12.

5.1.13 Leasehold Improvements

Leasehold Improvements are **permanent alterations or upgrades** made to a leased property to adapt it for the tenant's specific use. These become part of the leased asset and generally cannot be removed when the lease ends. For example,

i. Built-in partitions/walls
ii. Electrical/plumbing upgrades
iii. Custom flooring (e.g., epoxy floors in warehouses)
iv. HVAC system modifications

5.1.14 Infrastructure

Infrastructure refers to **large-scale, long-lived physical systems** that support economic activity and operations. These assets are typically:

i. **Immobile** (fixed in place)- Metrorail track
ii. **High cost** with multi-decade lifespans (Padma Bridge or Jamuna Bridge etc.)
iii. **Essential for service delivery** (e.g., utilities, transportation)

5.1.15 Aircraft and other inter-alia assets

Here's a detailed list of **tangible assets** likely owned by an **Airlines Company**, categorized by operational function:

1. AIRCRAFT FLEET (CORE OPERATIONAL ASSETS)		
Asset Type	**Specific Models**	**Key Details**
Passenger Aircraft	Boeing 787-8/9 Dreamliner	Long-haul routes (e.g., London, Kuala Lumpur)
	Boeing 777-300ER	High-capacity international flights
	Dash 8-400	Domestic/short haul (e.g., Chittagong, Sylhet)
Cargo Aircraft	Boeing 737-800BCF	Dedicated freight operations
Note: Fleet composition may change; typically, 10-15 active aircraft.		
2. GROUND SUPPORT EQUIPMENT		
Category	**Examples**	**Purpose**

Aircraft Handling	Tow tractors, pushback trucks	Aircraft maneuvering
Loading Systems	Container loaders, belt loaders	Cargo/baggage handling
Passenger Services	Mobile stairs, airbridges	Boarding/deboarding
Maintenance	Hydraulic lifts, fuel trucks	Servicing aircraft
3. REAL ESTATE & INFRASTRUCTURE		
Asset	**Location**	**Function**
Headquarters	Balaka, Dhaka	Administrative hub
Hangars	Shahjalal International Airport	Aircraft maintenance
Training Center	Dhaka (Kurmitola)	Pilot/cabin crew training
Catering Facility	Airport premises	In-flight meal production
4. VEHICLES		
Type	**Usage**	
Airport Buses	Passenger transport between terminal/aircraft	
Crew Transport Vans	Staff commuting	
Emergency Vehicles	Fire trucks, ambulances (airport operations)	
5. IT & OPERATIONAL SYSTEMS		
System	**Function**	
Flight Simulators	Pilot training (B787, B777 models)	
Reservation Systems	Amadeus/Altea suite	Ticket sales/inventory
Baggage Handling	Radio Frequency Identification Number (**RFID**) tracking systems	
6. IN-FLIGHT ASSETS		
Item	**Value Driver**	
Aircraft Seats	Business/Economy class configurations	
Galley Equipment	Food service infrastructure	
Entertainment Systems	In-flight screens/audio	

5.1.16 VESSELS, shipping machinery and equipment's

A. **VESSELS (CORE FLEET ASSETS)**

1. **Container Ships**

- Post-Panamax vessels (8,000-14,000 TEU capacity)
- Feeder ships (1,000-3,000 TEU capacity)
- Refrigerated container ships (Reefers)

2. **Bulk Carriers**
   - Capsize (180,000 DWT)
   - Panamax (60,000-80,000 DWT)
   - Handy size (10,000-40,000 DWT)
3. **Tankers**
   - VLCCs (Very Large Crude Carriers, 200,000-320,000 DWT)
   - Product tankers (50,000-80,000 DWT)
   - Chemical tankers (Stainless steel tanks)
4. **Specialized Vessels**
   - LNG carriers (Membrane-type, 125,000-180,000 m^3)
   - Ro-Ro ships (Vehicle transporters)
   - Heavy lift vessels (500+ ton capacity)

B. **PORT & TERMINAL EQUIPMENT**

1. **Cargo Handling**
   - Gantry cranes (50-100 ton lifting capacity)
   - RTGs (Rubber-tired gantry cranes)
   - Straddle carriers (8-container wide)
2. **Storage Infrastructure**
   - Container yards (Paved, 50+ acre capacity)
   - Tank farms (Storage tanks for liquid cargo)
   - Warehouses (Bonded/Cold storage)
3. **Docking Equipment**
   - Mooring dolphins (Concrete/steel)
   - Fender systems (Dock bumpers)
   - Shore power connections (Cold ironing)

C. **IT & OPERATIONAL SYSTEMS**

1. **Fleet Management**
   - Vessel tracking systems (AIS)
   - Weather routing software
   - Bunker management systems
2. **Terminal Operating Systems**
   - TOS (Terminal Operating Systems)
   - OCR gates (Optical container recognition)
   - Automated stacking cranes

5.1.17 Other Tangible Assets (Artwork, Safety Equipment etc.)

Other Tangible Assets refer to **physical, long-term assets** not otherwise classified as land, buildings, machinery, or infrastructure. These are typically **lower-value or specialized items** that still meet capitalization criteria. For example, Art & Decorations Statues, paintings (if owned and >capitalization threshold).

5.1.18 Intangible Assets

Item that has no physical existence, such as software, patents, copyright, etc. and which will be available for use by SOEs and ABs for a period of more than one year. Intangible assets will be shown separately from fixed assets under fixed assets as a separate line item. A list of example items of Intangible assets is attached with this policy as "Annexure-18:

1. Intellectual Property (IP)

Asset Type	Description
Patents	Legal rights to inventions (e.g., technology, pharmaceuticals).
Trademarks	Brand names, logos, slogans (e.g., Petrobangla's "BPC's," TCB's logo).
Copyrights	Protection for creative works (books, music, software code).
Trade Secrets	Confidential business knowledge (e.g., Parjatan Corporation's recipe, Eastern Oil Refining's algorithm).
2. Technology & Software	
Asset Type	**Description**
Software Licenses	Purchased or developed software (e.g., SAP, Microsoft Office licenses).
Proprietary Tech	In-house developed technology (e.g., AI algorithms, manufacturing processes).
Domain Names	Website URLs with brand value (e.g., govt.com).
3. Customer-Related Assets	
Asset Type	**Description**
Customer Lists	Databases of clients with purchase history (common in acquisitions).
Non-Compete Agreements	Contracts preventing key employees from joining competitors.
Franchise Agreements	Rights to operate under a brand (e.g., KFC's franchisee rights).
4. Contract-Based Assets	
Asset Type	**Description**
Licensing Agreements	Rights to use third-party IP (e.g., BTRC's Tower sharing license).
Broadcasting Rights	Exclusive rights to air content (e.g., BTV rights).
Lease Agreements	Favorable lease terms (e.g., below-market rent contracts).
5. Artistic & Creative Assets	
Asset Type	**Description**
Motion Pictures	Rights to films/TV shows (e.g., BTV's Stranger Things library).
Music Catalogs	Ownership of songs (e.g., Runa Laila's music rights).
Literary Works	Rights to books/comics (e.g., Humayun Ahmed franchise).
6. Goodwill	
Asset Type	**Description**

Goodwill	Premium paid in acquisitions over net asset value (brand reputation, synergies).
7. Regulatory & Legal Rights	
Asset Type	**Description**
Permits/Licenses	Government-granted rights (e.g., mining licenses, Directorate General of Drug Administration (DGDA) drug approvals).
Emissions Credits	Tradable pollution rights (e.g., carbon credits).
8. Marketing-Related Assets	
Asset Type	**Description**
Brand Equity	Value of brand recognition (e.g., Teletalk's brand).
Advertising Contracts	Long-term favorable ad space agreements.

6. Recognition of fixed assets

6.1 An asset shall be recognized as **fixed asset**, when the cost of any item can be measured reliably, having useful life more than one year which is being used and controlled by the SOEs and ABs exceeding certain capitalization threshold, and the probable future economic benefits of that associated item shall flow to the entity.

6.2 Major components of some items of fixed asset may require replacement at regular intervals. The components should be accounted for as separate asset because they have useful lives different from those of the items of fixed asset to which they relate. Therefore, provided the recognition criteria are satisfied, the expenditure incurred in replacing or renewing the component is accounted for as the acquisition of a separate asset and the replaced asset is written off. In that event, components are identified as separate asset, it is required to maintain a reference with the original asset in the fixed asset register under the procedure explained in this Manual.

6.3 An item of asset eligible for recognition as fixed asset shall be measured at cost which comprises the purchase price, import duties and non-refundable purchase taxes as well as all other costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operation according to the cost subsequent to acquisition.

6.4 After Acquisition of fixed asset and at the time of recognition, discount or concession or price reduction should be deducted from the total cost.

6.5 Those costs relating to the purchase of asset and all directly attributable costs that could be capitalized will be recorded in CWIP account. The date on which actual control over an asset is acquired (i.e. economic benefit or risks and rewards are transferred) all costs for a specific fixed asset recorded in CWIP account are transferred to the respective fixed asset account.

7. Capitalization threshold

7.1 An item of fixed asset which has a cost individually or in aggregate greater than or equal to Tk. 5,000 and is expected to be used over more than a period of 12 months by the SoEs or ABs will be treated as a fixed asset and should be recorded in the 'fixed asset register, or fixed asset module of any software developed by FD'. Both value (Tk. 5,000) and periods (Over 12 months) conditions are to be met before recognizing any fixed assets otherwise they will be expensed out:

Provided that, management judgment can override this quantitative capitalization up to 50,000 thresholds only in exception cases with clear justification.

7.2 An item of such type of assets costing less than Tk. 5,000 individually or in aggregate shall be treated as a non-capitalized asset and will be recognized as revenue expenditure.

7.3 If the management of any SoEs or ABs feels appropriate to derecognize any of its Fixed Asset with strong reason, the SoEs or ABs, with the prior concurrence of FD, may derecognize that asset from its fixed asset register over threshold:

Provided that, derecognition shall not be made by violating any accounting standards.

8. Acquisition of property plant and equipment

Property Plant and Equipment purchases shall follow the Government procurement process (i.e. PPA-Public Procurement Act, and PPR- Public Procurement Regulations and following its subsequent amendment). Public procurements in Bangladesh, to be brief, are processed mainly through a four-tier process: (i) advertising the invitations for tenders/quotations, (ii) evaluation, (iii) approval, and awarding of contract. The procurement shall also follow procurement act, Rules and delegation of financial power. Respective changes as issued by Bangladesh Public Procurement Authority or competent authorities in Bangladesh shall also be applicable in procurement of property plant and equipment.

8.1 Initial measurement (capital projects)

The cost of acquiring an asset includes the costs necessarily incurred to bring it to the condition and location necessary for its intended use. The unissued PPE identified four stages during which costs may be incurred related to Fixed Assets, those are; -

a. the preliminary stage;
b. the pre-acquisition stage;
c. the construction stage; and
d. the in-service stage.

Figure in Para 8.10 contains a summary of the accounting for common types of costs incurred during all stages of construction of a capital project.

8.2 Preliminary stage (capital projects)

8.2.1 The first stage during which costs are incurred related to Fixed Assets is the preliminary stage. During this stage, the project is not considered probable of being constructed. Accordingly, given the high degree of uncertainty about the future economic benefits, costs incurred during this stage are expensed as incurred.

8.2.2 The preliminary stage commences at the beginning of a project and lasts until the acquisition or construction of the specific Fixed Assets asset is considered probable, Contingencies. In assessing probability, the SOEs and ABs should consider whether (1) management, having the requisite authority, has implicitly or explicitly authorized and committed to funding the acquisition or construction of a specific asset, (2) the financial resources are available consistent with such authorization, and (3) the ability exists to meet the necessary local and other government regulations.

8.2.3 During the preliminary stage, activities are performed exploring the opportunities for acquisition or construction of property, plant, and equipment. SOEs and ABs may conduct feasibility studies and other activities related to asset selection. SOEs and ABs may incur costs to obtain an option to acquire one or more items of PPE during this stage. Some examples of other costs that may be incurred during this stage include those related to surveying, zoning, engineering studies, design layouts, traffic studies, and obtaining management's approval to move forward with a particular capital project. Some of these costs may be incurred in one or more of the stages of a project. Therefore, the assessment of probability of a project when the costs are incurred is key to the capitalization decision.

8.2.4 Accounting for costs during the preliminary stage is consistent with IAS 16, Other Expenses, Start-up Costs, which addresses costs associated with start-up activities, including those related to new capital projects, and states that such costs should be expensed as incurred.

8.2.5 The accounting for costs to arrange financing for the construction of a new capital project is specifically addressed, financing cost and other cost associated prior to financing:

Provided that, the cost related to borrowing or financing terms and conditions, condition precedents of loan or borrowing agreement, shall not be included in the preliminary stage of the cost of the fixed asset.

8.2.6 The cost incurred in preliminary stage, shall not be included with the cost of the Fixed Asset in future and such type cost incurred in the preliminary stage may be a part of administrative cost or in the other asset.

8.3 Pre-acquisition stage of PPE

8.3.1 The pre-acquisition stage begins when the construction of specific property, plant, or equipment is probable but prior to the start of construction. The preacquisition cost of the PPE shall be segregated between costs that are directly identifiable with the specific PPE and those that are an allocated or overhead cost.

8.3.2 Directly identifiable costs related to PPE at this stage, should be capitalized in the pre-acquisition stage; whereas allocated and other overhead costs should be expensed as incurred. Similarly, in the general guidance on real estate according to IAS 16, states that costs that meet specified criteria should be capitalized once the project is probable.

8.3.3 Directly identifiable costs include the following: –

(1) Incremental direct costs of PPE for pre-acquisition activities, if incurred for the specific PPE in transactions with independent third parties;

(2) Certain costs directly related to pre-acquisition activities performed by the procuring entity of PPE or by third parties appointed by the procuring entity for the acquisition of PPE, for the specific PPE;

(3) The cost described in sub-paragraph (2) of this Para, shall include payroll and payroll benefit-related costs (e.g., health insurance premium) for employees who devote time to pre-acquisition stage activity of any PPE, to such extent of time, the employees spent directly on that activity and in proportion to the total hours employed (including compensated absences). Additionally, only the service component of net periodic pension and postretirement costs shall be capitalized:

Provided that, rent, depreciation, and other occupancy costs associated with the physical space occupied by employees should be charged to expense as incurred, are not directly identifiable costs under this provision.

(4) Payments to obtain an option to acquire PPE. The SOEs and ABs shall evaluate whether the option is a derivative and should be accounted for under **IAS 16**. If the option does not meet the definition of a derivative, the unissued PPE indicates that the option should be carried at the lower of cost or fair value. Reductions in the recorded value of an option should be charged to expense. If the fair value less cost to sell of the option subsequently increases, amounts previously charged to expense may not be reinstated to the balance sheet.

(5) General and administrative costs and overhead costs, regardless of whether those costs are incurred internally or outsourced to a third party, shall be charged to expense as incurred. Those costs include: -

(i) payroll or payroll benefit-related costs of support functions;
(ii) cost for executive management, corporate accounting, acquisitions, purchasing, legal, office management and administration, marketing, human resources, and information systems; and
(iii) outsourcing by acquisitions department from a third party.

(6) If during the pre-acquisition stage the construction or acquisition of the specific fixed asset is determined to no longer be probable, the capitalized costs related to the project should be assessed for impairment according to IAS. In this case, after evaluating the capitalized costs of any project that is no longer probable of being completed are impaired, a SOEs and ABs shall determine whether the asset will be

sold, or held and used or explore the potential use of that asset for future.

(7) When determining the fair value of an impaired project, a rebuttable presumption exists that the fair value of costs incurred before the acquisition or construction stage is zero. Under the provision this Manual, the impaired assets may be declared as abandoned and the abandoned asset shall be disposed under para 12 of this Manual in order to held for sale model. Also, the abandoned asset shall be held and used according to the para 8.3 of this Manual.

8.4 Construction stage of PPE

(1) The costs of acquire, or construct, or install the PPE at the time of the construction stage of PPE and at the time of the SOEs and ABs obtains ownership of that PPE or obtains the right to use that PPE through an agreement (e.g., a lease), including the costs incurred prior to the fixed asset being available for its intended use shall be part of cost of the fixed asset.

(2) The activities performed during this stage shall include the following: -
- (a) the planning for construction, or installation.
- (b) constructing or installing PPE;
- (c) the supervising cost of the construction; or
- (d) any other cost related to the construction of PPE.

(3) Similar to the pre-acquisition stage, costs incurred during the construction stage that are directly identifiable shall be capitalized. Directly identifiable costs include: -

- (a) Incremental direct costs of acquiring, constructing, or installing the PPE incurred in transactions with independent third parties;
- (b) certain costs directly related to activities performed by the SOEs and ABs (or by third parties who are not independent of the SOEs and ABs) for the construction or installation of the specific PPE;
- (c) costs directly related to pre-production test runs of PPE that are necessary to get the PPE ready for its intended use. These costs are only: -

  (i) payroll and payroll benefit-related costs including only the service cost component of net periodic pension and post-retirement costs of employees who devote time to a PPE construction stage activity, to the extent of time the employee spent directly on that activity and in proportion to the total hours employed (including compensated absences, or other allowances);

  (ii) depreciation of machinery and equipment used directly in the construction or installation of PPE, to the extent of time the machinery and equipment is used directly in that activity as a percentage of its expected useful life and incremental costs (e.g., fuel, lubricants etc.) directly associated with the utilization of that machinery and equipment;

  (iii) inventory, including spare parts used directly for the construction or installation of PPE; and

(4) In certain circumstances, there may be depreciation costs, such as depreciation of equipment used to build a fixed asset for internal use, is directly related to the construction project shall be considered directly identifiable cost and shall be capitalized as well:

Provided that, the depreciation related to the company's headquarters shall be considered an indirect cost and shall be charged to expense as incurred.

Also provided that, constructing or acquiring a new asset may result in other incremental costs that shall not be capitalized if the asset had not been constructed or acquired and if they do not contribute to bringing the asset into the location and condition necessary for it to be capable of operating in the manner intended by management.

Explanation: A mobile phone operator may be setting up a new network in a new territory, involving the construction of the network system (new transmitter towers, etc.). Costs that do not relate to the construction of the physical assets, such as marketing the cellular service and hiring incremental store employees to establish the territory, do not qualify as part of the cost of the asset even though they are incurred during the construction stage of the new network.

(5) Directly identifiable costs shall be distinguished from allocated or overhead costs and shall be capitalized:

Provided that, the other costs such as overhead costs and allocated other costs as incurred are not directly related to the construction of the asset shall be expensed.

(6) Notwithstanding anything contained in this para, rent, depreciation, and other occupancy costs associated with the physical space occupied by employees are not directly identifiable costs and should be expensed as incurred, consistent with the accounting for those types of costs within the pre-acquisition stage. General and administrative and overhead costs should also be expensed as incurred, whether the costs are internal or paid to third parties. Moreover, lease costs associated with ground or building operating leases that are incurred during a construction period should be recognized as lease expense if a company is developing a property for its own use.

(7) Under the provision of this Policy, specific guidance for the construction of real estate assets for sale or rental whereby certain overhead and other costs may be capitalized.

8.5 Demolition costs

(1) According to the incomplete or work-in-progress (WIP) PPE, demolition costs incurred by an owner or lessor should be charged to expense as incurred and included in results of operations:

Provided that, when the demolition costs incurred in conjunction with an acquisition or lease of real estate and the demolition (a) is contemplated as part of the acquisition or at lease inception and (b) occurs within a reasonable period of time thereafter or is delayed, but the delay is beyond the organization’s control (e.g., if demolition cannot commence until the end of an existing tenant's lease term or demolition is subject to governmental permitting processes). If the demolition is not done in connection with the acquisition of a structure, the incremental costs incurred to demolish the building or any structure should be expensed as incurred.

Explanation: if an SOEs and ABs purchases land that includes a building but upon acquisition, the SOEs and ABs plans to demolish the structure to construct a new building and demolition occurs within a reasonable period of time subsequent to acquisition, the costs incurred to demolish the property are part of preparing the site and thus should be capitalized as part of the land. If the building is to be renovated rather than razed, any demolition costs would be capitalized as part of the building renovations.

8.6 Contributions to charitable purpose or cost related CSR

(1) Local Government and other governmental entities sometimes require constructing additional assets or infrastructure or require to accomplish any other project or activity unrelated to the original project as a condition of obtaining a construction permit.

Explanation: Under International Accounting Standard (IAS) 16, when a company's development project necessitates the removal of trees or green spaces, resulting in government-mandated environmental mitigation measures, the accounting treatment depends on whether the obligation constitutes a contribution or an exchange transaction. Regulatory requirements may include physical remediation such as park construction or tree planting, financial contributions to environmental organizations, or a combination of both. A contribution, as defined by IAS 16, represents a one-way transfer where the company receives no commensurate economic benefits, such as mandatory donations to environmental funds, and must be recognized as an expense when the obligation arises. In contrast, an exchange transaction involves reciprocal value, where the company obtains measurable benefits like development rights or enhanced property value through activities like building public parks, requiring capitalization as part of the related asset's cost at fair value. This distinction is critical as contributions immediately impact profit and loss, while exchange transactions affect the balance sheet through asset recognition and subsequent depreciation. Proper classification requires careful assessment of whether the company derives economic benefits from fulfilling the obligation, with material amounts disclosed in financial statements to ensure compliance with IAS 16's principles and transparent reporting of environmental remediation impacts.

(2) CSR should be expensed in the period made, unless the contribution is for the in-substance purchase of goods or services:

Provided that, payments made, or other services provided to a municipality or Governmental entity to obtain a permit, zoning change, or other licenses necessary for construction are not contributions as CSR.

8.7 Asset ready for intended use/operating levels

(1) Costs incurred during the construction stage before the plant can operate are

capitalized. The cost to run machinery and equipment in order to test, the output meets certain regulatory specifications would be considered costs of the construction stage and should be capitalized.

(2) The construction stage ends when fixed assets are ready for their intended use. Fixed assets are considered ready for their intended use when they are first capable of producing a unit of product that is saleable or usable internally by the SOEs and ABs according this Manual for additional information on the commencement of depreciation.

(3) When the asset is ready for use, even if demand does not support operating the asset at its normal capacity, costs should no longer be capitalized.

For example, a new hotel may be available for 100% occupancy almost as soon as it has been constructed. As demand usually builds slowly, there may be initial operating losses due to low occupancy. In such a case, the initial operating losses are not costs that may be capitalized. Similarly, marketing costs associated with generating demand for the hotel may not be capitalized.

Below illustrations explain the treatment of operating costs and production costs incurred during the construction stage.

Illustration: Operating costs incurred during the construction stage

An airport has a “soft” opening to the public to conduct a trial run of its attractions. the airport is running at 40% operating capacity. The Airport will officially open in three months. Management asserts that the soft opening is necessary for the Airport to ensure it is capable of operating in its intended manner. For example, Third terminal of Hazrat Shahjalal International Airport (HSIA).

Should the operating costs during the soft opening be capitalized?

Analysis

No. The soft opening operating costs should not be capitalized but instead should be expensed as incurred. Even though the Airport is running at less than full operating capacity, it is clear that the Airport is capable of operating in the intended manner.

Illustration: Preproduction costs

Manufacturing Corp is a manufacturing company with various plants across the world. Manufacturing Corp is expanding its manufacturing footprint by constructing a facility in China. The facility has been completed and is producing prototype parts, which are being tested to ensure they are in accordance with the customer’s quality specifications.

Should Manufacturing Corp capitalize the costs associated with producing the prototype?

Analysis

Yes. Costs associated with preproduction test runs to prepare the Fixed Assets asset to be ready for its intended use should be accounted for within the construction stage. Since the prototype parts are not yet saleable by the SOEs and ABs, the costs of producing these parts should be capitalized. Costs incurred after the quality control testing has been completed (i.e., when the parts can be sold to customers), would be accounted for in accordance with the requirements for the in-service stage.

Once the asset has reached the in-service stage, depreciation on the Fixed Assets asset should commence. Refer to Para 10 for additional information on depreciation.

8.8 In-service stage of capital projects

(1) The in-service stage of Fixed Assets begins when the asset is substantially complete and a portion of the Fixed Asset is ready for its intended use. Costs during this stage for that completed portion including repairs and maintenance of existing components or replacement of existing components or purchase of additional components shall be considered according to the following provisions mentioned hereinafter.

(2) Costs incurred to acquire additional components of PPE or replace existing components of PPE should be capitalized. In other words, costs during the in-service stage that extend the existing service potential of the Fixed Asset or replace significant components of the Fixed Asset should be capitalized.

(3) The cost in case of remodeling or redesign of a project shall be capitalized. Mentionable that, if a portion or a substantial part of the project is ready for used, the cost of remodeling or redesign or renovation of the existing PPE of that project shall also be capitalized:

Provided that, the costs of dismantling for relocation of Fixed asset or transporting or reassembling of fixed assets of in-service project, should usually be expensed as incurred as these types of costs generally do not extend the useful life of the asset or improve the quantity or quality of goods produced by the asset.

Illustration: Accounting for the cost to remodel a project or an existing PPE

Supermarket Corp, a supermarket chain, is renovating one of its stores. The store will increase in size, have more available space for in-store promotion outlets, and will include a restaurant. Management expects the store renovations to attract new customers and result in a more than nominal increase in sales.

Should the costs incurred to renovate the existing store be capitalized by Supermarket Corp?

Analysis

Yes. The store remodel will create additional available space for in-store promotion outlets and a restaurant. Since the renovation will create additional space and future *economic benefits, the cost of remodeling the store should be capitalized.*

Costs that are incurred to enhance the productivity of the Fixed Assets asset (such as those intended to increase the Fixed Assets asset's daily output) should be capitalized. However, costs that are incurred to change the Fixed Assets asset from one intended use to another (such as to change a tire manufacturing machine from one model tire to a different model), would generally not be capitalized.

When an SOEs and ABs relocates in-service assets, the costs of dismantling, transporting, and reassembling the assets should usually be expensed as incurred. These types of costs generally do not extend the useful life of the asset or improve the quantity or quality of goods produced by the asset.

Illustration: Determination of incremental costs for a capital project

PPE Corp has an existing factory that it intends to demolish and redevelop. During the redevelopment period, the company will move its production facilities to another temporary site. The following costs will be incurred for the project:

- *Rent of Taka 500,000 for the temporary site*
- *Removal costs of Taka 300,000 to transport the machinery from the old location to the temporary location*
- *Taka 1M to install the machinery in the temporary location*

Can these costs be capitalized as part of the cost of the new building?

Analysis

No. Even though the costs are incremental, they are not directly attributable to the new building and not necessary for it to be capable of operating in the manner intended by management. The costs related to the temporary facility should be expensed as incurred.

(4) The costs of routine, recurring, or periodic repairs and maintenance activities and all other contingency type of costs related to PPE incurred during this stage shall be treated as expense.

For Example, A state-owned electricity company performs **quarterly maintenance** on its coal-fired power generation units. The Q3 2024 maintenance includes:

- **Taka 85,000** for turbine blade cleaning and inspection
- **Taka 42,000** for boiler tube leak repairs
- **Taka 23,000 for control system calibration**
  ***Total Cost*: Taka 150,000**

These are **routine/recurring costs** to maintain operational capacity (not enhance it). No extension of the asset's useful life or improvement in performance. Hence all costs are to be classified as expense

8.9 Capitalization thresholds for Fixed Assets assets

(1) For the ease of recordkeeping, the capitalization threshold for any asset, which has useful life of more than one year, shall be taka 5,000 or more singly or in aggregate value jointly for multiple items of that Fixed Asset.

(2) The Fixed Asset with same class and category with single item value is less than the threshold mentioned in para 8.9 (1) of this Manual but in aggregate value is more that the threshold shall be capitalized.

(3) The assumption underlying the use of a capitalization threshold is that whether the SOEs and ABs capitalizes and depreciates or expenses such amounts immediately would not be material to the financial statements. Accordingly, the decision to expense costs below threshold is simply for administrative convenience.

Illustration for Bulk purchase

A state-owned enterprise (SOE) purchasing 500 industrial fans, formatted for clarity and compliance: 500 Industrial Exhaust Fans (Model: AirFlow-5000) which to be used for Ventilation for state-owned textile factory at price taka 1000 each. Capitalization Threshold: Taka 5,000 per unit or in aggregate. Now the price per unit Taka 1,000 which is much less than capitalization threshold however as the aggregate value is Taka 500,000 for 500 fans, the fans must be capitalized.

(4) If the management of any organization finds that the useful life of any Fixed Asset is less than eighteen months, the organization may charge entire amount, assessed on both a qualitative and quantitative basis, as expense.

(5) The Government, time to time, by notification, may change the threshold. Such changes to the capitalization threshold shall be applied prospectively:

Provided that, Fixed Assets capitalized under a previous threshold shall not be adjusted. It would be inappropriate to record-

(a) a cumulative catch- up entry to expense amounts capitalized when the threshold was lower; or

(b) capitalize costs previously expensed when the threshold was higher.

(6) A change to the capitalization threshold is not considered a change in accounting policy.

8.10 Costs Subsequent to Acquisition

(1) For assets which are in use, additional costs and expenses will be incurred ranging from maintenance to significant additions. Minor expenses shall be expensed off to the Statement of profit or loss and capital expenditure shall be capitalized in the statement of financial position. However, the distinction between an expense and a capital expenditure is not always readily apparent and may require careful consideration and analysis before a decision can be made.

(2) Under the provision of the para 8.10 (1), the cost on maintenance or minor repairs or servicing or replacement of spare parts shall be treated as expense and shall be booked to statement of profit or loss and other comprehensive income.

(3) On the other hand, under the provision of the para 8.10 (1), the following costs shall be treated as capital expenditure: -
  (a) Extension or improvement to the assets; or
  (b) Reinstallation or rearrangement which companies the costs associated with moving and reinstalling assets in a new location or rearrangement of assets components which result in improved operation.

(4) Capital expenditure incurred relating to assets which are capitalized in the statement of financial position, one of the following conditions shall exist before the capital expenditure can be capitalized in the statement of financial position: -
  (a) The useful life of the asset is increased; or
  (b) The quantity of services produced from the asset is increased; or
  (c) The quality of the units produced is enhanced.

Type of cost	Preliminary	Pre-acquisition	Construction	Considerations/Explanations
Construction labor and other direct costs of construction	Expense	Capitalize	Capitalize	Labor and related direct costs should be expensed until the project is probable. Costs that are direct and clearly incremental should be capitalized once the project is probable and during the construction stage.
Consulting fees	Expense	It depends	It depends	Fees should be expensed until the project is probable. Once the project is probable, directly identifiable costs should be capitalized. The amount capitalized is limited to those amounts directly related to the site and project selected (e.g., costs related to evaluation of potential projects or locations should be expensed).
Contribution to local community organization or other similar gift made as a precondition to obtaining necessary permits or licenses	Expense	It depends	It depends	Contributions should be expensed in the period made unless they are exchange transactions for the purchase of a good or service. Contributions made in exchange for a required license or permit may qualify for capitalization.

Type of cost	Preliminary	Pre-acquisition	Construction	Considerations/Explanations
Demolition costs	It depends	It depends	It depends	Demolition costs should be expensed as incurred, except in certain situations when incurred in conjunction with an acquisition or lease of real estate
Due diligence fees	Expense	It depends	It depends	See discussion under "Consulting fees."
Engineering, procurement, and construction contract costs	Expense	Capitalize	Capitalize	Direct costs of construction should be capitalized. Other costs should also be capitalized as part of the direct costs of construction if the amounts are considered an incremental direct cost.
Feasibility studies	Expense	It depends	It depends	See discussion under "Consulting fees."
Ground lease expense	Expense	Expense	Generally expense	Capitalization of ground lease expense by a lessee for property constructed for its own use is prohibited. However, ground lease expense should be capitalized during the construction of property for sale or rental.
Interest costs	Expense	Capitalize	Capitalize	Interest costs should be capitalized in accordance with the criteria in **IAS 16**
Land option	Capitalize	Capitalize	Capitalize	The unissued PPE and **IAS 16** specifically permit capitalization of land options, even during the preliminary stage when the project is not yet probable.
Legal fees	Expense	It depends	It depends	See discussion under "Consulting fees."
Materials and supplies	It depends	Capitalize	Capitalize	Materials and supplies should be expensed during the preliminary stage unless they have an alternative use (e.g., inventory).

Type of cost	Preliminary	Pre-acquisition	Construction	Considerations/Explanations
Operating contract negotiation (e.g., fuel supply agreements, power sales agreements, operating and maintenance agreements)	Expense	Expense	Expense	Contract negotiation costs should be expensed. Although the project may not be viable without operating contracts (e.g., a signed power sales agreement is a prerequisite for financing), these contracts are not directly related to or necessary for construction of the asset itself.
Organizational costs (e.g., corporate bylaws, other agreements)	Expense	Expense	Expense	Organizational costs should be expensed in accordance with **IAS 16**
Overhead, including rent, depreciation, and support functions (executive management, accounting, purchasing, corporate legal, human resources, and information systems)	Expense	Expense	Generally expense	General and administrative and overhead costs should be charged to expense as incurred, with a limited exception for property constructed for sale or rental.
Outsourced administrative functions (e.g., accounting, purchases, and payables)	Expense	Expense	Generally expense	General and administrative and overhead costs should be charged to expense as incurred, even if the costs are incurred by a third party on behalf of the SOEs and ABs. These costs may be eligible for capitalization if the property is constructed for sale or rental.
Project financing—external fees	Capitalize	Capitalize	Capitalize	Specific incremental costs directly attributable to a project financing should be capitalized (e.g., debt issuance costs). Any amortization recorded during construction would be included in capitalized interest calculations.

Type of cost	Preliminary	Pre-acquisition	Construction	Considerations/Explanations
Project financing—internal costs and salaries	Expense	Expense	Expense	General and administrative costs and overhead costs should be charged to expense as incurred.
Property taxes	Expense	Expense	Generally expense	Property taxes are a cost of owning the property and are not a direct incremental cost of construction, thus such amounts should be expensed as incurred. However, similar to ground lease expense, such amounts may be capitalized if the property is being constructed for sale or rental. See PPE 1.7.2.
Recruiting (costs to identify and hire operating and administrative personnel on site)	Expense	Expense	Expense	Recruiting costs should be expensed in accordance with **IAS 16**
Salaries— developers, legal counsel, and other personnel working directly on the project	Expense	It depends	It depends	All payroll and payroll-related costs should be expensed until the project is probable. Once the project is probable, directly identifiable payroll and payroll-related costs should be capitalized. The amount capitalized should be limited to those amounts directly related to the site and project selected (e.g., costs related to evaluation of potential projects or locations should be expensed). In addition, occupancy and similar costs associated with personnel working on the project should be expensed.
Salaries— support functions	Expense	Expense	Generally expense	General and administrative costs should be expensed as incurred, with a limited exception related to property constructed for sale or rental. See discussion under "Overhead" costs.
Site permit and license fees	Expense	Capitalize	Capitalize	Site permit and related fees are a direct cost of construction and should be capitalized once construction is probable.

Type of cost	Preliminary	Pre-acquisition	Construction	Considerations/Explanations
Site security costs	Expense	Capitalize	Capitalize	Site security costs are a direct cost of construction and should be capitalized once construction is probable. Amounts capitalized should be limited to incremental security costs.
Internal use software development costs	Expense	Capitalize as permitted	Capitalize as permitted	Internal use software development costs should be capitalized in accordance with the requirements of **IAS 16**
Training costs	Expense	Expense	Expense	Training costs should be expensed in accordance with **IAS 16**
Travel expenses—internal and third party	Expense	It depends	It depends	See discussion under "Consulting fees."

8.11 Capitalized interest

(1) According to the provision of **IAS 16 (Para 22)**, interest during the construction period for the construction of the Fixed Asset shall be capitalized.

(2) Interest incurred during the construction period in which the activities required to get the asset ready for its intended use are performed shall be capitalized:

Provided that, the financing related to the interest, shall be used for the respective project only.

(3) Interest capitalization continues as long as the respective project activities continue.

(4) The capitalization period shall begin when the following three conditions are present:

(a) expenditures for the asset have been made,
(b) activities that are necessary to get the asset ready for its intended use are in progress, and
(c) Interest cost is being incurred.

(5) Interest capitalization shall continue as long as the conditions of para 8.11 (4) are present.

(6) Organization shall cease capitalizing interest if substantially all activities related to construction of the asset are suspended:

Provided that, the brief interruptions in activities, interruptions that are externally imposed, and delays that are inherent in the asset construction process would not require cessation of interest capitalization.

Explanation: some assets must be completed in their entirety before any part of the asset can be used, such as a facility with a sequential production line that requires the entire facility to be completed in order to start production. Therefore, interest capitalization would continue until the entire asset is substantially complete. Conversely, other assets are completed in parts and therefore the entire asset does not need to be completed in order to utilize the individual parts on their own. For example, the structure of a high-rise building may be complete but certain of the individual floors are not. In this example, interest capitalization would only continue for the parts that are not substantially complete.

(7) The continuation of interest capitalization is prohibited when completion of the asset is intentionally delayed.

Explanation: interest is not to be capitalized during periods when the SOEs and ABs intentionally or willfully defers or suspends activities related to the asset.

(8) Interest of loans shall not be capitalized, in case of loans taken against any Fixed Asset which is functioning or ready for its intended purpose or any Fixed Asset has been removed from service:

Provided that, interest on incremental expenditures related to the refurbishment and/or expansion activities related to the Fixed Asset shall be capitalized:

Also provided that, the asset was acquired with the intention of performing immediate refurbishments or expansion (i.e., the asset has not been in operation), this may indicate that the interest on the asset's original cost shall be capitalized.

(9) The impairment of a Fixed Asset below its acquisition cost does not affect the continuation of interest capitalization after the impairment is recorded.

(10) The objective of capitalizing interest is to obtain a measure of cost that more closely reflects an organization's total investment in the asset and to charge a cost that relates to the acquisition of a resource that will benefit future periods against the revenues of the period it benefits.

8.12 Accounting for capitalized interest

(1) The cost incurred in financing expenditures for an asset during a required construction or development period shall be itself a part of the asset's historical acquisition cost.

(2) At the time of accounting record, the historical cost of acquiring an asset shall include all costs necessary to bring it to the condition and location necessary for its intended use.

(3) The cause-and-effect relationship between acquiring an asset and the incurrence of interest costs makes the interest cost similar to a direct cost that is readily and objectively assignable to the acquired asset.

(4) **IAS 16** defines qualifying assets while **IAS 16** lists those assets for which interest should not be capitalized.

(5) Interest shall be capitalized for the following types of assets or qualifying assets:

a. Assets that are constructed or otherwise produced for an entity's own use, including assets constructed or produced for the entity by others for which deposits or progress payments have been made; or

b. Assets intended for sale or lease that are constructed or otherwise produced as discrete projects (for example, ships or real estate developments); or

c. Investments (i.e. equity or loans or advances) accounted for by the equity method while the investee has activities in progress necessary to commence its planned principal operations provided that the investee's activities include the use of funds to acquire qualifying assets for its operations. The investor's investment in the investee, not the individual assets or projects of the investee, is the qualifying asset for purposes of interest capitalization.

(6) Interest shall not be capitalized for the following types of assets:

a. Assets that are in use or ready for their intended use in the earning activities of the organization; or

b. Assets that are not being used in the earning activities of the entity and that are not undergoing the activities necessary to get them ready for use; or

c. Assets that are not included in the consolidated balance sheet of the parent entity and consolidated subsidiaries; or

d. Investments accounted for by the equity method after the planned principal operations of the investee begin according of this Manual; or

e. Investments in regulated investees that are capitalizing both the cost of debt and equity capital according to the provision of this Manual.

f. Assets acquired with gifts and grants that are restricted by the donor or grantor to acquisition of those assets to the extent that funds are available from such gifts and grants. Interest earned from temporary investment of those funds that is similarly restricted shall be considered an addition to the gift or grant for this purpose; or

g. Inventories that are routinely manufactured or otherwise produced in large quantities on a repetitive basis.

(7) According to the IAS 16, a separate cost records shall be maintained by the organizations for a discrete project or a large-scale project that has a significant impact not only on the revenue earning but also has impact on the macroeconomy as whole.

(8) The existence of the following characteristics may help in identifying discrete projects: (1) separate cost records, (2) a considerable time period involved in construction or manufacture, (3) significant expenditures, (4) compliance with customer specifications, or (5) progress payments.

(9) When borrowings exist, the expenditures required by a discrete or a large-scale project, may result in a significant amount of interest cost to bring the project to its intended use. Thus, a discrete project differs from those assets produced routinely and repetitively for sale or lease that individually do not result in the incurrence of significant interest cost.

(10) In case of failure to capitalize the interest cost associated with qualifying assets that improperly reduces reported earnings during the period and increases reporting earnings in later periods, shall be included as a component of the historical cost of assets immediately after it has been noticed.

8.13 Amount of interest to be capitalized

(1) Interest cost that theoretically could have been avoided if expenditures had not been made for any qualifying assets may be capitalized.

(2) Determining of capitalization of interest depends on the used portion for the project of the borrowing amount. If any part of borrowing is unused, the portion of interest shall not be capitalized and that interest shall be treated as expense. The part of borrowing which is used for the construction of the project shall be capitalized by applying a capitalization rate to the weighted-average Carrying amount/value of expenditure for the asset during the period.

(3) The amount of interest cost capitalized should not exceed the amount of interest cost incurred by the organization in that period.

(4) According to the IAS 16 the following method for capitalization of interest expense can be used:

(a) It may be the rate of a specific new borrowing that can be associated with a qualifying asset or a rate determined by a weighted-average technique;

(b) The weighted-average technique may be viewed as the primary method for determining a capitalization rate since proceeds from a specific borrowing are typically not identifiable to a particular qualifying asset;

(c) Judgment may be required in case of identifying the borrowings to be included in the weighted-average Carrying amount/value;

(d) The objective is to obtain a reasonable measure of the cost of financing the asset while getting the asset ready for its intended use.

Illustration: the capitalization rate using the weighted average of borrowings

PPE Corp begins construction on a new corporate office building on September 1, 20X1. Construction continues without interruption through March 31, 20X2. Directly attributable expenditures for the year ended December 31, 20X1 are:

1 September Taka 100,000

October Taka 400,000 (date unknown, may be any date of the month)

November Taka 400,000 (date unknown, may be any date of the month)

16 December Taka 400,000

PPE Corp has assumed a mid-month convention for the attributable expenditures. Therefore, the weighted average Carrying amount/value of the asset during the period is as follows:

Date	***Qualifying expenditures (A)***	***Capitalization Period (B)***	***Weighted average qualifying expenditures (A × B)***
September	*Taka 100,000*	*4/12*	*Taka 29,167*
October	*Taka 400,000*	*2.5/12*	*Taka 83,333*
November	*Taka 400,000*	*1.5/12*	*Taka 50,000*
December	*Taka 400,000*	*0.5/12*	*Taka 16,667*
Total	*Taka 1,300,000*		*Taka 179,167*

PPE Corp has not taken out any specific borrowings to finance the construction of the asset but has incurred finance costs on its general borrowings during the construction period. PPE Corp had a Taka 9,000,000 loan outstanding with a 4% interest rate and a Taka 5,000,000 loan outstanding with a 6% interest rate during the construction period. The loans were not for specific expenditures.

What is the amount of interest that can be capitalized for the year ended December 31, 20X1?

Analysis

The annualized interest costs on the general borrowings outstanding during the construction period is Taka 660,000 ((4% × Taka 9,000,000) + (6% × Taka 5,000,000)), which results in a weighted-average rate of 4.71% (Taka 660,000/Taka 14,000,000).

The amount of interest that can be capitalized is Taka 8,439, calculated as the weighted-average interest rate multiplied by the weighted-average qualifying expenditures amount (4.71% × Taka 179,167).

*The objective of this Manual, according to the provisions of **IAS 16,** is to include the interest incurred as a consequence of getting the asset ready for its intended use. Therefore, accumulated expenditures eligible for interest capitalization should be determined on a cash basis rather than on an accrual basis (unless accruals bear interest). Expenditures on discrete projects should be reduced by progress payments received from customers. Equity exchanged for a fixed asset is also considered an expenditure, since debt would not be paid down and interest costs would be incurred if equity had not been issued as consideration to acquire the asset. Capitalized asset retirement (dismantlement or disposal of Fixed Asset) costs are not considered expenditures for the purposes of capitalizing interest.*

8.14 Interest capitalization period

Interest capitalization period shall be closed when the Fixed Asset shall have been ready for use.

8.15 Materiality of interest (interest capitalization)

(1) As detailed in **IAS 16**, interest is only required to be capitalized when the benefit outweighs the cost.

In many cases, the benefit in terms of information about the entity's resources and earnings may not justify the additional accounting and administrative cost involved in providing the information. The significance of the effect of interest capitalization in relation to the entity's resources and earnings is the most important consideration in assessing its benefit. The ease with which qualifying assets and related expenditures can be separately identified and the number of assets subject to interest capitalization are important factors in assessing the cost of implementation.

Interest capitalization is required only when the balance of the informational benefit and the cost of implementation is favorable. A favorable balance is most likely to be achieved where an asset is constructed or produced as a discrete project for which costs are separately accumulated and where construction of the asset takes considerable time, entails substantial expenditures, and is likely to involve a significant amount of interest cost. A favorable balance is unlikely in the case of inventory items that are routinely manufactured or otherwise produced in large quantities on a repetitive basis. Accordingly, this Subtopic proscribes interest capitalization on those types of inventories (that is, inventory items that are routinely manufactured or produced in large quantities on a repetitive basis) and provides for interest capitalization on assets that are constructed or produced as discrete projects.

The principal objective of **IAS 16** is to require capitalization of interest on major construction projects when the financial statement effect of capitalization vs. current expense recognition is likely to be material. In addition, **IAS 16** speaks to minimum thresholds that require capitalization, which are common in inventory and PPE accounting. These thresholds are designed to minimize Organization’s burden of capitalizing interest associated with a large number of assets and accounting for those costs as the assets are used. Companies should apply judgment in determining whether the interest associated with self-constructed assets would have a material effect on the financial statements if not capitalized.

8.16 Capitalization of interest associated with purchase of land

(1) Interest on debt used to purchase of land (including interest on a ground lease that is classified as a finance lease as discussed in Part 2 of this Manual) should only be capitalized when development activities are in progress.

(2) When a large tract of land is acquired for development, only the interest applicable to the portion of land for which development activities are actually underway should be capitalized.

(3) Interest applicable to the portions of the land held for future development do not qualify for capitalization, until such future development begins.

(4) Interest capitalization under this Para shall be closed when the land is ready for intended use.

8.17 Capitalization of interest (equity method investments)

(1) The capitalization of interest on investments shall be accounted for the transferred PPE under the intercorporate investment when investors hold significant influence over the investee but does not exercise the full control over it, like the relationship between the parent company and its associated entities, following the equity method.

(2) Under the equity method, interest to be capitalized by the investor only on investments, advances, or loans to equity affiliates.

(3) Interest capitalization by the investor under this Para shall be closed at the time of the equity affiliate has begun its planned principal operating activities.

(4) The total capitalized interest by the investor shall not exceed interest cost incurred.

8.18 Tax-exempt debt financings (capital projects)

(1) SoEs and ABs that finance qualifying assets with the proceeds of tax-exempt debt shall capitalize the entire amount of interest cost from the inception of borrowing through the end of the capitalization period. In this case, the SoEs or ABs do not need to wait until construction begins to start capitalization.

(2) The SoEs and ABs shall not offset of interest income against interest cost:

Provided that, in the case of tax-exempt debt financings, the direct funds flow from borrowing to temporary investment to construction expenditures are so intertwined and restricted that the interest cost should be offset by any interest earned on unexpended proceeds of the related tax-exempt borrowings. Therefore, the total net cost of financing is accounted for as a cost of the qualifying asset:

Also provided that, the amount related the interest earned on unexpected proceed related to tax exempted debt financing in this case, shall be negligible or not material as discussed above.

(3) Once the interest is no longer eligible for capitalization as part of the specified qualifying assets, interest on the tax-exempt debt may be capitalized as a part of PPE of the SoEs or ABs. If no other PPE under construction are available, the interest expense and any associated interest income would be recognized in the income statement.

8.19 Maintenance (including major maintenance)

(1) Maintenance can be a significant activity for reporting entities with capital projects that may involve the use of internal resources or third-party maintenance providers under any stand-alone service agreements or embedded in a lease. All routine maintenance should be expensed in the Income Statement as incurred. Para 9.19 of this Manual focuses on the accounting for major maintenance activities, including specific considerations when the services are provided through a long-term service agreement or lease.

(2) Major or significance amount of repair and maintenance programs carried out as part of a periodic inspection and overhaul (costs typically include replacement of parts and major repairs and maintenance) that result in future economic benefits beyond those initially expected and qualify for recognition as an asset shall be capitalized:

Provided that, the costs of "day-to-day servicing" of an asset neither meet the concept of accounting standard's asset recognition criteria nor qualify as major maintenance.

Example:
The dry-docking of a ship would be an example of major maintenance and the cost of dry-docking may be capitalized.

(3) Accounting for major maintenance activities

Method	Guidance
Direct expense	Overhauls associated with large fleets are relatively constant from period to period, thus most carriers recognize the cost of overhauls as expense as they are incurred.
Deferral	The actual cost of each overhaul is capitalized and amortized to the next overhaul.
Built-in overhaul	When overhaul costs are included or combined with other costs, an organization would segregate costs into components that (1) are depreciated over the useful life of the asset and (2) require overhaul at periodic intervals. The cost of the initial overhaul is capitalized and amortized to the next overhaul; at which time the process is repeated.

To demonstrate the built-in overhaul method, consider a blast furnace with a lining that needs to be replaced every five years. No provision can be made for replacement of the furnace lining before the SOEs and ABs incurs the expenditure; until that time, the SOEs and ABs has no present obligation because it does not have to replace the lining. For example, it could avoid the obligation by decommissioning the blast furnace. Although no provision can be built up over the five years before the expenditure is incurred, the blast furnace lining should be segregated as a separate component upon acquisition and depreciated over a five-year period, rather than over the useful life of the furnace itself. When the expenditure is incurred to replace the lining, it will be capitalized as a component of the cost of the furnace and will be separately depreciated over the period until it is next replaced (i.e., five years). The cost and depreciation attributed to the original blast furnace lining should be removed once the cost of the new blast furnace lining has been capitalized, because the original asset would be disposed of when replaced with the new lining.

Major maintenance costs cannot be accrued in advance of the maintenance taking place. The Airline Guide provides additional information on application of the three acceptable methods.

Audit and Accounting Guide for Airlines

The cost of line maintenance and other routine repairs, whether performed by the airline or outsourced to a third-party provider, is expensed as incurred. However, there are three acceptable methods of accounting for planned major maintenance activities performed under established programs for regulatory compliance related to different fleet types and for engines, airframes, or major components of the same aircraft type. **IAS 16** states that air carriers shall adopt an accounting method that recognizes overhaul expenses in the appropriate period. This may result in different methods for different aircraft, as well as different methods of airframe overhauls and engine overhauls.

Expense as incurred method. Under this method, all maintenance costs are expensed in the period incurred because maintenance activities do not represent separately identifiable assets or property units in and of themselves; rather, they serve only to restore assets to their original operating condition.

Deferral method. Under this method, the actual cost of each planned major maintenance activity is capitalized and amortized to expense in a systematic and rational manner over the estimated period until the next planned major maintenance activity.

Built-in overhaul method. Under this method, costs of activities that restore the service potential of airframes and engines are considered a component of the asset. This method cannot be applied to leased aircraft. The cost of airframes and engines (upon which the planned major maintenance activity is performed) is segregated into those costs that are to be depreciated over the expected useful life of the airframes and engines and those that represent the estimated cost of the next planned major maintenance activity. Thus, the estimated cost of the first planned major maintenance activity is separated from the cost of the remainder of the airframes and engines and amortized to the date of the initial planned major maintenance activity. The cost of that first planned major maintenance activity is then capitalized and amortized to the next occurrence of the planned major maintenance activity, at which time the process is repeated.

Experts believes the expense as incurred method is preferable to all other methods of accounting for maintenance activities.

As noted, Expert believes that the expense as incurred method is preferable, although any of the three methods may generally be used. The method used to recognize major maintenance expense is an accounting policy election that should be applied consistently for all similar projects.

The deferral or built-in overhaul methods of accounting for major maintenance cannot be used when the group or composite method of depreciation is used. Under the group or composite method of depreciation, depreciation is applied to a pool of assets based on the average useful life of the assets. The application of the deferral or built-in overhaul method of accounting for major maintenance requires separately accounting for maintenance costs associated with component assets. Once the group or composite method of depreciation is applied, individual assets lose their individual identity and the pool is in effect one component. Therefore, any amounts related to major maintenance would need to be accounted for using the direct expense method.

8.20 Long-term service agreements

(1) Payments under a long-term service agreement (LTSA) that are made on a recurring basis and maintenance is performed at scheduled dates in accordance with an agreed-upon milestone schedule shall be treated as expense.

Explanation:

Stand-alone long-term service agreement usually involve pass-through of certain specific costs to the owner of the capital project or otherwise share price risk between the parties to the agreement. Conversely, some long-term service agreement has a fixed price for the duration of the contract and may transfer certain risks of providing maintenance services, including cost risk, to the service provider.

The Airline Guide discusses agreements in the airline industry (known as power-by-the-hour (PBTH) contracts). Under PBTH contracts, airlines generally pay the service provider a fixed amount per flight hour in exchange for required maintenance and repairs under the predefined maintenance program. Although the type of contract is specific to the airline industry, the agreements, and the related issues, can be similar to those encountered by companies in other industries. Therefore, in the absence of authoritative guidance, the framework set forth in the Airline Guide can be helpful in evaluating the appropriate accounting for these and similar arrangements in other industries.

(2) Transfer of risk criteria

Criterion	Guidance

True-ups	The service provider absorbing substantially all of the variability of the cost of maintenance may transfer risk to the service provider. A contract that provides for true-up payments to cover actual costs incurred by the service provider would not result in risk transfer.
Contract adjustment provisions	Contracts with adjustments for a change in scope may transfer risk if they are not merely true-up adjustments for the service provider's actual costs. Annual or periodic inflation adjustments are also permitted, as well as increases tied to certain performance criteria, if adjustments tied to performance are capped or otherwise limited.
Termination provisions	Buy-out provisions that provide for cost recovery on termination would not transfer risk. Termination provisions need to be substantive enough to prevent either party from exiting at their discretion or risk is not transferred.

Explanation:
If the SOEs and ABs concludes that risk is transferred to the service provider, the maintenance costs should be accounted for in accordance with the terms of the agreement, rather than based on the organization's normal policy for maintenance. In developing an expense recognition policy for this type of contract, there is a presumption that expense should be recognized on a level rate based on usage; however, this presumption may be overcome if there is evidence that the level of service effort varies over time and that changes in expense are reflective of changes in service. Changes in contractual rates based on an index, such as Consumer Price Index, or rates that cannot be reliably determined at the start of the contract would not be leveled, except to the extent there is a specified minimum increase.

We believe the PBTH model discussed in the Airline Guide is reflective of the underlying economics of a fixed-price maintenance agreement and that it is appropriate for companies, absent other applicable authoritative literature, to apply it in evaluating and accounting for fixed price long-term service agreement.

(3) The cost incurred under any LTSA including refurbishment or replacement of capital parts, as well as routine maintenance activities, that material in amount and increase the economic life of PPE shall be capitalized.

Example:
PPE Corp has a contract with a maintenance provider to perform major maintenance inspections after certain hour intervals on a dual-armed robot used in PPE Corp's production facility. The contract requires that PPE Corp purchase a portfolio of capital spares to be kept "on the shelf" in storage during the period of the contract for use during major maintenance. The capital spare parts are paid for by PPE Corp at the start of the contract.

The capital spares may not be resold or used for any purpose other than major maintenance *activities on PPE Corp's robot. PPE Corp will have title to the parts when purchased; however, title to any remaining capital spares in storage when the maintenance contract expires will transfer to the maintenance provider.*

How should PPE Corp account for the spare parts?

Analysis

In this example, the contract is a fixed-price long-term service agreement that transfers cost risk to the maintenance provider. The initial purchase will provide PPE Corp with capital spares on hand for use in the major maintenance activities; however, PPE Corp is not entitled to retain the capital spares at the expiration of the contract. As such, there is a presumption that expense should be recognized on a level rate based on usage over the term of the contract, as the services provided (and related effort level) do not change over time. The payment for the capital spares represents an additional service payment and should be amortized over the term of the contract.

8.21 Capitalization Rules for Insurance

(1) All insurance cost borne by the purchaser before and/or during installation and/or construction before ready for the use of PPE shall be capitalized.

Explanation:

- *Insurance cost during import through LC under FOB shall be a part of the PPE.*
- *Insurance cost whether it is for one year or more during the construction shall also be capitalized.*
- *After the PPE is ready for use, the insurance contract that is for one year or less shall be treated as expense.*

(2) The process of capitalizing insurance costs under Para (1) of this Manual, shall be recorded to the balance sheet as an asset rather than recording them as an immediate expense on the income statement.

(3) After installation or ready for use of the PPE, the Insurance cost shall also be capitalized, that provide benefits extending beyond the current fiscal year. For instance, if a company purchases a multi-year insurance policy, the cost of this policy can be capitalized and amortized over its useful life.

Example:
A three-year insurance policy would be amortized over three years, ensuring that the expense is matched with the periods benefiting from the coverage. This matching principle is a fundamental aspect of accrual accounting, promoting a more accurate representation of financial performance.

(4) The primary considerations in capitalizing insurance cost is determining the appropriate period over which to amortize the expense. This period should align with the duration of the insurance coverage.

(5) Capitalization of insurance cost depends on its materiality. If the insurance expense is relatively small and does not significantly impact on the financial statements, it may be more practical to expense it immediately.

(6) For Capitalizing or Expensing out Insurance cost the SOE or AB or the Holder of PPE shall follow the below justification:

(a) the choice between capitalizing or expensing insurance costs is not merely a technical accounting decision;
(b) it reflects broader strategic considerations that can shape an entity's financial narrative;
(c) when a SOEs and ABs opts to capitalize insurance costs, it essentially spreads the expense over multiple periods, aligning the cost with the benefits derived from the insurance coverage;
(d) this approach explained in (a), (b) and (c) will create smooth out earnings, reducing volatility in the income statement and providing a more stable financial outlook. Applying this method will make a clearer picture of ongoing financial commitments and resource allocation for long-term projects or assets, such as those in the construction or manufacturing sectors;
(e) expensing insurance costs immediately can offer a different set of advantages. This method provides a more straightforward and transparent view of a company's financial performance in the short term; and
(f) by recording the entire insurance cost as an expense in the period it is incurred, entities can avoid the complexities of amortization and the potential for misalignment between expense recognition and actual cash outflows. This can be particularly beneficial for smaller businesses or those with less complex financial structures, where simplicity and clarity are paramount.

(7) The decision that may made under Para (6) of this Manual, has implications for tax planning. Expensing insurance costs can lead to immediate tax deductions, potentially reducing taxable income in the current period. This can be advantageous for companies looking to manage their tax liabilities more aggressively. Conversely, capitalizing insurance costs defers these deductions, which might be beneficial in periods of higher profitability when tax rates could be more burdensome. Thus, the choice between capitalizing and expensing can be influenced by a company's current and projected tax positions.

Notes:
Navigating the accounting standards for insurance capitalization requires a nuanced understanding of both national and international guidelines. The International Financial Reporting Standards (IFRS) provide frameworks that guide how companies should treat insurance costs. Under FASB's Generally Accepted Accounting Principles (GAAP), insurance costs that provide future economic benefits can be capitalized. This aligns with the principle of matching expenses with the periods in which they generate revenue, ensuring a more accurate depiction of financial performance.

IFRS, on the other hand, offers a slightly different perspective. According to IFRS, insurance costs can be capitalized if they meet the criteria of an intangible asset, which includes the expectation of future economic benefits and the ability to measure the cost *reliably. This approach emphasizes the importance of recognizing the value that insurance coverage brings to a company's operations over time. Both FASB and IFRS stress the need for consistency in applying these principles, which helps maintain comparability across financial statements.*

8.22 Other costs

Other costs related to the PPE, that has multiple year impact, shall be considered for capitalization.

Example:
Long-term License fees i.e. two-year fitness for motor car.

8.23 Judgement required for capitalization of cost related to PPE

For Certain type of cost related to PPE including directly attributable costs that are incurred for the construction or acquisition of the PPE, may require application of judgment for capitalization:

Provided that, the judgment applying for civilization of cost related to PPE shall not contradict with the provision of this Manual.

8.24 Fixed assets treatment for a closed business

When a business closes, its fixed assets must be properly accounted for in accordance with accounting standards and legal requirements. Here's a comprehensive guide to the treatment of fixed assets for a closed business:

i. **Asset Classification and Valuation**
   - **Physical Inventory:** Conduct a complete physical count of all fixed assets.
   - **Valuation:** Determine the current fair market value of each asset.
   - **Categorization:** Group assets by type (e.g., machinery, vehicles, furniture).

ii. **Accounting Entries**
   - **Cease Depreciation:** Stop recording depreciation from the closure date.
   - **Write-Down:** If assets are impaired, recognize the loss:
     Dr. Impairment Loss (Income Statement)
     Cr. Accumulated Depreciation (Balance Sheet)
     Cr. Fixed Asset (Balance Sheet)

8.25 Pre-production costs

(1) If the PPE is ready for use, but due to some reason, the PPE is not in use, the direct cost associated with the PPE, shall be capitalized:

Provided that, in this case all administrative cost, supervision cost and other small cost shall be treated as expense.

Explanation:
In some industries, various pre-production costs are incurred related to the design and development for molds, dies, and other tools that will be used in producing parts under a long-term supply arrangement. This is common in manufacturing industries in which specific molds or tools are required to produce parts that are specific to a customer's needs. Specific guidance exists in ***IAS 16*** *regarding the accounting for pre-production costs related to long-term supply arrangements.*

Design and development costs for products to be sold under long-term supply arrangements shall be expensed as incurred. Design and development costs for molds, dies, and other tools that a supplier will own and that will be used in producing the products under a long-term supply arrangement shall be capitalized as part of the molds, dies, and other tools (subject to an impairment assessment under the Impairment or Disposal of PPE) unless the design and development is for molds, dies, and other tools involving new technology, in which case, the costs shall be expensed.

(2) If any contractual guarantee under a legally enforceable agreement for reimbursement exists for design and development, based on the provision of this Manual, those costs shall be recognized as an asset as incurred. In order to capitalize pre-production design and development costs, the SoE and ABs generally shall consider whether a long-term supply agreement exists, whether a contractual guarantee of reimbursement for pre-production product design and development costs exists, and whether the amount of reimbursement can be objectively measured and verified.

8.26 Spare parts

(1) SoEs and ABS often maintain spare parts for machinery to prevent shutdowns on the manufacturing line in the event of equipment failure, which could be time consuming and costly. Cost of spare parts, grouped into following broad categories can be treated as either capitalized or expensed:

(a) Cost of rotatable spare parts:

The cost of rotatable spare parts typically is significant in value that can be repaired and reused such that they typically have an expected useful life, shall be capitalized and classified as PPE.

Example:
The high valued spare parts used for the aircraft (i.e. spare engines, APU etc.) they support is an example of rotatable spare parts.

(b) Cost of repairable spare parts:

The cost of spare parts that are repairable and reusable but with negligible extension of economic life and the values generally less than the rotatable spare parts, shall be treated as expense:

Provided that, if the cost of repairable spare parts is significantly high and material, then the cost may be capitalized.

(c) Cost of expendable spare parts:

The cost of spare parts that cannot be economically repaired, reconditioned, or reused after removal from the PPE shall be treated as expense.

(d) Miscellaneous materials and supplies support:

According to the maintenance program of the PPE holder, miscellaneous materials and supplies may be either classified with expendable parts in current assets or are expensed applying prudent judgment of the owner.

(2) The accounting treatment for various spare parts category:

Spare Parts Category	Accounting Treatment
Rotatable parts typically are significant in value and can be repaired and reused such that they typically have an expected useful life approximately equal to the aircraft they support.	Rotatable parts are capitalized and classified along with flight equipment as fixed assets. Rotatable parts are normally depreciated over their useful lives or the remaining service lives of the related equipment. The cost of repairing rotatable is charged to expense as it is incurred.
Repairable parts are repairable and reusable but with economic useful lives generally less than the aircraft they support and values less than most rotatable parts.	The Accounting Standards Executive Committee believes that repairable parts, along with certain life-limited rotatable parts, can be classified as either expendable in current assets or as rotatable in fixed assets. Repairable parts are normally depreciated over the lesser of their useful lives or the remaining service lives of the related equipment. The cost of repairing repairable parts is charged to expense as it is incurred.
Expendable parts cannot be economically repaired, reconditioned, or reused after removal from the aircraft.	Expendable parts are recorded as a current asset and are charged to expense as they are used or consumed in operations (that is, placed on an aircraft). Expendable parts are valued at cost, less an allowance for obsolescence.
Miscellaneous materials and supplies support flight or ground equipment.	Miscellaneous materials and supplies are either classified with expendable parts in current assets or are expensed upon purchase. Classification of specific parts ordinarily depends on the carrier's maintenance program.

Explanation:

Operationally, when a rotatable part is installed on an aircraft, the old part is taken off and replaced with a similar part from the pool of rotatable parts. The removed unserviceable rotatable part is repaired and then placed back in the spare parts pool for use on another aircraft after being made serviceable. The cost to repair the part is expensed as incurred. The aircraft and the related rotatable parts continue to be depreciated over their estimated useful life. Until a rotatable part is scrapped, it retains its functionality and just moves among various locations and aircrafts.

According to the Airline Guide, spare parts that have significant value, such as spare engines, should generally be capitalized and depreciated over their useful lives or the remaining service lives of the related equipment. Alternatively, some companies consider spare parts as a current asset (e.g., inventory) that are not depreciated, but instead expensed when they are placed in service (similar to maintenance expense). Companies should carefully consider the relevant facts and circumstances associated with their spare parts to determine whether they should be classified as Fixed Assets asset or inventory. The policy should be consistently applied.

8.27 Liquidated damages (capital projects)

(1) In the event that construction is not completed by an agreed upon date, or if the asset does not meet certain performance or other requirements outlined in the contract or agreement, certain construction agreements provide for the payment of compensation by the contractor to the owner of any PPE under construction, the money received from the contractor by the PPE holder or the owner shall be treated as liquidated damage.

(2) Liquidated damages are negotiated to represent compensation for a reasonable estimate of the owner's costs associated with a delay or less than expected performance and are usually specified in advance to eliminate the need for subsequent negotiation of actual costs incurred.

(4) Any payments received by the owner of PPE from the contractor under para (1) and (2) of this Manual and/or under any contract between the owner of PPE and the contractor, shall be presumed to be a reduction of the cost of the PPE being constructed.

(5) It is generally not appropriate for the owner of an asset to immediately recognize income for liquidated damages received from the contractor. To the extent liquidated damages are reimbursements of direct and incremental costs incurred by a owner as a result of the contractor’s breach, and provided that the costs incurred were not capitalized by the owner, it may in certain circumstances be acceptable to reflect such amounts in the income statement.

8.28 Government grant and incentives (capital projects)

(1) Many SoEs and ABs have established programs that encourage capital investment through financial assistance of Government, and this support can take a variety of forms. Among various form of financial support, in case of support or grants from the national budget associated with projects or PPE, shall account for as income in financial

statements of SoEs or ABs.

(2) Any PPE accrued under para 8.28(1) with the Government support may need additional cost incurred by the SoE or AB. This additional cost borne by the SoE or AB for the same PPE shall also be capitalized.

Example:
Government may allocate cash as grants from the national budget for an SoE or AB to build a new manufacturing facility. This grant shall be treated as income for the entity and the asset accrued from this support shall be capitalized. If any amount is spent from the SoE or Ab to construct the new manufacturing facility, the cost of that additional amount spent from the SoE or AB shall also be capitalized.

(3) If the Government transfers any PPE as grants to SoE or AB, which is owned and controlled by the Government itself or by any other entity, the cost value or the written down value or the transfer value of the transferred PPE shall be capitalized.

Example:
The **Ministry of Energy** transfers **50 solar power generators** (PPE) to **National Power Co. (SOE)**. The generators were previously used by a government research facility. The SOE must record the assets at **one of the following values**:

- **Cost Value** (Original purchase price)
- **Written Down Value (WDV)** (Cost – Accumulated Depreciation)
- **Transfer Value** (Fair market value at transfer date)

Dr. PPE – Solar Generators
Cr. Government Grant Income

Moreover, no "Free Asset" Concept, even if transferred at Taka 0, the SOE must record fair value and Depreciation Starts Immediately based on the SOE's useful life assessment.

(4) The SoE or AB shall not recognize any PPE under Government grant in its books of account before the compliance or the reasonable assurance of compliance of the terms and conditions of the grant. It is mentionable that, receipt of a grant or transfer of any PPE as grant, is not conclusive evidence of compliance fulfilled or will be fulfilled of conditions attaching to the grant.

Explanation:
Specific facts and circumstances of each grant arrangement should be considered when determining whether it is probable that the SOEs and ABs will comply with the conditions of the grant and that the grant will be received. Some questions to consider in determining when a grant should be recognized include:

- ***Conditions of the grant***
  Have all grant conditions been met? Is there a process in place to comply with ongoing requirements and is continued compliance probable?

- ***Compliance audit***

If applicable, has an external audit been completed that supports the amount of the grant and compliance with grant conditions?

- ***Government oversight***
  Are amounts received subject to audit? Are amounts received subject to adjustment after funds have been disbursed?

(5) Depending on the type of grants, SoEs or ABs may be subject to audit and other types of review and scrutiny by the disbursing authority at various points in the process. Timing of recognition of these awards will be based on individual facts and circumstances and will depend on the SoEs or ABs individual assessment of compliance with the requirements of the government grant.

(6) Subsequent recording on Government grants is required for the PPE or projects over the period, as depreciation is transacted each year. The amount of grants which is recorded initially as deferred grant with a contra entry as PPE, shall be amortized on deferred credit basis.

Example 1: At the time of initial recognition of Government grants related to PPE

PPE-Dr
Deferred Grant-Cr

Subsequent recording can be under either Cost model or revaluation model
- *Written Down Value if the government mandates cost-based transfer.*
- *Fair Market Value if the assets are transferred at market price.*

The SOE cannot recognize the asset higher than the government's original cost.

Explanation:

It may be difficult to match the grant and related expense when the grant's terms do not specify the expenditure to which it relates. Project grants may be related, for example, to the project's capital expenditure costs and the number of jobs created or safeguarded. In some circumstances, the expenditures that makes the SOEs and ABs eligible for a grant may be all of the costs incurred that are directly attributable to the project (i.e., all of the capital expenditures associated with the fixed asset). The terms of the grant should be carefully examined to establish whether the intent is to defray costs or to establish performance conditions (e.g., local job retention). If performance conditions exist, the SOEs and ABs should assess when those conditions have been satisfied before recognizing any income.

If grants are received based solely on a capital expenditure, they should be credited to income over the expected useful life of the asset for which the grant was received. This can be accomplished by either:

- *reducing the cost of the asset by the amount of the grant, or*
- *treating the amount of the grant as a deferred credit.*

Grants recorded as a reduction to the cost of the asset would be recognized over the useful life of a depreciable asset as reduced depreciation expense. Grants recorded as a deferred credit should be amortized over the useful life of the related asset on the same basis being used to depreciate the asset. Amortization of the deferred credit could be classified in the income statement as a component of operating expenses (e.g., depreciation) or other income.

Example 2:

Manufacturing Corp receives a grant from the Government in exchange for constructing a manufacturing facility. The grant is intended to help promote local production and create local jobs. There are no specific terms regarding employment of residents within the locality and the only term of the grant is that Manufacturing Corp completes construction of the manufacturing facility.

How should Manufacturing Corp account for the government grant?

Analysis:
The grant obtained from the Government is linked to the construction of the manufacturing facility. Since there are no specific terms within the grant regarding employment, Manufacturing Corp should record the government grant as either a reduction of the fixed asset balance or a deferred credit, which would then be amortized over the useful life of the facility.

8.29 Capital Work in Progress

(1) Capital Work in Progress ("CWIP") shall refer to asset that is not substantially completed, not in use and is still under construction. Work in Progress is an accounting valuation of assets which track and record construction expenses until such time as the asset is substantially completed and placed into use.

Examples: -

On June 1, 2022 SOEs and ABs begin to construct a new building. On August 31, 2022, a total of BDT 3,000 has been spent on construction. On November 30, 2022, the building has been completed and total expenses incurred are BDT 10,000. The accounting entries for the expenses incurred:

Accounts Title	Chart of Accounts	Debit	Credit
Capital work-in-progress	 1234	3,000	
Cash			3,000

The *accounting* entries upon the completion of construction of the new building:

Accounts Title	Chart of Accounts	Debit	Credit
Capital work-in-progress	 1234	7,000	
Cash			7,000

Property, Plant & Equipment/ Building		10,000	
Work in Progress			10,000

9. Receiving Property, Plant and Equipment

(1) The PPE, upon delivery of the PPE by the suppliers, shall be received by the administration department of the SoEs or ABs or any other personnel as authorized by the head of the SoEs or ABs.

(2) After receiving, the PPE shall be recorded in the fixed asset register mentioned in Annexure 22 of this Manual, by the finance or accounts department of the SoEs or ABs with coordination with administration department.

(3) Process Flow: Receiving PPE

Serial	Description	Performed by
1	**Receive assets and Acknowledge receipt of assets.** ▪ "Received" on the Delivery Order with the current date and sign off to acknowledge that the assets have been received.	Administration Department And/or Authorized User Department
2	**Verify the item descriptions and quantity stated on the Delivery Order against purchase order or work order** ▪ Verify the item description, quantity and quality stated on the Delivery Order to ensure that the information matches to the PO. ▪ In the event that wrong assets are delivered, inform to Head of Supply Chain Management and return it to the supplier on instruction of Head of SCM and ensure that these are undelivered in terms of issued PO.	Administration Department And/or Authorized User Department

Serial	Description	Performed by
3	**Prepare a Goods Received Note (GRN) and Assets Onboarding Form, ensuring prompt submission to the respective Department.** ▪ Upon successful completion of the quality assurance check, a Goods Received Note (GRN) shall be prepared to document the receipt of assets. The GRN will indicate that the assets are deemed ready for use or are being sent to the designated warehouse for storage. ▪ Assets Onboarding Form shall be prepared in order to document and track the process of bringing new assets into the organization. ▪ The Goods Received Note (GRN) and Assets Onboarding Form copy is to be promptly forwarded to the Finance and Admin Department within 1 (one) working days.	Procuring Entity and/or Any authorized Personnel with coordination with Administration Department
4	**Submission of invoice and related documents** ▪ Assets which are qualified in verification, copies of invoice and related documents of purchase submitted to Finance department. ▪ One copy of the above-mentioned documents retains by Supply Chain Management Department.	Procuring Entity and/or Any authorized Personnel with coordination with Administration Department
5	**Update Fixed Assets register on the basis of receive documents.** ▪ The Fixed Assets register shall be updated on the date of receipt of the GRN or upon issuance of a letter from the Store/User Department or the respective department confirming that the asset is ready to use.	Finance/Accounts Department
6	**Prepare Voucher and Submit to Assigned Personnel Finance** Prepare Debit/ Journal Voucher and Submit to assigned personnel of Finance at the date of received of documents from SCM Department.	Finance/Accounts Department
7	**Review the Vouchers and forward to Concern, Finance** Review the Debit/ Journal Vouchers and approve it to record the transaction to the system.	Finance/Accounts Department
8	**Record the transaction to the Accounting System** ▪ Record the transaction to the accounting system on the basis of supporting documents and approve the same as per approval matrix. ▪ Archive the PR, PO, Delivery Order, Invoice and other supporting documents.	Finance/Accounts Department

Serial	Description	Performed by
9	**Supporting audit and external parties for Fixed assets data** ▪ In case of external audit, verification and requisition of supporting documentation related with fixed assets shall be provided by Finance and Admin as appropriate	1. Physical verification-Administration & Finance/Accounts Department 2. Documentation-Finance/Accounts Department

Examples:
On June 1, 2022, State-Owned Enterprises (SOEs) And Autonomous Bodies (ABs) acquired and received a new motor vehicle worth Tk. 50,000 and paid Tk.30,000. The accounting entries for the acquisition.

Account Title	*Chart of Accounts*	*Debit*	*Credit*
Property, Plant & Equipment		*50,000*	
Bank/ Cash			*30,000*
Account Payable			*20,000*

10. Depreciation Charges for Property, Plant and Equipment

(1) Depreciation shall be charged against the PPE except land over the expected useful life of the asset to reflect the usage of the asset over time.

(2) In case of land, re-valuation shall be carried out according to provision of this Manual.

(3) Depreciation calculation under para 10 (1) of this Manual, shall be calculated on straight line basis in profit or loss account over the estimated useful lives of each component:

Provided that, if any SoE or AB wants to follow the declined and/or any other method for the calculation of depreciation, it can only be done with the strong justification and prior approval of the board or such authority and shall be disclosed the fact, justification and detailed note in financial statements.

(4) In the case of addition of PPE, depreciation shall be charged from the following month of recognition and no depreciation will be charged in the month of disposal.

(5) All tangible fixed assets, other than CWIP must be depreciated on straight-line basis over their useful lives (recognized cost divided by useful life) as follows:

Capital Asset Type	Depreciated? (Yes/No)	Depreciation charging Frequency	Depreciation rate (%)/Year
1. Land	No	-	-
2. Land Improvement	Yes	Monthly	5%-10%
3. Buildings	Yes	Monthly	2% -5%
4. Plant and Machinery (Including heavy equipment)	Yes	Monthly	10%
5. Furniture and fixture	Yes	Monthly	10% -20%
6. Decoration and renovation	Yes	Monthly	10%
7. Office equipment	Yes	Monthly	10%
8. Electric equipment	Yes	Monthly	10%
9. Computer and computer equipment	Yes	Monthly	10% -20%
10. Motor vehicle	Yes	Monthly	10%
11. Network and IT Equipment / Technology Assets	Yes	Monthly	10%-20%
12. Tools	Yes	Monthly	10%
13. Leasehold Improvements	Yes	Monthly	10%
14. Infrastructure	Yes	Monthly	10%
15. Aircraft and other inter-alia assets	Yes	Monthly	As per certificate provided by manufacturing company
16. VESSELS, shipping machinery and equipment's	Yes	Monthly	As per certificate provided by manufacturing company
17. Other Tangible Assets (Artwork, Safety Equipment etc.)	Yes	Monthly	10%
18. Intangible Assets	Yes	Monthly	Period of expected economic benefit

(6) However, for those specialized assets, the SOEs and ABs should use Three-Level Hierarchy:
Level 1: Generic assets (e.g., furniture) - use standard rates as noted above
Level 2: Semi-specialized (e.g., lab equipment) - industry benchmarks
Level 3: Fully customized assets - engineer-certified lives for examples, Airplane, Ships etc.

(7) Calculations for depreciation shall be done manually on a Depreciation Schedule as at month end based on the depreciation percentage as mentioned in the table of clause (5) above.

(8) Leased assets shall be depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that SoEs and ABs will obtain ownership at the end of the lease term under the provision of this Manual.

(9) Where any PPE is fully depreciated but still in usable condition to SoEs and ABs, the PPE shall be carried forward at Taka 1.00 for tracing the asset.

(10) Depreciation methods, useful lives and residual value shall be reviewed at each reporting date and shall be adjusted if appropriate.

Explanation:
If business policy provides for disposal of an asset after a specified time, the expected useful life may be shorter than its economic life. For example, a laptop has an economic life of 3 years but is to be sold after 2 years, as staff should always use the most up-to-date technology. Then depreciation should be charged over 2 years. Depreciation of fixed asset will be calculated and charged on monthly basis as per depreciation policy mentioned above.

(11) Process Flow: Depreciation Charges on PPE

Serial	Description	Performed by
1	Summarize a list if the assets are broken, stolen or lost, damaged or any issues aroused in case of assets wear and tears so that Finance can consider this impact before running monthly depreciation charge in profit and loss account. Also discuss and take opinion from technical experts/users and determine the remaining useful life of individual assets in the group of assets so that impairment impact also can be taken in financial statements.	Admin department
2	**Review Fixed Asset Register and identify depreciable assets:** ▪ Review Fixed Asset Register and identify depreciable assets which are depreciable based on the remaining useful life and the net book value.	Accounts and Finance department
3	**Calculate depreciation charges** ▪ Calculate depreciation charges based on the depreciation rate and remaining useful life. ▪ Depreciation will be charged from the following month of recognition. ▪ Depreciation will not be charged at the month of disposal or sale of such asset. ▪ Prepare depreciation Schedule of assets to be depreciated within 5 working days of the beginning of the following month. ▪ Prepare Journal Voucher and attach Depreciation Schedule to submit for approval.	
4	**Review and approve depreciation calculation** ▪ Review the Depreciation Schedule to ensure accuracy and approve the Journal Voucher at the date of receives the Depreciation schedule. ▪ Forward the approved documents to the concern of Finance to record the Accounting System.	Accounts and Finance department
5	**Record the transaction to the Accounting System** ▪ Record the transaction to the accounting System after getting the approval of the depreciation schedule. ▪ Archive the Depreciation Schedule and Journal Voucher for future reference.	Accounts and Finance department
6	**Regular maintenance and update of Fixed asset register** ▪ Information or acquisition of fixed assets shall be provided in the prescribed form by Admin or User Department as appropriate	Admin or User Department Accounts and Finance department

Serial	Description	Performed by
	▪ Update of Fixed asset register in Fixed Assets module or ERP/Accounting Software shall be done by Accounts and Finance department	

Examples:
On June 30, 2022 STATE-OWNED ENTERPRISES (SOES) AND AUTONOMOUS BODIES (ABS) calculates the depreciation charge for a motor vehicle with the purchase cost of Tk. 50,000 at depreciation rate of 20%. Accounting entries for the depreciation charges:

Account Title	***Chart of Accounts***	***Debit***	***Credit***
Depreciation Expense		*10,000*	
Accumulated Depreciation			*10,000*

Note:
Impairment of PPE is not normally done by SoEs and ABs. However, SoEs or ABs operates in an unstable industry situation it recognizes that impairment might have to be done depending in special scenarios. The process of impairment will be same as the write-off which is discussed under above.

(12) Depreciation Fund account

If Earnings Before Interest Taxes (EBIT) is negative or zero--- creation of depreciation fund account may be allowed depending on the cash flow subject to fund management rules under this Manual.

If Earnings Before Interest Taxes, Depreciation and amortization (EBITDA) is negative or zero, no depreciation fund accounting will be allowed to open.

11. Intangible assets

(1) IAS 38 definition for an intangible asset - Identifiable non-monetary asset without physical substance. This line shows the net book value of product rights, patents, trademarks, software, goodwill and any other intangibles.

(2) All type intangible asset shall be disclosed in the financial statements under fixed asset caption presenting at the book value which represents historical cost (plus any revaluation or subsequent capital expenditure) less accumulated amortization and impairment losses.

Example:

- **Patents:** Provide long-term value to the owner without having a physical substance
- **Trademarks:** Can be very valuable to a company, especially if they are developed internally

- **Customer lists:** Are non-monetary assets that can be identified but do not have a physical substance
- **Licensing:** Can be depreciated because the licensee decides how long the business can use the license
- **Brand recognition:** An indefinite asset that exists as long as the company does
- **Goodwill:** A non-quantifiable asset that cannot be sold, exchanged, licensed, rented, or transferred separately from the company
- **Intellectual property:** Can be protected with patents, trademarks, copyrights, and licensing agreements
- **Software and data:** Digital assets that are intangible

(3) Such intangible asset disclosed under para 11 (1) of this Manual, shall be amortized on straight-line basis over their useful lives and will be calculated and charged on monthly basis.

Example:
Intangible asset shall be amortized on straight-line basis over their useful lives or 10 years (i.e. @ 10% p.a.; recognized cost divided by useful life) whichever is appropriate.

(4) Only intangible assets acquired from 3rd parties are capitalized, except for certain approved production process and software project development costs. Expenditure incurred on internal projects to generate other intangible assets, for example, development of new chemical or biological products based on active ingredients that have not yet obtained regulatory approval is expensed as incurred.

(5) Goodwill comprises the excess of the fair value of an acquired business over the fair value of the identifiable assets and liabilities acquired at the date of purchase. Goodwill occurs only where SoEs and ABs has acquired a business as defined by IFRS 3 - an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing products or services to customers, generating investment income or generating other income from its ordinary activities. Goodwill does not occur where SoEs and ABs purchases an individual asset such as a product right, technology or license without the other associated inputs, associated processes or outputs.

(6) Intangible assets are defined as identifiable non-monetary assets that cannot be seen, touched or physically measured, which are created through time and/or effort and that are identifiable as a separate asset.

(7) Intangible assets with a finite life, excluding purchased goodwill, are valued at cost less accumulated amortization (and any impairment losses). Purchased goodwill and Intangible assets with an indefinite life are not amortized, and are valued at cost less any impairment losses. SoEs and ABs considers that all its intangible assets have a finite life. An asset is only recognized for internally generated intangibles if the amounts are material and all the criteria of IAS 38 are met.

11.1 Goodwill

Purchased Goodwill is not amortized but is subject to a mandatory annual impairment test. Internally generated goodwill should not be capitalized. Goodwill is discussed above in Para 10 and in latter para 11.2.

11.2 Other intangible assets

a. General remarks

(1) Intangible assets must be capitalized if the conditions set out hereunder are met. Each item must be monitored separately and the accounting department has to assess at least annually the assumptions made for the capitalization and the amortization. Intangible assets other than goodwill should be amortized on a straight-line basis over the following periods:

Type of asset	**Amortization period in years**
Product rights and related supply agreements	period of expected economic benefit
Trademarks	shorter of economic or legal life
Computer software	3 to 5
Favorable product supply agreements	Period of the agreement, unless earlier termination is allowed under the agreement and is considered probable
Favorable lease agreements	Period of the lease, unless earlier termination is allowed under the agreement and is considered probable
Other intangibles	period of expected economic benefit

(2) The creation of internally produced intangible assets should be divided into a **research** phase and a **development** phase. Expenditure on research, or incurred during the research phase of an internal project, should not be capitalized. It should be recognized as an expense when it is incurred. If it is not possible to divide the expenditure into research and a development phase, all expenditure should be expensed as incurred.

(3) Examples of research phase activities are: activities aimed at obtaining new knowledge; the search for, evaluation and final selection of, applications of that knowledge; the search for alternatives for materials, devices, products, processes, systems or services; and the formulation, design, evaluation and final selection of possible alternatives for new or improved materials, devices, products, processes, systems or services.

(4) The main examples of a development phase activity are: the design, construction and testing of pre-production or pre-use prototypes and models and the design, construction and testing of a chosen alternative for new or improved materials, devices, products, processes, systems or services. For example, as an alternative to constructing a pilot plant to scale up a new production process that SoEs and ABs has patented, SoEs and ABs may agree with a third-party manufacturer to bear the costs of upgrading their production plant to enable it to perform that activity. If this agreement creates an embedded lease in accordance with IFRS 16, Part B of this manual should be applied. Otherwise, the costs should be capitalized as an intangible asset.

(5) Internally generated goodwill, brands, customer lists and items similar in substance should not be capitalized as intangible assets.

b. **Purchased product rights and trademarks**

(1) Purchased product rights and trademarks must be capitalized if the acquired products are already saleable or expected to become saleable in the future. Any deferred payments on initial recording of the deal have to be estimated and accrued. In such a case, the full amount should be recorded and amortized from the beginning.

(2) Up-front payments and milestone payments to acquire rights to products or technology that is still under development are made on the basis of a contract, and should be separated for accounting purposes from payments for services that are directly linked with the development of a given product or product range. Because payments to acquire such rights arise from arm's length transaction, they are deemed by IFRS to embody probable economic benefits and consequently must be capitalized:

(3) Amortization of this capitalized development expenditure should begin only when the product is approved for sale or use.

(4) Payments for services related to the acquisition of development products or technologies should be expensed as incurred unless they meet the development cost definition and satisfy the criteria set out in para 8.10

(5) Patents and trademarks are amortized on a straight-line basis over their estimated economic or legal life, whichever is shorter.

(6) Useful lives assigned to acquired product or technology rights are based on the period over which SoEs and ABs expects economic benefit from the rights. This will depend on the maturity of the product or technology and the estimated economic benefit that such product rights can provide.

(7) For any products, this benefit can continue after expiry of the related patents due to:
   a) The proprietary nature of the registration packages, and the strict regulatory framework in most jurisdictions, which constitute an effective barrier to entry for many generic producers or require them to pay a data compensation fee to SoEs and ABs in exchange for the right to access SoEs and ABs's registration package.
   b) In house manufacturing know-how, which may mean that the efficiency of in-house manufacturing plants is greater than that of plants operated by generic manufacturers, and
   c) The value of a recognized brand name.

(8) The amortization period for license rights may be longer than the term of the license agreement if the agreement binds the patent owner to confidentiality for a further period after the agreement ends, but should not exceed the life of the underlying patent.

(9) All intangible assets are reviewed annually for indications of impairment. If any indication of impairment exists, the asset is written down to its recoverable amount.

For capitalized development expenditure, which is not yet being amortized, recoverable amount must be calculated annually, even if there is no indication of impairment. The asset must be written down to recoverable amount.

c. **Supply agreements**

(1) SoEs and ABs enters into long-term contracts for supply of materials to ensure supply availability. Where a supplier is making a significant capital investment to meet SoEs and AB's needs, and the supply contract is exclusive, this normally involves SoEs and ABs funding the capital investment through the price it pays for the materials. These contracts may have minimum guaranteed volumes and prices. They may also contain penalty clauses under which SoEs and ABs agrees to compensate the supplier if SoEs and ABs does not meet its minimum offtake commitment or terminates the contract before its agreed expiry date. Committed future payments normally have to be disclosed in the notes to the financial statements, and to meet this requirement the amounts have to be reported on balance sheet. However, these are memorandum disclosures only, not provisions. Provisions for these future payments would be recorded up front in two situations only:

- where penalties have crystallized, e.g. because SoEs and ABs has not purchased the required volume or has terminated the contract; or
- where the fixed price under the agreement means that the finished product sold by SoEs and ABs will be loss making – in this case, an 'onerous contract' provision would be made for the lower of the expected loss amount or any termination penalties.

(2) In some cases, SoEs and ABs may make an advance lump sum payment to fund the capital investment element. The future unit price payable for the materials would normally be reduced as a result, and may then be lower than the market price for the materials. The advance payment is accounted for as an intangible asset and amortized over the remaining period of the supply agreement.

(3) Any value attributable to other long term supply agreements where SoEs and ABs is purchasing at preferential terms is amortized as part of the cost of goods sold over the period of the supply agreement.

d. **Computer Software**

(1) **Operating software** is capitalized as part of the related computer hardware within property, plant and equipment.

(2) **Application software** is capitalized as an intangible asset if, and only if:

i. The asset meets the definition of an intangible asset: identifiable non-monetary asset without physical substance; controlled by the enterprise as a result of past events, e.g. purchase or self-creation, clearly distinguished from the enterprise's goodwill, and which in principle could be sold to a third party or the rights to use it transferred to a third party.

ii. The cost of the asset can be measured reliably, and.

iii. It is probable that the future economic benefits that are attributable to the asset will flow to the enterprise.

(3) This requirement applies whether the application software is acquired externally or generated internally.

(4) The probability of future economic benefits must be based on reasonable and supportable assumptions about conditions that will exist over the life of the asset.

(5) If application software does not meet these criteria, the expenditure on this item should be recognized as an expense when it is incurred. Once expensed, it cannot be capitalized as part of the cost of an intangible asset at a later date.

(6) All costs of internally developed application software should be charged to expense until technological feasibility, probable future benefits, intent and ability to use (or sell) the software, resources to complete the software, and ability to measure cost are proven. In many cases, feasibility for novel e-business applications will not be proven until the software is actually being used. However, it may be possible to demonstrate that these criteria are met on a project-by-project basis, as follows:
- Technical feasibility: feasibility study for the project.
- Intention and financial resources to complete: approved Capital proposal (if already approved by BOD) and Budget Information Technology (IT) costs by project showing inclusion of the project costs in the Budget.
- Technical resources to complete: project staffing plan.
- Ability to use - capital proposal or project proposal document.
- How the asset will generate economic benefits - covered by the above.
- Ability to measure costs reliably: estimates of time spent by vendor/consultants; contract with vendor/consultants showing agreed fee rates.
- Nature of expense as design, development or testing - as opposed to research or implementation costs which would be expensed: project management scheduling/time plan showing areas being worked on by vendor/consultants during the period for which costs are being accrued.

(7) The following guidance should be applied for determining revenue or capital accounting treatment of IT software projects:

- Costs incurred during the initial, feasibility phase and the final, implementation phase of projects continue to be expensed, as required by IAS 38.

- Projects costing less than taka 5,000 in total also continue to be expensed; this avoids the practical difficulties associated with separating out the costs of many smaller projects into maintenance and enhancement components, in order to avoid capitalizing maintenance expenditure.

(8) R&D IT software costs should be capitalized when the software will be an integral part of, or an essential interface to, the enterprise systems required to sustain the business as a going concern. For example, if the R&D system being developed will produce or transmit essential data to supply chain or commercial systems, the development costs should be capitalized to the extent that they meet the other criteria in this section. Other R&D IT

projects continue to be expensed in line with SoEs and ABs Head office policy to expense all R&D costs as incurred.

(9) Costs of projects managed by the IT function over Taka 5,000 which meet the criteria will need to be analyzed into revenue and capital for accounting purposes. This also applies to projects managed by other functions (other than R&D) with a significant IT component.

(10) IAS 38 criteria for capitalization include the ability to demonstrate the project's economic benefits and technical feasibility. To demonstrate economic benefits, it is not necessary to have a business case with quantified cost savings or incremental revenue directly attributable to the project. General benefits from the project to the business as a whole will justify carrying a software intangible asset. Specially funded projects, such as integration projects, usually involve implementing new ways of working and are less likely to meet the criteria, because the economic benefits will be less certain.

(11) All directly attributable project costs incurred to design and develop software, and test that developed software is functioning properly before going live, should be capitalized, including both third party consultancy and the personnel and travel costs of specific own employees working either full time on the project - either recruited externally specifically for the project or whose previous role has been discontinued - or working at least 75% on the project with previous role back-filled; all costs of any other employees would continue to be charged to function costs. It is not necessary for an employee to meet those criteria during the entire project, but the own employee costs capitalized should be limited to the costs incurred during the period that the employee(s)' involvement in capitalizable project activities continues to meet the above criteria.

(12) Directly attributable incremental costs of installing software, which are necessary in order that the software works in the manner intended, should also be capitalized. This might include own employee costs in certain circumstances but a judgement needs to be taken on whether these are costs "arising directly from bringing the asset to its working condition", or simply "general overhead costs" which would have been incurred anyway, which would not be capitalized.

(13) Costs of projects which expand the global footprint of strategic systems, such as SAP, may well meet the criteria for capitalization. Judgment will have to be exercised on a case-by-case basis as to which local implementation costs expand the footprint (capital) and which costs are repeat implementations of the already existing footprint (expense).

(14) Business process design and development costs, incurred as part of and related to an IT software development project which meets the capitalization criteria, may be capitalized either if they are an integral part of software prototyping activity or if they enhance existing intangible assets which are separate from the software, but will result in enhanced economic outputs from those other assets. Otherwise, business process costs should be expensed.

(15) In projects which enable SoEs and ABs employees to use a third-party software tool or access a third party database, costs of multi-year licenses to use the tool or database and costs of interfaces between SoEs and ABs systems and the tool or database can both be

capitalized. Other costs, including annual licenses to use the tool or database, are expensed because they do not create or enhance a SoEs and ABs asset.

(16) Capitalized software should normally be amortized over the shorter of the useful life of the software and 5 years, starting from the date that the new software is ready for use. In exceptional cases, such as implementation of the most up to date version of major ERP software which would be capable of functioning for many years, longer amortization periods of up to 10 years maximum can be considered.

If new software does not introduce additional functionality nor extend the useful life of a system, but merely optimizes system running efficiency, its costs should be expensed.

Subject to meeting the above criteria, costs of software which is or will be installed by third parties to improve the way data is exchanged between them and SoEs and ABs, may be capitalized if the software is developed and owned by SoEs and ABs.

e. Measurement of intangible assets

(1) Intangible assets are initially measured at cost.

Amounts already expensed in previous periods when the asset recognition criteria had not yet been met, cannot be capitalized later when the criteria are met, even if they relate to a specific asset which has now been capitalized.

(2) Any expenditure made after an asset is first recorded, should be recognized as an expense when it is incurred, unless it enhances the future economic benefits from an existing asset or creates a new, identifiable intangible asset separate from assets already recognized.

The following cost elements must be expensed and not included in the capitalized amount:

- Costs of feasibility studies and project planning.
- Start-up, pre-opening, and pre-operating costs.
- Employee related costs, unless an employee is working substantially full time (more than 75%) on a specific project and has either been recruited specifically for it, or else the activities of his/her previous job have been discontinued or are being performed by another employee.
- Travelling costs.
- Advertising costs.
- Relocation costs.
- Training costs.
- Expenditure representing normal on-going maintenance.
- Third party consultancy costs, if associated with any of the above excluded activities.

(3) Capitalized operating and application software is amortized as part of the costs of the function using the software, or, for licenses, over the license period where this is shorter (straight-line is the default amortization method).

(4) The cost of an asset acquired in an asset swap with a third party is deemed to be the fair value of the asset given up in the swap.

f. **Amortization of Intangible assets**

(1) Each asset should be amortized to reduce its cost to its residual value by the end of its expected useful life. A zero residual value should be used, unless there is evidence SoEs and ABs will and can dispose of the asset for a value materially higher than zero in the normal course of its business, ignoring future decisions on portfolio changes which may, of course, lead to unexpected divestments and shortening of planned life. Cases where the residual value is not initially zero will be rare. Useful life should not exceed the legal or contractual period of SOEs' and ABs' right to use the asset, but may be shorter, as it is defined in terms of how long SoEs and ABs expects to use the asset. SoEs and ABs reporting units should estimate the realistic expected useful lives of assets in order to determine the amortization rate to be applied.

(2) The range of lives currently used for each asset type is:

Type of asset	**Amortization period in years**
Product rights and related supply agreements	period of expected economic benefit
Trademarks	shorter of economic or legal life
Computer software	3 to 5
Favorable product supply agreements	Period of the agreement, unless earlier termination is allowed under the agreement and is considered probable
Proprietary seed germplasm	15 to 20 years
Licensed intellectual property (IP) rights	Shortest of license term: forecast period of SoEs and ABs use of licensed IP: and (for a perpetual license) unexpired period of underlying IP patent
Other intangibles	period of expected economic benefit

(3) Amortization should begin when the asset is ready for use. In the case of acquired in-process research and development (IPR&D), this will be when the IPR&D project has resulted in a marketable product which has gained approval to sell.

(4) The straight-line method of amortization should be used, unless another basis, such as unit of production, better reflects how SoEs and ABs will consume the asset. Amortizing an intangible asset using a pattern based on revenue, profit or discounted cash flows is not appropriate unless this method corresponds most closely to the asset's nature, such as a lump sum payment in exchange for an existing or otherwise payable sales based royalty, or if SoEs' and ABs' use of the asset will end when cumulative revenue from the licensed IP reaches a defined threshold.

(5) A formal review of the useful lives and amortization methods and residual values of **all** amortized assets must be performed **annually**, and documented. A review should be done by every reporting unit in which Intangibles are a significant balance sheet item. The annual central impairment review by the holding entity may also result in changes being proposed to useful lives. Proposed changes must be agreed in advance with Group Accounting and Reporting to ensure lives for similar assets in similar conditions and uses remain consistent and that this Manual is maintained appropriately. Should the useful life change, then a revised amortization schedule should be calculated for the

future, and applied from a date no earlier than the start of the current reporting period. In this context, the first half of the current year is no longer the current period once SoEs and ABs has issued its interim financial statements. Accumulated amortization for periods before the date of the review should not be adjusted retrospectively as if the revised schedule had been in force since the acquisition of the asset, nor may the start of the revised schedule be backdated to a prior reporting period.

(6) An asset which has been permanently withdrawn from use should be immediately impaired down to zero. Special rules apply to assets held for sale.

g. Cross License Agreements

(1) Agreements between SoEs and ABs and other companies sometimes involve reciprocal licenses between the counterparties to the agreement which are royalty free or have a royalty rate different from the market rate.
(2) As for intangible assets acquired in an asset swap with a third party should be valued and recorded at their fair value, and a gain or loss on disposal recorded for the asset given up in the swap. If the cross-license agreement involves a single net payment by one party to the other, all license grants in the agreement need to be fair valued individually to determine their fair value. This should be done based on the approved business case for the transaction. For example, if SoEs and ABs is making a net payment to the third party, the license granted by SoEs and ABs should be valued. The license granted by the third party should be recorded at the value of the cash payment plus the value of the SoEs and ABs grant. The value of the SoEs and ABs grant should be recognized as income or as a liability in accordance with the revenue recognition

h. Disposal of Intangible Assets

(1) The intangible asset register should be reviewed twice a year prior to each external reporting date at reporting unit and Group Financial Reporting level for assets which meet the criteria of derecognition.
(2) An asset should be derecognized by removing its cost and accumulated amortization:
   a. On disposal, or
   b. Where no future economic benefits are expected.

(3) Where economic benefits continue to be obtained from intangible assets beyond their useful economic life, assets with a nil net book value should remain on the balance sheet. An example would be a product right where SoEs and ABs continues to benefit from technical know-how through use in other products after the original product has ceased to be sold.
(4) Gains and losses on disposal (by sale or cessation of use) of an intangible asset can be classified into one of three types, and each type should be reported as follows:
(5) Impairment/disposal due to:
   a. a M&A divestment; or
   b. an approved SoEs and ABs restructuring initiative; or
   c. recoverable amount as estimated in the annual impairment review being below book value should be reported as a restructuring expense in balance sheet, or as a gain or loss on disposal of business in Income Statement.

6 Unplanned disposals - e.g. write offs due to unforeseen legal, regulatory or technical problems which prevent SoEs and ABs using the asset further or deriving further benefits from it - are reported in the same income statement line (OI&E or a function) that was used for the asset's amortization.
7 Non-routine disposals due to planned business decisions e.g. sale of minor product rights to 3rd party, are reported in Income Statement.

i. Impairment of intangible assets

1. Impairment is an expense charged to the income statement when the book value of a non-current asset or assets is no longer supported by future economic benefits, usually due either to an unexpected occurrence or change in circumstances, e.g. site closure, or to adverse changes in the external market. In the latter case, assets are grouped for impairment testing purposes into cash generating units which are generally defined in terms of a assets categories.

2. An assessment should be made shortly before each balance sheet date whether there is any indication that any of the group's intangible assets may be impaired. Reporting units are responsible for carrying out an assessment of the assets which they report; however, any proposed impairment will need to take the group position into account, and an assessment of the group's major assets will also be performed at HQ level.
3. To ensure co-ordination, reporting units should inform the Holding Entity in advance of the year end if they identify that (an) intangible asset(s) of an amount significant to their unit is (are) impaired.

In assessing whether there is any indication that an asset may be impaired, the following indications should be considered:

External sources of information:

a. during the period, an asset's market value has declined significantly more than would be expected as a result of the passage of time or normal use.
b. the technological, market, economic or legal environment in which SoEs and ABs operates, or in the market to which an asset is dedicated, has deteriorated significantly during the period and/or is expected to deteriorate significantly during the future life of the asset.
c. market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect the discount rate used in calculating an asset's value in use and decrease the asset's recoverable amount materially.

Internal sources of information:

a. there is evidence of obsolescence, e.g. a decision has been taken to phase out a product or remove it from the product range.

b. plans to discontinue or restructure the operation to which an asset belongs or to dispose of an asset before the previously expected date. evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse than expected – for example, actual net cash flows derived from the asset have declined significantly compared to budget or prior years.

c. If there is any indication of impairment, either from the annual review or from events occurring during the year, the enterprise should immediately estimate the **recoverable amount** of the asset. Recoverable amount is the higher of an asset's **fair value less costs to sell** and its **value in use**. Value in use is the present value of estimated future **pre-tax** cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life, **excluding financing costs**. When using value in use to estimate recoverable amount, cash flows are for the asset in its current condition. Cash flows (costs and benefits) associated with future restructurings and future capital projects to expand capacity are excluded. However, if expansion projects have begun, the associated cash flows are included and to ensure that the present value of these enhanced cash flows can be validly compared to the CGU's Carrying amount/value, the book value of assets under construction (or, for an acquisition which has been signed, the amount of payments made by SoEs and ABs and recognized as an asset before closing of the acquisition, such as payments into escrow) is included in the CGU's net assets. Costs to sell are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

d. SoEs and ABs assesses whether any indications of impairment exist for product related intangible assets by comparing the most recent five-year plan sales forecasts by product to the forecasts used for the previous impairment review. This review will be performed at HQ level.

e. SoEs and ABs's intangible assets do not normally themselves generate cash flows directly, but do so only together with related property, plant and equipment, and should be grouped with those other assets (a 'cash generating unit') for the purposes of assessing recoverable amount. A cash-generating unit (CGU) is the **smallest identifiable** group of assets that directly generates cash inflows from continuing use. Products which are sold by SoEs and ABs in mixture with one another to a significant extent, or which are so closely related chemically that they can substitute for each other, are grouped together with their related intangible and tangible fixed assets to form a single cash generating unit.

f. The rate used in discounted cash flow calculations to estimate value in use should be based on SoEs and ABs's weighted average cost of capital (WACC), which is calculated by the Group Treasury Funding & Capital Markets manager and can be validated by reading current financial analyst reports about SoEs and ABs.

g. The WACC is post-tax, whereas IAS 36 requires a pre-tax rate to be used: deferred taxes are accounted for separately as required by IAS 12 on the revised temporary differences resulting from the impairment review. The WACC therefore has to be converted into a pre-tax rate which discounts pre-tax cash flows to the same NPV as results from discounting post-tax cash flows by the WACC. A simple gross-up of the WACC using the group effective tax rate may give a sufficiently accurate approximation to the appropriate pre-tax rate. The main exceptions to this are:

h. The cash flows of a particular CGU may be concentrated in a single country or group of countries with a tax rate significantly different from the group weighted average tax rate. In those rare cases, it will be appropriate to consider adding a country risk premium to the discount rate, and to gross up the WACC using a specific tax rate for that CGU.

i. The CGU cash flows may contain a significant amount of cash flows which are non-tax-deductible, or which have tax consequences in different periods from the pre-tax cash flows, such as working capital movements or capital expenditure. In those cases, it may be necessary to work out a post-tax NPV using the post-tax cash flows discounted at the WACC, and then derive the pre-tax discount rate which gives the same NPV when applied to the pre-tax cash flows. If the above calculation shows that the Carrying amount/value of an asset exceeds its recoverable amount, an impairment loss equal to the difference should be recognized within restructuring and impairment in operating income. **Carrying amount/value** is the amount at which an asset is recognized in the balance sheet after deducting any accumulated amortization and accumulated impairment losses.

j. If an asset or group of assets is impaired, its useful life should also be re-assessed, and amortization in subsequent periods should be based on the new Carrying amount/value, after impairment losses.

k. Impairment calculations should be updated at each subsequent year end if the asset or group of assets is still in use, to establish whether any further change to the Carrying amount/value is needed. This process may result in additional impairment losses being recognized if the position has deteriorated, or in previously recognized impairment losses being partly or fully reversed if the position has improved. However, the criteria of IAS 36 will normally mean that impairments of goodwill should not be reversed. Further guidance is given in IAS 36.

l. The impairment test for Intangible assets in a cash generating unit or segment to which goodwill has been allocated should be performed before the annual impairment test for the allocated goodwill.

Annual goodwill impairment test

1. Purchased goodwill is not amortized, but is tested for impairment annually, whether any indication of impairment exists or not. This test will be performed or coordinated centrally by the Holding Entity for all goodwill in SoEs and ABs, and will be based initially on the Q3 reporting, in order to ensure the test is completed well in advance of the year end and allow time for audit. Any events which occur in the fourth quarter and affect the value of goodwill will be incorporated into the impairment testing as and when they occur.
2. Goodwill should be allocated to the cash generating units which will benefit from the acquisition, as part of the initial purchase accounting.
3. If the acquisition creates synergies with existing operations, goodwill may be allocated to the cash generating units related to those existing operations, even if none of the acquired assets are allocated to those cash generating units. Goodwill must be allocated at least down to the reporting segment level, but should not be allocated below the level at which management monitor the return on the acquisition investment.
4. If reported segment boundaries change, goodwill allocated to segments or CGUs affected by the reallocation should be reallocated between the revised segments, based on the relative values of the reallocated parts of the old segments compared to the values of those parts which have not been reallocated.
5. Impairment testing for PP&E, finite life Intangible assets and Associates and Joint Ventures which are part of cash generating units or segments to which goodwill has been allocated, should be performed before the impairment test for the allocated goodwill, but as part of the same process. If goodwill is allocated at the segment level, the cash

generating units within the segment are tested first, and a final test of the segment including goodwill is performed last.

6. The impairment test is based on the same comparison of Carrying amount/value and recoverable amount as for identifiable Intangible assets. However, special rules apply to goodwill which is part of a disposal group held for sale.
7. If the testing shows the recoverable amount of the cash generating unit or segment is lower than the total Carrying amount/value including allocated goodwill, the goodwill is impaired first. If the impairment amount is more than the total allocated goodwill, the other PP&E and Intangibles in the segment are impaired pro rata to their net book values. However, no asset should be impaired below the higher of its fair value, value in use or, of course, zero. This may mean that some assets take a lower share of the impairment and the remaining assets have to take a greater share to compensate for this.
8. IAS 36 absolutely prohibits reversal of a previously recorded goodwill impairment, even if the recoverable amount of the cash generating unit or segment subsequently increases.

Intangible assets held for sale

1. An asset is regarded as held for sale under IFRS 5 if it, or if a group of assets ('disposal group') in which it is included, meets the following conditions:
   - There is a brief decision to sell the asset or disposal group by the level of SoEs and ABs management which has the required authority.
   - SoEs and ABs must be actively seeking a buyer and actively marketing the asset or disposal group at a reasonable price.
   - The asset or disposal group must be available for immediate sale in its existing condition, i.e. no SoEs and ABs requirement to retain it within the group until a given future date.
   - It is unlikely that the plan to sell will be changed or withdrawn.
   - The sale must be expected to complete within 12 months, although events outside SoEs and ABs' control, such as competition authority decisions, which extend this period do not prevent classification as discontinued.

2. The asset must already meet these conditions at the reporting date in order to be shown as held for sale in the reporting at that date. If the criteria are met after the reporting date, that is a non-adjusting event as far as reporting at that date is concerned.

When the asset meets the held for sale conditions:

a. Amortization should cease.
b. The asset, or the disposal group, is tested for impairment and revalued at the lower of:
- its Net Book Value at that date
- fair value less costs to sell - i.e. the estimated net disposal proceeds

3. "Value in use" is no longer considered in this impairment test, because the disposal proceeds are now more relevant than any short period of remaining asset use. If the assets have no resale value, the impairment assessment will result in immediate and full write off of the asset(s); and
4. The asset, together with other non-current assets within the disposal group, should be reclassified from non-current to a separate balance sheet line: "assets held for sale". Comparative balance sheet data are **not** re-stated if the asset did not meet the definition of held for sale at the earlier balance sheet date(s).

12. Disposal or write- off PPE

(1) Disposal of asset is a sale and/or end of use of the asset which may generate profit or loss by calculating the difference between sales price and the net book value at the disposal time. Gains or losses arising from this disposal shall be recognized in the statement of profit or loss which will be called “profit/loss on disposal of assets”.

Explanation:

- *Net Book Value= Cost – Accumulated Depreciation*
- *Gain= Disposal Amount-Net Book Value*
- *Loss=Net Book Value-Disposal Amount*

P*PE are Purchased by SoEs and ABs not with the purpose to resell them, however, after some period of time during which the asset was used or when it becomes non-efficient, it should be disposed and replaced with the new ones. In certain circumstances, disposal occurs when the assets are no longer required and become scrap.*

(2) A Fixed Asset Management Committee (FAMC)shall be formed in order to asses, evaluate, decide and approval of the disposal or write-off of the PPE. The FAMC shall be constituted by the representation from supply-chain management (SCM), Administration department, Finance and Accounts Department and shall be responsibility for the assessing the condition, value, and usefulness of PPE in order to determine if it should be disposed of or written off as per the disposal procedure of this Manual:

Provided that, any such other committee formed under any other law (such as Public Procurement Act, 2006 etc.) may replace this FAMC and such committee shall equally applicable in this regard.

(3) Primarily disposal of fixed assets shall follow PPR process and subsequently below process also be followed in light with PPR without violating the spirit of PPR. Process Flow: Disposal or write off of PPE

Serial	Description	Performed by
1	**Assessment, Evaluation, Decision Making and Approval of assets disposal or written off:** ▪ The Fixed Assets Management Committee (FAMC) is responsible for assessing the condition, value, and usefulness of the asset to determine if it should be disposed of or written off. ▪ Based on the assessment, the committee makes informed decisions regarding the disposal or write-off of the asset. They consider factors such as the asset's remaining useful life, market value, obsolescence, and any legal or regulatory requirements. ▪ The committee ensures that proper documentation is prepared and maintained throughout the disposal or write-off process. ▪ The committee will be responsible for determining whether the disposal process will follow a Request for Quotation (RFQ) or a Single Vendor approach. ▪ The committee will have the responsibility of obtaining management approval.	Fixed Assets Management Committee (FAMC)
2	**Initiate assets transfer to Warehouse or Vendor:** ▪ Admin Department shall inform Accounts and Finance Department about list of assets including Assets ID and other details to be disposed so that Finance can keep the Fixed assets register updated. After that Admin initiates assets transfer to Warehouse or vendor (instruct Department for hand over assets through email) within 3 working days of receiving the Approved Asset Disposal From FAMC.	Admin department
3	**Prepare Journal Voucher based on the list provided by Admin** ▪ For disposal, calculate the gain/ (loss) on disposal, If any. ▪ Prepare Journal Voucher for the disposal and/or write off of assets. ▪ Forward the Journal Voucher to concerned personnel of the department for Approval.	Accounts and Finance Department
4	**Review and Approve Journal Voucher** ▪ Review the Journal Voucher to ensure that the information is correct and approve the Journal Voucher.	Accounts and Finance Department
5	**Record the transaction to the Accounting System** ▪ Record the transaction to the accounting System. ▪ Archive the Journal Voucher, Asset Disposal Form and other supporting documents for future reference.	Accounts and Finance Department
6	**Removal of disposed assets from the asset register** ▪ Collect the relevant documentation for each disposed asset and make necessary updates to the assets register to reflect the removal of the disposed assets.	Accounts and Finance Department

Examples:
On June 1, 2022, STATE-OWNED ENTERPRISES (SOES) AND AUTONOMOUS BODIES (ABS) disposed of a Vehicle with the cost of Tk. 50,000 and accumulated depreciation of Tk. 10,000. The disposal amount of Tk. 30,000. The accounting entries for the disposal would be as under:

Account Title	***Chart of Accounts***	***Debit***	***Credit***
Bank		*30,000*	
Loss on Disposal		*10,000*	
Accumulated Depreciation		*10,000*	
Property, Plant and Equipment			*50,000*

(4) Fixed Asset Disposal Note (FDN) shall be recorded while fixed assets are disposed of by discarding, scrapping or selling and a Fixed Asset Disposal Note (FDN) must be completed. A template of FDN is attached herewith as “Annexure-19.

(5) Disposal of fixed asset without sale can be possible by the authority as following:

(a) The respective SoE or AB shall send a request letter accompanying the FDN to Finance Division completing the internal procedure for disposal of fixed asset without sale, if the book value of the PPE to be disposed off is above 500,000 taka.

(b) If the cost amount to be written off is up to BDT 500,000 or below, the SoE or AB shall take permission from BOD to write-off of the entire book value of the damaged scraped, stolen, and obsolete asset which is not eligible for sale.

(c) After getting approval from BOD or Finance Division, SoE or AB shall issue an approval letter to respective division to write-off the asset. Thereafter, the regional/division/head office/Finance and Accounts Department will write-off the fixed asset from the fixed asset module/register.

(d) The following recording would be required for disposal of fixed asset without sale:

General Ledger account name	**Debit/Credit**	**Amount**
Expense-A/c Write off of Fixed Asset	Debit	XXX
Accumulated depreciation- specific asset account	Debit	XXX
Fixed asset account or PPE	Credit	XXX

(6) In case of disposal of fixed asset by sale the respective department shall send a request in writing to FAMC with prior approval of the departmental head along with an FDN according to this Manual. FAMC shall initiate the disposal process with help from SCM. SCM shall collect at least three quotations from vendors and prepare a comparative analysis with recommendation to FAMC for permission to sell the damaged or scraped or obsolete asset. After that, FAMC will verify the request and get the approval of BOD for onward sale and write off.

(7) After getting approval from approval from the authority under para 12(6), Administration Department shall issue approval letter to respective division to arrange sale and write off of the fixed asset accordingly.

(8) For recording of disposal/sale of fixed asset at loss:

GL account name	Debit/Credit	Amount
Bank account	Debit	XXX
Expense- A/c Loss on sale of fixed asset	Debit	XXX
Accumulated depreciation- specific asset account	Debit	XXX
Fixed asset account	Credit	XXX

(9) For recording of disposal/sale of fixed asset at gain:

GL account name	Debit/Credit	Amount
Bank account	Debit	XXX
Accumulated depreciation- specific asset account	Debit	XXX
Income A/c- Gain on sale of fixed asset account	Credit	XXX
Fixed asset account	Credit	XXX

(10) When the insurance compensation of a damaged/lost asset is received that have to be adjusted with Gain or Loss of sales or write off of fixed asset.

13. Derecognition of assets

(1) A SOEs and ABs is required to derecognize the Carrying amount/value of an item of property, plant and equipment that it disposes of on the date the criteria for the sale of goods in IFRS 15-Revenue from contracts would be met. The previous version of IAS 16 did not require an entity to use those criteria to determine the date on which it derecognized the Carrying amount/value of a disposed-of item of property, plant and equipment.

(2) A SOEs and ABs is required to derecognize the Carrying amount/value of a part of an item of property, plant and equipment if that part has been replaced and the entity has included the cost of the replacement in the Carrying amount/value of the item. The previous version of IAS 16 did not extend its derecognition principle to such parts; rather, its recognition principle for subsequent expenditures effectively precluded the cost of a replacement from being included in the Carrying amount/value of the item

(3) A SOEs and ABs cannot classify as revenue a gain it realizes on the disposal of an item of property, plant and equipment.

14. Impairment of asset

An entity shall assess at the end of each reporting period whether there is any indication that an asset may be impaired. If any such indication exists, the entity shall estimate the recoverable amount of the asset as per *IAS 36 Impairment of Assets.* An impairment loss exists whenever the Carrying amount/value of an asset exceeds its recoverable amount.

Under International Accounting Standard, fixed assets are accounted for using the historical cost method. The historical cost method requires assets to be measured at the cost paid when the asset is acquired as opposed to another measure of valuation such as fair market value. However, fixed assets should be valued at the lower cost or market value when significant changes in market value occur. IAS 36 requires annual impairment analysis for all fixed assets to test for significant changes in an asset's fair market value and if the costs related to the asset are recoverable.

Impairment testing may also take place if a triggering event occurs. Triggering events are indicators an asset may have deteriorated such as

- Significant adverse effects related to the use of an asset or its physical condition such as equipment damage or vehicle wrecks.
- Unexpected changes in the costs that will be incurred to construct or improve the asset material changes in value due to legal factors or a sudden shift in the business climate that could affect the valuation of an asset.
- A significant decrease in the market value of an asset potentially making an asset obsolete.

Damages may be visible if one were to inspect the asset, but an impairment related to market changes may not be visible. Regardless, an impairment should be recorded once a triggering event becomes known, not at the time of routine impairment testing. The asset value will be reduced with a credit and a loss will be recognized for the reduction of value.

In assessing whether there is any indication that an asset may be impaired, the following indications should be considered:

External sources of information

(a) during the period, an asset's market value has declined significantly more than would be expected as a result of the passage of time or normal use.
(b) the technological, market, economic or legal environment in which SOEs and ABs operates, or in the market to which an asset is dedicated, has deteriorated significantly during the period and/or is expected to deteriorate significantly during the future life of the asset.
(c) market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect the discount rate used in calculating an asset's value in use and decrease the asset's recoverable amount materially.

Internal sources of information

(a) evidences is available of obsolescence or physical damage of an asset, or that there are quality issues with its output because the asset is not functioning properly.
(b) significant changes with an adverse effect on the enterprise have taken place during the period or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include plans to discontinue or restructure the operation to which an asset belongs or to dispose of an asset before the previously expected date and
(c) evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse than expected – for example, cash flows needed to operate or maintain the asset to the required standard of performance are higher than expected, or actual net cash flows derived from the asset have declined significantly compared to budget or prior years.

If there is any indication of impairment, either from the annual review or from events occurring during the year, the enterprise should immediately estimate the **recoverable amount** of the asset. Recoverable amount is the higher of an asset's **fair value less costs to sell** (net disposal proceeds) and its **value in use**. Value in use is the present value of estimated future **pre-tax** cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life, **excluding financing costs**. Costs to sell are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense. It may be appropriate to include demolition costs as a 'disposal' cash outflow where it is probable that the asset will be demolished rather than sold.

Unless instructed otherwise, the rate used in discounted cash flow calculations to estimate value in use for asset specific impairments arising from restructuring decisions should be the discount rate currently used within the group for assessing capital proposals (discount rate shall be prevailing debt rate).

For the purposes of value in use, future cash flows should be estimated for the asset in its **current condition**. Hence those estimates of future cash flows should not include estimated future cash inflows or outflows that are expected to arise from:

a. Future restructuring to which an enterprise is not yet committed.
b. Future capital expenditure that will improve or enhance the asset's performance.

However, for the purposes of fair value less selling costs, those future events would be considered in the cash flow forecasts if potential buyers would consider those cash flows in deciding what price to offer for the asset.

Items of property, plant and equipment which do not themselves generate cash flows directly but do so only together with other assets should be grouped with those other assets (a "cash generating unit") for the purposes of assessing recoverable amount. These other assets may include intangible assets (see section 5.1.18 below) such as product rights and other intellectual property. A cash-generating unit should be defined as the **smallest identifiable** group of assets that directly generates cash inflows from continuing use.

If the above calculation shows that the Carrying amount/value (net book value) of an asset exceeds its recoverable amount, an impairment loss equal to the difference should be recognized within operating income. **Carrying amount/value** is the amount at which an asset is recognized in the balance sheet after deducting any accumulated depreciation (amortization) and accumulated impairment losses thereon.

If an asset or group of assets is impaired, its useful life should also be re-assessed, and depreciation in subsequent periods should be based on the new Carrying amount/value, after impairment losses.

Impairment calculations should be updated at each subsequent year end if the asset or group of assets is still in use, to establish whether any further change to the Carrying amount/value is needed. This process may result in additional impairment losses being recognized if the position has deteriorated, or in previously recognized impairment losses being partly or fully reversed if the position has improved.

Impairment testing for PPE in a cash generating unit or segment to which goodwill has been allocated should be performed before the annual impairment test for the allocated goodwill.

An annual review of impairment should be made by the management. An impairment loss should be,

i. recognized in the profit & loss account for asset carried at cost and
ii. treated as revaluation reserve decrease for asset carried at a revalued amount.

After recognition of the impairment loss, the depreciation on such fixed asset should be charged on the revised Carrying amount/value of assets. The following entries will be given in the system:

a) For recording of impairment loss in the profit and loss account:

GL account name	Debit/Credit	Amount
Loss on fixed asset impairment account	Debit	XXX
Accumulated impairment loss account	Credit	XXX

b) For recording of impairment loss as decrease of revaluation reserve:

GL account name	Debit/Credit	Amount
Revaluation reserve for impairment on fixed asset account	Debit	XXX
Accumulated impairment loss account	Credit	XXX

14.1 Reversal of impairment losses

An entity should assess at each statement financial position date (or reporting date) whether there is any indication that an impairment loss recognized for an asset in prior periods may no longer exist or may have decreased. A reversal of an impairment loss should be executed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount. If the reasons for impairment relate to subsequent periods, the impairment loss must be reversed. If this is the case, the Carrying amount/value of the asset is increased to its new recoverable amount with an effect on income – the upper limit is the amortized cost (not taking into account an impairment loss). The write-up is recognized in profit or loss.

GL account name	Debit/Credit	Amount
Accumulated impairment loss account	Debit	XXX
Reversal of impairment loss	Credit	XXX

15. Revaluation

An item of property, plant and equipment whose fair value can be measured reliably shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations shall be made with sufficient regularity to ensure that the Carrying amount/value does not differ materially from that which would be determined using fair value at the end of the reporting period.

The fair value of items of plant and equipment is usually their market value which is determined by appraisal. If there is no market-based evidence of fair value because of the specialized nature of the items of property, plant and equipment and the item is rarely sold, except as part of a continuing business, an entity may need to estimate fair value using an income or a depreciated replacement cost approach.

The frequency of revaluation depends upon the changes in fair value of the items of property, plant and equipment being revalued. When the fair value of a revalued asset differs materially from its Carrying amount/value, a further revaluation is required. Some items of property, plant and equipment experience significant and volatile changes in fair value, thus necessitating annual revaluation. If an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which that asset belongs to shall be revalued. If an asset's Carrying amount/value is increased as a result of a revaluation, the increase shall be recognized in accumulated equity under the heading of revaluation reserve. If an asset's Carrying amount/value is decreased as a result of a revaluation which was earlier not revalued, the decreased amount shall be recognized in profit or loss. If an asset's Carrying amount/value is decreased as a result of a revaluation which was earlier revalued, the decreased amount shall be recognized in revaluation reserve.

Only land and buildings may be revalued. The revaluation must be based on the market value of the asset by the independent professional valuer. Whenever assets are revalued at a price higher than cost price, depreciation will be charged on the revalued amount of the fixed asset.

16. Fixed asset transfer policy

Fixed asset transfer physically occurs when a division/regional office/Head office transfers fixed asset to another division/regional office/Head office. The transferee division/regional office/Head office requiring the asset will submit requisition to ADMINISTRATION DEPARTMENT. ADMINISTRATION DEPARTMENT shall arrange the items either from division or regional office or from Head Office for the transferee division or regional office and also ensure transfer of fixed asset to the transferee division or regional office. Finance and Accounts Division shall pass the necessary accounting entries in fixed asset module and update fixed assets register. A template of FATF is attached herewith as Annexure-20

17. Recording of fixed asset

17.1 Recording of fixed asset in the accounting system

Every transaction related to the fixed asset must be recorded in the system in a timely manner. Recording of fixed asset can be made by either of the following two methods:

- Direct recording in the fixed asset.
- Through Capital Expenditure Work in Progress.

i. Direct recording in the fixed asset

The items of fixed asset which meet the recognition criteria and available for its intended use at the time of purchase and delivery (e.g. UPS, printers, fax machine, scanner, cheque detector machine etc.) will be recorded directly in the fixed asset.

ii. Capital Expenditure Work in Progress (CEWIP)

Criteria for recording in Capital Expenditure Work in Progress:

- Stage payments
- Payments to be made but asset to be ready to use after a considerable period of time.

SOEs AND ABs can record a Capital Expenditure Work in Progress with a corresponding liability for all costs relating to the purchase of asset, if the following conditions are met:

- There is an irrevocable agreement between SOEs and ABs and the supplier
- It is possible to measure the work done (i.e. a reliable estimate is possible)
- It is clear that the item under construction at the supplier's site belongs to SOEs and ABs (i.e. risks and rewards are borne by SOEs and ABs).

Capital expenditure would be sitting in the account until fixed asset can be booked/recorded in the fixed asset register and GL.

Capital expenditure work in progress may exist in the following form:

a. Buildings under construction.
b. Assets under installation.
c. Interior decoration in progress.
d. Equipment received and payments made but assets not allocated to branches for intended use; and
e. Ownership has not yet been transferred.

18. Fixed Assets Register

The Fixed Assets register shall be updated as and when there is a change or addition to the information maintained in it. The details which should be included in the Fixed Asset Register are:

- Asset group
- Sub-group
- Asset name
- Description of assets/Specifications
- Brand/Manufacturer
- Asset ID Number
- Department
- Division
- Location
- Sub location
- Date of purchase
- Cost of assets
- Depreciation rate
- Other information (if any)

Fixed Assets Register should be maintained for all types of assets. All the assets should be recorded and should be identified using a number tag. The tag should be permanently affixed on a readily visible area and the number of the tag should be recorded in the fixed assets register.

19. Fixed Assets disclosure requirements

Information about each class of property, plant and equipment: For each class of property, plant, and equipment, disclose:

- basis for measuring Carrying amount/value
- depreciation method(s) used

- useful lives or depreciation rates
- gross Carrying amount/value and accumulated depreciation and impairment losses
- reconciliation of the Carrying amount/value at the beginning and the end of the period, showing:
  - additions
  - disposals
  - acquisitions through business combinations
  - revaluation increases or decreases
  - impairment losses
  - reversals of impairment losses
  - depreciation
  - net foreign exchange differences on translation
  - other movements

Additional disclosures
The following disclosures are also required:

- restrictions on title and items pledged as security for liabilities
- expenditures to construct property, plant, and equipment during the period
- contractual commitments to acquire property, plant, and equipment
- compensation from third parties for items of property, plant, and equipment that were impaired, lost or given up that is included in profit or loss.

20. Asset Identification Code/Tagging

Each asset shall be coded in a systematic manner having open-ended provision for inclusion of new assets. Assets coding shall be arranged in accordance to Department, asset nature and unique identification number. The codes must be affixed on the body of the assets permanently. However, small tool or procession items may be kept outside the affixing identification number due to their smaller size, asset identification system would be as follows:

Coding System for Fixed Assets tracking:

0 1	Group of Assets
0 1	Sub-Group
0 1	Item of Assets
0 1 2 2	MM/YY
0 1	Location Code
0 1	Division Code
0 0 0 1	Assets ID Number

Group of Assets Code:

0	1	Land
0	2	Land Improvement
0	3	Building
0	4	Plant and Machinery (Including heavy equipment)
0	5	Furniture and Fixture
0	6	Decoration and Renovation
0	7	Office Equipment
0	8	Electric Equipment
0	9	Computer and Computer Equipment
1	0	Motor Vehicle
1	1	Network and IT Equipment / Technology Assets
1	2	Tools
1	3	Leasehold Improvements
1	4	Infrastructure
1	5	Aircraft and other inter-alia assets
1	6	VESSELS, shipping machinery and equipment's
1	7	Other Tangible Assets (Artwork, Safety Equipment etc.)
1	8	Intangible Assets

Sub-Group of Asset Code such as Land:

0	1	Freehold Land
0	2	Leasehold Land
0	3	Industrial Land
0	4	Commercial Land
0	5	Agricultural Land
0	6	Pond
0	7	Recreational Land
0	8	Land with Timber rights

Sub-Group of Asset Code such as Land Improvements:

0	1	Boundary Wall
0	2	Embankment
0	3	Flood Embankment
0	4	Pond Excavation
0	5	Sewerage & Drainage
0	6	Signage
0	7	Store Yard

Sub-Group of Asset Code such as Building:

0	1	Office Building
0	2	Residential Quarters
0	3	Network Tower
0	4	Terminal Building
0	5	Factory Building
0	6	Cargo and Passenger Sheds

Sub-Group of Asset Code such as Plant and Machinery (Including heavy equipment) :

0	1	Diesel Generator
0	2	Dredgers
0	3	Equipment
0	4	Factory Equipment
0	5	Generator
0	6	Laboratory Equipment
0	7	Machinery and Equipment
0	8	Power House
0	9	Power Plant
1	0	Production Machinery
1	1	Seismic and Toll Equipment
1	2	Transformer

Sub-Group of Asset Code such as Furniture & Fixtures :

0	1	Almirah
0	2	Cabinet
0	3	Chair
0	4	Drawer Cabinet Box
0	5	Foot Rest
0	6	Rack
0	7	Sofa
0	8	Table
0	9	Tool
1	0	Trolley

1	1	Ladder
1	2	Bench
1	3	Plywood Board

Item name of Asset Code such as Decoration and Renovation:

0	1	Wall Decoration
0	2	Lighting
0	3	Natural Elements
0	4	Furniture and Decoration
0	5	Fixtures and Fittings
0	6	Kitchen Renovation
0	7	Electrical & Smart Assets
0	8	Flooring

Item name of Asset Code such as Office Equipment:

0	1	Binding Machine
0	2	Blender Machine
0	3	Exhausted Fan
0	4	Fire Ball
0	5	Fire Extinguisher
0	6	Hand Mike
0	7	Clock
0	8	Generator
0	9	Juicer Machine
1	0	Locker
1	1	Water Filter Machine

1	2	Vacuum Cleaner
1	3	IP Phone
1	4	Coffee Machine
1	5	Weight Machine
1	6	Sewing Machine
1	7	QR Code Scanner
1	8	Barcode Scanner

Item name of Asset Code such as Electric Equipment:

0	1	Air Conditioner
0	2	Air Purifier
0	3	Electric Kettle
0	4	Fan
0	5	Oven
0	6	Access Control
0	7	CC Camera
0	8	Projector
0	9	CC Camera Machine
0	10	CC Camera Setup Box
1	1	Paper Shredder
1	2	Refrigerator
1	3	Electric Heater
1	4	Sound Speaker
1	5	External Hard Disk & SSD
1	6	Television

Item name of Asset Code such as Computer and Computer Equipment:

0	1	Printer
0	2	IPS & UPS Box
0	3	UPS
0	4	IPS Battery
0	5	IPS
0	6	IPS Rack
0	7	Desktop Computer
0	8	Laptop
0	9	Scanner
1	0	Monitor

Item name of Asset Code such as Motor Vehicle:

0	1	Jeep
0	2	Motor Cycle
0	3	Car
0	4	Microbus
0	5	Bus
0	6	Crane
0	7	Water Tank
0	8	Dumper Truck
0	9	Excavator
1	0	Bulldozer
1	1	Road Roller

1	2	Fire Truck
1	3	Floating Cranes
1	4	Lorries
1	5	Tractor
1	6	Trailer

Sub-Group of Asset Code such as Network and IT Equipment:

0	1	Automatic Transfer Switch (ATS)
0	2	Battery Bank Case
0	3	DB Box
0	4	Battery Bank Rack
0	5	Load Balancer
0	6	Protect Server Network, HSM
0	7	Switch
0	8	Dense Wavelength Division Multiplexing DWDM
0	9	Firewall
1	0	Fire Power
1	1	Maintenance-free sealed Lead Acid Battery with Controller
1	2	Mass Storage
1	3	UPS
1	4	Patch Panel
1	5	Protect Server Network
1	6	Cable Manager
1	7	APIC Controller
1	8	IM Vision Controller

1	9	NetApp Storage
2	0	DCIM
2	1	Fixed Mobile Convergence FMC
2	2	Server Network
2	3	HUB
2	4	Server
2	5	Router Board
2	6	Kum Console
2	7	HNAS
2	8	Wireless Controller
2	9	Router
3	0	Rack
3	1	Access Point

Item name of Asset Code such as Tools:

0	1	Domestic Appliances
0	2	Drawing Equipment
0	3	Frosting and designing
0	4	Loose tools
0	5	Kitchen tools
0	6	Tailoring Equipment
0	7	Testing Equipment

Item name of Asset Code such as Leasehold Improvements:

0	1	Structural & Interior Fittings
0	2	Electrical & Lighting

0	3	Safety & Compliance

Item name of Asset Code such as Infrastructure:

0	1	Civil & Structural Infrastructure
0	2	Utilities Infrastructure
0	3	Building Support Infrastructure
0	4	Transport/Access Infrastructure

Item name of Asset Code such as Aircraft and other inter-alia Assets:

0	1	Air Craft
0	2	Train

Item name of Asset Code such as Vessels, Shipping Machinery and Equipment's:

0	1	Vessels

Item name of Asset Code such as Other Tangible Assets:

0	1	Crockeries
0	2	Fire & Safety Equipment Gas Line
0	3	Medical Accessories
0	4	Forklifts
0	5	Sundry Assets
0	6	Other Assets

Item name of Asset Code such as Intangibles:

0	1	SOES and ABS domain
0	2	DFS Platform Hardware
0	3	ORACLE database
0	4	Software

Location Code:

0	1	Head Office
0	2	Warehouse
0	3	Data Center – 01
0	4	Data Center – 02
0	5	Regional Office – Chittagong
0	6	Regional Office – Cumilla
0	7	Regional Office – Barisal
0	8	Regional Office – Sylhet
0	9	Regional Office – Rangpur
1	0	Regional Office – Khulna
1	1	Regional Office – Mymensingh
1	2	Regional Office - Bogura
1	3	Sub Office - 1
1	4	Sub Office – 2 (Please add more if any or if required)

Division Code:

0	1	SBU-1
0	2	External Affairs
0	3	Technology Transformation & Innovation
0	4	Business Assurance
0	5	IT Infrastructure & Security
0	6	Technology Operation
0	7	Strategy

0	8	Customer Management and Experience
0	9	Finance and Accounts
1	0	Strategic Alliance and Investment
1	1	Corporate and External Affairs
1	2	Human Resources and Administration
1	3	Marketing
1	4	Corporate Communications
1	5	Sales
1	6	Key Stakeholder Relation
1	7	MD Division

So the above mentioned assets Identification number will be shown in QR Code Tag. For example, Employee table in Finance Division in Head office which was purchased at 2022 would be 030119012201090001. Details meaning of the Asset ID as follows:

Group-Sub Group-Item Name- MM/YY-Location-Division-Asset ID

03 = Furniture and Fixture
01 = Table
19 = Employee Table
0122 = Purchase/ Month & Year (MM/YY)
01 = Head Office
09 = Finance Division/Accounts and Finance Department
0001 = Asset ID Number

Asset Identification code to be assigned on the basis of availability of assets at the time of registration to fixed assets register. Once assigned, the number cannot be changed

21. Maintenance of fixed assets

Maintenance of fixed assets is required for identifying fixed asset accurately, aiding the periodical/annual physical verification. The key issues to be covered for safeguarding fixed asset are stated below:

a. Affix identification mark/tagging using **RFID** tag paper or sticker

b. Maintain a complete fixed asset register
c. Perform physical verification
d. Restriction on unauthorized movement of fixed asset.
e. Obtain insurance coverage for probable loss
f. Arrange training or awareness program for proper operating and custody of asset.
g. Use advanced security technology such as closed-circuit camera, if possible.

Asset identification and tagging is important for:

- Providing accurate method of identifying asset;
- Aiding the annual physical verification;
- Controlling the location/availability of all fixed asset;
- Aiding maintenance of fixed asset.

When a fixed asset is purchased or constructed, responsible department must collect an identification tag from Fixed Asset Management Department (FAMD) and affix the tag on the asset instantly. Fixed Asset Management Department (FAMD) will ensure that each asset must be given by a unique number.

For asset identification number and tagging, the following principles should be followed:

a. Each fixed asset should have an identification number and should be tagged unless it is not physically practicable.
b. Tags should be placed consistently in the same location on each type of similar asset.
c. Tag should be accessible for viewing.

For Fixed Asset Code Number see the annexures for assets code. The code mentioned in above mentioned annexure may be revised by ADMINISTRATION DEPARTMENT through an office order upon considering the necessity.

22. Exemption from asset identification number and tagging

Artwork, sensitive technical equipment, land, building, interior decoration or any other fixed asset for which tagging is impracticable and which will affect the ability of fixed asset to be returned under warranty; a file for all untagged fixed asset must be maintained by the Fixed Asset Management Department (FAMD).

However, for such type of fixed asset, the detail specification (for example location, user, description, model, suppliers etc.) should be mentioned in the fixed asset module/register so that these fixed assets can easily be identifiable or traceable.

23. Fixed asset register and fixed asset module

All fixed assets meeting the recognition criteria (See section 6) should be recorded in the fixed asset register. For a sample fixed asset register (see Annexure-22: Fixed Asset Register below).

Fixed Asset module is the software used to record and track fixed asset and provides management with the information to effectively manage and control its fixed asset. Updating the fixed asset system on a timely basis to record changes in the location, condition, costs, model number, serial number etc. about the fixed asset is the responsibility of the Fixed Asset Management Department (FAMD).

24. Physical verification procedure/policy

Physical verification of fixed assets shall be counted once in a year. Administration Division along with Finance and Accounts department's representative shall physically count and verify the assets of the company at least once in every 3 years. All assets must be counted and verified in 3 years' time. For example, in the 1st year, 33.33% assets will be counted and verified, next year another 33.33% of assets shall be counted and verified and this way 100% assets counting and verification shall be completed every 3 years. After verification ICCD shall submit a report to FAMU.

Discrepancies, if any, are to be sorted out immediately and list of lost, broken, unusable or obsolete assets are to be proposed and Disposed/Write off as per policy.

25. Insurance coverage for fixed asset

Fixed asset items are to be insured for all probable reason of loss event. Adequate preventative mechanisms shall be in place to eliminate theft, losses, wastage and the misuse of fixed asset.

26. Accountability and Responsibility of Fixed Asset

Fixed asset overall control will be under the safe custody of user department and Administration department. The Finance and Accounts department should maintain a fixed asset register along with all necessary information as per the above-mentioned Fixed asset register of this Fixed Asset Management Policy. All departments must maintain all assets that are within their control in a working and usable condition. Departments should take adequate care that the working environment for the assets is appropriate and suitable for such assets. Departments must treat all assets in an ethical manner and must not misuse the assets or use the assets for personal use or benefit or incompliance of assets user policy of SOEs and ABs.

The Finance Department will provide each Department with a listing of assets deemed to be in that department's control. Each department must review this report annually for all additions and deletions of assets and return them to the Finance Department. Such an annual report must be made within thirty (30) days of the end of the fiscal year relevant to the annual report. If any assets with employees related to the personnel of the Administration Department and relevant departments (as Laptop, Technology and HR) will be confirmed the report and will be shared with the Finance Division. This information is also used to ensure proper insurance coverage.

If any asset misuse or intentional damage occurred by an employee, then the Fixed Asset Management Committee (FAMC) will make decision for indemnity by using their best judgement without any bias. This indemnity monetary amount must be penalized to responsible employees. Accidentally or naturally damage occurred then indemnity of an asset will be taken by SOES AND ABS upon the decision of FAMC or incompliance of assets user policy of SOEs and ABs.

27. PPE RACI Matrix:

Particulars	**Responsible**	**Accountable**	**Consulted**	**Informed**
Acquisition of PPE				
Requisition	User Department	Head of the Department	Procurement department	
RFQ, Comparative analysis, Selection of Vendor	Supply chain management (SCM)	Head of SCM		User Department
Receiving of the fixed Assets	Admin and User Department	Head of Admin and Head of the User Department		
Bookkeeping	Finance Department	Head of Finance		
Maintain of FAR	Admin department	Finance department		User Department
Place Purchase Order	SCM	Head of SCM		User Department
Prepare GRN and QC	User Department	Head of User Department		Head of SCM
PPE Disposal and Write Off	Fixed Asset Management Committee (FAMC)	Finance department	Head of SCM	User Department
Insurance Coverage of Fixed Assets	Admin department	Finance department	Head of SCM	
Fixed Assets Tagging	Admin department	Finance department		User Department
Custodian of Assets	Admin and user Department	Head of User Department		
Custodian of Assets- IT equipment	User Department and Admin and user Department	Department Head	IT	Finance

Annexure-1: Example list of Land

Sub-Category of Asset	Sub-Category Code	Asset Item Name	Asset Item Code	Asset Code
Freehold land	01	Land Property	01	L
Leasehold Land	02	Land held under lease	02	L
Industrial Land	03	Factory land	03	L
Commercial Land	04	Mall, shop land	04	L
Agricultural land	05	Farming land	05	L
Pond	06	IPS Rack	06	L
Recreational land	07	Parks	07	L
Land with Timber rights	08	Forest land	08	L

Annexure-2: Example list of Land Improvements

Sub-Category of Asset	Sub-Category Code	Asset Item Name	Asset Item Code	Asset Code
Boundary Wall	01	Boundary on Free Land	01	LI
Embankment	02	Lands near river	02	LI
Flood Embankment	03	Concrete flood walls	03	LI
Pond Excavation	04	Water level sensors	04	LI
		Flow meters	05	LI
Sewerage & Drainage	05	Farming land	06	LI
Signage	06	IPS Rack	07	LI
Store yard	07	Parks	08	LI

Annexure-3: Example list of Buildings

Sub-Category of Asset	Sub-Category Code	Asset Item Name	Asset Item Code	Asset Code
Office Building	01	Office Building	01	B
Residential Building	02	Residential Quarters	02	B
Network Tower	03	Network Tower	03	B
Terminal Building	04	Terminal Building	04	B
Factory Building	05	Factory Building	05	B
Cargo and Passenger Sheds	06	Cargo and Passenger sheds	06	B

Annexure-4: Example list of Plant and Machinery (Including heavy equipment)

Sub-Category of Asset	Sub-Category Code	Asset Item Name	Asset Item Code	Asset Code
Diesel Generator	01	Diesel Engine	01	P&M
Dredgers	02	Cutter Suction Dredger	02	P&M
		Bucket Ladder Dredger	03	P&M

		Backhoe Dredger	04	P&M
Equipment	03	Heavy Equipment	05	P&M
Factory Equipment	04	CNC machines	06	P&M
		Textiles looms	07	P&M
		Conveyor belts	08	P&M
		Mixers and blenders	09	P&M
		Blowers & Compressors	10	P&M
		Cranes and hoists	11	P&M
		Air Compressors	12	P&M
		Custom molds	13	P&M
		Industrial cabinets	14	P&M
Generator	05	Diesel Generators	15	P&M
		Natural Gas Generators	16	P&M
		Solar Power Generators	17	P&M
		Portable Generators	18	P&M
		Inverter Generators	19	P&M
Laboratory Equipment	06	Analytical Instruments	20	P&M
		General Lab Equipment	21	P&M
		Data & Monitoring systems	22	P&M
		Specialized Equipment	23	P&M
		Measuring & Testing Equipment	24	P&M
Machinery and Equipment	07	CNC machines	25	P&M
		Welding Machines	26	P&M
		Presses	27	P&M
		Conveyors	28	P&M
		Injection Molding Machine	29	P&M
		Labeling Machines	30	P&M
		Assembly Line Equipment	31	P&M
		Cutting Machines	32	P&M
Power House	08	Generators	33	P&M
		Motors & Pumps	34	P&M
		Boilers	35	P&M
		Control Panels	36	P&M
		Power Distribution Boards	37	P&M
Power Plant	09	Transformers	38	P&M
		Switchgear and Circuit Breakers	39	P&M
		Electrical Panel	40	P&M
		Meters and Sensors	41	P&M
		Battery Banks and UPS	42	P&M
Production Machinery	10	Milling Machines	43	P&M
		Lathes	44	P&M
		Printing Machines	45	P&M
		Mixing and Blending Machine	46	P&M

		Extruders	47	P&M
		Press Machine	48	P&M
		Cutting Machine	49	P&M
Seismic and Toll Equipment	11	Seismographs	50	P&M
		Geophones	51	P&M
		Electronic Toll Collection Readers	52	P&M
		Toll Booths	53	P&M
		Ticket Dispensers	54	P&M
		Payment Terminals	55	P&M
		Toll Plaza Barriers/gates	56	P&M
Transformer	12	Power Transformer	57	P&M
		Distribution Transfer	58	P&M
		Instrument Transformer	59	P&M
		Auto Transformer	60	P&M
		Isolation Transformer	61	P&M
		Dry-type Transformer	62	P&M

Annexure-5: Example list of Furniture and Fixture

Sub-Category of Asset	Sub-Category Code	Asset Item Name	Asset Item Code	Asset Code
Almirah	01	Almirah	01	F&F
Cabinet	02	Table Side Cabinet	02	F&F
		Cabinet	03	F&F
		Wall Cabinet	04	F&F
		Wall Low Cabinet	05	F&F
		Bookshelf	06	F&F
		Wall High Cabinet	07	F&F
Chair	03	Plastic Chair	08	F&F
		Revolving Armless Chair	09	F&F
		Revolving Arm Chair	10	F&F
		Revolving Arm HOD Chair	11	F&F
		Revolving Lobby Chair	12	F&F
		Security Chair	13	F&F
Drawer Cabinet Box	04	Drawer Cabinet Box	14	F&F
Foot Rest	05	Foot Rest	15	F&F
Rack	06	Rack	16	F&F
Sofa	07	Sofa	17	F&F
		Customer Care Table	18	F&F
		Conference Table	19	F&F
		Employee Table	20	F&F
		Executive Table	21	F&F
		Front Desk Table	22	F&F

Table	08	Kitchen Table	23	F&F
		Meeting Table	24	F&F
		Restaurant Table	25	F&F
		Secretariat Table	26	F&F
		Tea Table	27	F&F
		Equipment Table	28	F&F
		Security Table	29	F&F
		Side Table	30	F&F
		Printer Table	31	F&F
		Round Table	32	F&F
		Trolley Table	33	F&F
Tool	09	Round Tool	34	F&F
		Revolving Round Tool	35	F&F
		Sofa Tool	36	F&F
		Tool	37	F&F
Trolley	10	Trolley	38	F&F
Ladder	11	Ladder	39	F&F
Bench	12	Siting bench	40	F&F
Plywood Board	13	Partitions	41	F&F

Annexure-6: Example list of Decoration and Renovation

Sub-Category of Asset	Sub-Category Code	Asset Item Name	Asset Item Code	Asset Code
Wall Decoration	01	Paintings and Wall Arts	01	D&R
		Framed Posters	02	D&R
		Wall Clocks	03	D&R
		3D Wall Panels	04	D&R
		Shelve with Décor Pieces	05	D&R
Lighting	02	LED Strips lights	06	D&R
		Pendant light	07	D&R
		Chandeliers	08	D&R
		Floor Lamps	09	D&R
		Table Lamps	10	D&R
Natural Elements	03	Indoor Plants	11	D&R
		Hanging Planters	12	D&R
		Bonsai	13	D&R
		Flower Vases	14	D&R
Furniture Decoration	04	Cushions	15	D&R
		Table Runners	16	D&R
		Poufs or Ottomans	17	D&R
		Reception Counters	18	D&R
		Centerpieces	19	D&R

Fixtures and Fittings	05	Doors	20	D&R
		Windows	21	D&R
		Curtains	22	D&R
		Carpets	23	D&R
Kitchen Renovation	06	Countertops	24	D&R
		Kitchen Sinks	25	D&R
		Cabinets	26	D&R
		Chimneys & Hoods	27	D&R
		Backsplashes	28	D&R
Electrical & Smart Assets	07	Switchboards	29	D&R
		Smart Switches	30	D&R
		Security Cameras	31	D&R
		Intercom systems	32	D&R
Flooring	08	Tiles	33	D&R
		Vinyl Flooring	34	D&R
		Laminate	35	D&R
		Hardwood	36	D&R

Annexure-7: Example list of Office Equipment

Sub-Category of Asset	Sub-Category Code	Asset Item Name	Asset Item Code	Asset Code
Binding Machine	01	Binding Machine	01	OE
Blender Machine	02	Blender Machine	02	OE
Exhausted Fan	03	Exhausted Fan	03	OE
Fire Ball	04	Fire Ball	04	OE
Fire Extinguisher	05	Fire Extinguisher	05	OE
Hand Mike	06	Hand Mike	06	OE
Clock	07	Hanging Clock	07	OE
		Wall Clock	08	OE
Generator	08	Generator	09	OE
Juicer Machine	09	Juicer Machine	10	OE
Locker	10	Locker	11	OE
Water Filter Machine	11	Water Filter Machine	12	OE
Vacuum Cleaner	12	Vacuum Cleaner	13	OE
IP Phone	13	IP Phone	14	OE
Coffee Machine	14	Coffee Machine	15	OE
Weight Machine	15	Weight Machine	16	OE
Sewing Machine	16	Sewing Machine	17	OE
QR Code Scanner	17	QR Code Scanner	18	OE
Barcode Scanner	18	Barcode Scanner	19	OE

Annexure-8: Example list of Electric Equipment

Sub-Category of Asset	Sub-Category Code	Asset Item Name	Asset Item Code	Asset Code
Air Conditioner	01	Air Conditioner	01	EE
Air Purifier	02	Air Purifier	02	EE
Electric Kettle	03	Electric Kettle	03	EE
Fan	04	Wall Fan	04	EE
		Stand Fan	05	EE
		Cooling Fan	06	EE
		Table Fan	07	EE
		Ceiling Fan	08	EE
Oven	05	Microwave Oven	09	EE
Access Control	06	Access Control	10	EE
CC Camera	07	CC Camera	11	EE
Projector	08	Projector	12	EE
CC Camera Machine	09	CC Camera Machine	13	EE
CC Camera Set Up Box	10	CC Camera Set Up Box	14	EE
Paper Shredder	11	Paper Shredder	15	EE
Refrigerator	12	Refrigerator	16	EE
Electric Heater	13	Electric Heater	17	EE
Sound Speaker	14	Sound Speaker	18	EE
External Hard disk & SSD	15	Hardware	19	EE
Television	16	Television	20	EE

Annexure-9: Example list of Computer and Computer Equipment

Sub-Category of Asset	Sub-Category Code	Asset Item Name	Asset Item Code	Asset Code
Printer	01	Printer	01	C
		Printer & Photocopy Machine	02	C
IPS & UPS Box	02	IPS & UPS Box	03	C
UPS	03	UPS	04	C
IPS Battery	04	IPS Battery	05	C
IPS	05	IPS	06	C
IPS Rack	06	IPS Rack	07	C
Desktop Computer	07	Desktop Computer	08	C
Laptop	08	Laptop	09	C
Scanner	09	Scanner	10	C
Monitor	10	Monitor	11	C

Annexure-10: Example list of Motor Vehicle

Sub-Category of Asset	Sub-Category Code	Asset Item Name	Asset Item Code	Asset Code
Jeep	01	Jeep	01	MV
Motor Cycle	02	Motor Cycle	02	MV
Car	03	Car	03	MV
Microbus	04	Microbus	04	MV
Bus	05	Bus	05	MV
Crane	06	Crane	06	MV
Water Tank	07	Water Tank	07	MV
Dumper Truck	08	Dumper Truck	08	MV
Excavator	09	Excavator	09	MV
Bulldozer	10	Bulldozer	10	MV
Road Roller	11	Road Roller	11	MV
Fire Truck	12	Fire Truck	12	MV
Floating Cranes	13	Floating Cranes	13	MV
Lorries	14	Lorries	14	MV
Tractor	15	Tractor	15	MV
Trailer	16	Trailer	16	MV

Annexure-11: Example list of Network and IT equipment

Sub-Category of Asset	Sub-Category Code	Asset Item Name	Asset Item Code	Asset Code
Automatic Transfer Switch (ATS)	01	Automatic Transfer Switch (ATS)	01	N&IT
Battery Bank Case	02	Battery Bank Case	02	N&IT
DB Box	03	DB Box	03	N&IT
Battery Bank Rack	04	Battery Bank Rack	04	N&IT
Load Balancer	05	Load Balancer	05	N&IT
Protect Server Network, HSM	06	Protect Server Network, HSM	06	N&IT
Switch	07	Network Switch	07	N&IT
		SAN Switch	08	N&IT
		ACI Spine Switch	09	N&IT
		ACI Network Switch	10	N&IT
		ACI Leaf Switch	11	N&IT
		SW Switch	12	N&IT
		Kum Switch	13	N&IT
Dense Wavelength Division Multiplexing (DWDM)	08	DWDM	14	N&IT
Firewall	09	Firewall	15	N&IT
Fire Power	10	Fire Power	16	N&IT

Maintenance-Free Sealed Lead Acid Battery with Controller	11	Maintenance-Free Sealed Lead Acid Battery with Controller	17	N&IT
Mass Storage	12	Mass Storage	18	N&IT
UPS	13	Online UPS	19	N&IT
Patch Panel	14	Patch Panel	20	N&IT
		Copper Patch Panel	21	N&IT
		Fiber Patch Panel	22	N&IT
Protect Server Network	15	Protect Server Network	23	N&IT
Cable Manager	16	Cable Manager	24	N&IT
APIC Controller	17	APIC Controller	25	N&IT
IM Vision Controller	18	IM Vision Controller	26	N&IT
NetApp Storage	19	NetApp Storage	27	N&IT
DCIM	20	DCIM	28	N&IT
Fixed Mobile Convergence (FMC)	21	FMC	29	N&IT
Server Network	22	Server Network	30	N&IT
HUB	23	HUB	31	N&IT
Server	23	Server	32	N&IT
Router Board	24	Router Board	33	N&IT
Kum Console	25	Kum Console	34	N&IT
HNAS	26	HNAS	35	N&IT
Wireless Controller	27	Wireless Controller	36	N&IT
Router	28	Router	37	N&IT
Rack	29	Server Rack	38	N&IT
		Storage Rack	39	N&IT
		Switch Rack	40	N&IT
Access Point	30	Access Point	41	N&IT

Annexure-12: Example list of Tools

Sub-Category of Asset	**Sub-Category Code**	**Asset Item Name**	**Asset Item Code**	**Asset Code**
Domestic Appliances	01	Inverters	01	T
		Washing Machines	02	T
		Clothes Iron	03	T
		Hair Dryers	04	T
Drawing Equipment	02	Drawing Boards	05	T
		Drawing Pens	06	T
		Drawing Tubes	07	T
		Erases/Erasing shields	08	T
		Manual Sketching Kits	09	T
		Glass Etching Tools	10	T
		Vinyl Cutter	11	T
		Frosted Glass Panels	12	T

Frosting and designing	03	Glass Design Templates	13	T
		Sandblasting Equipment	14	T
		Glass Engraving Machines	15	T
		Laser Etching Equipment	16	T
Loose tools	04	Hammers	17	T
		Screwdrivers	18	T
		Pliers	19	T
		Wrenches	20	T
		Measuring Tapes	21	T
		Utility Knives	22	T
		Chisels	23	T
		Clamps	24	T
		Torque Wrenches	25	T
		Grease Guns	26	T
		Pipe Wrenches	27	T
		Bearing Pullers	28	T
		Oil Cans	29	T
		Taps and dies	30	T
		Testers	31	T
		Wire Strippers	32	T
		Crimping Tools	33	T
		Insulation Tape & Tools	34	T
		Hand Saws	35	T
		Planers	36	T
		Files and Rasps	37	T
		Carpenter Squares	38	T
		Mallets	39	T
		Marking Gauges	40	T
		Try Squares	41	T
		Chalk Line Tools	42	T
		Socket Sets	43	T
		Hex Keys	44	T
		Vernier Calipers	45	T
Kitchen Tools	05	Blenders/Grinders	46	T
		Toasters/Sandwich Makers	47	T
		Rice Cookers	48	T
		Manual Sewing Machine	49	T
		Overlock Sewing Machine	50	T
		Embroidery Machine	51	T
		Buttonhole Machine	52	T
		Blind Stitch Machine	53	T
		Fabric Cutting Table	54	T
		Tailors Scissors/Shears	55	T

Tailoring Equipment	06	Notcher & Hole Punch	56	T
		Sewing Machine Stand/Table	57	T
		Needle Set	58	T
		Tailor Chalk/Marking Pens	59	T
		Fabric Storage Racks	60	T
		Cutting Machines	61	T
		Stitch Counter	62	T
Testing Equipment	07	Insulation Resistance Tester	63	T
		Multimeter	64	T
		Clamp Meter	65	T
		Earth Resistance Tester	66	T
		High Voltage Test Set	67	T
		Continuity Tester	68	T
		Circuit Breaker Analyzer	69	T
		Power Analyzer	70	T
		Compression Testing Machine	71	T
		Concrete Cube Molds	72	T
		Slump Cone Test Kit	73	T
		Bitumen Testing Apparatus	74	T
		Soil Testing Equipment	75	T
		Universal Testing Machine	76	T
		Torque Tester	77	T
		Vibration Analyzer	78	T
		Oscilloscope	79	T
		LCR Meter	80	T
		Function Generator	81	T
		Thermometers	82	T
		pH Meter	83	T
		Hygrometer	84	T
		Anemometer	85	T
		Water Quality Test Kit	86	T
		Air Quality Monitoring Devices	87	T

Annexure-13: Example list of Leasehold Improvements

Sub-Category of Asset	Sub-Category Code	Asset Item Name	Asset Item Code	Asset Code
Structural & Interior Fittings	01	Partition Walls	01	LI
		False Ceiling	02	LI
		Internal Doors & Frames	03	LI
		Soundproofing Panels	04	LI
		Lighting Fixtures & Fittings	05	LI
		Power Outlets	06	LI

Electrical & Lighting	02	Electrical Wiring	07	LI
		Server Room Electrical Fit-out	08	LI
		Emergency Lights & Exit Signs	09	LI
Safety & Compliance	03	Fire Alarm System	10	LI
		Smoke Detectors	11	LI
		Fire Extinguisher cabinets	12	LI
		CCTV Infrastructures	13	LI

Annexure-14: Example list of Infrastructure

Sub-Category of Asset	**Sub-Category Code**	**Asset Item Name**	**Asset Item Code**	**Asset Code**
Civil & Structural Infrastructure	01	Roads & Pavements	01	I
		Bridges & Culverts	02	I
		Airports & Airstrips	03	I
		Seaports & Inland River Ports	04	I
		Bus Terminals	05	I
		Ferry Terminals	06	I
		Railway Station	07	I
		Satellite Ground Stations	08	I
		Mobile Network Towers	09	I
		Toll Plaza	10	I
		Border Check-posts	11	I
		Underground Cable Trench	12	I
		Drainage Systems	13	I
		Water Reservoirs/Tanks	14	I
Utilities Infrastructure	02	Power Distribution Network	15	I
		Transformers & Substations	16	I
		Electrical Duct Banks	17	I
		Water Supply Lines	18	I
		Wastewater Pipelines	19	I
		Telecommunication Ducting	20	I
		Gas Pipeline Network	21	I
Building Support Infrastructure	03	Compound Lighting	22	I
		Watch Towers	23	I
		Export Processing Zones	24	I
		Industrial Parks	25	I
		Government Warehouse & Cold Storage	26	I
		Internal Roadways & Footpaths	27	I
		Reticulated Systems	28	I
		Septic Tanks/Soak Pits	29	I
		Parking Areas/Carports	30	I

Transport/Access Infrastructure	04	Rail Sidings/Tracks	31	I
		Helipads/Taxiways	32	I
		Railway Tracks	33	I
		Mass Transit Systems	34	I
		Loading Bays/Access Ramps	35	I

Annexure-15: Example list of Aircraft and other inter-alia Assets

Sub-Category of Asset	Sub-Category Code	Asset Item Name	Asset Item Code	Asset Code
Air Craft	01	Airplane	01	A
		Turbojet Aircraft	02	A
		High Altitude	03	A
		Tail wheel	04	A
		Single Engine Land	05	A
		Single Engine Sea	06	A
		Multi Engine Land	07	A
		Multi Engine Sea	08	A
		JET	09	A
		Single Main-Rotor Helicopter	10	A
		Tandem Rotor Helicopter	11	A
		Coaxial Helicopter	12	A
		Compound Helicopter	13	A
		Tilt Rotor Helicopter	14	A
		Intermeshing Rotor Helicopter	15	A
		Tandem Rotor Helicopter	16	A
		Troop Carrier Helicopter	17	A
Train	02	Inter City Train	18	A
		Rapid Transit Train	19	A
		Metro Rail	20	A
		Cargo Train	21	A
		Passenger Carrier Train	22	A

Annexure 16: Example list of VESSELS, Shipping Machinery and Equipment's

Sub-Category of Asset	Sub-Category Code	Asset Item Name	Asset Item Code	Asset Code
		Aircraft Carrier Ship	01	V
		Submarines	02	V
		Frigates	03	V
		Corvettes	04	V
		Patrol Vessels	05	V
		Container Ship	06	V

Vessels	01	Bulk Carrier	07	V
		Fishing Vessels	08	V
		General Cargo Ship	09	V
		Reefer Ship	10	V
		Tanker Ship	11	V
		Passenger Carrier Ship	12	V
		Yachts	13	V
		Ferry	14	V
		Coastal Patrol Boats	15	V
		Jetties, Slipways	16	V
		Dredgers	17	V
		Fishing Vessels	18	V
		Speed Boats	19	V
		Tugs, Vessels & Launches	20	V

Annexure-17: Example list of Other Tangible Assets

Sub-Category of Asset	Sub-Category Code	Asset Item Name	Asset Item Code	Asset Code
Crockeries	01	Dinner Plates	01	O
		Soup Bowls	02	O
		Rice Bowls	03	O
		Tea Cups & Saucers	04	O
		Mugs	05	O
		Glasses	06	O
		Jugs & Pitchers	07	O
		Cutlery	08	O
		Tray Sets	09	O
		Napkin Holders	10	O
		Side Plates	11	O
Fire & Safety Equipment Gas Line	02	Fire Extinguishers	12	O
		Fire Hose Reels	13	O
		Fire Dampers	14	O
		Fire Water Storage Tanks	15	O
		Fire Buckets	16	O
		Fire Blankets	17	O
		Fire Water Storage Tanks	18	O
		Fire Hydrants	19	O
		Stethoscopes	20	O
		Sphygmomanometers	21	O
		Pulse Oximeters	22	O
		Glucometers	23	O
		Syringe Pumps	24	O

Medical Accessories	03	Dressing Sets	25	O
		Bandage & Cotton Dispensers	26	O
		Autoclave containers	27	O
		Centrifuge Tubes and Racks	28	O
		First Aid Kits	29	O
		Thermal Boxes	30	O
Forklifts	04	Diesel Forklift	31	O
		Electric Forklift	32	O
		LPG Forklift	33	O
		Rough Terrain Forklift	34	O
		Pallet Stackers	35	O
		Counterbalance Forklift	36	O
Sundry Assets	05	Sundry assets	37	O
Other assets	06	Other assets	38	O

Annexure-18: Example list of Intangible Assets

Sub-Category of Asset	**Sub-Category Code**	**Asset Item Name**	**Asset Item Code**	**Asset Code**
SOES AND ABS domain	01	SOES AND ABS domain	01	I
DFS platform hardware	02	DFS platform hardware	02	I
ORACLE database	03	ORACLE database	03	I
Software	04	Operating Software	04	I
		Application Software	05	I
		Internet Banking Software	06	I
		Mobile Banking Software	07	I

Annexure-19: Fixed Asset Disposal Note (FDN)

STATE-OWNED ENTERPRISES (SOES) AND AUTONOMOUS BODIES (ABS)
FIXED ASSET DISPOSAL NOTE (FDN)

INSTRUCTION:
MUST fill in all boxes unless otherwise marked. # Forms should be completed in triplicate. # Forms should be sent to Finance & Accounts Department after Completion.

Disposal Type (Please Tick):	Sale	Donation

Location Code:		**FDN #**		
Location Description:		**Date:**		
User Name:				
Type of Asset:			**Imported**	**Local**
Reference:				

Year of Purchase:	
Date of Commission:	

Reason (Use separate sheet if insufficient space):

Serial No.	**Asset Type**	**GL Asset Code No.**	**Description of Asset**	**Original Value**	**Accumulated Depreciation**	**Written Down Value**	**Sales Value**
Total							

Reason for asset disposal:

Proposed by	**Checked by**	**Authorized by**

Annexure-20: Fixed Asset Transfer Form (FATF)

STATE-OWNED ENTERPRISES (SOES) AND AUTONOMOUS BODIES (ABS)
Fixed Asset Transfer Form

Transferring No.:
Date:

INSTRUCTION:
MUST fill in ALL boxes unless otherwise marked.
Forms should be completed in triplicate.
Forms should be sent to ADMINISTRATION DEPARTMENT after Completion.
Receiving division/regional office shall affix the new tag number of transferred asset.

Transferor:
RO/HO:
Branch Code:

Transferee:
RO/HO:
Branch Code:

Details of transferring asset:

SL No.	Item Description	Asset tag Number	Date of Purchase	Cost	Acc. Dep.	Written Down Value	Est. Remaining Useful Life

Justification of Transfer:

Approved By Transferring Regional Office/Division:
Name:
Designation:
Signature:

Asset Received By:
Name:
Designation:
Signature:

Approved By Human Resources and Admin Division:
Name:
Designation:
Signature:

"To be used when transferring fixed asset from one department/Division/RO to another, not necessary when transferring within the same department/division/RO".

Annexure-21: Asset Purchase Requisition

Asset Purchase Requisition				
STATE-OWNED ENTERPRISES (SOES) AND AUTONOMOUS BODIES (ABS)				
Name of office:				
Division Name:				
Requested by:			Date:	
Purpose of Use:				
Vendor Name:				
Vendor Address:				
Vendor Contact:			Phone:	
SL No.	Product/ Services Description	Quantity	Unit Price	Extended Cost
For Purchasing Division Only				
Approvals:				
Division Head:		Date:	Approved:	
Additional:		Date:	Ordered for:	
			P.O. No.:	
Vendor ETIN/TIN or ID No. on file? ☐Yes ☐No			Date:	

Annexure-22: Fixed Asset Register

Asset Group	Asset Sub-Group	Asset Name	Specification	Brand/ Manufacturer	Asset ID	Location	Division	Dept. in use	Date of purchase	Invoice No.	Supplier name	Dep. Rate / Useful life	Cost price	Acc. Dep.	Written down value	Remark

Prepared by **Reviewed by** **Authorized By**

Annexure-23: Assets Onboarding Form

Assets Onboarding Form							
STATE-OWNED ENTERPRISES (SOES) AND AUTONOMOUS BODIES (ABS)							
Name of Receiver:							
Division Name:							
Department Name:				Received Date:			
Employee ID:				Phone:			
Vendor Name:							
Vendor Address:							
PO Number:				PO Date:			
Item Name	**Item Specification**	**Serial Number**	**Unit**	**Condition**	**Location**	**Sub-Location**	**Remarks**
I acknowledge receipt for above equipment and request it be added fixed assets register.							
Receiver Signature:				Date:			
Departmental Head Signature:				Date:			
Additional:				Date:			

Annexure-24: Summary of SOEs AND ABs purchase and procurement policy

Purchase and Procurement Committee (PPC):

SOES AND ABSL will maintain Purchase and Procurement Committee consisting of 5 members which will be headed by a Deputy Managing Director (DMD)/ Director. The committee will be approved by Managing Director (MD). The quorum for a committee meeting will consist of 2 members except the quorum related to IT. In the event of IT procurement, there will be 4 members in the committee meeting which must be participated by the Head of IT.

Purchase and procurement of all items up toTk.25,000 except IT related items shall be handled by Established Division; i.e. ADMINISTRATION DEPARTMENT in line with the recommendation of the concerned Division/Office and to be approved by the competent authority in accordance with their delegated power.

Any purchase/procurement above Tk. 25,000 shall be handled by the Purchase and Procurement Committee.

Purchase and procurement of IT related items up to Tk. 25,000 shall be handled by IT division and to be approved by the competent authority as per their delegated financial power. Records and documents for these purchase and procurement shall be maintained by IT division.

Methods and procedures of purchase and procurement:

The methods for the purchase of fixed asset are given below as per “SOES AND ABSL Purchase and Procurement Policy”:

A. Direct Purchase: Purchase without any Tender or Quotation.
B. Spot Quotations: At least three quotations are required in the vendor's pad.
C. Closed Tender: Only enlisted suppliers submit tender in SOES AND ABSL's prescribed format.
D. Preferred Brand/ Vendor
E. Open Tender

“SOEs AND ABs Purchase and Procurement Policy” should be followed for purchasing fixed asset. Following section specifies different purchase process for different categories of asset as per “SOES AND ABSL Purchase & Procurement Policy”:

Sl. No.	Category	Purchase and procurement method
1.	Real Estate- Land and Building	Method A with prior approval of Board of Directors of SOEs AND ABs
2.	Renovation and Decoration	Up to Tk. 100,000 method B More than Tk. 100,000 method C/ E
3.	Furniture and Fixture	Up to Tk. 100, 000: Method B More than Tk. 100,000: Method C/ E Brand Item: Method D
4.	Vehicle	Method D: Only through preferred vendor upon Obtaining approval from the competent authority.

Sl. No.	Category	Purchase and procurement method
5.	Air Cooler/ Generator	Up to Tk. 100,000: Method A More than Tk. 100,000: Method C
6.	IT related items	Up to Tk. 25,000: Method B/ C (Purchase & Procurement Committee is not necessary) More than Tk. 25,000: Method B/ C/ E Brand Items: Method D
7.	Direct Import	Import directly on the basis of Proforma Invoices through direct negotiation as per decision of Competent authority as per Method A
8.	All Other Items	Up to Tk. 25,000: Method A More Than Tk. 25,000: Method B/ C

Please note that this annexure shall be based on SOEs and ABs procurement policy. If any changes, alternation, addition, modification, removal of clauses are made in Procurement policy for fixed assets and contradicts with annexure 24, Govt procurement policy shall be followed and prevailed and supersede annexure 24.

Part B

Lease and Lease Accounting

Part B- Lease and Lease Accounting

1. Policy Statement

(1) This policy establishes guidelines for the identification, classification, accounting, and reporting of leases in compliance with International Financial Reporting Standard 16 and SOEs and ABs' financial controls.

2. Introduction

(1) This Lease Policy aims to establish clear guidelines for leasing of residential and commercial properties in Bangladesh. It provides a framework to ensure fairness, transparency, and accountability between lessors (landlords) and lessees (tenants), promoting healthy and sustainable rental practices in the country.

(a) **Lease Agreement/Contract:** Leases are contracts in which the property/asset owner allows another party to use the property/asset in exchange for some consideration, usually money or other assets. The two most common types of leases in accounting are operating and finance (or capital) leases. It is worth noting, however, that under IFRS, all leases are regarded as finance-type leases. This step-by-step guide covers the basics of lease accounting according to IFRS-16.
(b) **Lessee:** In a lease agreement the lessee is the person that the lease is granted to use the land or property in exchange of paying the rent. The lessee is also known as the "tenant" and must uphold specific obligations as defined in the lease agreement and by law. The lease is a legally binding document, and if the lessee violates its terms they could be evicted.
(c) **Lessor:** In a lease agreement, the lessor is the person or party that issues the lease against rent to the lessee. A lessor is essentially someone who grants a lease to someone else. As such, a lessor is the owner of an asset that is leased under an agreement to a lessee. The lessee makes a one-time payment or a series of periodic payments to the lessor in return for the use of the asset.

3. Lease Agreement

A formal written lease agreement must be executed before the tenant occupies the property. The agreement should cover the following key elements:

1. **Parties Involved**: Names, addresses, and contact details of the lessor and lessee.
2. **Premises Description:** A clear description of the property being leased (location, size, features).
3. **Lease Term:** The duration of the lease (e.g., 6 months, 1 year, etc.), with start and end dates.
4. **Rent Details**: The monthly or annual rent amount, payment due dates, acceptable payment methods, and any penalties for late payment.
5. **Security Deposit:** The amount of the security deposit, typically not exceeding 3 months' rent, to be held by the lessor for any damages or unpaid dues.
6. **Use of Premises**: A clause specifying that the property should be used for lawful purposes (e.g., residential or commercial) and any restrictions on subleasing or making alterations.
7. **Maintenance and Repairs:** The responsibilities of both parties regarding maintenance, repairs,

and the condition of the property.

8. **Termination Clause**: Conditions under which the lease can be terminated early by either party, including notice periods.
9. **Dispute Resolution:** Procedures for resolving disputes, including the use of mediation or the courts.

4. Objective

(1) This Standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

(2) An entity shall consider the terms and conditions of contracts and all relevant facts and circumstances when applying this Standard. An entity shall apply this Standard consistently to contracts with similar characteristics and in similar circumstances.

5. Scope

(1) This policy applies to all:
  (a) Property leases (Building, offices, warehouses, land)
  (b) Equipment leases (vehicles, machinery, IT)
  (c) Embedded leases in service contracts
  (d) Agreements with lease terms >12 months and value of the lease contract in the contract period > threshold, e.g., BDT 500,000

(2) An entity shall apply this Standard to all leases, including leases of right-of-use assets in a sublease, except for:
  a. leases to explore for or use minerals, oil, natural gas and similar non- regenerative resources.
  b. leases of biological assets within the scope of IAS 41 Agriculture held by a lessee;
  c. service concession arrangements within the scope of IFRIC 12 Service Concession Arrangements.
  d. licenses of intellectual property granted by a lessor within the scope of IFRS 15 Revenue from Contracts with Customers; and
  e. rights held by a lessee under licensing agreements within the scope of IAS 38 Intangible Assets for such items as motion picture films, video recordings, plays, manuscripts, patents and copyrights.

(3) A lessee may, but is not required to, apply this Standard to leases of intangible assets other than those described above.

At the inception of a contract, an entity must assess whether the contract is, or contains, a lease. This will be the case if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

(4) To assess whether a contract conveys the right to control the use of an identified asset for a period of time, the lessee must have both of the following:

- the right to obtain substantially all of the economic benefits from the use of the identified asset, and
- the right to direct the use of the identified asset.

6. An 'identified asset'

(1) One essential feature of a lease is that the underlying asset (ie the asset that is the subject of the lease) is 'identified'. This normally takes place through the asset being specified in a contract, or part of a contract. For the asset to be identified, the supplier of the asset must not have the right to substitute the asset for an alternative asset throughout its period of use. The fact that the supplier of the asset has the right or the obligation to substitute the asset when a repair is necessary does not preclude the asset from being an 'identified asset'.

(2) An asset is typically identified by being explicitly specified in a contract. However, an asset can also be identified by being implicitly specified at the time that the asset is made available for use by the customer.

Example – identified assets

Under a contract between a local government authority (L) and a private sector provider (P), P provides L with 20 trucks to be used for refuse collection on behalf of L for a six-year period. The trucks, which are owned by P, are specified in the contract. L determines how they are used in the refuse collection process. When the trucks are not in use, they are kept at L's premises. L can use the trucks for another purpose if it so chooses. If a particular truck needs to be serviced or repaired, P is required to substitute a truck of the same type. Otherwise, and other than on default by L, P cannot retrieve the trucks during the six-year period.

Conclusion: The contract is a **lease**. L has the right to use the 20 trucks for six years which are identified and explicitly specified in the contract. Once delivered to L, the trucks can be substituted only when they need to be serviced or repaired.

7. The right to direct the use of the asset

(1) IFRS 16 states that a customer has the right to direct the use of an identified asset if either:

i. The customer has the right to direct how and for what purpose the asset is used throughout its period of use; or
ii. The relevant decisions about use are pre-determined and the customer has the right to operate the asset throughout the period of use without the supplier having the right to change these operating instructions, or
iii. the customer designed the asset in a way that predetermines how and for what purpose the asset will be used.

Example – the right to direct the use of an asset

A customer (C) enters into a contract with a road hauler (H) for the transportation of goods from Dhaka to Chattogram on a specified truck. The truck is explicitly specified in the contract and H does not have substitution rights. The goods will occupy substantially all of the capacity of the truck. The contract specifies the goods to be transported on the truck and the dates of pickup and delivery.

H operates and maintains the truck and is responsible for the safe delivery of the goods. C is prohibited from hiring another hauler to transport the goods or operating the truck itself. Conclusion: This contract does **not** contain a lease.

There **is** an identified asset. The truck is explicitly specified in the contract and H does not have the right to substitute that specified truck.

C **does** have the right to obtain substantially all of the economic benefits from use of the truck over the contract period. Its goods will occupy substantially all of the capacity of the truck, thereby preventing other parties from obtaining economic benefits from use of the truck.

However, C does **not** have the right to control the use of the truck because C does not have the right to direct its use. C does **not** have the right to direct how and for what purpose the truck is used. How and for what purpose the truck will be used (ie the transportation of specified goods from London to Edinburgh within a specified timeframe) is predetermined in the contract. Although it is possible for rights to be predetermined in a contract, in this contract C does not have any decision-making rights relating to the use of the asset.

Therefore, C has the same rights regarding the use of the truck as if it were one of many customers transporting goods using the truck. In other words, C is simply paying for haulage services rather than leasing a truck.

8. Lessee Accounting

8.1 Understand rules for Lessee Accounting

(1) Leases must be evaluated to determine if they are finance leases or operating leases, which, in turn, determine the appropriate accounting processes. All leases are recognized and initially measured on the lease commencement date by recording a right-of-use asset and a lease liability on the balance sheet.
(2) A lease is a finance lease if it meets certain criteria; if not, it is an operating lease. Lease classification must be evaluated at the lease inception date.
(3) Both finance and operating leases are recorded to the Balance Sheet as a Right-of-use asset and Lease liability, however, the methodology differs depending on lease classification.

8.2 Identifying a lease

(1) At inception of a contract, an entity shall assess whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.
(2) A period of time may be described in terms of the amount of use of an identified asset (for example, the number of production units that an item of equipment will be used to produce).
(3) An entity shall reassess whether a contract is, or contains, a lease only if the terms and conditions of the contract are changed.

(4) To assess whether a contract conveys the right to control the use of an identified asset for a period of time, an entity shall assess whether, throughout the period of use, the customer has both of the following:

(a) the right to obtain substantially all of the economic benefits from use of the identified asset; and
(b) the right to direct the use of the identified asset.

(5) If the customer has the right to control the use of an identified asset for only a portion of the term of the contract, the contract contains a lease for that portion of the term.
(6) A contract to receive goods or services may be entered into by a joint arrangement, or on behalf of a joint arrangement, as defined in IFRS 11 Joint Arrangements. In this case, the joint arrangement is considered to be the customer in the contract. Accordingly, in assessing whether such a contract contains a lease, an entity shall assess whether the joint arrangement has the right to control the use of an identified asset throughout the period of use.
(7) An entity shall assess whether a contract contains a lease for each potential separate lease component.

8.3 Lessee

(1) For a contract that contains a lease component and one or more additional lease or non-lease components, a lessee shall allocate the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

(2) The relative stand-alone price of lease and non-lease components shall be determined on the basis of the price the lessor, or a similar supplier, would charge an entity for that component, or a similar component, separately. If an observable stand-alone price is not readily available, the lessee shall estimate the stand-alone price, maximizing the use of observable information.

(3) As a practical expedient, a lessee may elect, by class of underlying asset, not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component. A lessee shall not apply this practical expedient to embedded derivatives that meet the criteria of IFRS 9 Financial Instruments.

(4) Unless the practical expedient is applied, a lessee shall account for non-lease components applying other applicable Standards.

8.4 Lease term

(1) An entity shall determine the lease term as the non-cancellable period of a lease, together with both:
a. periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and
b. periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.

(2) In assessing whether a lessee is reasonably certain to exercise an option to extend a lease, or not

to exercise an option to terminate a lease, an entity shall consider all relevant facts and circumstances that create an economic incentive for the lessee to exercise the option to extend the lease, or not to exercise the option to terminate the lease, as described

(3) A lessee shall reassess whether it is reasonably certain to exercise an extension option, or not to exercise a termination option, upon the occurrence of either a significant event or a significant change in circumstances that:
   a. is within the control of the lessee; and
   b. affects whether the lessee is reasonably certain to exercise an option not previously included in its determination of the lease term, or not to exercise an option previously included in its determination of the lease term

(4) An entity shall revise the lease term if there is a change in the non-cancellable period of a lease. For example, the non-cancellable period of a lease will change if:

   a. the lessee exercises an option not previously included in the entity's determination of the lease term;
   b. the lessee does not exercise an option previously included in the entity's determination of the lease term;
   c. an event occurs that contractually obliges the lessee to exercise an option not previously included in the entity's determination of the lease term; or
   d. an event occurs that contractually prohibits the lessee from exercising an option previously included in the entity's determination of the lease term.

8.5 Discount rate

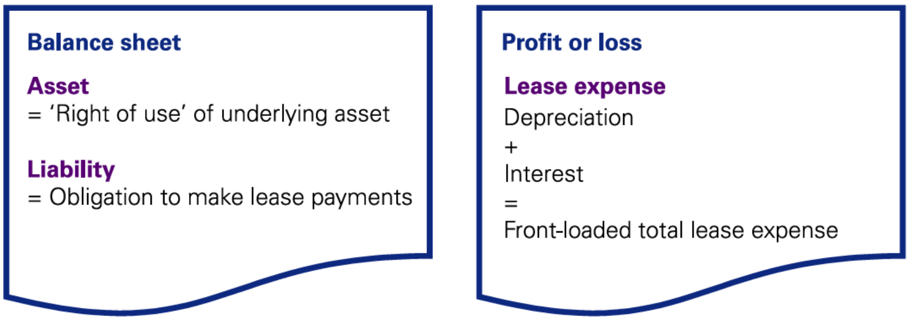
(1) At the commencement date, a lessee measures the lease liability at the present value of the lease payments using the interest rate implicit in the lease if this can be readily determined. This is the rate that causes the present value of the lease payments and the unguaranteed residual value to equal the sum of the fair value of the underlying asset and any initial direct costs of the lessor.
(2) If the lessee cannot readily determine the interest rate implicit in the lease, then the lessee uses its incremental borrowing rate. This is the rate that a lessee would have to pay at the commencement date of the lease for a loan of a similar term, and with similar security, to obtain an asset of similar value to the right-of use asset in a similar economic environment.

8.6 Lease Accounting for lessee

(1) With very few exceptions, lessees recognise a 'right-of-use-asset' (i.e. an asset in the statement of financial position representing the right to use an underlying asset) and an associated liability at the commencement date of the lease (i.e. the date that the lessor makes the underlying asset available for use by the lessee).
(2) IFRS 16 requires that the lease liability should initially be measured at the present value of the lease payments that are not paid at the commencement date. The discount rate used to determine present value should be the rate of interest implicit in the lease.

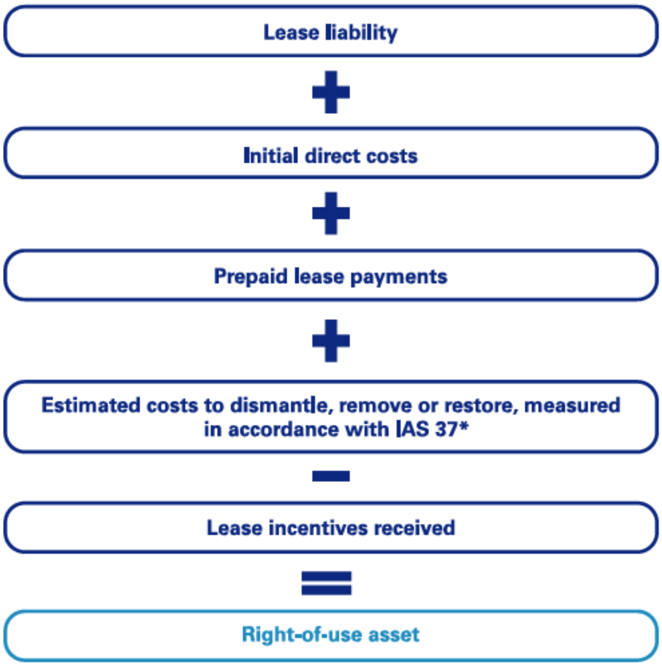
8.7 Recognition

(1) At the commencement date, a lessee shall recognise a right-of-use asset and a lease liability.
(2) A lessee applies a single lease accounting model under which it recognises all leases on-balance sheet, unless it elects to apply the recognition exemptions. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make payments.



8.8 Initial measurement of the right-of-use asset

(1) At the commencement date, a lessee measures the right-of-use asset at a cost that includes the following.



* IAS 37 *Provisions, Contingent Liabilities and Contingent Assets.*

(2) The cost of the right-of-use asset shall comprise:
i. the amount of the initial measurement of the lease liability
ii. any lease payments made at or before the commencement date, less any lease incentives received;
iii. any initial direct costs incurred by the lessee; and
iv. an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. The lessee incurs the obligation for those costs either at the commencement date or as a consequence of having used the underlying asset during a particular period.

(3) A lessee shall recognize the costs as part of the cost of the right-of-use asset when it incurs an obligation for those costs. A lessee applies IAS 2 Inventories to costs that are incurred during a particular period as a consequence of having used the right-of-use asset to produce inventories during that period. The obligations for such costs accounted for applying this Standard or IAS 2 are recognized and measured applying IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

(4) A lessee's 'initial direct costs' are the incremental costs of obtaining a lease that would not otherwise have been incurred. This definition is similar to the definition of the incremental costs of obtaining a contract under IFRS 15 Revenue from Contracts with Customers. That is, the focus is on costs that are contingent on actually obtaining the lease. Costs that are directly attributable to seeking to obtain a lease but are incurred irrespective of whether the lease is actually obtained are not initial direct costs.

Typical initial direct costs of a lessee	
Include ✓	**Exclude** ×
– Commissions – Legal fees* – Costs that are incremental and directly attributable to negotiating lease terms and conditions* – Costs of arranging collateral – Payments made by a potential lessee to existing tenants to obtain the lease *If they are contingent on obtaining the lease*	– General overheads (e.g. costs incurred by a sales and marketing team or a purchase team) – Costs of investment appraisals, feasibility studies, due diligence etc. that are incurred regardless of whether the lease is entered into – Costs to obtain offers for potential leases

8.9 Initial measurement of the lease liability

(1) At the commencement date, a lessee shall measure the lease liability at the present value of the lease payments that are not paid at that date. The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the lessee shall use the lessee's incremental borrowing rate.

(2) At the commencement date, the lease payments included in the measurement of the lease liability comprise the following payments for the right to use the underlying asset during the lease term that are not paid at the commencement date:

a) fixed payments (including in-substance fixed payments less any lease incentives receivable;

b) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
c) amounts expected to be payable by the lessee under residual value guarantees;
d) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option (assessed considering the factors and
e) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

(3) Variable lease payments that depend on an index or a rate include, for example, payments linked to a consumer price index, payments linked to a benchmark interest rate (such as LIBOR) or payments that vary to reflect changes in market rental rates.

8.10 In-substance fixed lease payments

(1) Lease payments include any in-substance fixed lease payments. In-substance fixed lease payments are payments that may, in form, contain variability but that, in substance, are unavoidable. In-substance fixed lease payments exist, for example, if:

(2) payments are structured as variable lease payments, but there is no genuine variability in those payments. Those payments contain variable clauses that do not have real economic substance. Examples of those types of payments include:

   i. payments that must be made only if an asset is proven to be capable of operating during the lease, or only if an event occurs that has no genuine possibility of not occurring; or
   ii. payments that are initially structured as variable lease payments linked to the use of the underlying asset but for which the variability will be resolved at some point after the commencement date so that the payments become fixed for the remainder of the lease term. Those payments become in- substance fixed payments when the variability is resolved.

(3) There is more than one set of payments that a lessee could make, but only one of those sets of payments is realistic. In this case, an entity shall consider the realistic set of payments to be lease payments.

(4) there is more than one realistic set of payments that a lessee could make, but it must make at least one of those sets of payments. In this case, an entity shall consider the set of payments that aggregates to the lowest amount (on a discounted basis) to be lease payments.

8.11 Recording the asset

(1) The right-of-use-asset would include the following amounts, where relevant:

- the amount of the initial measurement of the lease liability (as described above)
- any payments made to the lessor at, or before, the commencement date of the lease, less any lease incentives received
- any initial direct costs incurred by the lessee

- an estimate of any costs to be incurred by the lessee in dismantling and removing the underlying asset, or restoring the site on which it is located (unless the costs are incurred to produce inventories, in which case they would be accounted for in accordance with IAS 2 Inventories). Costs of this nature are recognized only when an entity incurs an obligation for them. IAS 37, *Provisions, Contingent Liabilities and Contingent Assets* would be applied to ascertain if an obligation existed.

8.12 Record Finance Lease Properly

(1) Initial Set-up
The Company is required to record a right-of-use ("ROU") asset and a lease liability for finance leases at the lease commencement date. Given the complexity of accounting rules for finance leases and the fact that it requires central-only object codes.

(2) All ROU assets related to finance leases will be recorded as fixed assets with subsequent depreciation being recorded to the GL monthly.

(3) All liabilities related to finance leases will be recorded as Finance Lease Equipment Liability or Finance Lease Building Liability.

(4) **Lease prepayments and incentives:** If lease payments are made, or lease incentives received, prior to the lease commencement, such as the lease inception date, they should be recorded as prepaid rent. This prepaid amount will be reclassified to the lease asset on lease commencement date.

(5) **Depreciation of the finance lease asset:** The ROU asset is depreciated on a straight-line basis over the lease term, inclusive of extensions, within OFA. If the lease term is greater than the asset's useful life, it will be amortized over the asset's useful life. No manual entries are necessary.

8.13 Depreciation/Amortization

(1) The right-of-use-asset is subsequently depreciated. Depreciation is over the shorter of the useful life of the asset and the lease term, unless the title to the asset transfers at the end of the lease term, in which case depreciation is over the useful life.

(2) A lessee depreciates right-of-use assets in accordance with the requirements of IAS 16 Property, Plant and Equipment – i.e. the depreciation method reflects the pattern in which the future economic benefits of the right-of-use asset are consumed. This will usually result in a straight-line depreciation charge.

(3) Depreciation starts at the commencement date of the lease. The period over which the asset is depreciated is determined as follows:
   (a) if ownership of the underlying asset is transferred to the lessee, or the lessee is reasonably certain to exercise a purchase option, then the depreciation period runs to the end of the useful life of the underlying asset; otherwise
   (b) the depreciation period runs to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

8.14 Impairment of the right-of-use asset

(4) A lessee applies IAS 36 *Impairment of Assets* to determine whether a right-of use asset is impaired and to account for any impairment. After recognition of an impairment loss, the future depreciation charges for the right-of-use asset are adjusted to reflect the revised Carrying amount/value.

8.15 Lease liability

(1) The lease liability is effectively treated as a financial liability which is measured at amortised cost, using the rate of interest implicit in the lease as the effective interest rate.

Example – accounting for leases
A lessee enters into a 20-year lease of one floor of a building, with an option to extend for a further five years. Lease payments are 80,000 per year during the initial term and 100,000 per year during the optional period, all payable at the end of each year. To obtain the lease, the lessee incurred initial direct costs at the commencement date of 25,000.

At the commencement date, the lessee concluded that it is not reasonably certain to exercise the option to extend the lease and, therefore, determined that the lease term is 20 years. The interest rate implicit in the lease is 6% per annum which is equivalent to a 20-year cumulative discount factor of 11.470. The present value of the 20 years of lease payments is 917,600 (80,000 x 11.470).

The Carrying amount/value of the right-of-use-asset at the commencement date is 942,600 (917,600 + 25,000 initial direct costs) and consequently the annual depreciation charge will be 47,130 (942,600 x 1/20).

The lease liability will be measured using amortised cost principles. In order to help us with the example in the following section, we will measure the lease liability up to and including the end of year two. This is done in the following table:

Year	Balance b/f*	Finance cost 6%	Payment	Balance c/f*
1	**917,600**	**55,056**	**(80,000)**	**892,656**
2	**892,656**	**53,559**	**(80,000)**	**866,215**

**c/f-carried forward, b/f-brought forward*

At the end of year one, the Carrying amount/value of the right-of-use-asset will be 895,470 (942,600 less 47,130 depreciation).

The interest cost of 55,056 will be taken to the statement of profit or loss as a finance cost.

The total lease liability at the end of year one will be 892,656. As the lease is being paid off over 20 years, some of this liability will be paid off within a year and should therefore be classed as a current liability.

(2) To find this figure, we look at the remaining balance following the payment in year two. Here, we can see that the remaining balance is 866,215. This will represent the non-current liability, being the amount of the 892,656 which will still be outstanding in 12 months' time. The current liability element is therefore 26,441. This represents the 80,000 paid in year two less year two's finance costs of 53,559 (or 892,656 – 866,215).

(3) Therefore, where payments are being made in arrears as is the case here, the non-current liability is the balance carried forward at the end of year two. The current liability is the difference between the total liability at the end of year one and the non-current liability (ie the total liability remaining at the end of year two).

(4) However, this is not the case where payments are made in advance.

The following table could be used to calculate the relevant figures if payments were to be made in advance instead of in arrears. You should note the different placement of the payment column and the inclusion of a 'subtotal' column. For simplicity, we have used the same effective interest rate of 6%:

Year	Balance b/f	Payment	Subtotal	Finance cost 6%	Balance c/f
1	**972,640**	**(80,000)**	**892,640**	**53,558**	**946,198**
2	**946,198**	**(80,000)**	**866,198**	**51,972**	**918,170**

As payments are made in advance, this is equivalent to a 19-year cumulative discount factor of 11.158 since the first payment of 80,000 is incurred on the commencement of the lease. Therefore, the first payment is not discounted and the subtotal in year one of 892,640 (80,000 x 11.158) would be the lease liability that should initially be recognized on commencement of the lease.

The initial lease payment of 80,000 would actually be included as part of the cost of the right-of-use asset rather than the lease liability. This is because, as noted earlier in section 5.1, the cost of the right-of-use asset should include the initial measurement of the lease liability plus any lease payments made at or before the commencement date.

(5) Where payments are made in advance, the non-current liability would be the subtotal for year two (866,198) and not the total liability carried forward at the end of year two as is the case with payments in arrears. This is because, with payments in advance, the balance carried forward at the end of year two includes the finance cost for year two.

(6) In the case of both payments in arrears and payments in advance, the non-current liability is represented by the balance outstanding immediately after the payment in year two. In both cases, the current liability is the difference between the total liability at the end of year one (ie the end of the current year) and the non-current liability. This means that for payments in advance, the current liability would simply be 80,000 in this example.

8.16 Costs of the lessee relating to the construction or design of the underlying asset

(1) An entity may negotiate a lease before the underlying asset is available for use by the lessee. For some leases, the underlying asset may need to be constructed or redesigned for use by the lessee. Depending on the terms and conditions of the contract, a lessee may be required to make payments relating to the construction or design of the asset.
(2) If a lessee incurs costs relating to the construction or design of an underlying asset, the lessee shall account for those costs applying other applicable Standards, such as IAS 16. Costs

relating to the construction or design of an underlying asset do not include payments made by the lessee for the right to use the underlying asset. Payments for the right to use an underlying asset are payments for a lease, regardless of the timing of those payments.

8.17 Sublease classification

(1) In classifying a sublease, an intermediate lessor shall classify the sublease as a finance lease or an operating lease as follows:

i. if the head lease is a short-term lease that the entity, as a lessee, has accounted, the sublease shall be classified as an operating lease.
ii. otherwise, the sublease shall be classified by reference to the right-of- use asset arising from the head lease, rather than by reference to the underlying asset (for example, the item of property, plant or equipment that is the subject of the lease).

8.18 Subsequent measurement of the right-of-use asset

(1) After the commencement date, a lessee shall measure the right-of-use asset applying a cost model, unless it applies either of the measurement models

8.19 Cost model

(1) To apply a cost model, a lessee shall measure the right-of-use asset at cost:
   a. less any accumulated depreciation and any accumulated impairment losses; and
   b. adjusted for any remeasurement of the lease liability
(2) A lessee shall apply the depreciation requirements in IAS 16 Property, Plant and Equipment in depreciating the right-of-use asset, subject to the requirements
(3) If the lease transfers ownership of the underlying asset to the lessee by the end of the lease term or if the cost of the right-of-use asset reflects that the lessee will exercise a purchase option, the lessee shall depreciate the right-of- use asset from the commencement date to the end of the useful life of the underlying asset. Otherwise, the lessee shall depreciate the right-of-use asset from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.
(4) A lessee shall apply IAS 36 Impairment of Assets to determine whether the right- of-use asset is impaired and to account for any impairment loss identified.

8.20 Other measurement models

(1) If a lessee applies the fair value model in IAS 40 Investment Property to its investment property, the lessee shall also apply that fair value model to right- of-use assets that meet the definition of investment property in IAS 40.
(2) If right-of-use assets relate to a class of property, plant and equipment to which the lessee applies the revaluation model in IAS 16, a lessee may elect to apply that revaluation model to all of the right-of-use assets that relate to that class of property, plant and equipment.

8.21 Subsequent measurement of the lease liability

(1) After the commencement date, a lessee shall measure the lease liability by:
   a. increasing the Carrying amount/value to reflect interest on the lease liability;
   b. reducing the Carrying amount/value to reflect the lease payments made; and
   c. remeasuring the Carrying amount/value to reflect any reassessment or lease modifications, or to reflect revised in-substance fixed lease payments.

(2) Interest on the lease liability in each period during the lease term shall be the amount that produces a constant periodic rate of interest on the remaining balance of the lease liability. The periodic rate of interest is the discount rate or if applicable the revised discount rate

(3) After the commencement date, a lessee shall recognize in profit or loss, unless the costs are included in the Carrying amount/value of another asset applying other applicable Standards, both:

   a. interest on the lease liability; and
   b. variable lease payments not included in the measurement of the lease liability in the period in which the event or condition that triggers those payments occurs.

(4) Lessees cannot choose to measure lease liabilities subsequently at fair value.

8.22 Reassessment of the lease liability

(1) After the commencement date, a lessee shall apply to remeasure the lease liability to reflect changes to the lease payments. A lessee shall recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. However, if the Carrying amount/value of the right-of-use asset is reduced to zero and there is a further reduction in the measurement of the lease liability, a lessee shall recognize any remaining amount of the remeasurement in profit or loss.

(2) A lessee shall remeasure the lease liability by discounting the revised lease payments using a revised discount rate, if either:

   a. there is a change in the lease term, A lessee shall determine the revised lease payments on the basis of the revised lease term; or

   b. there is a change in the assessment of an option to purchase the underlying asset, assessed considering the events and circumstances in the context of a purchase option. A lessee shall determine the revised lease payments to reflect the change in amounts payable under the purchase option.

(3) In applying, a lessee shall determine the revised discount rate as the interest rate implicit in the lease for the remainder of the lease term, if that rate can be readily determined, or the lessee's incremental borrowing rate at the date of reassessment, if the interest rate implicit in the lease cannot be readily determined.

(4) A lessee shall remeasure the lease liability by discounting the revised lease payments, if either:

a. there is a change in the amounts expected to be payable under a residual value guarantee. A lessee shall determine the revised lease payments to reflect the change in amounts expected to be payable under the residual value guarantee.

b. there is a change in future lease payments resulting from a change in an index or a rate used to determine those payments, including for example a change to reflect changes in market rental rates following a market rent review. The lessee shall remeasure the lease liability to reflect those revised lease payments only when there is a change in the cash flows (i.e. when the adjustment to the lease payments takes effect). A lessee shall determine the revised lease payments for the remainder of the lease term based on the revised contractual payments.

(5) In applying, a lessee shall use an unchanged discount rate, unless the change in lease payments results from a change in floating interest rates. In that case, the lessee shall use a revised discount rate that reflects changes in the interest rate.

8.23 Temporary exception arising from interest rate benchmark reform

(1) A lessee shall apply to all lease modifications that change the basis for determining future lease payments as a result of interest rate benchmark reform. For this purpose, the term 'interest rate benchmark reform' refers to the market-wide reform of an interest rate benchmark as described in IFRS 9.

(2) As a practical expedient, a lessee shall apply to account for a lease modification required by interest rate benchmark reform. This practical expedient applies only to such modifications. For this purpose, a lease modification is required by interest rate benchmark reform if, and only if, both of these conditions are met:

a. the modification is necessary as a direct consequence of interest rate benchmark reform; and

b. the new basis for determining the lease payments is economically equivalent to the previous basis (i.e. the basis immediately preceding the modification).

(3) However, if lease modifications are made in addition to those lease modifications required by interest rate benchmark reform, a lessee shall apply the applicable requirements in this Standard to account for all lease modifications made at the same time, including those required by interest rate benchmark reform.

8.24 Portfolio application

(1) This Policy specifies the accounting for an individual lease. However, as a practical expedient, an entity may apply this Policy to a portfolio of leases with similar characteristics if the entity reasonably expects that the effects on the financial statements of applying this policy to the portfolio would not differ materially from applying this policy to the individual leases within

that portfolio. If accounting for a portfolio, an entity shall use estimates and assumptions that reflect the size and composition of the portfolio.

8.25 Lease modifications

(1) A lessee shall account for a lease modification as a separate lease if both:

a. the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
b. the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

(2) For a lease modification that is not accounted for as a separate lease, at the effective date of the lease modification a lessee shall:

a. allocate the consideration in the modified contract;
b. determine the lease term of the modified lease; and
c. remeasure the lease liability by discounting the revised lease payments using a revised discount rate. The revised discount rate is determined as the interest rate implicit in the lease for the remainder of the lease term, if that rate can be readily determined, or the lessee's incremental borrowing rate at the effective date of the modification, if the interest rate implicit in the lease cannot be readily determined.

(3) For a lease modification that is not accounted for as a separate lease, the lessee shall account for the remeasurement of the lease liability by:

a. decreasing the Carrying amount/value of the right-of-use asset to reflect the partial or full termination of the lease for lease modifications that decrease the scope of the lease. The lessee shall recognize in profit or loss any gain or loss relating to the partial or full termination of the lease.
b. making a corresponding adjustment to the right-of-use asset for all other lease modifications.

(4) As a practical expedient, a lessee may elect not to assess whether a rent concession that meets the conditions is a lease modification. A lessee that makes this election shall account for any change in lease payments resulting from the rent concession the same way it would account for the change applying this Standard if the change were not a lease modification.

(5) The practical expedient applies only to rent concessions occurring as a direct consequence of the covid-19 pandemic and only if all of the following conditions are met:

a. the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
b. any reduction in lease payments affects only payments originally due on or before 30 June 2022 (for example, a rent concession would meet this condition if it results in reduced lease payments on or before 30 June 2022 and increased lease payments that extend beyond 30 June 2022); and
c. there is no substantive change to other terms and conditions of the lease.

8.26 Recognition exemptions

(1) A lessee can elect not to apply the lessee accounting model to:
- leases with a lease term of 12 months or less that do not contain a purchase option: i.e. short-term leases; and
- leases for which the underlying asset is of low value (value in aggregate is less that taka 500,000) when it is new: even if the effect is material in aggregate.

(2) A lessee may elect not to apply the requirements to:
a. short-term leases; and
b. leases for which the underlying asset is of low value

(3) If a lessee elects not to apply the requirements to either short-term leases or leases for which the underlying asset is of low value, the lessee shall recognize the lease payments associated with those leases as an expense on either a straight-line basis over the lease term or another systematic basis. The lessee shall apply another systematic basis if that basis is more representative of the pattern of the lessee's benefit.

(4) If a lessee accounts for short-term leases, the lessee shall consider the lease to be a new lease for the purposes of this Standard if:
c. there is a lease modification; or
d. there is any change in the lease term (for example, the lessee exercises an option not previously included in its determination of the lease term).

(5) The election for short-term leases shall be made by class of underlying asset to which the right of use relates. A class of underlying asset is a grouping of underlying assets of a similar nature and use in an entity's operations. The election for leases for which the underlying asset is of low value can be made on a lease-by-lease basis.

8.27 Short-term leases

(1) The election for short-term leases is made by class of underlying asset. A 'class of underlying asset' is a grouping of underlying assets of a similar nature and use in the lessee's operations. When electing the short-term lease exemption for a particular class of underlying asset, only underlying assets from leases that meet the definition of a short-term lease are considered.

(2) The 'lease term' is determined in a manner consistent with that for all other leases. Consequently, the short-term lease exemption may be applied to renewable and cancellable leases (e.g. month-to-month, evergreen leases) if the lessee is not reasonably certain to renew (or to continue, in the case of a termination option) the lease beyond 12 months.

8.28 Low-value items

(1) A lessee is permitted not to apply the recognition and measurement requirements to leases of assets that, when they are new, are of low value. This exemption, unlike the short-term lease exemption, can be applied on a lease-by-lease basis.

(2) A lessee does not apply the low-value exemption to a lease of an individual asset in either of the following scenarios:
- if the underlying asset is highly dependent on, or highly inter-related with, other assets; or
- if the lessee cannot benefit from the underlying asset on its own or together with other readily available resources, irrespective of the value of that underlying asset.

(3) The low-value exemption also does not apply to a head lease for an asset that is sub-leased or that is expected to be sub-leased. When a lessee neither enters into a sub-lease immediately nor expects to do so later, it may elect to apply the exemption.

(4) IFRS 16 does not specify a threshold for the low-value exemption, but the basis for conclusions states that the FD 'had in mind' assets with a value of approximately Taka 500,000 or less when they are new, such as small IT equipment (e.g. some laptops, desktops, tablets, mobile phones, individual printers) and some office furniture – i.e. 'inexpensive' assets. The exemption is not intended to capture underlying assets such as cars and most photocopiers.

8.29 A simplified approach for short-term or low-value leases

(1) This Standard permits a lessee to apply to account for leases for which the underlying asset is of low value. A lessee shall assess the value of an underlying asset based on the value of the asset when it is new, regardless of the age of the asset being leased.
(2) A short-term lease is a lease that, at the commencement date, has a term of 12 months or less. A lease that contains a purchase option cannot be a short-term lease. Lessees can elect to treat short-term leases by recognizing the lease rentals as an expense over the lease term rather than recognizing a right-of-use-asset and a lease liability. The election needs to be made for relevant leased assets on a *class-by-class* basis. A similar election – on a lease-by-lease basis – can be made in respect of leases for which the underlying asset is of low value (i.e. 'low-value leases').
(3) The assessment of whether an underlying asset is of low value is performed on an absolute basis. Leases of low-value assets qualify for the simplified accounting treatment explained above regardless of whether those leases are material to the lessee. The assessment is not affected by the size, nature or circumstances of the lessee. Accordingly, different lessees are expected to reach the same conclusions about whether a particular underlying asset is of low value.
(4) Where the lease contract grants the right to use an asset that has a *low value*, the lease will also be exempt from the requirement to be recognized on the balance sheet, and as with *short term* leases, any lease payments should instead be expensed to the income statement on a straight-line basis.

(5) The assessment of whether an asset is of low value is based on the price of the underlying asset when new, and so does not reflect the effect of age or degradation on the asset's value.

(6) SOEs and ABs' policy is that reporting units should make full use of this exemption and that any leased underlying asset with an *as new* value of less than Taka 500,000 is considered to be low value for lease exemption assessment purposes.

(7) One of the key advantages of identifying multiple lease components in a single contract, is that each individual lease component can be assessed against the above low value exemption criteria e.g. in the case of the IT equipment contract, the combined total value of the underlying assets may be above the low value threshold, but by treating each asset as a separate lease component, each asset may be individually below the threshold and therefore not require recognizing on the balance sheet.
(8) The assessment of whether an underlying asset is of low value is performed on an absolute basis. Leases of low-value assets qualify for the accounting treatment regardless of whether those leases are material to the lessee. The assessment is not affected by the size, nature or circumstances of the lessee. Accordingly, different lessees are expected to reach the same

conclusions about whether a particular underlying asset is of low value.

(9) An underlying asset can be of low value only if:

a. the lessee can benefit from use of the underlying asset on its own or together with other resources that are readily available to the lessee; and

b. the underlying asset is not highly dependent on, or highly interrelated with, other assets.

(10) A lease of an underlying asset does not qualify as a lease of a low-value asset if the nature of the asset is such that, when new, the asset is typically not of low value. For example, leases of cars would not qualify as leases of low-value assets because a new car would typically not be of low value.

(11) If a lessee subleases an asset, or expects to sublease an asset, the head lease does not qualify as a lease of a low-value asset.

(12) Examples of low-value underlying assets can include tablet and personal computers, small items of office furniture and telephones.

8.30 Combination of contracts

(1) In applying this Standard, an entity shall combine two or more contracts entered into at or near the same time with the same counterparty (or related parties of the counterparty), and account for the contracts as a single contract if one or more of the following criteria are met:

a. the contracts are negotiated as a package with an overall commercial objective that cannot be understood without considering the contracts together.
b. the amount of consideration to be paid in one contract depends on the price or performance of the other contract: or
c. the rights to use underlying assets conveyed in the contracts (or some rights to use underlying assets conveyed in each of the contracts) form a single lease component.

8.31 Non-cash leases

(1) If the lease is paid for in kind, a lease liability is recorded at commencement date equal to the fair value at that date of the non-cash consideration SOEs and ABs must provide, or, if more easily measurable, the fair value of the cash payments foregone by the lessor.

(2) For example, as part of a lease of land and the lessor may agree that SOEs and ABs will pay no cash rent, but will either:

i. construct a building on the land, and the lessor will own the building when the lease term ends without cash payment to SOEs and ABs. SOEs and ABs would:
   - record the building as owned PP&E at cost in the normal way;
   - record a lease liability and right-of-use asset equal to the building's fair value, amortize that right-of-use asset over the lease term and record interest on the liability; but
   - not depreciate the owned building because its cost is recoverable in full by settling the lease liability at the end of the lease; or

ii. give the lessor a specified amount of the crop grown on the land. A lease liability is recorded equal to the value of the crop.

8.32 Separating components of a contract

(5) For a contract that is, or contains, a lease, an entity shall account for each lease component within the contract as a lease separately from non-lease components of the contract, unless the entity applies the practical expedient.

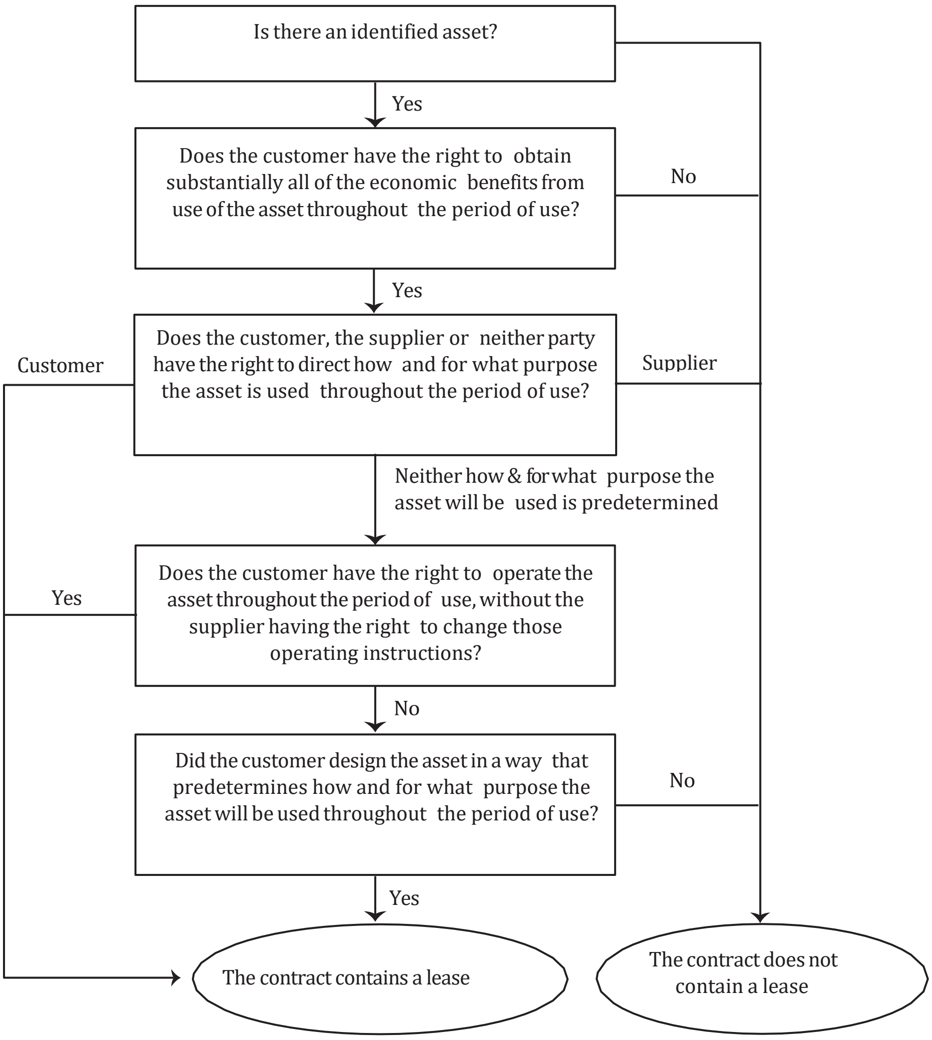
(6) The right to use an underlying asset is a separate lease component if both:

(a) the lessee can benefit from use of the underlying asset either on its own or together with other resources that are readily available to the lessee. Readily available resources are goods or services that are sold or leased separately (by the lessor or other suppliers) or resources that the lessee has already obtained (from the lessor or from other transactions or events); and

(b) the underlying asset is neither highly dependent on, nor highly interrelated with, the other underlying assets in the contract. For example, the fact that a lessee could decide not to lease the underlying asset without significantly affecting its rights to use other underlying assets in the contract might indicate that the underlying asset is not highly dependent on, or highly interrelated with, those other underlying assets.

(7) A contract may include an amount payable by the lessee for activities and costs that do not transfer a good or service to the lessee. For example, a lessor may include in the total amount payable a charge for administrative tasks, or other costs it incurs associated with the lease, that do not transfer a good or service to the lessee. Such amounts payable does not give rise to a separate component of the contract but are considered to be part of the total consideration that is allocated to the separately identified components of the contract.

(8) The following flowchart may assist entities in making the assessment of whether a contract is, or contains, a lease.



8.33 Presentation- Lessee perspective

(1) A lessee shall either present in the statement of financial position, or disclose in the notes:

a. right-of-use assets separately from other assets. If a lessee does not present right-of-use assets separately in the statement of financial position, the lessee shall:
   i. include right-of-use assets within the same line item as that within which the corresponding underlying assets would be presented if they were owned; and
   ii. disclose which line items in the statement of financial position include those right-of-use assets.
b. lease liabilities separately from other liabilities. If the lessee does not present lease liabilities separately in the statement of financial position, the lessee shall disclose which line items in the statement of financial position include those liabilities.

(2) The requirement does not apply to right-of-use assets that meet the definition of investment property, which shall be presented in the statement of financial position as investment property.

(3) In the statement of profit or loss and other comprehensive income, a lessee shall present interest expense on the lease liability separately from the depreciation charge for the right-of-use asset. Interest expense on the lease liability is a component of finance costs, under IAS 1-*Presentation of Financial Statements* requires to be presented separately in the statement of profit or loss and other comprehensive income.

(4) In the statement of cash flows, a lessee shall classify:

a. cash payments for the principal portion of the lease liability within financing activities;
b. cash payments for the interest portion of the lease liability applying the requirements in IAS 7 Statement of Cash Flows for interest paid; and
c. short-term lease payments, payments for leases of low-value assets and variable lease payments not included in the measurement of the lease liability within operating activities.

(5) The objective of the disclosures is for lessees to disclose information in the notes that, together with the information provided in the statement of financial position, statement of profit or loss and statement of cash flows, gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of the lessee.

(6) A lessee shall disclose information about its leases for which it is a lessee in a single note or separate section in its financial statements. However, a lessee need not duplicate information that is already presented elsewhere in the financial statements, provided that the information is incorporated by cross reference in the single note or separate section about leases.

(7) A lessee shall disclose the following amounts for the reporting period:
a. depreciation charge for right-of-use assets by class of underlying asset;
b. interest expense on lease liabilities;
c. the expense relating to short-term leases accounted. This expense need not include the expense relating to leases with a lease term of one month or less;
d. the expense relating to leases of low-value assets accounted. This expense shall not include the expense relating to short-term leases of low-value assets included;
e. the expense relating to variable lease payments not included in the measurement of lease liabilities;
f. income from subleasing right-of-use assets;
g. total cash outflow for leases;
h. additions to right-of-use assets;
i. gains or losses arising from sale and leaseback transactions; and
j. the Carrying amount/value of right-of-use assets at the end of the reporting period by class of underlying asset.

(8) A lessee shall provide the disclosures in a tabular format, unless another format is more appropriate. The amounts disclosed shall include costs that a lessee has included in the Carrying amount/value of another asset during the reporting period.

(9) A lessee shall disclose the amount of its lease commitments for short-term leases accounted if the portfolio of short-term leases to which it is committed at the end of the reporting period is dissimilar to the portfolio of short-term leases to which the short-term lease expense relates.

(10) If right-of-use assets meet the definition of investment property, a lessee shall apply the disclosure requirements in IAS 40. In that case, a lessee is not required to provide the disclosures for those right-of-use assets.

(11) If a lessee measures right-of-use assets at revalued amounts applying IAS 16, the lessee shall disclose the information required by IAS 16 for those right-of-use assets.

(12) A lessee shall disclose a maturity analysis of lease liabilities of IFRS 7 Financial Instruments: Disclosures separately from the maturity analyses of other financial liabilities.

(13) In addition to the disclosures required, a lessee shall disclose additional qualitative and quantitative information about its leasing activities necessary to meet the disclosure objective. This additional information may include, but is not limited to, information that helps users of financial statements to assess:

a. the nature of the lessee's leasing activities;
b. future cash outflows to which the lessee is potentially exposed that are not reflected in the measurement of lease liabilities. This includes exposure arising from:

   (i) variable lease payments;
   (ii) extension options and termination options;
   (iii) Residual value guarantees; and
   (iv) Leases not yet commenced to which the lessee is committed.

c. restrictions or covenants imposed by leases; and
d. sale and leaseback transactions.

(14) A lessee that accounts for short-term leases or leases of low-value assets shall disclose that fact.

(15) If a lessee applies the practical expedient, the lessee shall disclose:

(a) that it has applied the practical expedient to all rent concessions that meet the conditions or, if not applied to all such rent concessions, information about the nature of the contracts to which it has applied the practical expedient; and

(b) the amount recognized in profit or loss for the reporting period to reflect changes in lease payments that arise from rent concessions to which the lessee has applied the practical expedient

9. Lease accounting for Lessor perspective

9.1 Lessor

(1) For a contract that contains a lease component and one or more additional lease or non-lease components, a lessor shall allocate the consideration in the contract of IFRS 16.
(2) Lessors continue to classify leases as finance or operating leases.
(3) The lessor follows a dual accounting approach for lease accounting. The accounting is based on whether significant risks and rewards incidental to ownership of an underlying asset are transferred to the lessee, in which case the lease is classified as a finance lease. This is similar to the previous lease accounting requirements that applied to lessors. The lessor accounting models

are also essentially unchanged from IAS 17 Leases.

9.2 Classification of leases under lessor perspective

(1) A lessor shall classify each of its leases as either an operating lease or a finance lease.
  a) leases that transfer substantially all of the risks and rewards incidental to ownership of the underlying asset are finance leases; and
  b) all other leases are operating leases.

(2) A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset.

(3) Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract. Examples of situations that individually or in combination would normally lead to a lease being classified as a finance lease are:

  a. the lease transfers ownership of the underlying asset to the lessee by the end of the lease term;
  b. the lessee has the option to purchase the underlying asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception date, that the option will be exercised;
  c. the lease term is for the major part of the economic life of the underlying asset even if title is not transferred;
  d. at the inception date, the present value of the lease payments amounts to at least substantially all of the fair value of the underlying asset; and
  e. the underlying asset is of such a specialized nature that only the lessee can use it without major modifications.

(4) Indicators of situations that individually or in combination could also lead to a lease being classified as a finance lease are:

  a. if the lessee can cancel the lease, the lessor’s losses associated with the cancellation are borne by the lessee;
  b. gains or losses from the fluctuation in the fair value of the residual accrue to the lessee for example, in the form of a rent rebate equaling most of the sales proceeds at the end of the lease); and
  c. the lessee has the ability to continue the lease for a secondary period at a rent that is substantially lower than market rent.

(5) The examples and indicators are not always conclusive. If it is clear from other features that the lease does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset, the lease is classified as an operating lease. For example, this may be the case if ownership of the underlying asset transfers at the end of the lease for a variable payment equal to its then fair value, or if there are variable lease payments, as a result of which the lessor does not transfer substantially all such risks and rewards.

(6) Lease classification is made at the inception date and is reassessed only if there is a lease modification. Changes in estimates (for example, changes in estimates of the economic life or of the residual value of the underlying asset), or changes in circumstances (for example, default by the lessee), do not give rise to a new classification of a lease for accounting purposes.

(7) However, if the contract includes terms and conditions to adjust the lease payments for particular

changes occurring between the inception date and the commencement date, then, for the purpose of classifying the lease, the effect of any such changes is deemed to have taken place at the inception date.

9.3 Operating lease model

(1) The lessor classifies a lease that is not a finance lease as an operating lease. If, before lease commencement, a lessor recognizes an asset in its statement of financial position and leases that asset to a lessee under an operating lease, then the lessor does not derecognize the asset on lease commencement. Generally, future contractual rental payments from the lessee are recognized as receivables over the lease term as the payments become receivable.
(2) Generally, lease income from operating leases is recognized by the lessor on a straight-line basis from the commencement date over the lease term. It may be possible for the lessor to recognize lease income using another systematic basis if that is more representative of the time pattern in which the benefit from the use of the underlying asset is diminished. Similarly, increases (or decreases) in rental payments over a period of time, other than variable lease payments, are reflected in the determination of the lease income, which is recognized on a straight-line basis.
(3) The initial direct costs incurred by the lessor in arranging an operating lease are added to the Carrying amount/value of the underlying asset and cannot be recognized immediately as an expense. These initial direct costs are recognized as an expense on the same basis as the lease income. This will not necessarily be consistent with the basis on which the underlying asset is depreciated.
(4) An Incentives granted to the lessee in negotiating a new or renewed operating lease are recognized as an integral part of the lease payments relating to the use of the underlying asset. They are recognized as a reduction of rental income over the lease term using the same recognition basis as for the lease income.
(5) The lessor depreciates the underlying asset over the asset's useful life in a manner that is consistent with the depreciation policy that it applies to similar owned assets.
(6) A lessor applies IAS 36 to determine whether an underlying asset subject to an operating lease is impaired and to account for any impairment loss identified. In addition, the lessor applies the impairment and derecognition requirements of IFRS 9 to operating lease receivables.

9.4 Finance lease model

(1) A At commencement, the lessor derecognizes the underlying asset and recognizes a finance lease receivable at an amount equal to its net investment in the lease, which comprises the present value of the lease payments and any unguaranteed residual value accruing to the lessor. The present value is calculated by discounting the lease payments and any unguaranteed residual value, at the interest rate implicit in the lease. Initial direct costs are included in the measurement of the finance lease receivable, because the interest rate implicit in the lease takes initial direct costs incurred into consideration.
(2) The lessor deducts any lease incentive payable from the lease payments included in the measurement of the net investment in the lease.
(3) The lessor recognizes the difference between the Carrying amount/value of the underlying asset and the finance lease receivable in profit or loss when recognizing the finance lease receivable. This gain or loss is presented in profit or loss in the same line item as that in which the lessor presents gains or losses from sales of similar assets.
(4) Over the lease term, the lessor accrues interest income on the net investment. The receipts under

the lease are allocated between reducing the net investment and recognizing finance income, to produce a constant rate of return on the net investment.

(5) IFRS 16.77 A lessor applies the derecognition and impairment requirements of IFRS 9 to the net investment in the lease. A lessor recognizes any loss allowance on the finance lease receivable, applying IFRS 9. A lessor regularly reviews estimated unguaranteed residual values used in computing the gross investment in the lease. If there is a reduction in the estimated unguaranteed residual value, then the lessor revises the income allocation over the lease term without changing the discount rate and immediately recognizes any reduction in respect of amounts accrued. For a discussion on measuring the expected credit losses on lease receivables.

9.5 Recognition and measurement

(1) At the commencement date, a lessor shall recognize assets held under a finance lease in its statement of financial position and present them as a receivable at an amount equal to the net investment in the lease.

9.6 Initial measurement

(2) The lessor shall use the interest rate implicit in the lease to measure the net investment in the lease. In the case of a sublease, if the interest rate implicit in the sublease cannot be readily determined, an intermediate lessor may use the discount rate used for the head lease (adjusted for any initial direct costs associated with the sublease) to measure the net investment in the sublease.

(3) Initial direct costs, other than those incurred by manufacturer or dealer lessors, are included in the initial measurement of the net investment in the lease and reduce the amount of income recognized over the lease term. The interest rate implicit in the lease is defined in such a way that the initial direct costs are included automatically in the net investment in the lease; there is no need to add them separately.

9.7 Initial measurement of the lease payments included in the net investment in the lease

(1) At the commencement date, the lease payments included in the measurement of the net investment in the lease comprise the following payments for the right to use the underlying asset during the lease term that are not received at the commencement date:

a. fixed payments (including in-substance fixed payments, less any lease incentives payable.
b. variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date.
c. any residual value guarantees provided to the lessor by the lessee, a party related to the lessee or a third party unrelated to the lessor that is financially capable of discharging the obligations under the guarantee.
d. the exercise price of a purchase option if the lessee is reasonably certain to exercise that option (assessed considering the factors; and

e. e-payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

9.8 Manufacturer or dealer lessors

(1) At the commencement date, a manufacturer or dealer lessor shall recognize the following for each of its finance leases:

a. revenue being the fair value of the underlying asset, or, if lower, the present value of the lease payments accruing to the lessor, discounted using a market rate of interest.
b. the cost of sale being the cost, or Carrying amount/value if different, of the underlying asset less the present value of the unguaranteed residual value; and
c. selling profit or loss (being the difference between revenue and the cost of sale) in accordance with its policy for outright sales to which IFRS 15 applies. A manufacturer or dealer lessor shall recognize selling profit or loss on a finance lease at the commencement date, regardless of whether the lessor transfers the underlying asset as described in IFRS 15.

(2) Manufacturers or dealers often offer to customers the choice of either buying or leasing an asset. A finance lease of an asset by a manufacturer or dealer lessor gives rise to profit or loss equivalent to the profit or loss resulting from an outright sale of the underlying asset, at normal selling prices, reflecting any applicable volume or trade discounts.

(3) Manufacturer or dealer lessors sometimes quote artificially low rates of interest in order to attract customers. The use of such a rate would result in a lessor recognizing an excessive portion of the total income from the transaction at the commencement date. If artificially low rates of interest are quoted, a manufacturer or dealer lessor shall restrict selling profit to that which would apply if a market rate of interest were charged.

(4) A manufacturer or dealer lessor shall recognize as an expense cost incurred in connection with obtaining a finance lease at the commencement date because they are mainly related to earning the manufacturer or dealer's selling profit. Costs incurred by manufacturer or dealer lessors in connection with obtaining a finance lease are excluded from the definition of initial direct costs and, thus, are excluded from the net investment in the lease.

9.9 Subsequent measurement for lessor

(1) A lessor shall recognize finance income over the lease term, based on a pattern reflecting a constant periodic rate of return on the lessor's net investment in the lease.
(2) A lessor aims to allocate finance income over the lease term on a systematic and rational basis. A lessor shall apply the lease payments relating to the period against the gross investment in the lease to reduce both the principal and the unearned finance income.
(3) A lessor shall apply the derecognition and impairment requirements in IFRS 9 to the net investment in the lease. A lessor shall review regularly estimated unguaranteed residual values used in computing the gross investment in the lease. If there has been a reduction in the estimated unguaranteed residual value, the lessor shall revise the income allocation over the lease term and recognize immediately any reduction in respect of amounts accrued.
(4) A lessor that classifies an asset under a finance lease as held for sale (or includes it in a disposal group that is classified as held for sale) applying IFRS 5 Non-current Assets Held for Sale and

Discontinued Operations shall account for the asset in accordance with that Standard.

9.10 Lessor Lease modifications

(1) A lessor shall account for a modification to an operating lease as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.

(2) A lessor shall account for a modification to a finance lease as a separate lease if both:

a. the modification increases the scope of the lease by adding the right to use one or more underlying assets; and

b. the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

(3) For a modification to a finance lease that is not accounted for as a separate lease, a lessor shall account for the modification as follows:

a. if the lease would have been classified as an operating lease had the modification been in effect at the inception date, the lessor shall:

i. account for the lease modification as a new lease from the effective date of the modification; and
ii. measure the Carrying amount/value of the underlying asset as the net investment in the lease immediately before the effective date of the lease modification.

b. Otherwise, the lessor shall apply the requirements of IFRS 9.

9.11 Lessor Presentation

(1) A lessor shall present underlying assets subject to operating leases in its statement of financial position according to the nature of the underlying asset. A lessor presents leases in its statement of financial position as follows.

Finance lease	Operating lease
Statement of financial position	
• Present assets held under a finance lease as a receivable at an amount equal to the net investment in the lease	• Present the underlying assets subject to operating leases according to the nature of the underlying asset

9.12 Lessor Disclosure

(1) The objective of the disclosures is for lessors to disclose information in the notes that, together with the information provided in the statement of financial position, statement of profit or loss and statement of cash flows, gives a basis for users of financial statements to assess the effect

that leases have on the financial position, financial performance and cash flows of the lessor.

(2) A lessor shall disclose the following amounts for the reporting period:
   a. for finance leases:
      i. selling profit or loss;
      ii. finance income on the net investment in the lease; and
      iii. income relating to variable lease payments not included in the measurement of the net investment in the lease.
   b. for operating leases, lease income, separately disclosing income relating to variable lease payments that do not depend on an index or a rate.

(3) A lessor shall provide the disclosures in a tabular format, unless another format is more appropriate.

(4) A lessor shall disclose additional qualitative and quantitative information about its leasing activities necessary to meet the disclosure objective. This additional information includes, but is not limited to, information that helps users of financial statements to assess:

   a. the nature of the lessor's leasing activities; and
   b. how the lessor manages the risk associated with any rights it retains in underlying assets. In particular, a lessor shall disclose its risk management strategy for the rights it retains in underlying assets, including any means by which the lessor reduces that risk. Such means may include, for example, buy-back agreements, residual value guarantees or variable lease payments for use in excess of specified limits.

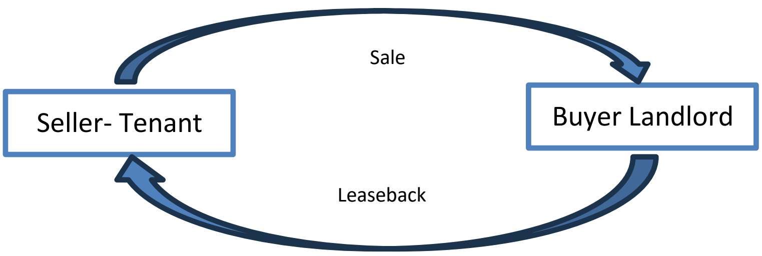
10. Sale and leaseback transactions

10.1 Introduction

(1) The IFRS 16 guidance on 'failed sales' means that some saleand-leaseback transactions are accounted for as pure financing transactions by both lessors and lessees.

(2) The treatment of sale and leaseback transactions depends on whether or not the 'sale' constitutes the satisfaction of a relevant performance obligation under IFRS 15. The relevant performance obligation would be the effective 'transfer' of the asset to the lessor by the previous owner (now the lessee).

(3) In a sale-and-leaseback transaction, a company (the seller-lessee) transfers an underlying asset to another company (the buyer-lessor) and leases that asset back from the buyer-lessor.



(4) To determine how to account for a sale-and-leaseback transaction, a company first considers whether the initial transfer of the underlying asset from the seller-lessee to the buyer-lessor is a sale. The company applies IFRS 15 to determine whether a sale has taken place. This assessment determines the accounting by both the seller-lessee and the buyer-lessor, as follows.

	Lessee (seller)	Lessor (buyer)
Transfer to buyer-lessor is a sale	• Derecognize the underlying asset and apply the lessee accounting model to the leaseback. * • Measure the right-of-use asset at the retained portion of the previous Carrying amount/value (i.e. at cost).* • Recognize only the amount of any gain or loss related to the rights transferred to the lessor.*	• Recognise the underlying asset and apply the lessor accounting model
Transfer to buyer-lessor is not a sale	• Continue to recognize the underlying asset. • Recognize a financial liability under IFRS 9 for amounts received from the buyer-lessor.	• Do not recognise the underlying asset. • Recognise a financial asset under IFRS 9 for amounts transferred to the seller-lessee.

Point to note: Adjustments are required if the sale is not at fair value or lease payments are off market. A company is not required to assess both, however – only whichever one is more 'readily determinable'.

10.2 Assessing whether the transfer of the asset is a sale

(1) An entity shall apply the requirements for determining when a performance obligation is satisfied in IFRS 15 to determine whether the transfer of an asset is accounted for as a sale of that asset.

10.3 Transaction constituting a sale

(1) If the transfer of an asset by the seller-lessee satisfies the requirements of IFRS 15 to be accounted for as a sale of the asset:

a. the seller-lessee shall measure the right-of-use asset arising from the leaseback at the proportion of the previous Carrying amount/value of the asset that relates to the right of use retained by the seller-lessee. Accordingly, the seller-lessee shall recognise only the amount of any gain or loss that relates to the rights transferred to the buyer-lessor.
b. the buyer-lessor shall account for the purchase of the asset applying applicable Standards, and for the lease applying the lessor accounting requirements in this Standard.

(2) If the fair value of the consideration for the sale of an asset does not equal the fair value of the asset, or if the payments for the lease are not at market rates, an entity shall make the following adjustments to measure the sale proceeds at fair value:
a. any below-market terms shall be accounted for as a prepayment of lease payments; and
b. any above-market terms shall be accounted for as additional financing provided by the buyer-lessor to the seller-lessee.

(3) The entity shall measure any potential adjustment required on the basis of the more readily determinable of:
   a. the difference between the fair value of the consideration for the sale and the fair value of the asset; and
   b. the difference between the present value of the contractual payments for the lease and the present value of payments for the lease at market rates.

(4) If the transaction does constitute a sale under IFRS 15 then the treatment is as follows:
   a. The seller-lessee shall measure the right-of use asset arising from the leaseback at the proportion of the previous Carrying amount/value of the asset that relates to the right of use retained.
   b. the seller-lessee shall recognise only the amount of any gain or loss that relates to the rights transferred to the buyer-lessor
   c. the buyer-lessor shall account for the purchase of the asset applying applicable Standards, and for the lease applying the lessor accounting requirements in IFRS 16.

(5) If the fair value of the consideration for the sale of an asset does not equal the fair value of the asset, or if the payments for the lease are not at market rates, an entity shall make the following adjustments to measure the sale proceeds at fair value:
   a. Any below-market terms shall be accounted for as a prepayment of lease payments, and
   b. Any above-market terms shall be accounted for as additional financing provided by the buyer-lessor to the seller-lessee.

Example – sale and leaseback

Entity X sells a building to entity Y for cash of 4.5 million, which is the fair value of the building. Immediately before the transaction, the Carrying amount/value of the building in the financial statements of entity X was 3.5 million. At the same time, X enters into a contract with Y for the right to use the building for 20 years, with annual payments of 200,000 payable at the end of each year. The terms and conditions of the transaction are such that the transfer of the building by X satisfies the requirements for determining when a performance obligation is satisfied in IFRS 15. Accordingly, X and Y account for the transaction as a sale and leaseback.

The annual interest rate implicit in the lease is 5%. The cumulative discount factor for 5% for 20 years is 12.462. The present value of the annual payments (20 payments of 200,000, discounted at 5%) amounts to 2,492,400.

X would recognise a right-of-use-asset arising from the leaseback of the building. This would be measured as the proportion of the previous Carrying amount/value that relates to the right of use retained by X. On this basis, the right of use asset would be 1,938,533 (3,500,000 Carrying amount/value of the building ÷ 4,500,000 fair value of the building x 2,492,400 present value of the expected lease payments). Similarly, this could be calculated as the proportion of the equivalent asset retained by X.

The total gain on the sale of the building is 1,000,000 (4,500,000 fair value – 3,500,000 Carrying amount/value). However, X can only recognise 446,133 as this is the amount of the gain that relates to the rights transferred to Y (1,000,000 total gain ÷ 4,500,000 fair value x (4,500,000 fair value – 2,492,400 present value of annual payments)).

10.4 Transaction not constituting a 'sale'

(1) If the transfer of an asset by the seller-lessee does not satisfy the requirements of IFRS 15, although a legal transfer of the asset has taken place, the seller does not 'transfer' the asset for accounting purposes. Instead, the seller continues to recognise it in the statement of financial position without adjustment. The 'sales proceeds' are recognised as a financial liability and accounted for by applying IFRS 9, Financial Instruments. In the same circumstances, the buyer recognises a financial asset equal to the *sales proceeds*.

(2) If the transfer of an asset by the seller-lessee does not satisfy the requirements of IFRS 15 to be accounted for as a sale of the asset:

a. the seller-lessee shall continue to recognise the transferred asset and shall recognise a financial liability equal to the transfer proceeds. It shall account for the financial liability applying IFRS 9.
b. the buyer-lessor shall not recognise the transferred asset and shall recognise a financial asset equal to the transfer proceeds. It shall account for the financial asset applying IFRS 9.

Lease Example- 1:

Zaara & Zaayn Bangladesh Ltd needs a new piece of equipment worth Taka 100,000 but does not want to purchase it outright. Instead, they enter into a finance lease agreement with Zaarif Leasing Company Limited.

Key Terms of the Lease:

- **Lease Term:** 5 years
- **Interest Rate (Implicit Rate):** 8% per annum
- **Annual Lease Payment:** Taka 25,046 (paid at the end of each year)
- **Residual Value (Bargain Purchase Option):** 1 (Zaara & Zaayn can buy the asset for 1 at the end)

<u>Accounting Treatment (Lessee - Zaara & Zaayn Bangladesh Ltd)</u>

1. **Initial Recognition (Right-of-Use Asset & Lease Liability):**

   i. **The present value (PV) of lease payments is calculated as:**

   PV= Taka 25,046×*Annuity rate*

   PV=Taka 25,046×3.9927= Taka 100,000

   3.9927= 5 years annuity rate

   ii. **Journal Entry:**

   Dr. Right-of-Use Asset Taka 100,000
   Cr. Lease Liability Taka 100,000

2. **Annual Lease Payment (Year 1):**

i. **Interest Expense (8% × 100,000) =8,000**
ii. **Principal Repayment = 25,046−8,000 = Taka 17,046**
iii. **Journal Entry:**

Dr. Interest Expense Taka 8,000
Dr. Lease Liability Taka 17,046
Cr. Cash Taka 25,046

iv. **Depreciation Expense (Straight-line over 5 years):**

Taka 100,000/5= Taka 20,000 per year

Dr. Depreciation Expense- Taka 20,000
Cr. Accumulated Depreciation-Taka 20,000

3. **End of Lease Term:**

i. After 5 years, the lease liability is fully paid off.
ii. Zaara & Zaayn exercises the bargain purchase option (Taka1) and owns the asset.

Dr. Lease Liability Taka 1
Cr. Cash Taka 1

Impact analysis of this lease:
- **Ownership Transfer:** The lessee (Zaara & Zaayn) effectively owns the asset.
- **Balance Sheet Impact:** Recognizes both an asset (Right-of-Use) and a liability.
- **Interest & Depreciation:** Expense recognized over the lease term.
- **Tax & Cash Flow:** Payments are split into principal (balance sheet) and interest (P&L).

Lease Example- 2:

Biman Bangladesh Airlines needs a new commercial aircraft priced at **BDT 50 million**. Instead of buying it outright, they enter into a **finance lease** with Boing Leasing Corp.

Key Lease Terms:
- **Asset Value:** Taka 50 million
- **Lease Term:** 10 years
- **Implicit Interest Rate:** 6% per annum
- **Annual Lease Payment:** Taka 6.8 million (end of each year)
- **Bargain Purchase Option:** 100,000 (Biman can buy the aircraft for 100,000 at lease end)

<u>Accounting Treatment (Lessee - Biman Bangladesh Airlines)</u>

1. **Initial Recognition (Right-of-Use Asset & Lease Liability)**

- **Present Value (PV) of Lease Payments:**

PV=Taka 6.8M×7.3601 +Taka 100K×0.5584=Taka 50M

7.3601= 10 years annuity rate
0.5584= discount rate

- **Journal Entry:**

Dr. Right-of-Use Asset Taka 50,000,000
Cr. Lease Liability Taka 50,000,000

2. **Annual Lease Payment (Year 1)**

- **Interest Expense (6% × 50M)=50M)=3,000,000**
- **Principal Repayment = 6.8M−6.8M−3M = Taka 3.8M**
- **Journal Entry:**
  Dr. Interest Expense Taka 3,000,000
  Dr. Lease Liability Taka 3,800,000
  Cr. Cash Taka 6,800,000

- **Depreciation Expense (Straight-line over 10 years):**

(Taka 50M−Taka 100K)/10=Taka 4.99M per year

Dr. Depreciation Expense Taka 4,990,000
Cr. Accumulated Depreciation Taka 4,990,000

3. **End of Lease Term (Year 10)**

- Biman Bangladesh Airlines pays Taka 100,000 to own the aircraft.

Dr. Lease Liability Taka 100,000
Cr. Cash/Bank Taka 100,000

11. Lease RACI Matrix

Particulars	Responsible	Accountable	Consulted	Informed
Acquisition of Lease				
Requisition	User Department	Head of the Department	Procurement department	
Lease agreement	Supply chain management (SCM)	Administration department		User Department
Bookkeeping and Lease accounting	Finance Department	Head of Finance		
Disposal and termination of contracts	User Department and Admin and user Department	Admin department		Finance Department

Appendix A: General Definition for Part A-PPE

In this Manual the following words and expressions are used in the following senses, unless a contrary intention appears from the context: -

(1) **Asset Holder** means, in respect of an asset, a person (whether or not an individual) – (a) in whose name the asset is held by a license holder; (b) who is beneficially entitled to the asset or has the power to operate it or control it; or (c) who is entitled to demand repayment of an amount on the asset."

(2) **"Fixed asset"** means both tangible and intangible items which as of the financial position date (or reporting date) are held by the entity for use in the supply of services, rental to third parties or for administrative purposes and which are expected to be used for more than one period. In summary, fixed assets are those:

a) acquired for use in business operation and not for resale;
b) long-term in nature and usually subject to depreciation (except for land);
c) provide benefit to the organization for more than one year;
d) possess physical substance; and
e) intangible assets which meet the recognition criteria of fixed asset.

(3) **Property, Plant and Equipment ("PPE")** means the properties, plants and equipment (hereinafter mentioned as PPE) are tangible fixed assets that:

a) are held for use in the production or supply of goods or services, for rental to others, or for operations of the organization; and
b) are expected to be used over more than a period of 12 months.

(4) **Intangible assets** mean identifiable non-monetary assets without physical substance held for use in the delivery of services, for rental to others or for administrative purpose. Example: computer software, patents, copy right, customer lists, franchises and marketing rights etc.

(5) **Cost means** the amount of cash or cash equivalent paid or the fair value of any other **consideration** given in order to acquire an asset at the time of its acquisition or construction.

Elements of cost

The cost of an item of property, plant and equipment comprises:

a) its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates;
b) any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management;
c) the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

Examples of directly attributable costs are:

- costs of employee benefits (as defined in *IAS 19 Employee Benefits*) arising directly from the construction or acquisition of the item of property, plant and equipment;
- costs of site preparation;
- initial delivery and handling costs;
- installation and assembly costs;
- costs of testing whether the asset is functioning properly, after deducting the net proceeds from selling any items produced while bringing the asset to that location and condition (such as samples produced when testing equipment); and
- professional fees.

(6) **Fair value mean** *IFRS 13 Fair Value Measurement* define- "Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date". Fair value is the amount for which, an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.

(7) **Recoverable amount** means amount is the amount which SOEs and ABs expects to recover from the future use of the asset inclusive of the residual value on disposal.

(8) **Carrying amount/value** means the amount at which an asset is recognized after deducting any accumulated depreciation and accumulated impairment losses.

(9) **Depreciable amount means** the cost of an asset, or other amount substituted for cost in the financial statements, less its residual value.

(10) **Depreciation means** the systematic allocation of the depreciable amount of an asset over its useful life to reflect its usage over time.

(11) **Life of asset** means Asset life means the average number of years of service for a given asset account. All items within that asset account will depreciate within a fixed number of years and' each will depreciate to zero at the same point in time.

(12) **Useful life of asset means** the period of time over which an asset is expected to be used by the entity.

(13) **Residual value means** the net amount the entity expects to obtain from the asset at the end of its useful life after deducting the expected cost of disposal, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

(14) **Impairment loss** means the loss by which, the Carrying amount/value of an asset exceeds its recoverable amount.

(15) **Accessory Equipment** means a moveable item which can be added in order to make an existing piece of equipment more useful or versatile and can be used with other similar equipment. The cost of an accessory purchased separately after the original equipment has been received and made operable should not be added to the value of the original piece of equipment in the Fixed Asset Module. If an accessory meets all the criteria of non-capital or capital property (i.e., it is tangible property having a useful life greater

than one year and an acquisition cost of Taka 5,000 or more), it should be treated as a separate item of equipment.

(16) **Accumulated Depreciation** means the total amount of depreciation expense that has been allocated to an asset since it was put in use. Depreciation reduces the book value of an asset over time and is recorded for financial statement purposes.

(17) **Acquisition Cost/Value** means the value of an item at the time it is acquired. The value is determined by the invoice price prior to any reduction for a trade in. Also included are costs incurred to place the asset into service, for example, freight, installation, and testing. For donations/gifts of property the acquisition cost is Taka 0 in the Fixed Asset Module but the fair market value at the time of donation is used for insurance purposes.

(18) **Additions** means acquisition of new assets, or improvements or modifications to existing assets, that increase the useful life or the service potential of the asset. Examples include an addition to a building or renovations to repurpose the space; adding a new part(s) or feature to an existing piece of equipment that increases functionality. Additions that cost over Taka 5,000 or more are added to the original capital or non-capital equipment.

(19) **Appraised Value** means the estimated value of an asset based on the expertise of a qualified independent appraiser.

(20) **Asset** means anything of monetary value owned by SOEs and ABs. Examples of assets include cash, receivables, inventory, land, buildings and equipment (meeting specified dollar threshold).

(21) **Asset Number** means sequential number generated by the Fixed Asset System that is unique and assigned to each asset.

(22) **Audio Visual Systems** means an audio-visual system's total combined cost is often greater than Taka 5,000, a system generally consists of individual items of varying cost and also items that are not considered to be part of the equipment cost. Therefore, each line item is evaluated separately to determine the correct accounting treatment.

(23) **Bar Code Tag** means asset identification tag assigned and affixed to an asset to assist in its identification and the physical inventory of equipment.

(24) **Book Value** means the difference between the acquisition cost and accumulated depreciation. At the time of acquisition, book value equals acquisition cost. For donations/gifts of property the acquisition cost is Taka 0 in the fixed asset system but the fair market value at the time of donation is used for insurance purposes.

(25) **Building** means the roofed facility intended for the permanent or temporary shelter of persons, animals, plants, or equipment.

(26) **Building Component** means the equipment items designed and installed as an integral part of a structure. Building components differ from fixed equipment in that they are not separate from the building structure. The useful life of building components may

differ from that of the building. Note: building components are only capitalized as part of a CIP project, all other purchases are considered repair and maintenance expenses.

(27) **Capital Asset** means an item that is tangible, permanent, with a life of more than one year that is held for purposes other than investment or resale and has a value of Taka 5,000 or greater. (Exceptions; land - no threshold). There are five types of capital assets: land, land improvements, buildings, building improvements (as part of a capital project/CIP), and equipment (moveable only unless part of a capital project/CIP).

(28) **Capital Equipment** means a single piece of moveable equipment or an equipment system with a value of Taka 5,000 or more. Multiple pieces of equipment that individually cost less than Taka 25,000 but work together to be operational are considered a system. An example of a system: lab equipment that is dependent upon multiple pieces of equipment to function as a single unit. Examples of multiple pieces working together that are not a system: storage devices added to a server to add additional storage space, the server can operate without the additional device or, a computer linked to a projector, the computer and projector can each be used separately, or any add on item that is usable with multiple pieces of equipment and can easily be moved and used at another location.

(29) **Capital improvement/Capital Work in Progress (CWIP)** means the Capital improvement refers to expenditures over 5,000 Taka which should be set up as a CIP that create an addition or expand a physical space, create an increase in capacity or efficiency, replace a major component or structural part of the property, and/or adapt a property to a new or different use.

(30) **"Capitalize"** means to record a cost as an asset on the balance sheet for the purpose of amortizing (depreciating) the cost over its estimated useful life rather than as an expense in one accounting period.

(31) **Collectible** means the items of value or interest acquired for display. Collectibles are not tracked in the Fixed Asset System unless required by contractual agreement. See Special Collections definition.

(32) **Construction in Progress (CIP)** means the Construction, additions, renovations, improvements, fabrication, or customization project where capital costs are expected to be greater than or equal to Taka 50,000. See Constructed and Fabricated Asset Policy

(33) **Custodian** means the department or staff member designated by a department/division as responsible for **assets** within their control. Responsibilities include assisting the Fixed Asset/Surplus Property Administrator in identifying and tagging new equipment, communicating changes in equipment location, and coordinating equipment sales, transfers or disposals using appropriate forms and assisting in a periodic inventory of all moveable equipment.

(34) **Depreciation** means depreciation is a method for allocating the cost of buildings and equipment over time which dictates that the value of capital assets must be expensed over the estimated useful life of the asset.

(35) **Disposal** means when SOEs and ABs property, assets, and moveable equipment is scrapped, recycled, or salvaged. Materials Management Disposal Request Form must be submitted to Materials Management.

(36) **Disposition** means the disposition of SOEs and ABs property, assets, and moveable equipment and their removal from fixed assets inventory; this can include the sale, exchange, abandonment, and involuntary termination of assets. (Examples: sale, gift, donation, trade-in, transfer to another entity, etc.). An Equipment Transfer Request Form must be submitted to the Fixed Asset/Surplus Property Administrator.

(37) **Donated** means the Gifted or given to SOEs and ABs by a third party voluntarily, without charge or expectation of anything in return.

(38) **Equipment Onboarding** means the equipment received by SOEs and ABs College through a transfer, gift, donation, loan, award, sub-award, lease, lease buyout, or P-Card purchase which are not subject to the standard purchase process through the office of Procurement Services. The SOEs and ABs College Equipment Onboarding Form must be completed and submitted to the Fixed Asset Administrator.

(39) **Equipment or Asset Trade-In** means the equipment or an asset that is conveyed to a vendor as payment or in exchange for a discount on another piece of equipment or asset.

(40) **Expensed Equipment** means equipment type items with a value of less than Taka 5,000. Examples include most computers, file cabinets, calculators, chairs, printers, pictures, etc. Equipment under the Taka 5,000 threshold is not tracked in the Fixed Asset Module and is not subject to periodic inventory unless otherwise required by a contractual agreement, such as a grant.

(41) **Expense** means the charges incurred for the current fiscal period.

(42) **Fabricated Equipment** means the equipment that is assembled or manufactured by SOEs and ABs using purchased materials, and in-house machinery, tools, and labor. Fabricated equipment costing Taka 25,000 or more and having a useful life of one year or more must be accounted for as construction in progress (CIP) until completion. Fabricated equipment costing Taka 5,000 to Taka 24,999 and having a useful life of one year or more must be recorded as moveable equipment. Departments are responsible for properly tracking all costs to assemble the equipment. Please refer to the Constructed and Fabricated Equipment Policy for information regarding both capital and non-capital fabricated equipment

(43) **Facilities and Administrative Cost Rate (F&A)/Indirect Costs** means the Costs **incurred** to conduct normal business activities of the institution which cannot easily be identified with or directly charged to a specific sponsored project award. These costs may also be referred to as indirect costs, overhead or administrative costs. F&A rates are the mechanism used to reimburse SOEs and ABs for these costs.

(44) **Fixed Asset/Surplus Property Administrator** means the individual in Procurement Services who is responsible for the overall completeness of SOEs and ABs moveable equipment records. This individual is responsible for making sure all equipment new to campus is tagged and entered into the Fixed Asset Module; that changes in location,

transfers, sales, or disposal of equipment are recorded in the Fixed Asset Module; and that a biennial physical inventory is done for all equipment.

(45) **Fixed Equipment** means the equipment permanently affixed to a building but separate from the building itself. Examples include building systems, light fixtures, and flooring.

(46) **Government/ Corporate Property Control Tag** means the Special tag affixed to an asset to indicate the asset's ownership by a government or corporate entity.

(47) **"Hazardous Item"** means any substance or item or material which are hazardous or risky/harmful or malicious for human and animal health or environment or any type of ecological balance as defined in related law of the country

(48) **Holder** means the owner or the controller of the PPE;

(49) **Improvement (Land or Building)** means the Improvement refers to expenditures under Taka 50,000 that will create an addition or expand a physical space, create an increase in capacity or efficiency, replace a major component or structural part of the property, adapt a property to a new or different use. This includes land improvements which are modifications to an outside area, other than repairs. Examples include sidewalks, parking lots, utility lines, and fences. Improvements are expensed unless they are over Taka 50,000 and set up as a CIP.

(50) **Intangible Asset** means the assets not having physical substance (examples: a patent, good will).

(51) **Land** means the Solid part of the earth's surface improved or unimproved.

(52) **Law** means any Act, ordinance, order, rule, regulation, bye law, notification or other legal instrument, and any custom or usage, having the force of law in Bangladesh;

(53) **Lease Buyout or Purchase:** An option to buy a leased asset at the end of the lease term. Please reference the Property, Plant, and Equipment Policy

(54) **Lease, Finance** means the Installment payment agreement made to acquire property, asset(s), or moveable equipment. A lease is considered a finance-type lease under any of the following circumstances: ownership transfers to lessee at end of lease; lease contains bargain purchase option; lease period is a major portion of the asset's useful life; present value of lease payment equals or exceeds the asset's fair market value; the asset is so specialized that there is no alternative use to the lessor at the end of the lease term. Financial Reporting must be notified of all leases to classify as finance or operating, as each is accounted for differently (grant funded leases must be tracked for audit purposes).

(55) **Lease Liability:** means a lessee is required to measure and record a lease liability equal to the present value of the remaining lease payments, discounted using the rate implicit in the lease (or if that rate cannot be readily determined, the lessee's incremental borrowing rate), pursuant to IAS

(56) **Lease, Operating** means the Installment payment agreement that does not meet the criteria of a finance lease. Financial Reporting must be notified of all leases to classify them as finance or operating, as each is accounted for differently.

(57) **Maintenance** means the Activities related to the repair and upkeep of an asset, with the intent of preserving the original useful life and function. Maintenance is expensed in the fiscal period the maintenance activity is performed.

(58) **Market Value** means the Cost to acquire an item in its current condition through an arm's-length transaction. Also referred to as "fair market value."

(59) **Moveable Equipment** means the item that is neither permanently affixed to nor part of a building or building system. Examples include boats, centrifuges, microscopes, vehicles, etc.

(60) **Non-Capital Property/ Moveable Equipment** means all equipment that is not permanently affixed to a building (either a single piece or a system), has a useful life greater than one year and has a unit cost at the time of purchase of Taka 5,000 to Taka 24,999 (if donated or gifted, the fair market value when received). This equipment is not capitalized, but it is recorded as equipment in the Fixed Asset System for tracking and inventory requirements. This is necessary for government compliance and F&A cost proposal purposes.

(61) **Obsolescence** means the Factor to consider when determining the disposition of assets. Assets are obsolete when no longer useful to SOEs and ABs.

(62) **Office Furniture & Fixtures:** means the Modular components that make up a work area. Examples include panels, work surfaces, drawers, and overhead shelves. Individual components that cost less than Taka 5,000 are not tracked in the Fixed Asset System and should be expensed when purchased. Individual components costing Taka 5,000 or more should be identified with a bar code tag and tracked as a piece of moveable equipment.

(63) **Ownership Tag** means the Identification tag affixed to equipment with an acquisition cost below Taka 5,000. These items are not subject to physical inventory requirements. Note: Collectibles are not required to be tagged.

(64) **Post Implementation Stage** means the activities performed after asset acquisition. Includes data conversion, employee training/ travel, annual licenses and fees if related to a constructed asset, CIP.

(65) **Preliminary Stage** means costs of planning and studies related to potential capital projects (constructed asset, CIP). This stage includes activities performed to explore opportunities for acquisition or construction of an asset.

(66) **Procuring entity** means any procurer having the administrative and financial power to procure any goods, assets, works or services from public funds;

(67) **Property** means any item, whether or not it is an operable or a complete unit, that was donated to SOEs and ABs or purchased with gift, grant, contract, or unrestricted general

funds. Title is vested in SOEs and ABs unless there are specific provisions reserving rights for another party, such as when property is purchased with federal funds.

(68) **Renovation** means the Construction activity that changes and/or improves the function of all or part of a facility. May be capitalized if the actual cost is at least Taka 50,000, or if the project adds usable space. Renovations costing less than Taka 50,000 will be expensed in the current period as repairs and maintenance. See Construction in Progress (CIP) definition.

(69) **Replacement** means the substitution of a similar part for an original part. If the replacement does not significantly increase the capacity, efficiency, or economic useful life of the original item than these costs, regardless of dollar amount, should be recorded as repairs and maintenance expense, not added to the value of the original asset, or recorded as a separate asset.

(70) **Repairs** means the Repairs and maintenance expenses are defined as any cost incurred to maintain the existing item that does not significantly increase the capacity, efficiency, or economic useful life of the original item. These costs, regardless of dollar/BDT amount, should be recorded as repairs and maintenance expense, and not added to the value of the original asset or recorded as a separate asset.

(71) **Right of Use Asset (Lease)** means a lessee is required to record a right-of-use asset equal to the amount of the initial measurement of the lease liability, any lease payments made to the lessor at or before the commencement date, minus any lease incentives received, and any initial direct costs incurred by the lessee (pursuant to **IAS 16)**

(72) **Scrap (Recycled or Salvaged) Equipment)** means the item that can be recycled or broken down into parts for disposal or salvage. The disposal process is managed by Materials Management.

(73) **Software** means the Complete set of programs, procedures, and related documentation associated with a computer system. Software is considered intangible property and is not generally recorded in the Fixed Asset Module. The value of pre-loaded computer software may be included in the cost of the equipment recorded in the Fixed Asset Module when the cost of the software is not separately identified on the invoice.

(74) **Special Collections** means the works of art, rare books, historical treasures, or scientific specimens that are held for public exhibition, education, or research, rather than for financial gain. They are protected, preserved, and subject to a formal policy that recommends that the proceeds of items sold be used to acquire other items for collections.

(75) **Substantial Completion** means the stage in the progress of the Work when the Work or designated portion thereof is sufficiently complete in accordance with the Contract Documents and applicable permits and approvals so that the Owner can occupy or utilize the Work for its intended use, with only minor punch list items remaining. The Work will not be considered suitable for Substantial Completion review, and the Contractor shall not be deemed to have achieved Substantial Completion until: (i) all Project systems included in the Work have been started up, tested, and are operational as designed and scheduled; (ii) to the extent reasonably required, the Contractor has instructed Owner's

personnel in the operation of all systems and equipment; (iii) the site has been cleaned up and complete reclamation, including without limitation removal of excess materials, rock, sand, paving, debris, dumpsters, supplies, equipment and trailers, and disconnection of temporary utilities, and (iv) the Contractor has arranged for and obtained all designated or required governmental inspections, written approvals, and certifications necessary for legal use and occupancy of the completed Project.

(76) **Surplus Equipment** means the item that is no longer needed or required. The disposal process is managed by Materials Management.

(77) **Transferee** means the entity or person who is receiving title or custody of property.

(78) **Transferor** means the entity or person who transfers or conveys property.

(79) **Upgrades** means a change, modification, or improvement made to a piece of equipment that improves capacity, capability, efficiency, or useful life. Upgrade costs of Taka 5,000 or more are added to the original capital or non-capital equipment.

(80) **Useful Life** means the Period over which a capital asset has use to SOEs and ABs in performing the function for which it was purchased. For a chart of useful lives by assets class see annexures Useful Life and Depreciation.

Appendix B: General Definition for Part B-Lease

(1) **Commencement date of the lease (commencement date)** means the date on which a lessor makes an underlying asset available for use by a lessee.
(2) **Contract** means an agreement between two or more parties that creates enforceable rights and obligations.
(3) **Default & Remedies** means the actions taken in case of breach (e.g., eviction, repossession, fines).
(4) **Economic life** means either the period over which an asset is expected to be economically usable by one or more users or the number of production or similar units expected to be obtained from an asset by one or more users.
(5) **Effective date of the modification** means the date when both parties agree to a lease modification.
(6) **Fair value** means for the purpose of applying the **lessor** accounting requirements in this Standard, the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.
(7) **Finance lease** means a lease that transfers substantially all the risks and rewards incidental to ownership of an **underlying asset**. Finance lease is also known as capital lease.
(8) **Fixed payments** mean payments made by a **lessee** to a **lessor** for the right to use an **underlying asset** during the **lease term**, excluding **variable lease payments**.
(9) **Gross investment in the lease** means the sum of:

i. the **lease payments** receivable by a **lessor** under a **finance lease**; and
ii. any **unguaranteed residual value** accruing to the lessor.

(10) **Incremental borrowing rate** means interest rate a lessee would have to pay if, instead of leasing, they finance the purchase of the same asset.
(11) **Inception date of the lease (inception date)** means the earlier of the date of a **lease agreement** and the date of commitment by the parties to the principal terms and conditions of the lease.
(12) **Initial direct costs** mean the incremental costs of obtaining a **lease** that would not have been incurred if the lease had not been obtained, except for such costs incurred by a manufacturer or dealer **lessor** in connection with a **finance lease**.
(13) **Interest rate implicit in the lease** means the rate of interest that causes the present value of (a) the **lease payments** and (b) the **unguaranteed residual value** to equal the sum of (i) the **fair value** of the **underlying asset** and (ii) any **initial direct costs** of the lessor.
(14) **Lease** means a contract, or part of a contract, that conveys the right to use an asset (the **underlying asset**) for a period of time in exchange for consideration.
(15) **Lessee** means a person or entity who rents land or property. An individual or entity who has the right to use something of value gained through a lease agreement with the real owner of the property (lessor).
(16) **Lessor** means the owner of an asset that is leased under an agreement to a lessee.
(17) **Lease incentives** mean the Payments made by a **lessor** to a **lessee** associated with a **lease**, or the reimbursement or assumption by a lessor of costs of a lessee.
(18) **Lease modification** means a change in the scope of a **lease**, or the consideration for a lease, that was not part of the original terms and conditions of the lease (for example, adding or terminating the right to use one or more **underlying assets**, or extending or shortening the contractual **lease term**).
(19) **Lease payments** mean payments made by a **lessee** to a **lessor** relating to the right to use an **underlying asset** during the **lease term**, comprising the following:
(20) **fixed payments** (including in-substance fixed payments), less any **lease incentives**;
(21) **variable lease payments** that depend on an index or a rate;

(22) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and

(23) payments of penalties for terminating the **lease**, if the lease term reflects the lessee exercising an option to terminate the lease.

a. For the lessee, lease payments also include amounts expected to be payable by the lessee under **residual value guarantees**. Lease payments do not include payments allocated to non-lease components of a contract, unless the lessee elects to combine non-lease components with a lease component and to account for them as a single lease component.

b. For the lessor, lease payments also include any residual value guarantees provided to the lessor by the lessee, a party related to the lessee or a third party unrelated to the lessor that is financially capable of discharging the obligations under the guarantee. Lease payments do not include payments allocated to non-lease components.

(24) **Lease term** means the non-cancellable period for which a **lessee** has the right to use an **underlying asset**, together with both:

(25) periods covered by an option to extend the **lease** if the lessee is reasonably certain to exercise that option; and

(26) periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.

(27) **Lessee** means an entity that obtains the right to use an **underlying asset** for a period of time in exchange for consideration.

(28) **Lessee's incremental borrowing rate** means the rate of interest that a **lessee** would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the **right-of use asset** in a similar economic environment.

(29) **Lessor** means an entity that provides the right to use an **underlying asset** for a period of time in exchange for consideration.

(30) **Lease Expiration Date** means the date when the lease term ends unless renewed or terminated earlier.

(31) **Net investment in the lease** means the **gross investment in the lease** discounted at the **interest rate implicit in the lease**.

(32) **Operating lease** means a lease that does not transfer substantially all the risks and rewards incidental to ownership of an **underlying asset**.

(33) **Optional lease payments** mean the payments to be made by a **lessee** to a **lessor** for the right to use an **underlying asset** during periods covered by an option to extend or terminate a **lease** that are not included in the **lease term**.

(34) **Period of use** means the total period of time that an asset is used to fulfil a contract with a customer (including any non-consecutive periods of time).

(35) **Residual value guarantee** means a guarantee made to a **lessor** by a party unrelated to the lessor that the value (or part of the value) of an **underlying asset** at the end of a **lease** will be at least a specified amount.

(36) **Right-of-use asset** means an asset that represents a **lessee's** right to use an **underlying asset** for the **lease term**.

(37) **Subleasing & Assignment** means the rules on transferring lease rights to another party.

(38) **Security Deposit** means an upfront sum paid by the tenant to the landlord as a guarantee against property damage or unpaid rent.

(39) **Short-term lease** means a lease that, at the **commencement date**, has a **lease term** of 12 months or less. A lease that contains a purchase option is not a short-term lease.

(40) **Sublease** means a transaction for which an **underlying asset** is re-leased by a **lessee** ('intermediate lessor') to a third party, and the **lease** ('head lease') between the head lessor and lessee remains in effect.

(41) **Underlying asset** means an asset that is the subject of a **lease**, for which the right to use that asset has been provided by a **lessor** to a **lessee**.

(42) **Unearned finance income** means the difference between:

i. the **gross investment in the lease**; and
ii. the **net investment in the lease**.

(43) **Unguaranteed residual value** means that portion of the residual value of the **underlying asset**, the realization of which by a **lessor** is not assured or is guaranteed solely by a party related to the lessor.

(44) **Variable lease payments** mean the portion of payments made by a **lessee** to a **lessor** for the right to use an **underlying asset** during the **lease term** that varies because of changes in facts or circumstances occurring after the **commencement date**, other than the passage of time.

(45) **Useful life** means the period over which an asset is expected to be available for use by an entity; or the number of production or similar units expected to be obtained from an asset by an entity.

(46) **Usage Restrictions** means permitted and prohibited uses of the leased asset