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Disclosure in Financial Statement on the basis of BASs: A Study on Listed Pharmaceutical Companies in Bangladesh

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ABSTRACT

International Accounting Standard Board (IASB) has issued IASs & IFRSs in order to harmonize financial information of companies & to ensure relevant, reliable, consistent and comparable information for the users. The study evaluates the financial statements in the light of the application of Bangladesh Accounting Standards as issued by the council of Institute of Chartered Accountants of Bangladesh (ICAB) which is a member of IASB.As a member of IASB, ICAB is under obligation to adopt and implement the IASs keeping in view the local legal framework. The analysis in this study involves constructing a disclosure check list (DCL) based on only the BASs, to explain the level of disclosure of the listed pharmaceutical companies according to BASs. The main objectives of the study are to pinpoint the financial reporting practices of the sample pharmaceutical companies and to evaluate the financial statements in the light of BASs. The study covers only twelve listed pharmaceutical companies and a period from 2007 to 2011.The findings reveal the overall level of disclosure to be high with some fluctuations in different years.

Keywords: Bangladesh; Pharmaceutical Sector; BAS; Disclosure

INTRODUCTION

Financial reporting is supposed to be a useful mechanism for users. From the perspective of usefulness to decision making, financial reporting should be able to present useful information to help investors and creditors make economic decision in a prudent manner. Companies in Bangladesh prepare their financial reports in conformity with legal provisions for achieving shareholders confidence (Parry and Khan 1984). This financial reporting is regulated by the companies Act, 1994 and SEC Rules, 1987 in Bangladesh. On the other hand, the International Accounting Standards adopted as Bangladesh Accounting Standards by ICAB are also mandatory for the listed companies. Keeping in view the

importance of IASs adopted as BASs in the preparation of financial statements the present study seeks to evaluate the financial statements in the light of the application of BASs. Stock Exchanges in different countries including Bangladesh have certain requirements for listed companies to publish their annual audited accounts within a specified period after the end of their accounting period by following accounting standards. There is a paucity of study which specifically examined the extent of disclosure by applying this disclosure checklist based on BASs in the pharmaceutical sector in Bangladesh. The analysis in this study involves constructing a separate disclosure check list (DCL) based on only the BASs, to explain the level of disclosure by the listed pharmaceutical companies.

LITERATURE REVIEW

A number of empirical studies have been undertaken which seek to explain disclosure of IASs using variables representing selected corporate attributes. Epstein and Mirza (1997) define the IASB's goals as first, to promote the acceptance of proposed accounting standards across the world; and second, to continue improvement in the harmonization of accounting standards, regulations, and procedures. Typically some of the studies have used multivariate regression analysis and the paper reviewed some of the key studies such as Saha and Rahman (2001); Ahmed and Haider (1998); Baree (1999); Baree and Ahmed (1999); Chowdhury (1999); Haider (1997); Chowdhury and Kabir (1996); Paul A. P. (2005); and Sen (2002). Some studies that are focused on international adoption of IASs were also analyzed like Richardson, A .J. and Hutchison I. R. (1999); Rivera. J. M (1989) and Lawrence (1996). The paper also reviewed some of the studies related to observing the adoption and practices of BASs in Bangladesh like Muttakin and Hossain (February 2003); Badrul (August 2002); and Salam, M.A (December 2002). During the last four decades the research literature on disclosure requirements of IASs has gained momentum in financial accounting but there is no study using mandatory items of BASs in the pharmaceutical sector of Bangladesh.

OBJECTIVE OF THE STUDY

The objectives of the study are-

- To highlight the overall application of BASs in sample companies' financial reporting.

- To find out the degree of compliance with the IASs / BASs.
- To compare among sample companies regarding the application of International Accounting Standards as adopted by the ICAB as BASs.

INTRODUCTION METHODOLOGY

Selection of sample companies

All the listed Pharmaceutical companies were selected for the purpose of the study.

Source of data

After reviewing the relevant literature and Bangladesh Accounting Standards, Annual reports of the sample companies were collected for the years 2007-2011.On the basis of the Annual reports, Bangladesh Accounting Standards (BASs) applicable to the sample companies were identified for the construction of Disclosure Check list (DCL).

Construction of DCL

The Disclosure Checklist (DCL) of 125 items of information showing overall disclosure has been segregated from 15 major BASs as shown below

BAS	Name of the BAS/IAS	Total items	% of the total items of the DCL
BAS-1	Presentation of Financial Statements	55	44.00%
BAS-7	Cash Flow Statements	4	03.20%
BAS-8	Accounting Policies, Changes in Accounting Estimates and Errors	5	04.00%
BAS-10	Events After the Balance Sheet Date	5	04.00%
BAS-12	Income Taxes	7	05.60%
BAS-14	Segment Reporting	13	10.40%
BAS-16	Property, Plant and Equipment	6	04.80%
BAS-18	Revenue	5	04.00%
BAS-24	Related Party Disclosures	3	02.40%
BAS-26	Accounting and Reporting by Retirement Benefit Plans	4	03.20%
BAS-33	Earnings Per Share	2	01.60%
BAS-36	Impairment of Assets	4	03.20%
BAS-37	Provisions, Contingent Liabilities and Contingent Assets	4	03.20%
BAS-38	Intangible Assets	5	04.00%
BAS-40	Investment Property	3	02.40%
	Total	125	100.00%

* *Only 15 BASs were taken which are more practices by sample companies.

Statistical Techniques like Average, Standard Deviation and t-tests were applied to test the hypotheses through SPSS.

Limitation of the Study

The study is limited to only one industrial sector and covers a period of five years (2007-2011).Application of relevant and frequently used BASs is studied in the context of sample Pharmaceutical companies. It is based on secondary data obtained from the Annual Reports.

HYPOTHESES FOR THE STUDY

In order to test our null hypothesis # 1 to see whether there is significant variation in level of disclosure among listed pharmaceuticals firms, we conducted *t* test. Accordingly our null hypothesis is- H_{o1} *There is no significant variation in the level of disclosure (based on BAS) among the listed Pharmaceutical Companies.*

In order to see whether there is significant difference in disclosure score among the listed firms we conducted t tests choosing 2 firms at a time using SPSS Software i.e. we conducted Paired Sample *t* test.

In order to examine whether there is significant variation in the level of disclosure over the years, we conducted *t* test. Accordingly our null hypothesis is- H_{o2} *There is no significant variation in the level of disclosure (based on BAS) of the listed Pharmaceutical Companies over the years understudy*

FINDINGS OF THE STUDY

Table: I: Firm-wise level of disclosure and its statistical explanation

	PC_1	PC_2	PC_3	PC_4	PC_5	PC_6	PC_7	PC_8	PC_9	PC_10	PC_11	PC_12
Y_2007	111	102	51	112	65	70	102	68	106	75	103	62
Y_2008	117	107	49	112	69	81	107	89	89	77	106	79
Y_2009	109	105	82	102	88	59	109	84	73	103	106	78
Y_2010	116	106	102	106	75	57	102	88	87	103	96	75
Y_2011	108	108	105	99	84	69	87	79	43	109	95	65
Total	561	528	389	531	381	336	507	408	398	467	506	359
Average	112.2	105.6	77.8	106.2	76.2	67.2	101.4	81.6	79.6	93.4	101.2	71.8
Maximum	117.0	108.0	105.0	112.0	88.0	81.0	109.0	89.0	106.0	109.0	106.0	79.0
Minimum	108.0	102.0	49.0	99.0	65.0	57.0	87.0	68.0	43.0	75.0	95.0	62.0
SD	4.1	2.3	26.9	5.8	9.7	9.7	8.6	8.6	23.6	16.1	5.4	7.8

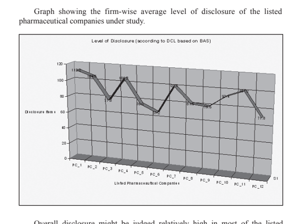
Table showing the level of Disclosure of the Pharmaceuticals Company (Firm wise)

The data in Table I offers some insights into differences in overall patterns of disclosure in the listed pharmaceuticals companies. The Table shows the firm wise level of disclosure during the period under study. If we take the average of the DCL as indicator, overall disclosure levels of the 12 listed pharmaceutical companies' disclosure is the highest in case of firm # 1 and least in case of firm # 6.Overall disclosure might be judged relatively high in most of the listed pharmaceutical companies as the highest score (firm # 1) represents 112 items of the maximum attainable of 125 under the BAS mandatory elements of the DCL. Highest variation in disclosure is revealed by firm # 3 and lowest variation is observed in firm # 2. Firm # 10, the one firm shows an increasing trend but others show mixed trend. In order to test our null hypothesis # 1 to see whether there is significant variation in the level of disclosure among listed pharmaceuticals firms, we conducted *t* test. Accordingly our null hypothesis # H_{o1} we have found that there are significant differences in disclosure score among the listed firms. The results of *t* test reveals that *t* values are significant in 52 of the cases out of 66 cases i.e., in 78.79% of the cases. So, we can comment that our null hypothesis is rejected which means that there is significant difference in the level of disclosure among listed pharmaceuticals company.

INTRODUCTION GRAPHICAL PRESENTATION OF FIRM-WISE LEVEL OF DISCLOSURE

Graph: I

Graph showing the firm-wise average level of disclosure of the listed pharmaceutical companies under study.



Overall disclosure might be judged relatively high in most of the listed pharmaceuticals company as the highest disclosure level (PC 1) represents 112 items of the maximum attainable 125 items of the DCL. The lowest disclosure level (PC 6) represents 67 items of the maximum attainable 125 items, which is above 60%. Fifty per cent of the firms under study (6 listed pharmaceutical companies) show the levels above 80% (PC 1; PC 2; PC 4; PC 7; PC 10 and PC11). The rest 6 pharmaceutical companies' disclosure level range between 60% to 80%.

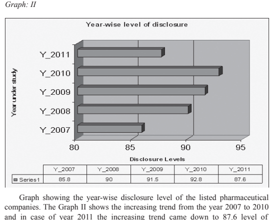
Table: II Table showing the year wise level of disclosure firms under study

	Y_2007	Y_2008	Y_2009	Y_2010	Y_2011
PC_1	111	117	109	116	108
PC_2	102	107	105	106	108
PC_3	51	49	82	102	105
PC_4	112	112	102	106	99
PC_5	65	69	88	75	84
PC_6	70	81	59	57	69
PC_7	102	107	109	102	87
PC_8	68	89	84	88	79
PC_9	106	89	73	87	43
PC_10	77	75	103	103	109
PC_11	103	106	106	96	95
PC_12	62	79	78	75	65
Total	1029	1080	1098	1113	1051
Average	85.75	90.00	91.50	92.75	87.58
Maximum	112.00	117.00	109.00	116.00	109.00
Minimum	51.00	49.00	59.00	57.00	43.00
SD	22.17	20.45	16.48	16.90	20.69

The Table II shows the year-wise disclosure levels of the listed pharmaceuticals company during the period under study. If we take the average of the DCL as indicator of overall disclosure levels of the years 2007-2011, highest disclosure score was observed in the year 2010 and the lowest in 2007. Overall disclosure might be said to be relatively high in all years showing the level above 85%.The level of disclosure shows an increasing trend during the years of 2007 to 2011, but the level falls in the year 2011 which breaks the previous four years increasing trend. Highest variation in yearly level of disclosure is revealed in the year 2011 and lowest variation is observed in year 2009.In order to examine whether there is significant variation in the level of disclosure score over the years, we conducted t tests. In case of examining year-to-year variations in the level of disclosure we conducted t tests (using the SPSS software) and found that t values were significant in 35% of the cases. So, we can comment that our null hypothesis is accepted and there exists variation in year-to-year level of disclosure among the listed pharmaceutical companies.

Increasing Trend of Year-wise Level of Disclosure

Graph: II



Graph showing the year-wise disclosure level of the listed pharmaceutical companies. The Graph II shows the increasing trend from the year 2007 to 2010 and in case of year 2011 the increasing trend came down to 87.6 level of disclosure. If we take the average figure of the DCL as indicator of the years 2007-2011, top average score was observed in the year 2010 and the least in 2007. Though increasing trend fell in 2011, the overall level of disclosure might be judged to be relatively high.

CONCLUSION

From the foregoing discussions and tests of hypotheses it is revealed that there is a significant difference in the level of disclosure among the listed pharmaceutical companies and there is also a variation in the year to year level of disclosure. But all the sample companies have more or less complied with the provisions of BASs. Fifty percent of the listed company's level of disclosure is above 80%.While the rest of the companies' level of disclosure ranges between

60% and 80%.The year to year level of disclosure is also satisfactory with on average of 85%. Since the preparation of financial statements is the responsibility of the management, they should be oriented towards the implementation of BASs which add value to the financial statements. The accounts personnel and audit committee should see that the BASs are followed in the preparation of financial statements and presentation of items therein. The role of Institute of Chartered Accountants of Bangladesh and Bangladesh Securities & Exchange Commission is crucial in this respect.

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Appendix-1

Disclosure Check List based on BAS

Company Name: ....

BAS 1

- Property, Plant & Equipment
- Intangible assets
- Financial assets
- Investment
- Inventories
- Trade and others receivables
- Cash and cash equipment
- Trade and other payables
- Tax liabilities
- Provisions
- Non-Current interest bearing liabilities
- Minority interest
- Issued capital & reserves
- Class of share capital
- Tax expenses
- Profit or loss from ordinary activities

- Extra-ordinary items
- Net profit or loss for the period
- Revenue
- The results of operating activities
- Finance costs
- Operating income
- Raw material used
- Depreciation & amortization expense
- Other operating expense
- Total operating expense
- Profit from operating activities
- Cost of sale
- Gross profit
- Other operating income
- Distribution Cost
- Notes to the financial statement
- Statement of compliance with Bangladesh Accounts standard.
- Revenue recognition
- Consolidation principles, including subsidiaries and associates
- Business combinations
- Joint ventures
- Capitalization of borrowing costs and other expenditure
- Construction contracts
- Investment properties
- Financial instruments and investments
- Leases
- Research and development costs
- Inventories
- Taxes, including deferred taxes
- Provisions
- Employee benefit costs
- Foreign currency translation and hedging
- Geographical segments and the basis for allocation of costs between segments.
- Cash and cash equivalents;
- Inflation accounting;
- Government grants.
- The measurement basis (or bases) used in preparing the financial statements
- Nature of enterprises operation
- The number of employee

BAS 7
- Component of cash & cash equivalents
- Reconciliation of the amounts in its cash flow statement.
- Disclosure of cash flows that represent increases in operating capacity.
- Disclosure of segmental cash flows.

BAS 8
- Fundamental error
- Amount of the correction at current year
- Amount of the correction at previous year
- Amount of the correction in net profit
- The fact that comparative information has been restated

BAS 10
- Date of authorization for issue
- The nature of the event
- Financial effect that cannot be made
- Non-adjusting evens after the balance sheet date
- Declaration of divided after balance sheet date.

BAS 12
- Deferred tax assets and differed tax liabilities
- Current income tax assets and liabilities
- The amount of deductible temporary differences
- The aggregate amount of temporary differences
- The amount of deferred tax expense
- The aggregate current and deferred tax
- Tax expense (income) relating to extraordinary items

BAS 14
- Segment revenue from external customers by geographical area
- Total of segment assets by geographical location
- Capital expenditure on property
- Plant and equipment and on intangible assets by geographical location of assets.
- Sales to external customers
- Reportable segment based on an enterprise's primary reporting format.
- Disclose segment revenue for each reportable segment.
- Segment result for each reportable segment.
- Measure of segment performance

- The total carrying amount of segment assets for each reportable segment.
- Segment liabilities for each reportable segment.
- The total cost incurred during the period to acquire segment assets.
- The total amount of significant non-cash expenses.

BAS 16
- For each class of property, plant and equipment.
- The measurement bases used for determining the gross carrying amount.
- The depreciation methods used.
- The useful lives or the depreciation rates.
- Impairment losses recognized
- Depreciation.

BAS 18
- Sales of Goods
- The rendering of services
- Interests
- Royalties
- Dividends

BAS 24
- Indications of the volume of the transactions
- Appropriate proportions of outstanding items
- Pricing policies

BAS 26
- The report of a retirement benefit plan.
- A statement of changes in net assets available for benefits.
- A statement of net assets available for benefits disclosing.
- A description of the funding policy

BAS 33
- The amounts used as the numerators in calculating basic and diluted earnings per share.
- The weighted average number of ordinary shares used as the denominator in calculating basic and diluted earnings per share.

BAS 36
- The amount of impairment losses recognized in the income statement
- The amount of reversals of impairment losses recognized in the income statement during the period.
- The amount of impairment losses recognized directly in equity during the period.
- The amount of reversal of impairment losses recognized directly in equity during the period.

BAS 37
- The carrying amount of each clam of provision at the beginning and end of the period.
- Additional provisions made in the period, including increases to existing provisions.
- Unused amounts reversed during the period.
- The increase during the period in the discounted amount arising from the passage of time.

BAS 38
- Each class of intangible assets.
- The useful lives or the amortization rate used of each class of intangible assets.
- The amortization methods used of intangible assets.
- The gross carrying amount and the accumulated amortization at the beginning and end of the period.
- The line item(s) of the income statement in which the amortization of intangible assets.

BAS 40
- The methods and significant assumptions applied in determining the fair value of investment property.
- Rental income from investment property.
- The fair value of investment property.

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Total 125 Items of Information.