3.01.3 Depreciation

Depreciation is charged on property, plant, and equipment (except land) using the reducing balance method of each item of property, plant, and equipment. Depreciation on addition to property, plant, and equipment is charged from the date when assets are put into use for commercial operation. No depreciation is charged on the assets from the month on which such assets are disposed. The rates of depreciation, ranging from 10% to 25% p.a. for the current period, are as follows:

Depreciation rate (%):

Name of the assets	(Q1) 2023-2024	2022-2023
Furniture and fixture	10%	10%
Office equipment	10%	10%
Computer & IT equipment	25%	25%
Vehicle	10%	10%

3.01.4 Application of IFRS-16: Leases

The Company assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period in exchange for consideration. The Company applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Company recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets (RoU)

The Company's policy is to recognize right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized and lease payments made at or before the commencement date less any lease incentives received.

Lease liabilities

At the commencement date of the lease, the Company recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating the lease, if the lease term reflects the Company exercising the option to terminate.

When measuring lease liability, the company discounted lease payments using an incremental borrowing rate at 6.50% p.a.

After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments or a change in the assessment of an option to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Company is not applying the recognition and measurement requirements of IFRS 16 to short-term leases (leases of less than 12 months maximum duration). It also not applying the recognition and measurement requirements of IFRS 16 to leases for which the underlying asset is of low value (i.e. less than BDT 5,00,000 when new). Lease payments on short-term leases and leases of low-value assets are recognized as expenses on a straight-line basis over the lease term or as per the agreement.

3.02 Inventory

Inventory is presented in accordance with "IAS 2" in which long-term projects are recognized whose invoice will be generated in the future after successful completion of User Acceptance Testing. It comprises work in progress of software and software development. In this regard, all direct salary and allowances of resource personnel and any other directly attributable costs are accounted for work in progress inventory.

3.03 Statement of cash flows

Statement of cash flows is prepared principally in accordance with IAS-7: *Statement of Cash Flows*, and the cash flows from operating activities have been presented under direct method. Reconciliation of cash flows from operating activities is presented under indirect method in *Annexure-C*.

3.04 Comparative information

As guided in paragraph of "IAS 1 Presentation of Financial Statements", comparative information in respect of the previous period has been presented in all numerical information in the financial statements and the narrative and descriptive information where it is relevant for understanding the current period's financial statements.

3.05 Cash and cash equivalents

Cash and cash equivalents are comprised of cash, digital financial service (DFS), and cash at the bank which are free from any restriction to use.

3.06 Foreign currency transactions

Transactions in foreign currencies during the period are translated into BDT at the foreign exchange rates prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are re-translated into BDT at the exchange rates ruling at the statement of financial position date. Foreign exchange differences arising on translation at the reporting date are recognized in profit or loss.

3.07 Provisions

A provision is recognized in the statement of financial position when the company has a legal or constructive obligation as a result of past event, it is probable that an outflow of economic benefit will be required to settle the obligation and the amount of provision can be measured reliably in accordance with IAS 37: *Provisions, Contingent Liabilities and Contingent Assets.*

3.08 Income tax

Income tax expenses comprises of both current and deferred tax. Income tax expense is recognized in the statement of profit or loss and other comprehensive income.

3.09 Current tax

Current tax is the expected tax payable or receivable on the taxable income or loss for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous period. Provision for corporate income tax is made following the rate applicable for companies as per Finance Act 2023.

In accordance with para - 21 of 6th Schedule (Part- A) of the Income Tax Act 2023, the company is exempted from income tax till 30 June 2024 for the income generated from business (ITES i.e. Software development; Software or application customization; Web hosting and related service; IT support and software maintenance service). However, the regular tax rate is applicable on other income.

3.10 Deferred tax

Due to tax exemption facilities, the company does not incorporate deferred tax in compliance with IAS-12: *Income taxes.*

3.11 Financial instruments

(a) Financial assets

The company initially recognizes receivables and deposits on the date that they are originated. All other financial assets are recognized initially on the date at which the company becomes a party to the contractual provisions of the transaction. The company derecognizes a financial asset when the contractual rights or probabilities of receiving cash flows from the assets expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which all the risks and rewards of ownership of the financial asset are transferred substantially.

(b) Financial liabilities

The company initially recognizes financial liabilities on the transaction date at which the company becomes a party to the contractual provisions of the liability. The company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expired.

3.12 Impairment Financial assets

The Company measures loss allowances for trade receivables at an amount equal to lifetime Expected Credit Loss (ECL). When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on Brain Station 23 Ltd.'s historical experience and informed credit assessment and including forward-looking information. Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument. The maximum period considered when estimating ECLs is the maximum contractual period over which Brain Station 23 Ltd. is exposed to credit risk.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured by the cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive).

At each reporting date, the Company assesses whether financial assets carried at amortized cost and debt securities at FVOCI are credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

(a) significant financial difficulty of the debtor;

(b) a breach of contract such as a
default;

(c) it is probable that the debtor will enter bankruptcy.

The gross carrying amount of a financial asset is written off when the Company has no reasonable expectations of recovering a financial asset in its entirely or a portion thereof.

3.13 Financial risk management

The Company management has overall responsibility for the establishment and oversight of the Company's risk management framework. Risk management policies, procedures and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

3.13.1 Credit risk

Credit risk is the risk of financial loss if a customer or counterpart to a financial instrument fails to meet its contractual obligation which arises principally from the Company's receivables from customers.

The Company makes sales on advance basis i.e. it receives advance from customers prior to sale, so there is no credit risk due to uncollectibility from the customers. However, the Company maintains most of the financial assets with short-term deposits and cash and cash equivalents.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

Amount in BDT '000

	Notes	30 Sept. 2023	30 June 2023
Financial assets			
Fixed deposits	8	202,882	166,537
Trade receivables	7	193,233	151,400
Cash and cash equivalents	10	201,139	216,264
		597,254	**534,202**

3.13.2 Liquidity risk

Liquidity risk is the risk that the Company may encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or other financial assets.

The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The contractual maturities of financial liabilities of the Company are as follows:

Amount in BDT '000

	Note	Carrying amount	Contractual cash flows				
			Expected cash flows	6 months or less	6-12 months	1-2 years	More than 2 years
30 Sept. 2023							
Trade and other payables	16	29,515	29,515	29,515	-	-	-
Lease liabilities	14	92,508	92,508	12,303	13,382	24,771	42,052
		122,024	**122,024**	**41,818**	**13,382**	**24,771**	**42,052**
30 June 2023							
Trade and other payables	16	34,407	34,407	34,407	-	-	-
Lease liabilities	14	98,362	98,362	11,832	12,847	26,125	47,558
		132,769	**132,769**	**46,239**	**12,847**	**26,125**	**47,558**

3.13.3 Market risk

Market risk is the risk that includes changes in market price, such as foreign exchange rate, interest rates, and equity prices that may affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

i) Currency risk

The Company's exposures to foreign currency risk at the reporting date are as follows:

Amount in USD '000

	30 Sept. 2023	30 June 2023
Import of services	(48)	(844)
Export of services	1,153	7,281
Bank balance (FC)	719	941
	1,824	**7,378**

The following significant exchange rates have been applied during the period:

	30 Sept. 2023	30 June 2023
Exchange rate (USD/BDT):		
Average rate	109.50	104.00
Quarter-end spot rate	110.00	109.00

ii) Interest rate risk

Interest rate risk is the risk that arises due to changes in interest rates. The Company is not exposed to fluctuations in interest rates as it has no floating interest rate bearing financial liability as at the reporting date. The Company has not entered into any agreement involving derivative instrument at the reporting date.

As at the reporting date, the interest rate profile of the Company's interest bearing financial instruments was:

Amount in BDT '000

	30 Sept. 2023	30 June 2023
Fixed rate instruments		
Financial assets	-	-
Fixed deposit receipts	202,882	166,537
Financial liabilities	-	-
Variable rate instruments		
Financial assets	-	-
Financial liabilities	-	-

3.14 Revenue recognition

The Company recognizes revenue when (or as) the Company satisfies a performance obligation by transferring a promised service to a customer. Services are considered as transferred when (or as) the customer obtains control of that services. Revenue from services is measured at the fair value of the consideration received or receivable net of returns and allowances, trade discounts, rebates and Value Added Tax (VAT).

In accordance with the service agreement, revenue is recognized in profit or loss in proportion to the stage of completion of the transaction at the reporting date, and complied with the provisions of IFRS 15: *Revenue from Contracts with Customers.*