

CORPORATE REPORTING

July-August 2025

Time allowed- 3:30 hours

Total marks- 100

[N.B. - The figures in the margin indicate full marks. Questions must be answered in English. Examiner will take account of the quality of language and of the manner in which the answers are presented. Different parts, if any, of the same question must be answered in one place in order of sequence.]

Marks

1. Dhaka Ltd has investments in two companies, Khulna Ltd and Sylhet Ltd. The draft summarised statements of financial position of the three companies at 31 March 2025 are shown below:

	Dhaka Ltd Tk.	Khulna Ltd Tk.	Sylhet Ltd Tk.
Assets:			
Non-current assets			
Property, plant and equipment	660,700	635,300	261,600
Intangibles	101,300	72,000	-
Investment	350,000	-	-
	1,112,000	707,300	261,600
Current assets			
Inventories	235,400	195,900	65,700
Trade and other receivables	174,900	78,800	56,600
Cash and cash equivalents	23,700	11,900	3,400
	434,000	286,600	125,700
Total assets	1,546,000	993,900	387,300
Equity and liabilities			
Equity			
Ordinary share capital (Tk. 10 share)	100,000	500,000	200,000
Revaluation surplus	125,000	-	-
Retained earnings	1,084,800	312,100	12,000
	1,309,800	812,100	212,000
Current liabilities			
Trade and other payables	151,200	101,800	137,400
Taxation	85,000	80,000	37,900
	236,200	181,800	175,300
	1,546,000	993,900	387,300

Additional information:

- (i) Dhaka Ltd acquired 75% of Khulna Ltd's ordinary shares on 1 April 2023 for total cash consideration of Tk. 691,000. Tk. 250,000 was payable on the acquisition date and the remaining Tk. 441,000 two years later, on 1 April 2025. The directors of Dhaka Ltd were unsure how to treat the deferred consideration and have ignored it when preparing the draft financial statements above.

On the date of acquisition Khulna Ltd's retained earnings were Tk. 206,700. The noncontrolling interest and goodwill arising on the acquisition of Khulna Ltd were both calculated using the proportionate method.

- (ii) The intangible asset in Khulna Ltd's statement of financial position relates to goodwill which arose on the acquisition of an unincorporated business, immediately before Dhaka Ltd purchasing its shares in Khulna Ltd. Cumulative impairments of Tk. 18,000 in relation to this goodwill had been recognised by Khulna Ltd as at 31 March 2025.

The fair values of the remaining assets, liabilities and contingent liabilities of Khulna Ltd at the date of its acquisition by Dhaka Ltd were equal to their carrying amounts, with the exception of

a building purchased on 1 April 2021, which had a fair value on the date of acquisition of Tk. 120,000. This building is being depreciated by Khulna Ltd on a straightline basis over 50 years and is included in the above statement of financial position at a carrying amount of Tk. 92,000

- (iii) Immediately after its acquisition by Dhaka Ltd, Khulna Ltd sold a machine to Dhaka Ltd. The machine had been purchased by Khulna Ltd on 1 April 2021 for Tk. 10,000 and was sold to Dhaka Ltd for Tk. 15,000. The machine was originally assessed as having a total useful life of five years and that estimate has never changed.
- (iv) Sylhet Ltd is a joint venture, set up by Dhaka Ltd and a fellow venturer on 30 June 2023. Dhaka Ltd paid cash of Tk. 100,000 for its 40% share of Sylhet Ltd.
- (v) During the current year Dhaka Ltd sold goods to Khulna Ltd for Tk. 12,000 and to Sylhet Ltd for Tk. 15,000, earning a 20% gross margin on both sales. All these goods were still in the purchasing companies' inventories at the year end.
- (vi) At 31 March 2025 Dhaka Ltd's trade receivables included Tk. 50,000 due from Khulna Ltd. However, Khulna Ltd's trade payables included only Tk. 40,000 due to Dhaka Ltd. The difference was due to cash in transit.
- (vii) At 31 March 2025 impairment losses of Tk. 25,000 and Tk. 10,000 respectively in respect of goodwill arising on the acquisition of Khulna Ltd and the carrying amount of Sylhet Ltd need to be recognised in the consolidated financial statements.

In the next financial year, Dhaka Ltd decided to invest in a third company, Barishal Ltd. On 1 December 2025 Dhaka Ltd will acquire 80% of Barishal Ltd's ordinary shares for Tk. 385,000. On the date of acquisition Barishal Ltd's equity will comprise share capital of Tk. 320,000 and retained earnings of Tk. 112,300. Dhaka Ltd chose to measure the non-controlling interest at the acquisition date at the non-controlling interest's share of Barishal Ltd's net assets. Goodwill arising on the acquisition of Barishal Ltd has been correctly calculated at Tk. 39,160 and will be recognised in the consolidated statement of financial position as at 31 March 2026.

Requirements:

- a) Prepare the consolidated statement of financial position of Dhaka Ltd as at 31 March 2025. 20
- b) Set out the journal entries that will be required on consolidation to recognise the goodwill arising on the acquisition of Barishal Ltd in the consolidated statement of financial position of Dhaka Ltd as at 31 March 2026. 5

2. You are Faruk Rashid, a final level examinee and in the last year of your articleship. Your Manager has called you in his office and said:

"Look at this paper where our audit team of ABC Power Plc has concerns over some transactions of Financial Instruments. I have talked to CFO of the Company and he said he is also unsure whether these instruments meet the solely payments of principal and interest (SPPI) contractual cash flow characteristic test as per IFRS 9."

You read as below:

As at 31 March 2024, ABC Power had the following financial instruments:

- (i) Investing in a bond that matures on December 31, 2029, with an interest rate that is variable and dependent on the state of the market, with a maximum of 9% annually.
- (ii) A five-year redemption period for 5% convertible bonds, each of which can be converted at any point during that time into two common shares of the issuer at the holder's discretion.
- (iii) A loan given to a different business that has a 4-year repayment term and a fixed interest rate. The borrower has the option to repay the principal and interest at an early age, but doing so will incur penalties.
- (iv) A five-year loan to a related party with an interest rate that is much lower than the usual rate for loans of a similar nature.

Requirement:

Prepare a draft response for all 4 instruments by evaluating whether these instruments meet the SPPI test as per IFRS 9 and also mention how all of these transactions will be classified as per the said standard. 15

3. a) As a Senior Manager at Corporate Treasury of Peanuts Group Limited (PGL), you are responsible for managing group finances, including identifying investment opportunities. You have a successful track record of finding profitable stock market investments. Recently, you've observed a sharp rise in the share price of Rose Fashion PLC on the Dhaka Stock Exchange, with expectations of further increases based on insider information. To evaluate this opportunity, you've gathered Rose's latest audited financial statements (Exhibit-1) and additional information from its annual report and media sources (Exhibit-2).

Exhibit-1 Audited Financial Statements

Rose Fashion PLC

Statement of Financial Position

	<u>30-Jun-23</u>	<u>30-Jun-22</u>
Asset		
Non-Current Asset		
Property, Plant & Equipment	150,059,600	167,894,548
Investment in equity	12,502,100	12,502,100
Investment in FDR	1,062,689,350	1,308,423,685
	<u>1,225,251,050</u>	<u>1,488,820,333</u>
Current Asset		
Inventories	660,255,375	508,055,175
Trade & Other Receivables	2,495,948	2,495,948
Advance, Deposits & Prepayments	293,125,733	264,664,285
Cash & Cash Equivalents	184,088,850	65,069,635
	<u>1,139,965,906</u>	<u>840,285,043</u>
Total Asset	<u>2,365,216,956</u>	<u>2,329,105,376</u>
Equity & Liabilities		
Shareholder Equity		
Share Capital (FV @10)	557,463,700	557,463,700
Regulatory Reserves	30,409,435	30,409,435
Revaluation Reserve	20,852,740	22,699,518
Retained Earnings	(137,876,948)	(78,765,199)
	<u>470,848,927</u>	<u>531,807,454</u>
Non-Current Liabilities		
Long Term Loan	514,692,295	438,666,775
Deferred Tax Liability	10,312,008	12,198,763
	<u>525,004,303</u>	<u>450,865,538</u>
Current Liabilities		
Advance from customers	9,751,175	250,000
Short term loan	1,127,612,773	1,117,087,704
Provision for Taxes	134,324,425	143,162,905
Provision & accruals	50,745,153	39,001,575
Bank Overdraft	46,930,200	46,930,200
	<u>1,369,363,726</u>	<u>1,346,432,384</u>
Total Liabilities	<u>1,894,368,029</u>	<u>1,797,297,922</u>
Total Equity & Liabilities	<u>2,365,216,956</u>	<u>2,329,105,376</u>

Rose Fashion PLC**Statement of Profit or Loss and Other Comprehensive Income**

	30-Jun-23	30-Jun-22
Revenue	796,625,673	878,680,765
Less: Cost of Revenue	(762,845,918)	(772,122,808)
Gross Profit	33,779,755	106,557,957
Operating expenses	(51,171,063)	(41,052,730)
Operating Profit	(17,391,308)	65,505,227
Interest expenses	(76,025,520)	(90,857,693)
Interest income	77,728,415	96,201,643
Dividend Income	3,125,000	3,125,000
Profit before WPPF	(12,563,413)	73,974,177
Less: Contribution to WPPF	-	(3,522,580)
Profit before tax	(12,563,413)	70,451,597
Current Tax expenses	(32,651,720)	(22,581,105)
Deferred Tax income	1,886,755	2,801,303
Net Profit for the year	(43,328,378)	50,671,795
Other Comprehensive Income	-	-
Total Comprehensive Income	(43,328,378)	50,671,795

Exhibit-2 Additional information from annual report and media news:

- Rose published its 2023 Annual report on 20 December 2024 which includes auditors' unqualified opinion. Auditor issued an "Emphasis of matter" explaining that the entity was unable to liquidate its FDR on maturity due to bank's liquidity crisis. After discussion with Bank, Principal amount of FDR has been reinvested for 3 years.
- In 2023, Rose distributed dividend of BDT 13,936,593 out of 2022 profit.
- In January 2025, a team from Dhaka Stock Exchange visited Rose and found its factories are non-operational.
- One of the Directors of the company has notified Dhaka Stock Exchange regarding his intention to sale of a portion of his shares in the company.
- Over last week, per share price increased from BDT 120 to BDT 144 whereas share price of comparative companies ranged from BDT 40 to BDT 65.
- Last five-year, historical dividend rates ranged from 1% to 5%.

Requirement:

Analyse Rose Fashion PLC's financial performance and position and provide comment whether PGL should proceed with an investment in Rose.

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- b) You are the Chief Finance Officer of New Vision Ltd., a listed technology company which is preparing its financial statements for the year ended 30 June 2025. Its draft financial statement shows a pretax profit of BDT 65,750,000 excluding the following transactions. New Vision has a corporate tax rate of 25%. Your accounting team members are facing challenges with and have requested your guidance.

Share Options

On 1 July 2023, New Vision granted 200,000 equity-settled share options to its senior executives, exercisable on 30 June 2027 if they remain employed until that date. Fair value per option on grant date in BDT 50. It is expected that 5% of the share options will be forfeited each year and options will be exercised at the end of the vesting period.

On the same date, the company also granted 5000 cash-settled share appreciation rights (SARs) to each of its 10 managers. Each SAR entitles the holder to receive cash equal to the share price if the share price exceeds BDT 40 on 30 June 2026. On the grant date, the fair value per SAR was BDT 35. On 30 June 2024, the fair value per SAR was BDT 42. It is estimated that 2% SARs will be forfeited over the vesting period.

Convertible Bond

On 1 January 2024, New Vision issued a 5,000,000 convertible bond with Face Value of BDT 100 with a 4-year maturity. Bond offers 8% coupon rate where market interest rate is 10%. Coupon is payable annually in arrears. Each bond is convertible into 10 ordinary shares at maturity. All convertible bonds were outstanding all year.

Additional Information:

At the beginning of the year, New Vision had 70,000,000 shares outstanding. It issued 700,000 bonus shares on 01 December 2023. Furthermore, it issued 1,300,000 new shares to a new investor on 01 April 2024. New Vision doesn't have any preference share.

Requirements:

- i) Record the accounting treatment for the share option and convertible bonds in the financial statements. 7
- ii) Calculate the adjusted net profit for the year and determine both the basic and diluted earnings per share (EPS). 5

4. M Younus & Co., Chartered Accountants (MYC) has been appointed as the statutory auditor of Nova Limited (Nova) for the financial year ended 30 September 2024. You are currently serving as an Audit Manager at MYC and have been assigned to the Nova engagement due to your expertise in the industry and your efforts to onboard the client. MYC secured this engagement based on a recommendation to Nova's board by Mr. Tariq, the Finance Manager at Nova, who is an acquaintance from your Chartered Accountancy studies. Mr. Tariq has also expressed concerns about his job security, noting that an unmodified audit opinion is critical for him.

Nova Limited, a mid-sized trading company established in Dhaka in November 2020, is a subsidiary of a foreign company based in the Middle East. The company imports electrical equipment, fruits, and beverages from various countries and sells them to wholesalers and retailers in Bangladesh. As the business expanded, Nova rented several warehouses, including facilities operated by third-party providers. These third-party warehouses maintain records of inventory movements and balances, which they report to Nova on a quarterly basis. Nova reconciles these reports with its own accounting records to ensure accuracy.

To facilitate sales, Nova has engaged distributing agents responsible for selling products to retail customers. Under the arrangement, the agents must collect sales proceeds within one month. However, agents can extend the credit period beyond one month if instructed by Nova under a "guaranteed sales" arrangement. For guaranteed sales, the agents remain responsible for collection but are not liable for bad debts if the receivables become uncollectible. At the year-end, 60% of Nova's outstanding receivables were related to guaranteed sales.

In July 2024, Nova experienced a significant decline in sales due to political unrest during a student revolution. To meet its annual sales target, the company aggressively pushed sales in the last two months of the year, resulting in a sharp increase in sales and eventual achievement of the target. As a reward for meeting the target under challenging circumstances, Nova's shareholders approved an additional 5% sales incentive on top of the regular 10% incentive. However, subsequent to the year-end, the shareholders revoked the entire sales incentive based on findings from an internal audit. The audit revealed that some year-end sales had been improperly recorded in Nova's accounting software by using fake customer acceptance signatures on delivery notes. Although the inventory records showed that goods had been issued for delivery, the customers had not received the products.

In September 2024, Nova conducted several guaranteed sales through its agents to a long-standing customer, allowing a credit period longer than usual. This customer had previously supported Nova during financial difficulties by providing significant advances. However, the customer has failed to make payments for over a year. Despite this, Nova continued extending credit sales to the customer, citing the past business relationship.

The internal audit report also flagged concerns over the involvement of Nova's Marketing Director and Managing Director, who are signatories of the financial statements. They reportedly encouraged the sales team to execute credit sales to customers and collect post-dated cheques. These cheques were recorded as cash receipts and subsequently recognized as cash sales. At year-end, the cheques were classified as reconciling items and included in the cash at bank balance.

Requirements:

- a) Identify the significant risks of misstatement in Nova's financial statements. 4
- b) Design appropriate procedures to be performed to address the identified risks. 4
- c) What type of opinion is expected to be communicated to the shareholders? 4
- d) What would be impact of potential involvement in fraud by the financial statement signatories on the audit of financial statements? 3
- e) Discuss the ethical issues involved and how they should be addressed. 5

5. Your firm has been appointed as the statutory auditor of Kingpin Limited (Kingpin) for the financial year ended 30 June 2025, rotating out the previous audit firm after a 3-year engagement period. Your firm have accepted the engagement but not yet received professional clearance from predecessor auditor. This is your firm's first year auditing Kingpin. You are the senior manager responsible for planning and supervising the audit.

Kingpin is a listed company engaged in manufacturing of plastic furniture, kitchen accessories, and toys. Established in 2000, the company has reported consistent profitability and rapid growth in recent years. The CEO Mr. Rahman has publicly stated in media interviews that 2025 will be "the most profitable year in Kingpin's history" and has announced plans for international expansion within the next two years.

Your team conducted a preliminary analysis of the entity's business operation and its financial statements. The analysis reveals some unusual movements. "Security & other non-current deposits" and "Deposits, prepayments & advances" have both risen sharply year-on-year, yet management has not provided detailed supporting documentation. Last year's related party payables, amounting to approximately BDT 918 million, were eliminated from the balance sheet without any evidence of settlement appearing in the bank records.

In the prior year, the company recorded a financial expense of BDT 42 million which has been shifted to BDT 130 million finance income in the current year. Management attributes this to foreign exchange gains on supplier advances, but no independent confirmation has yet been obtained. The company has also recorded no tax expense despite substantial pre-tax profits.

Corporate governance structures appear weak. The internal audit department is small and reports directly to the CFO rather than to the audit committee. The audit committee met only once during the year and did not review quarterly financial statements. Management has asked that the audit be completed within 15 days to align with a planned press release announcing its achievement of "record profits."

It has been noted that several suppliers and distributors share the same registered address as companies owned by the Chairman's relatives, yet these relationships are not disclosed in the related party note. The CFO is an alumnus of the audit firm and has maintained close relationship with the team members. He suggested avoiding "overcomplication" in related party disclosures and implied that swift completion of the audit.

The plastics manufacturing sector is facing heightened government scrutiny over environmental compliance. Competitors have reported significant increases in compliance costs, yet Kingpin's expenses in this area have remained unchanged despite record production volumes. The company is heavily dependent on imported raw materials from politically unstable regions, and one key supplier's country has experienced recent port closures due to civil unrest. Nonetheless, Kingpin has reported no operational disruptions.

During the Independent assessment of the team members, it was noted that one of the audit team members owns Kingpin shares. Furthermore, brother of another team member is a marketing executive of Kingpin.

Exhibit -Draft Financial Statements

Statement of Profit or Loss

For the year ended on 30 June 2025

	30-Jun-25	30-Jun-24
Turnover	7,922,764,902	6,052,384,581
Less: Cost Of Sales	4,075,413,215	3,375,382,760
Gross Profit / Loss	3,847,351,687	2,677,001,821
Administrative Expenses	639,495,806	270,345,285
Selling & Distribution	280,963,568	232,275,097
Financial expenses (income)	(130,368,365)	41,698,483
Net Operational Profit	3,057,260,678	2,132,682,956
Add: Other Income	43,462,101	699,221,370
Profit / Loss Before Tax	3,100,722,779	2,831,904,326
Tax Expenses	-	(463,412,016)
Net Profit After Tax	3,100,722,779	2,368,492,310

Statement of Financial Position
As at 30 June 2025

	<u>30-Jun-25</u>	<u>30-Jun-24</u>
Assets		
Non-Current Assets		
Tangible assets	1,846,508,946	1,801,169,693
Construction in progress	153,109,785	1,066,309
Security & other non-current deposits	1,841,035,200	919,120,658
	<u>3,840,653,931</u>	<u>2,721,356,660</u>
Current Assets		
Inventories	1,649,710,500	1,282,349,558
Trade & other receivables	1,309,598,318	1,416,836,027
Relative party payables	50,420,590	749,987,234
Deposits, prepayments & advance	1,589,305,415	328,604,837
Cash At Bank and In Hand	196,233,729	200,953,220
	<u>4,795,268,552</u>	<u>3,978,730,876</u>
Total Assets	<u>8,635,922,483</u>	<u>6,700,087,536</u>
Equity & Liabilities		
Share capital	6,600,000	6,600,000
Accumulated profit & loss	7,790,131,553	4,689,408,774
	<u>7,796,731,553</u>	<u>4,696,008,774</u>
Long Term Liabilities		
Long term liabilities	55,972,815	62,192,000
	<u>55,972,815</u>	<u>62,192,000</u>
Current Liabilities		
Short term liabilities	43,237,516	120,558,481
Trade & other creditors	151,010,298	252,765,625
Related party payables	-	918,216,212
Accrued expenses	52,845,620	164,464,075
Liability provisions	536,124,681	485,882,369
	<u>783,218,115</u>	<u>1,941,886,762</u>
Total Equity & Liabilities	<u>8,635,922,483</u>	<u>6,700,087,536</u>

Requirements:

- | | |
|---|---|
| a) Assess regulatory compliance status of the audit firm and Kingpin. Identify non-compliances that may impact the financial statements and the audit process. | 4 |
| b) Identify and assess significant risks and fraud risks in Kingpin financial statements. Describe the audit procedures you would perform to address them. | 7 |
| c) Recommend internal control procedures that Kingpin should implement to address significant and fraud risks. | 4 |
| d) Identify and explain the ethical threats to auditor independence in audit engagements with Kingpin Ltd. Suggest safeguards to be implemented to address the threats. | 5 |

---The End---