

CORPORATE REPORTING

March-April 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 Cycle Limited (DCL) is a leading bicycle manufacturer based out of Dhaka, Bangladesh and known for its affordable and durable bikes suited for both domestic and export markets. It is currently preparing its consolidated financial statements for the year ended 31 December 2024 which includes its two subsidiary Dhaka Tires Ltd (DTL) and Bangla Cycle Ltd (BCL). Following are the audited financial statements of DCL and its subsidiaries:

Statement of Financial Positions

As at 31 December 2024

	Dhaka Cycle BDT	Dhaka Tires BDT	Bangla Cycle Euro
Assets			
Non-Current Assets			
Property, plant & equipment	7,591,041,453	1,150,817,498	23,661,378
Investment property	6,584,159,595	-	104,615
Investment in shares	2,829,205,325	78,821,548	-
Long term loan to subsidiaries	1,911,086,154	-	-
	18,915,492,527	1,229,639,046	23,765,993
Current Assets			
Inventories	2,195,513,102	222,443,341	3,883,719
Trade & other receivables	4,849,602,228	34,102,442	2,012,589
Receivable from related parties	1,252,441,753	996,374,330	2,975,940
Advance, deposits & pre-payments	3,757,325,260	91,126,290	2,369,856
Cash & cash equivalents	240,493,810	12,082,708	6,037,767
	12,295,376,153	1,356,129,111	17,279,871
Total Assets	31,210,868,680	2,585,768,157	41,045,864
Equity & Liabilities			
Equity			
Share capital (FV @ 10)	1,497,146,067	600,000,000	6,400,000
General reserves	6,389,023,167	-	-
Revaluation reserve	-	741,672,504	-
Retained earnings	5,974,797,748	338,153,718	498,418
	13,860,966,982	1,679,826,222	6,898,418
Non-current liabilities			
Long term loan (non-current portion)	5,565,922,850	191,792,428	9,615,385
Gratuity payable	3,715,393,920	40,517,588	36,787
Deferred tax liabilities	195,215,870	20,368,019	-
	9,476,532,640	252,678,035	9,652,172
Current Liabilities			
Long term loan - current portion	2,636,508,260	58,207,572	3,076,923
Short term loans	2,382,789,508	105,775,591	5,557,244
Payable to related parties	996,374,330	386,872,140	9,545,706
Trade and other payables	1,857,696,960	102,408,597	6,315,401
	7,873,369,058	653,263,900	24,495,274
Total Equity & Liabilities	31,210,868,680	2,585,768,157	41,045,864

Statement of Profit or Loss & Other Comprehensive Income

For the year ended on 31 December 2024

	Dhaka Cycle BDT	Dhaka Tires BDT	Bangla Cycle Euro
Revenue	4,336,019,109	489,357,300	5,750,348
Cost of revenue	(3,237,906,990)	(423,059,849)	(3,565,216)
Gross Profit	1,098,112,119	66,297,451	2,185,132
General & Admin Expenses	(224,567,618)	(14,886,342)	(920,056)
Selling & Distribution expenses	(5,866,674)	(16,393,553)	(672,541)
Operating profit	867,677,827	35,017,556	592,535
Finance income	138,894,522	1,719,926	
Finance cost	(910,355,151)	(18,721,972)	(6,161)
Profit before tax	96,217,198	18,015,510	586,374
Tax expenses	(17,994,175)	(857,881)	(87,956)
Net profit for the year	78,223,023	17,157,629	498,418
Other comprehensive income:	-	-	-
Total comprehensive income	78,223,023	17,157,629	498,418

Additional Information:

- DCL owns 75% shares of DTL which was incorporated to manufacture cycle tires for DCL and other cycle manufacturing companies. DCL acquired 75% shares of DTL at BDT 765,000,000 when DCL had retained earnings of BDT 65,930,000.
- On 01 January 2024, DCL set up BCL in Germany to facilitate the distribution of DCL cycles in Germany. DCL owns 100% shares of BCL.
- BCL made payment of BDT 11,500,000 at the year-end which is yet to be received by DCL.
- DTL follows revaluation model to measures its property, plant, equipment whereas parent company follows cost model. During the year, DTL recognized excess depreciation of BDT 2,327,496 due to revaluation. Revaluation reserve has been deducted by the same amount and have been transferred to retained earnings.
- DCL recognized interest income of BDT 11,086,154 on long term loan to BCL. However, DCL did not recognize the interest expenses.
- During the year DCL sold Cycle worth BDT 750,000,000 to BCL of which 55% remains unsold in BCL warehouse at the year end. DCL earned 20% margin on this sale.
- 60% of DTL sales are made to DCL. Entire inventory has been consumed on cycle manufactured and exported by DCL during the year.
- On 31 December 2024, exchange rate was BDT 130/Euro whereas the exchange rate on 01 January 2024 was 125/Euro. Average exchange rate for 2024 was BDT 128/Euro.

Requirements:

Prepare a consolidated statement of financial position and Consolidated Statement of profit or loss for Dhaka Cycle Limited as at and for the year ended on 31 December 2024.

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- Brighton Pharmaceuticals Ltd. (BPL) is a listed company on the Dhaka Stock Exchange (DSE). A few years after listing, the Board of the company decided to issue additional shares through a secondary offering to finance the expansion of research facilities and the modernization of production units. The Chief Financial Officer (CFO) of BPL prepared the following draft Statement of Profit or Loss and Statement of Financial Position for the year ended 30 June 2025 and submitted them to Ms. Olivia Rahman FCA, Partner of Rahman & Associates, Chartered Accountants, the engagement partner responsible for auditing BPL.

BPL is classified as a Public Interest Entity (PIE) under the Financial Reporting Act (FRA) 2015, and is therefore required to prepare financial statements and conduct audits in compliance with the Act.

Statement of Profit or Loss for the year ended 30 June 2025 (BDT in Million)

Particulars	Amount
Revenue	18,000
Less: Cost of Sales	(9,000)
Gross Profit	9,000
Less: Operating Expenses	(3,800)
Less: Finance Costs	(250)
Net Profit	4,950
Less: Provision for Taxation (25%)	(1,237.5)
Net Profit after Tax	3,712.5

Statement of Financial Position as at 30 June 2025 (BDT in Million)

Particulars	Amount
Non-current Assets	
Land and Buildings (Revaluation: Land BDT 500m, Buildings BDT 3,500m)	4,000
Plant and Equipment	2,800
Intangible Asset (Patent Rights)	450
Investment in Equities (at Fair Value through P&L as of 1/7/2024)	900
Treasury Bonds	650
Total Non-current Assets	8,800
Current Assets	
Current Assets	3,200
Other Assets	4,250
Total Assets	16,250
Equity and Liabilities	
Equity	
Share Capital (BDT 10 per share)	5,500
Retained Earnings	6,700
Share Premium	1,250
Total Equity	13,450
Non-current Liabilities	
15% Debenture (2022-2025)	800
Deferred Tax Liability (as of 1/7/2024)	550
Total Non-current Liabilities	1,350
Current Liabilities	
Trade Payables	500
Current Tax Liability	950
Total Current Liabilities	1,450
Total Equity and Liabilities	16,250

Additional Information

1. In March 2025, BPL launched a promotional campaign for a newly developed pharmaceutical drug. Under this scheme, a major distributor purchased the product for BDT 650 million, including a three-year post-sale support service. The normal list price of the product is BDT 750 million, and the usual charge for the support service is BDT 100 million. The transaction was recorded entirely as revenue of BDT 650 million. It was observed that the CFO did not comply with IFRS 15: Revenue from Contracts with Customers when preparing the financial statements.
2. The depreciable non-current assets have not been depreciated for the year. The company follows a revaluation policy for land and buildings at the end of each accounting year. The values above are as of 1 July 2024, with buildings having a remaining useful life of 15 years. As of 30 June 2025, a qualified valuer assessed the land and buildings at BDT 4,500 million.
 - Plant and equipment are depreciated at 10% per annum on a reducing balance basis.
 - The value in use and the fair value less cost to sell for plant and equipment were assessed at BDT 2,450 million and BDT 2,375 million, respectively.
 - Patent rights were acquired in July 2024 for BDT 450 million, with an expected useful life of six years before renewal is required.
3. The deferred tax liability increased to BDT 675 million as of 30 June 2025 due to temporary differences. The additional deferred tax expense should be recorded in the profit or loss statement. The corporate tax rate remains at 25%. The provision for current tax liability for 2025 should also be adjusted to 25% of the taxable profit.
4. BPL purchased a 5% 15-year Treasury bond worth BDT 650 million on 1 May 2025 at an 8% discount to par value. The transaction incurred BDT 7.5 million in purchase expenses. The bond will be redeemed at par value upon maturity. The effective annual yield to maturity is 6.8%. The CFO did not properly account for the bond under IFRS 9: Financial Instruments.

5. IAS 19: Employee Benefits – BPL operates a defined benefit plan for its employees. The actuarial valuation as of 30 June 2025 reported a net defined benefit obligation of BDT 450 million, but no adjustments have been recorded in the financial statements. The discount rate used in the valuation is 7%, but current market conditions suggest it should be 6%, which could impact the obligation amount.
6. IAS 21: The Effects of Changes in Foreign Exchange Rates – BPL has a foreign subsidiary that maintains its financial records in USD. The exchange rate on 1 July 2024 was 1 USD = BDT 110, while on 30 June 2025, it was 1 USD = BDT 118. BPL has recorded transactions at a fixed rate of BDT 110 per USD, without recognizing the exchange rate fluctuations, which could lead to misstatements in the financial statements.

Requirement:

As a financial reporting consultant, assist the management in redrafting the financial statements, ensuring compliance with applicable IAS, IFRS, and Financial Reporting Council (FRC) guidelines.

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3. a) "ZN Ltd is a long-established chain of fashion boutiques, offering mid-price clothing to a target customer base of late teens/early twenties. However, over the past eighteen months, the company appears to have lost its knack of spotting which trends from the catwalk shows will succeed on the key shopping centres. As a result, the company has had to close a number of its stores just before its year end of 31 December 2024."

You have been provided with the following information for the years ended 31 December 2023 and 2024

Statement of cash flows for the year ended 31 December

	2024	2023
	Tk.'000	Tk.'000
Cash flows from operating activities		
Cash generated from operations	869	882
Interest paid	(165)	(102)
Tax paid	(13)	(49)
Net cash from operating activities	<u>691</u>	<u>731</u>
Cash flows from investing activities		
Dividends received	-	55
Proceeds from sales of investments	32	-
Proceeds from sale of property, plant and equipment	1,609	12
Net cash from investing activities	<u>1,641</u>	<u>67</u>
Cash flows from financing activities		
Dividends paid	-	(110)
Borrowings taken out	500	100
Net cash from/(used in) financing activities	<u>500</u>	<u>(10)</u>
Net change in cash and cash equivalents	2,832	788
Cash and cash equivalents brought forward	910	122
Cash and cash equivalents carried forward	<u>3,742</u>	<u>910</u>

Reconciliation of profit before tax to cash generated from operations

	2024	2023
	Tk.'000	Tk.'000
Profit before tax	2,293	162
Investment income	-	(55)
Finance cost	165	102
Depreciation charge	262	369
Loss on disposal of investments	101	-
Profit on disposal of property, plant and equipment	(1,502)	(2)
Increase in inventories	(709)	(201)
Increase/decrease in trade and other receivables	(468)	256
Increase in trade and other payables	727	251
Cash generated from operations	<u>869</u>	<u>882</u>

Extracts from the statement of profit or loss and other comprehensive income and statement of financial position for the same period were as follows:

	2024	2023
	Tk. '000	Tk. '000
Revenue	<u>2,201</u>	<u>3,102</u>
Equity & Liabilities		
Equity		
Ordinary share capital	100	100
Retained earnings	<u>7,052</u>	<u>4,772</u>
	7,152	4,872
Long term liabilities		
Borrowing	1,500	1,000
Current liabilities		
Trade and other payables	<u>1,056</u>	<u>329</u>
	<u>9,708</u>	<u>6,201</u>

Requirements:

- i) Comment on the above information, calculating three cash flow ratios to help you in your analysis. 8
 - ii) Financial Controller of ZN Ltd has been put under severe pressure by his operational directors to improve the figures for the current year. Discuss how this pressure might have influenced both the above information and other areas of the financial statements, and suggest what actions the financial controller should consider in responding to these pressures. 7
- b) You have recently joined as Chief Financial Officer (CFO) at Orange Limited (Orange) which is a readymade garments company recently acquired by Pomelo Limited. You have been appointed as part of post-acquisition restructuring and financial reporting improvement initiative. Orange has financial year end on 31 December 2024 and currently preparing for year closing. Your accounting manager has brought following matters to your attention and requested guidance for preparing IFRS compliance financial statements.

Free asset from Pomelo:

Following the acquisition of Orange, Pomelo transferred 100 unutilized sewing machines from another subsidiary. While each machine had a written-down value of BDT 18,000, Orange received them free of charge. For asset tracking, Orange recorded the machines in its Asset Register at a nominal value of BDT 1 each and recognized an income of BDT 100. After inspection, the Asset Manager concluded that the machines have an estimated remaining useful life of 5 years and could fetch a market value of BDT 25,000 each.

Pushdown accounting and goodwill:

Orange uses the cost model to measure its assets. Following its acquisition, Pomelo conducted a purchase price allocation on Orange's assets, estimating that the fair value of the acquired assets exceeded their written-down value by BDT 1,200,000. Additionally, Pomelo calculated goodwill of BDT 3,300,000. It instructed Orange to adjust the asset values and recognize goodwill by crediting crediting equity contribution.

Unused inventory:

During a quarterly stock count, Orange identified fabrics that had remained unused for the past 5 years. These inventories have a total cost of BDT 750,000. Although still in usable condition, Orange estimates that only 15% of these fabrics will be used over the next two years.

Requirements:

Respond to the request of your manager regarding:

- i) Free asset from Pomelo 4
- ii) Pushdown accounting and goodwill 3
- iii) Unused inventory 3

4. Green Eco Resort Ltd. ("Green Eco" or "the Resort") is an audit client of your firm, Majumder & Co., Chartered Accountants, for the past ten years. Senior partner of the firm Mr. Habib Majumder has been serving as the consistent engagement partner throughout this period, and you are currently engaged as audit manager. Green Eco Resort is located near Dhaka and offers accommodation and dining services with a full-service restaurant and over 50 guest rooms.

The resort plans to issue IPO in stock market in next few years. However, management has been struggling to make IFRS compliant financial statements. Based on recommendation from Mr. Majumder, the resort recently recruited a member from firm's advisory team, Ms. Sumaiya Islam, as their Head of Finance.

Green Eco has two revenue streams. One is restaurant business, and another is room rental revenue. Green Eco's restaurant is managed by a renowned chef, Mr. Asif Mahmud, known for his innovative daily "Chef's Special" offerings in addition to the Resort's fixed menu. Chef Asif directly oversees procurement of food supplies to ensure daily menu availability. As a result, the restaurant maintains significant inventories of perishable food items stored across multiple refrigeration units. These inventories are not individually dated or tracked systematically, which often results in spoilage and use of expired item in food preparation.

Green Eco's room rental revenue largely stems from corporate clients who often negotiate discounts through the marketing team. Apart from corporate clients, Green Eco also has guests who visit the resort with family and friends for relaxation and entertainment.

Guests primarily pay for rooms and meals in cash. Restaurant bills can be charged to the guest's room and settled at checkout. Cash payment is encouraged to avoid payment processing fee charged by payment gateways.

Green Eco does not utilize any accounting software. All transactions are recorded manually using spreadsheets by accounting team members. Accounting team members have netted off the proceeds from sale of fruits cultivated within resort premises against operating expenses.

During the last fiscal year, Green Eco completed construction of an annex building financed through a bank loan. Accounting team have recorded the interest accrued on outstanding loan with building cost. Although cost model is followed for all categories of property, plant & equipment, land is measured at fair value. However, no formal revaluation has been conducted in the last five years.

The resort is location in a lowland area which often results in waterlogging and flooding due to seasonal rains. In addition, extreme summer heat often leads to low room occupancy rates. To maximize room occupancy, Green Eco undertakes various marketing programs including collaboration with social media influencers. Recently, the resort collaborated with few top influencers to promote the business and boost customer base. These influencers were provided with free accommodation and food. In addition, they were paid for collaboration and sponsor to their videos through marketing teams. However, one influencer recently posted a video claiming that Green Eco have denied payments despite promotional videos were posted by him as per agreement.

Requirements:

- | | |
|---|---|
| a) Identify the climate-related risks Green Eco Resort is exposed to. Explain the audit implications of these climate-related risks. | 4 |
| b) Identify and explain the ethical threats to auditor independence in audit engagements with Green Eco Resort. Suggest safeguards to be implemented to address the threats. | 5 |
| c) Identify and assess significant risks of material misstatements in Green Eco Resort financial statements. Describe the audit procedures you would perform to address them. | 7 |
| d) Recommend internal control procedures that Green Eco Resort should implement to address significant and fraud risks. | 4 |

5. You are planning the audit of TBC Ltd, a company that has experienced a downturn in trading over recent years. The finance director has provided you with the following information for you to review before a planning meeting with him.

Statement of profit or loss and other comprehensive income extracts

	2024 Tk.	2023 Tk.	2022 Tk.
Revenue	18,944,487	20,588,370	24,536,570
Cost of sales	14,587,254	14,413,543	17,176,922
Gross Profit	4,357,233	6,174,827	7,359,648
Advertising and marketing	554,288	206,688	207,377
Legal cost	14,888	2,889	34,668
Electricity	199,488	204,844	206,488
Travel cost	65,833	30,892	53,588
Audit Fees	21,000	21,000	20,488

Statement of financial position extracts

	2024 Tk.	2023 Tk.	2022 Tk.
Trade receivables	3,477,481	3,553,609	4,089,783
Trade payables	1,056,090	1,027,380	1,164,843

Cost of sales analysis

	2024 Tk.	2023 Tk.	2022 Tk.
Purchases	9,183,388	9,246,420	10,483,588
Other direct costs	6,419,410	6,894,300	7,087,148
Inventory movement	(1,015,544)	(1,727,177)	(393,814)

Requirements:

- a) Outline the areas of the financial statements you would discuss with the finance director at your planning meeting as a result of the analytical procedures that you perform on these figures, giving your reasons and also set out any further information you would request. 9
- b) Explain whether your approach would be different if you had received a tip off that the finance director has been carrying out a fraud on receipts from receivables and, if it would be different, outline how it would be different. 3
- c) Describe how you approach the audit of receivables as a result of the tip off about the finance director. 3

---The End---