

CORPORATE REPORTING

Nov-Dec 2023

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. Atlas Chemicals Limited (Atlas) is a manufacturer of insecticides and antiseptic products. It has been producing its products and selling through distributors. One of the distributors of the company is Apollo Distributions Limited (Apollo) in which Atlas owns 75% shares.

Atlas acquired Apollo through issuance of new shares for BDT 75,000,000 when its retained earnings was BDT 44,747,417. Apollo distributes products of several companies with priority to Atlas products. Atlas and Apollo transacted throughout the year and 30% of Atlas revenue has been generated from Apollo. Atlas sold these products at 40% margin. 10% of inventories reported by Apollo remained unsold at the year-end.

Ares Limited (Ares) is another distributor of Atlas products. Atlas owned 70% shares of Ares but on 01 July 2022 it disposed half of its shares on Ares for BDT 55,000,000 due to a diversification strategy. Atlas reported gain on disposal in other income. Ares were acquired for BDT 55,000,000 when its retained earnings was at BDT 27,952,757. During the year Atlas sold products of BDT 120,000,000 to Ares at 35% margin evenly throughout the year. Of the products sold, Inventory of BDT 1,800,000 remains unsold by Ares at the year end.

At the year end, Atlas had a receivable of BDT 120,000,000 from Apollo and BDT 75,000,000 from Ares. However, Apollo reported a payable to Atlas for BDT 100,000,000. Differential amounts are transferred by Apollo but not yet credited to bank account of Atlas. Atlas issued a guaranty to a bank in favour of Apollo for which it charged BDT 100,000 to Apollo. Atlas recognized the amount as other income whereas Apollo recognized this as financing expenses.

Your firm has been appointed by Atlas management for financial reporting assistance and you have been assigned with the responsibilities of preparing its consolidated financial statements for the year ended 31 December 2022. Atlas management has shared with following financial statements.

Statement of Financial Positions As at 31 December 2022

	Atlas	Apollo	Ares
Assets			
Non-current assets			
Property, plant & equipment	266,401,585	99,880,710	88,893,832
Investment in subsidiaries & associates	102,500,000	-	-
Right-of-use assets	69,493,029	23,745,080	18,360,150
Deferred tax	18,457,026	-	3,740,000
	456,851,640	123,625,790	110,993,982
Current assets			
Financial assets	254,910,104	89,469,760	75,719,687
Trade receivables	259,142,543	189,589,826	159,164,911
Inventories	200,244,403	190,207,744	119,830,879
Cash & cash equivalents	334,851,310	67,106,880	44,290,541
	1,049,148,360	536,374,210	399,006,018
Total assets	1,506,000,000	660,000,000	510,000,000
Equity & liabilities			
Equity			
Share capital	450,000,000	75,000,000	56,250,000
Retained earnings	233,059,464	111,868,543	40,272,675
	683,059,464	186,868,543	96,522,675
Non-current liabilities			

Long-term loan	149,494,985	51,327,292	34,902,559
Non-current lease liabilities	23,300,142	15,145,092	16,962,503
Deferred tax liabilities	-	5,926,457	-
	172,795,127	72,398,841	51,865,062
Current liabilities			
Current lease liabilities	10,686,517	7,119,909	7,974,298
Trade and other payables	250,733,424	186,454,723	150,937,783
Accruals and provisions	190,913,924	139,603,619	127,039,293
Other financial liabilities	197,811,544	67,554,365	75,660,889
	650,145,409	400,732,616	361,612,263
Total Equity & liabilities	1,506,000,000	660,000,000	510,000,000

Statement of Profit or Loss and Other Comprehensive Income
For the year ended on 31 December 2022

	Atlas	Apollo	Ares
Revenue	1,213,260,632	788,619,411	615,123,140
Cost of revenue	(974,029,129)	(670,326,499)	(516,151,404)
Gross Profit	239,231,503	118,292,912	98,971,736
Administrative expenses	(168,942,020)	(69,157,592)	(58,783,953)
Selling & distribution expenses	(60,278,654)	(35,139,542)	(31,274,192)
Foreign expenses	(18,340,602)	-	-
Other income	57,261,530	1,925,864	-
Profit before interest & taxes	48,931,757	15,921,642	8,913,591
Finance income	1,569,241	-	-
Finance expenses	(8,206,939)	(3,392,345)	(2,781,723)
Profit before taxes	42,294,059	12,529,297	6,131,868
Tax expenses	(17,956,409)	(3,282,324)	(1,716,923)
Profit for the year	24,337,650	9,246,973	4,414,945

Requirement:

Prepare Consolidated Statement of Financial Position and Consolidated Statement of Profit & Loss for Atlas Chemicals Limited.

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- You are currently auditing the financial statements of Bengal Cosmetics Limited (BCL) for year 2023 and received following draft financial statements from management. Your partner has asked you to do analysis of the financial statements and identify the risk areas.

Statement of Financial Position
As at 30 June 2023

	30-Jun-23	30-Jun-22
Assets		
Non-current assets		
Fixed assets	1,475,290,046	1,575,596,753
Investments	45,442,167	45,766,912
	1,520,732,213	1,621,363,665
Current assets		
Inventory	3,235,692,543	3,036,773,008
Advances and prepayments	612,903,522	585,981,780
Trade receivable	1,338,313,985	1,061,054,959
Cash and cash equivalent	14,914,135	38,738,755
	5,201,824,185	4,722,548,502
Total assets	6,722,556,398	6,343,912,167

Equities and liabilities:

Shareholders' equity

Share capital	3,341,894,077	3,341,894,077
Retained earnings	(3,254,234,941)	(3,333,028,023)
	87,659,136	8,866,054
Non-current liabilities		
Long term loan	3,766,894,135	3,539,304,104
Deferred tax liability	64,848,496	64,125,330
	3,831,742,631	3,603,429,434
Current liabilities		
Bank loans & overdraft	2,476,384,803	2,480,490,879
Trade payable	106,019,688	48,128,853
Outstanding liabilities	220,750,140	202,996,947
	2,803,154,631	2,731,616,679
Total equity & liabilities	6,722,556,398	6,343,912,167

Statement of Profit or Loss
For the year ended 30 June 2023

	2023	2022
Revenue	3,004,681,716	3,470,386,586
Less: cost of goods sold	(2,376,776,877)	(2,582,876,664)
Gross profit	627,904,839	887,509,922
Administrative expenses	(64,061,883)	(62,219,438)
Selling and distribution expenses	(61,787,291)	(4,783,882,046)
Operating profit	502,055,665	(3,958,591,562)
Financial expenses	(465,974,571)	(425,071,592)
Non-operating income	70,630,778	91,675,339
Net profit before tax	106,711,872	(4,291,987,815)
Less: Tax	(27,918,790)	(30,797,313)
Net profit for the year	78,793,082	(4,322,785,128)

Your team members have identified following matters that was not considered in the draft financial statements and referred to you:

- Revenue for the month of June was BDT 250,390,143. Discussion with management revealed that 5% of products sold in June is expected to be returned by customers. On average BCL earns 20% margin on its sales.
- Physical verification revealed that inventory of BDT 250,000 was stolen, and further inventory of BDT 1,150,000 is not saleable due to expiry or close of expiry date.
- BCL has ongoing litigation with one of its customer due to non-payment of dues. BCL sold product of BDT 5,000,000 to this customer. Litigation documents show that the customer has refused to pay due to inferior quality and defective goods. BCL is unable to determine the outcome of the litigation reliably.
- BCL's finance manager has requested one of your team members to calculate the deferred taxation. He claims that he is not well versed with the procedures.

Requirements:

- Review the matters raised by your team members and suggest necessary adjustment entries to comply with relevant financial reporting standards. 5
 - Analyse the financial statements after adjustments and comment on its financial position and performance based on your analysis. 9
 - Prepare a briefing note for your team explaining the risk areas and potential ethical issues identified from your analysis and matters reported by team members. 6
3. Daily Bazar Limited (DBL) is an online based seller of groceries, vegetables and other household items. It sells its product through its website dailyshop.com. Its business model includes three key

processes: Sourcing, Storing and Delivery. All these processes are integrated with a central software that is linked with its website.

At the beginning of the year, DBL launched its website. It made significant amount of cost to design and develop the site layout and customer interface. Half of these expenses were related to adding product lists and images that will be sold through the website. To ensure long term accessibility and business continuity, it renewed the website domain and purchased hosting space for 5 years. DBL plans to capitalize the website development cost and amortize over 5-year period. It, however, is currently assessing whether the website domain cost and hosting cost constitute lease arrangement as it has the right to access and use the domain and hosting space as required. DBL however does not have control over which hosting server will be used to provide the space.

The website lists various categories of products. Customers can place orders through the website after creating an account. When customers make an order, it generates an order ID in its software and records it against the customer ID. It allows customer to pay at time of delivery or beforehand through online payment gateway. Customers can check delivery progress from their own account.

Once the order is received, the central software locates nearest warehouse and instructs the warehouse employees to make the delivery. Delivery team then takes the product from warehouse and delivers to the customers. If any cash is collected, it is deposited to warehouse manager. Warehouse manager deposits the cash amount to DBL Bank account on the subsequent day morning. Warehouse reconciles the cash collected amount and cash on delivery orders on weekly basis.

The software works as backbone of DBL operation. DBL has developed the software internally over last 2 years and commissioned it for use at the beginning of its fiscal year. It has capitalized the software development costs. However, it is not able to determine the useful life of the software. Management believes this software can be used indefinitely but major upgrade will be required in 5 years.

When a customer opens an account on the website, customer records are maintained in a SQL database within its hosting space. All customer orders and necessary details are stored against customer record. DBL have purchased a Secure Sockets Layer (SSL) certificate from a certifying authority. This SSL Certificate is a digital certificate that authenticates a website's identity and enables an encrypted connection. DBL does not have separate firewall or security layer for SQL Database.

At the time of opening, DBL requires customer to accept 'terms of use' which allows DBL to store customer data and communicate promotional offers to customers. It further allows DBL to share customer data with third parties (including regulators) without customer consent. These customer data help DBL to analyse customer trends and preferences. Accordingly, it makes push sales to customers by sending promotional SMS 3 to 4 times a day informing discount offers of daily items.

Requirements:

- a) Explain to DBL management how to account for software and website development cost in light with IFRS framework and guidance. 5
 - b) Guide DBL management in assessing whether website domain and hosting space constitute a lease arrangement in accordance with IFRS 16. 5
 - c) Design procedures for auditing DBL's intangible assets 6
 - d) Discuss from the ethical point of view of DBL position regarding sharing customer data and sending promotional offers agreed by the customers. 4
4. a) Oriental Company Limited (OCL) was listed in Dhaka Stock exchange on 01 July 2022 with 20,000,000 shares with face value of BDT 10 each. At the time of its listing, it took consulting service from Creative Consultants Limited (CCL). Agreement with CCL included a fixed fee of BD 4,000,000 which was paid and accounted for when OCL become listed and a variable payment in the form of 500 share warrants which will be exercisable after a year if the price per share exceeds BDT 20. Each share warrant gives right to receive 100 shares. OCL intends to settle the obligation in exchange for cash at an amount based on market price at exercisable date.
- On the same date, OCL issued 1,000 share options to each of its 100 employees which will vest on 30 June 2025 with conditions that they will remain with the company and achieve 10% or more net profit each year during the three-year period. At the grant date, the fair value of each share option was estimated at BDT 15. OCL management expects at least 80 employees will remain with the company after 3 years. Exercise price is BDT 12.

On 01 January 2023, OCL made an annual engagement agreement with CCL for quarterly book-keeping service and agreed to pay 500,000 taka per quarter. Alternatively, OCL can make the payment to CCL by issuing 30,000 shares per quarter which CCL intends to apply. Payments are to be made in advance.

On 30 June 2023, OCL issued 50,000 share options to its CEO as performance bonus. Share options vests immediately and CEO exercised the options on the same day.

OCL's fiscal year end is on 30 June 2023 when its share price was BDT 24. OCL's draft financial statements at the year-end show revenue of 95,000,000 taka and net profit excluding the impact of the above transactions was 17,500,000 taka. OCL expects to maintain the net profit growth in next two years.

Requirements:

- i) Assist management in reporting the above transactions in accordance with applicable reporting framework. 7
- ii) Calculate the basic EPS and diluted EPS for the year. 4
- b) You are Rafiq Chowdhury. You have graduated in IT domain, have taken an MBA from abroad and then have become CA from UK. After qualifying you decided to come back to Bangladesh and joined as Director in the largest CA firm in Bangladesh. After joining the firm, you received following e-mail from your managing partner:

Dear Rafiq,

Welcome to the Firm. We are glad having you with us and hope we can utilize your expertise. For the starter, I would like to have your help in the following 2 distinct cases:

- i) We are organizing an exclusive training for our fresh audit trainees. I would like you to prepare training materials on the importance of quality control procedures in audit engagements. 4
- ii) I have been asked by a journalist to write a short article on importance of cyber security to prevent cyber-crime and role of auditors over cyber security of an organization in relation to financial statements audit. Please help me in this regard as you are an expert in IT domain and you also have experience to work in western countries. 5

Prepare a Memorandum covering the above two cases.

5. You are a trainee accountant in a reputed firm. Your firm has been engaged by Top Fashions Ltd (TFL) to undertake a review of and provide an assurance report on the interim financial information of TFL for the six months ended 31 May 2023. You have been asked to assist the engagement partner on this review. The terms of engagement include making enquiries of management and applying analytical procedures and other review procedures to the financial information. Your firm is not the external auditor of TFL.

TFL's principal activity is the manufacture of uniforms for airline pilots and cabin crew. The design of the uniforms is agreed with each airline and the uniforms are manufactured in TFL's factory in Narayanganj. The airlines are invoiced in BDT on delivery of the uniforms and are required to pay TFL within 30 days of the invoice date. TFL's revenue grew steadily, at between 6% and 8% pa, over the five years ended 31 May 2023.

As a result of a large airline customer entering administration, the directors decided to diversify the business. TFL rented ten leasehold retail units in major cities and in December 2022 began to retail men's suits directly to the public. Suits are either ready-made under "Tucsodo" brand or made-to-measure for those customers wanting a quality handmade suit. Orders for made-to-measure suits are taken in the retail units and the suits are manufactured in Narayanganj Factory. The budgeted revenue for the first six months of retail trading was BDT 72 million.

Before December 2022, cloth for the manufacture of uniforms for airline pilots and cabin crew was purchased from Asian suppliers. In December 2022, TFL began to purchase cloth directly from Bangladeshi wholesalers. Ready-made suits are purchased directly from manufacturers in China. All suppliers are paid in BDT.

In April 2023, TFL received notification of legal proceedings from a competitor, Tucsodo Clothing Ltd, claiming significant damages for an alleged infringement of a trademark.

TFL's lawyers believe that the claim could be successful. The following relates to TFL's interim financial information:

Statement of profit or loss for the six months ended 31 May (extract)

	Six months ended 31 May	
	2023	2022
	BDT '000	BDT '000
Revenue		
Airline (credit)	508,740	435,690
Retail (cash)	54,210	-
	<u>562,950</u>	<u>435,690</u>
Cost of sales (including labour)	<u>(377,100)</u>	<u>(311,700)</u>
Gross profit	185,850	123,990
Operating expenses	<u>(108,360)</u>	<u>(57,630)</u>
Profit from operations	<u>77,490</u>	<u>66,360</u>

Statement of financial position as at 31 May (extract)

	2023	2022
	BDT '000	BDT '000
Current assets		
Inventories	135,990	80,820
Trade receivables	120,750	72,600
Current liabilities	-	-
Trade payables	22,980	20,460

As part of your analytical procedures, you have calculated a number of ratios and identified the following to discuss with TFL's management:

	2023	2022
	BDT '000	BDT '000
Increase in airline revenue	16.8%	7.5%
Gross profit margin	33.0%	28.5%
Operating margin	13.8%	15.2%
Inventory days	65.8 days	47.3 days
Trade receivables collection period	43.3 days	30.4 days
Trade payables payment period	22.1 days	27.9 days

Requirements:

- a) Explain the limitations of using analytical procedures as a source of evidence when providing an assurance report on the interim financial information of TFL. 5
- b) You are required to answer the following:
 - i) Using the information provided in the scenario, identify the enquiries you should make of the management of TFL to ascertain the reasons for the changes in each of the ratios calculated as part of your analytical procedures. 10
 - ii) List any documentation that should be requested from the management of TFL that would be useful for your analytical procedures and other review procedures. The list should be given under each enquiry as above. 5

Note: You are not required to calculate any additional ratio.

---The End---