

CORPORATE REPORTING

Nov-Dec 2024

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

- You are working on a consulting engagement with Lumina Holdings Limited (Lumina) where you are assisting in preparation of Consolidated Financial Statements. Lumina has a subsidiary named Vista Limited and an associate Arcadia Limited (Arcadia). You have received the following audited separate financial statements of each of the entities:

Statement of Financial Position

As of 30 June 2024

	Lumina	Vista	Arcadia
Assets			
Non-current assets			
Property, plant and equipment	300,243,199	42,278,420	4,956,243
Right of use assets	11,482,645	529,148	553,102
Investments	50,540,627	1,313,802	-
	362,266,471	44,121,370	5,509,345
Current assets			
Inventories	145,173,219	21,197,393	1,935,643
Inter-company receivables	50,518,204	20,742,592	-
Trade and other receivables	568,791,834	26,875,982	1,347,451
Advances, deposits and prepayments	59,885,975	3,394,220	3,398,480
Cash and cash equivalents	48,671,355	9,983,786	2,648,951
	873,040,587	82,193,973	9,330,525
Total assets	1,235,307,058	126,315,343	14,839,870
Equity			
Share capital (Face value of 10 Tk.)	100,000,000	30,000,000	10,000,000
Retained earnings	314,395,609	24,339,622	2,940,467
Total equity	414,395,609	54,339,622	12,940,467
Liabilities			
Non-current liabilities			
Employee benefits	25,974,211	1,055,500	346,323
Lease liability	8,140,246	346,360	502,467
Deferred tax liabilities	5,006,951	3,174,689	-
Long term bank loans	28,215,686	-	-
	67,337,094	4,576,549	848,790
Current liabilities			
Lease liability- current portion	3,117,070	214,213	214,145
Bank overdrafts	100,998,879	327,171	-
Short term borrowing	453,920,700	12,938,858	-
Trade and other payables	174,795,114	3,400,726	836,468
Inter-company payables	20,742,592	50,518,204	-
	753,574,355	67,399,172	1,050,613
Total liabilities	820,911,449	71,975,721	1,899,403
Total equity and liabilities	1,235,307,058	126,315,343	14,839,870

Statement of Profit or Loss and Other Comprehensive Income

For the year ended 30 June 2024

	Lumina	Vista	Arcadia
Revenue	674,853,449	82,225,297	8,998,046
Cost of sales	(420,966,247)	(58,463,160)	(5,612,883)
Gross profit	253,887,202	23,762,137	3,385,163
Other income	18,750,882	1,238,609	250,012
Admin, selling and distribution expenses	(187,225,197)	(14,110,542)	(2,496,336)
Operating profit	85,412,887	10,890,204	1,138,839
Finance costs, net	(10,998,847)	(3,505,213)	(146,651)
Profit before contribution to WPPF	74,414,040	7,384,991	992,188
Contribution to WPPF	(3,720,702)	(369,250)	(49,609)
Profit before tax	70,693,338	7,015,741	942,579
Income tax expenses	(17,188,365)	(1,800,406)	(195,932)
Deferred tax income/(expense)	2,493,462	169,698	
Profit after tax	55,998,435	5,385,033	746,647
Other comprehensive income	(1,677,213)	-	-
Total comprehensive income	54,321,222	5,385,033	746,647

From management queries and reading separate financial statements, you have identified following information that might be useful for consolidation.

- Lumina acquired 80% shares of Vista Limited with BDT 35,000,000 on 01 July 2020 when it had retained earnings of BDT 8,234,713
- Lumina co-founded Arcadia on 01 July 2021 by investing BDT 2,500,000 and acquired 25% of its shares in the process. At the time of share acquisition, Arcadia didn't have any retained earnings. Lumina's founder and Chairman Mr. Nazeem also acquired 35% shares of Arcadia in his personal capacity and serves as its director.
- During the year Vista sold inventory of BDT 1,100,000 to Lumina where it earned 10% margin. Entire inventory remained unsold at Lumina's warehouse at the year end.
- Arcadia acquired an asset on 01 July of BDT 2022 with BDT 2,000,000 which it is depreciating at 20% using declining method. Lumina and Vista both follows straight line method for charging depreciation. The Asset is estimated to have 5 years of useful life.
- Lumina made a payment of BDT 750,000 to Vista at the year-end, but it was not received by Vista. Vista reported this receivable in trade receivables.

Requirement:

Prepare a Consolidated Statement of Financial Position and a Consolidated Statement of Profit or Loss and Other Comprehensive Income for Lumina as of 30 June 2024 and for the year ended 30 June 2024.

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- You are serving as financial analyst at Diamond Equity Limited (DEL). DEL is currently planning to acquire 60% shares of Daily Fashion Limited and obtained latest signed financial statements for initial assessment. You have been assigned to perform an analysis on the following financial statements of Daily Fashion Limited.

Daily Fashion Limited Statement of Financial Position As of 31 December 2023

	Unit-1	Unit-2	2023	2022
Assets				
Non-current Assets				
Property, plant & equipment	25,467,086	348,977,137	374,444,223	404,237,728
Right of Use Assets -Net	-	5,642,291	5,642,291	941,060
Loan to Unit - II	122,652,091	-	122,652,091	122,652,091
Investment in FDR	2,121,193	30,182,008	32,303,201	19,651,193
	150,240,370	384,801,436	535,041,806	547,482,072

Current Assets				
Inventories	22,045,344	199,498,507	221,543,851	367,505,422
Trade debtors	31,816,547	56,739,412	88,555,959	91,616,363
Other receivables	19,544,974	14,135,178	33,680,151	32,384,569
Advance, deposits & prepayments	44,180,289	59,506,070	103,686,359	90,589,749
Receivable from Unit-I	-	168,924,490	168,924,490	125,082,412
Cash & cash equivalents	4,194,004	42,305,950	46,499,953	25,749,856
	121,781,158	541,109,607	662,890,763	732,928,371
Total Assets	272,021,528	925,911,043	1,197,932,569	1,280,410,443
Equity & Liabilities				
Shareholder's Equity				
Share capital	150,974,330	-	150,974,330	149,974,500
Retained earnings	(109,292,410)	244,481,217	135,188,806	128,662,090
	41,681,920	244,481,217	286,163,136	278,636,590
Non-Current Liabilities				
Loan from Unit-I	-	122,652,091	122,652,091	122,652,091
Long Term Loan	10,595,567	83,846,016	94,441,582	64,023,883
	10,595,567	206,498,107	217,093,673	186,675,974
Current Liabilities and Provision				
Long term loan - current portion	6,757,883	29,525,746	36,283,629	31,678,805
Short term loan - secured	29,680,542	46,974,499	76,655,041	94,021,108
Lease liability	-	5,985,115	5,985,115	1,023,853
Trade payable	11,078,036	321,503,138	332,581,174	493,739,002
Liabilities for expenses	3,303,090	70,943,221	74,246,311	69,552,699
Payable to Unit-II	168,924,490	-	168,924,490	125,082,412
	219,744,041	474,931,719	694,675,760	815,097,879
Total Equity & Liability	272,021,528	925,911,043	1,197,932,569	1,280,410,443

Daily Fashion Limited
Statement of Profit or Loss and Other Comprehensive Income
For the year ended on 31 December 2023

	Unit-1	Unit-2	2023	2022
Revenue from customers	67,059,353	949,523,288	1,016,582,641	1,190,986,602
Sale to Unit-II	-	168,924,490	168,924,490	-
Total Revenue	67,059,353	1,118,447,778	1,185,507,131	1,190,986,602
Cost of revenue from customer	(74,686,096)	(815,503,323)	(890,189,419)	(1,062,102,843)
Purchase from Unit-I	(168,924,490)	-	(168,924,490)	-
Gross Profit/(Loss)	(176,551,233)	302,944,455	126,393,222	128,883,759
Administrative Expenses	(4,671,795)	(26,485,367)	(31,157,161)	(34,874,280)
Selling Expenses	(610,640)	(25,592,434)	(26,203,074)	(33,700,501)
Operating Profit/(Loss)	(181,833,668)	250,866,654	69,032,987	60,308,978
Other Income	140,354	622,524	762,878	531,410
Financial Expenses	(3,186,802)	(28,510,862)	(31,697,663)	(19,478,446)
Exchange Gain/(Loss)	(999,685)	(11,174,693)	(12,174,378)	(31,470,530)
Profit/(Loss) before WPPF	(185,879,801)	211,803,623	25,923,824	9,891,412
Contribution to WPPF	-	(2,041,864)	(2,041,864)	(1,304,938)
Profit/(Loss) before Tax	(185,879,801)	209,761,759	23,881,960	8,586,474
Tax Expenses	(220,670)	(6,158,075)	(6,378,746)	9,470,780
Profit/(Loss) After Tax	(186,100,471)	203,603,684	17,503,214	18,057,254
Other Comprehensive Income	-	-	-	-
Total comprehensive income	(186,100,471)	203,603,684	17,503,214	18,057,254

In the audit report, the auditor of Daily Fashion Limited has included “Emphasis of Matter” paragraph where they have included the following matters:

- Daily Fashion Limited offers gratuity to its employees as per contractual agreement. However, no provision has been created for gratuity liability. Company policy is to pay off the gratuity when an employee leaves the organization and expense the payment. Estimated gratuity liability at the year-end is BDT 8,970,000. Estimated gratuity expense for the year is BDT 2,170,000 and BDT 1,950,000 for prior year. No employee left during 2022 and 2023.
- BDT 15,000,000 of the investment in FDR was made to Chittagong Bank Limited for a year at 10% interest. Although the FDR amount is matured, CBL has refused to liquidate the amount due to shortage of fund. Bank has committed to defer the liquidation in full for 6 months, but no interest will be paid for these deferred months.
- During June 2022, a machine with written down value of BDT 550,000 broke down which was beyond repair. Management scrapped the machine, but it was not removed from the asset register. In 2022, BDT 100,000 was reported as annual depreciation for the asset. The entity corrected the error by adjusting the opening retained earnings in 2023.

Requirements:

- Comment of the financial statements whether the financial statements have been prepared appropriately in accordance with IFRS. Identify any deviation (if exists) and suggest for necessary recognition, measurement and presentation adjustment. 10
 - Analyse and comment on the overall financial statements of Daily Fashion Limited after necessary adjustments. 10
3. You are an FCA working as a director in a prominent CA Firm. You have received an email from your partner. The e-mail is read as below:

Our team is auditing the Country’s largest Steel Company Giant Steel Company (GSC). Mr. Faruk Ahammed is the CFO of GSC who is an FCA of ICAB. Mr. Faruk has handed over the draft solo and consolidated financial statements for the year ended 31 December 2024 to our audit team. I am giving you some key figures from the Financial Statements:

	In Million BDT except for EPS
Profit for the year attributable to the shareholders of GSC	1,550
Earnings per share (BDT)	13.5
Equity	
Ordinary share capital (BDT 10 per share)	1,200
Share premium	220
Retained earnings	2,200

Our audit in-charge called me yesterday evening and raised his concerns on various issues in the financial statements which are given in Exhibit-1 attached with this mail. He thinks CFO overstates profit as CFO’s bonus is directly linked to EPS of the Company.

Requirements:

I want you to review the issues raised by our audit in-charge and do the following:

- Explain the required IFRS financial reporting treatment of issues (1) to (4) identified in exhibit-1 in the financial statements for the year ended 31 December 2024, preparing all relevant calculations. 16
- Discuss the ethical issues arising from the scenario for Mr. Faruk and the steps that we should take to address them. 5

Exhibit – 1:

- On 1 July 2024, GSC acquired 8 million shares of Best Ispat Plc’s (BIP) 10 million (face value 10 taka each) ordinary shares as per below terms:
 - Cash of BDT 20 million paid immediately and another cash payment of the same amount after 1 year;
 - Issue of 5.2 million shares of GSC (face value of each share is BDT 10) immediately. Market price of GSC’s share on that day was BDT 13.

Mr. Faruk has calculated goodwill on the business combination with BIP as BDT 69.72 million and has recognised this amount as an intangible asset in the consolidated financial statements. Only cash consideration that was paid in 2024 was included in the goodwill calculation and the remaining considerations (deferred payments and share issuance) were not included. Upon query, Mr. Faruk said that this was because cash was the only part of the consideration that involved a transfer of cash flows in the current year.

Moreover, Mr. Faruk has used the proportionate method to calculate the NCI of BIP whilst the accounting policy of GSC approved by the board of directors requires to calculate goodwill and the non-controlling interest using the fair value method. The fair value of the non-controlling interest on 1 July 2024 was BDT 42.0 million.

BIP's financial statements for the year ended 31 December 2024 show profit for the year of BDT 12.7 million and retained earnings of BDT 18.5 million. There is a contingent liability of BIP from a legal proceeding commenced on 01 July 2024 fair value of which at the date of acquisition is BDT 39 million. CFO made no adjustment for this liability when he calculated goodwill arguing that it did not form part of BIP's net assets on 1 July 2024.

The consolidated statement of profit or loss for the year ended 31 December 2024 correctly reflects the results of BIP. The Company uses 8% as discount rate.

- (2) On 1 August 2024, GSC made a one for four bonus issue of ordinary shares. CFO has not accounted for the bonus issue, although the issue was based on the correct number of ordinary shares. On 31 December 2024 GSC bought back 5.2 million of its own ordinary shares (face value of each is BDT 10) for BDT 15 cash per share. CFO debited the consideration to ordinary share capital.
- (3) During the year GSC sold goods totaling BDT 15 million on credit to Salvation Pipes, a company wholly-owned by Mr. Faruk's son. At 31 December 2024 there was a trade receivable of BDT 4 million in respect of these sales. No disclosures were made in the individual or consolidated financial statements of GSC for this transaction. Upon enquiry, CFO said that this was because the sales were made at an arm's length price. The managing director was unaware of these sales until the credit controller asked him to review the year-end allowance for doubtful debts, which includes BDT 1.5 million in respect of this debt, as Salvation Pipes Ltd is known to be in financial difficulties.
- (4) On 1 October 2024 GSC sold a package of products for BDT 10.4 million cash. The package was made up of equipment and 12 months of support services. The equipment normally sells at BDT 11 million and the support at BDT 2 million. Mr. Faruk recognized revenue of BDT 10.4 million in the financial statements for the year ended 31 December 2024, on the grounds that the equipment sale had been made in that year and the provision of support service was part of that sale.

The published financial statements for the year ended 31 December 2023 show that GSC had an EPS of BDT 12.

4. Gadget Shop Limited (GSL) is a mid-sized technology company specializing in selling consumer gadgets through its e-commerce site. On 30 April 2024, the company held its 5th AGM and appointed your firm as statutory auditor of the company for the year ended on 30 June 2024. You have been assigned as engagement manager and tasked to complete the acceptance procedures. Upon receiving appointment letter, you have sent request for professional clearance however no response was received. Management of GSL has urged your partner to complete the audit as early as possible. Your partner has asked you to start the audit procedures and simultaneously complete the acceptance procedures for efficiency and time management.

Analysis of the business model shows that GSL generates its revenue through its ecommerce site (gadgetshop.com) which has always been a cornerstone of its business. It doesn't have any physical store but sells only through its website. GSL actively advertise and promotes its website to generate customer footprint in its website. Customers need to open an account at GSL website in order to make any purchase. GSL offers variable payment options including Credit card payments, bank transfer, mobile financial services and cash on delivery. Once a customer places order, the ordered item is either delivered through GSL's own delivery men or courier services.

During a discussion with the IT department regarding the website architecture and related controls, it was identified that its website was unavailable during mid-February as the GSL forgot to renew its website domain. As the web domain was expired, it was available for reselling. Fortunately, GSL was able to renew the domain before anyone could purchase the website domain address. IT manager has also informed that website has not yet renewed its SSL (Secure Sockets Layer) certificate which encrypts

data sent between a browser and a website. Primary purpose of the SSL is to protect sensitive information like login credentials, credit card numbers, and personal identification number from being stolen or viewed by unintended third party.

In an effort to reduce administrative costs, GSL has assigned its IT manager the additional responsibility of maintaining the accounting software, recording financial transactions in the software and preparing financial statements based on system balance. The IT manager, though experienced in Website building and software development, lacks formal training in accounting and financial reporting standards. During discussions with IT Manager, he admitted uncertainty about applying specific accounting standards and requested assistance from your audit team.

GSL serves both corporate and individual customers. Where individual customers mostly purchase on cash, corporate customers require credit period. GSL's one of the major corporate customers is NeoTech Limited (NTL) who has been purchasing products from GSL since the beginning. However, its financial condition has worsened in last two years. During this two years NTL purchased product amounting to BDT 1,500,000 on credit which remains outstanding. On a formal later, NTL informed GSL about its financial crisis and requested for extended credit period for the outstanding amount considering past relationship and future business prospects. GSL management has agreed with the proposal and based on that no bad debt allowance was created. You received confirmation from the NTL, acknowledging the outstanding amount in full.

During the year GSL attempted to increase its revenue by advertising to customers. In order to identify target market, GSL hired a consulting firm to conduct a market analysis. This analysis played a key role in designing and developing the advertisements. Upon reviewing the contract, you noted that the consulting firm is owned by the CEO's brother. The payment of BDT 300,000 for the market analysis was capitalized considering that GSL will use this date for designing promotional activities in future years. The consulting fee is now being amortized over the 5 years period.

Requirements:

- a) Identify and discuss any ethical issues involved in GSL's business operation. Evaluate whether the appointment of your firm has made in compliance with the law. 4
 - b) Identifying potential risks arising from GSL's business environment and operation. 5
 - c) Perform risk assessment on each of the identified risks to determine existence of significant risks or fraud risks (if any) and indicate the accounts and assertions being impacted. 5
 - d) Design general and specific audit procedures your team should perform to address the identified significant or fraud risks. 5
5. a) You, as the senior partner of your audit firm, have come across below issues during peer review of a listed client under another partner (for the year 2023). The company follows calendar year (January to December) as its accounting period. Your firm has been auditing the client for last 2 years and the issues somehow did not come to audit team's notice.

Requirements:

Share your views upon review. You should assume that the amounts involved are material in each case.

- i) On 1 January 2021, the company entered a legal action defending a claim for supplying faulty machinery. This year, your firm had sent a legal confirmation to the lawyer, where lawyers advise that due to lack of proper documentation tri-party contract with company's customer and supplier, there is a 40% probability (compared to 5%, in earlier assessment) that the company might lose the case. The amount of the claim is Tk.500,000,000. No provision was made. 2
- ii) The company occasionally faces litigation from retail customers. Such cases involve claim upto Taka 100,000, on average. Historically, 20% of the cases were settled against the company and 5% are settled outside the court paying 60% of claimed amount. At the end of the year, the litigation register had 1,000 such litigations. 2
- iii) A customized machinery was produced at a cost of Tk.2billion against a customer's order. Agreed price for the machine was of Tk.2.5billion. The item was in inventory at the year-end awaiting delivery instructions. In December 2024, there was a public news that the customer is facing financial distress and might go bankrupt. The most reasonable course of action for your client seems to be to make a modification to the unit, costing approximately Tk.300 million which is expected to make it marketable with other customers at a price of about Tk.1.9billion. 2

iv) The company had imported machinery worth USD200 million in June 2023, under deferred LC. The shipment was released in December 2023 making a partial payment of USD20 million (exchange rate 1 USD = Taka 110). Rest of the amount will be settled in June 2025. The machine was sold to a garments manufacturer, who had managed fund for settlement of mentioned down-payment. The company recognized revenue for the same amount in 2023. Contract price for the machine was USD230 million. The machine was installed in the premises of the client in March 2024. Currency rate at the end of March 2024 was USD 1= Taka 120.

Rest of the amount has not been recognized yet. The customer agreed to pay the rest of the money at currency gain loss. Year end USD rate USD 1= Taka 125.

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v) Mr. Zahid has been appointed as an Independent Director of the company. His wife, Mrs. Payel has a raw material supply contract with the company since long. Mr. Zahid, who is also a professional accountant is of the view that since his wife runs business independently, it does not qualify for related party disclosure. Audit manager is convinced that the company has effective control over procurement process.

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b) Your firm was a joint auditor for a commercial bank. The bank has significant amount of bad loans and is about to collapse.

While you were auditing the bank, you heard about a rumor that advances made by the bank were made without proper client assessment. However, since your audit area was deposits and property, plant and equipment, you had relied upon opinion of the other auditor.

A complaint has been launched with Financial Reporting Council alleging collusion with management of the bank.

Requirement:

Advise appropriate action.

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---The End---