STRATEGIC BUSINESS MANAGEMENT

July-August 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. a) XYZ power Ltd. set up a factory for manufacturing solar lanterns in a remote village as there was no reliable supply of electricity in rural areas. The revenue earned by the company was sufficient to cover the costs and the risks, the demand for lanterns was increasing day by day, so the company decided to increase production to generate higher sales. For this they decided to employ people from the nearby village as very few job opportunities were available in that area. The company also decided to open schools and crèches for the children of its employees.

Requirements:

i) Identity and explain the objectives of management discussed above. 3

ii) State the two values which the company wanted to communicate to society. 2

b) Shama, after acquiring a degree in Hotel Management and business Administration took over her family food processing company manufacturing pickles, jams, and squashes. The business had been established by her grandmother and was doing reasonably well but the fixed operating cost was very high, and the cash flow position was weak. She wants to modernize and diversify it. She approached a financial consultant, who told her that approximately Taka 20 mn would be required for the modernization and expansion program. He also informed her that the stock market was going through a bullish phase.

Requirements:

i) After considering the above discussion, Name the source of finance Shama should not choose for financing the modernization and expansion of her food processing business. Give one reason in support of your answer. 3

ii) Explain two other factors she should keep in mind while taking this decision. 2

2. Fit Footwear Company is a four-year old producer of Leather and Artificial Leather Footwear products in Bangladesh that mainly focuses on business-to-business sales. It also has one showroom located in the city center. In the past, Fit Footwear hired a designer from a well-known local manufacturer to develop innovative designs for the export market. In the future, it hopes to hire a full-time designer. About four years back, Mr. Zaber established this company with one of his friends. While Mr. Zaber looks at day-to-day operations, his friend looks after finance and accounting. There are two production managers, one quality control specialists and 30 workers. Fit Footwear is known for its employee-friendly practices from its journey and its services to the community. Its CSR model and cost advantage has enabled to explore international markets. It is increasingly looking for opportunities for global partnerships to expand its share in the global marketplace.

The industry

Bangladesh's leather footwear industry generates over $1bn export revenue every year. After RMG, leather & leather footwear sector is the second-highest export earner & is one of the fastest growing industries in the world. Bangladesh ranks 22nd position as an exporter. The government provides incentives to exporters as the export basket of the country is restricted to few sectors, and the country has a trade deficit. Besides, exporters face hassles in port services during the export-import process, like excessive documentation requirements, slow operations, and absence of coordination among various regulatory agencies. Nonetheless, the industry is growing in the local and international markets. High economic growth of Bangladesh for more than a decade has contributed to the growing demand for leather and footwear products. The government has also attempted to reorganize the tanneries by locating them in a cluster so as to minimize environmental hazards as well to obtain spill-over effects from co-location of tanneries. In the country, the finished leather goods market is highly fragmented, with many small producers with varying degrees of quality. There is abundance is supply of hides and skins in the country, and there are low barriers to entry in the production of finished leather-goods. There are some leather-goods manufacturing clusters in the country. However, those clusters lack modern design center, R&D lab, and training institutes for technicians.

Competition

The leather goods manufacturers operate in a fragmented market where Fit Footwear is relative a new player. It competes with two large exporters that have a better presence in domestic and international markets. Fit Footwear has developed strong relationships with suppliers and subcontracting firms that has given it a competitive advantage in the export market. It also has signed business agreements with North American and European buyers in a quick time. It also faces the challenge of maintaining quality and environmental compliance of the subcontractors as part of export requirements. The export market is also unstable due to COVID-19 and the ongoing Russia-Ukraine War.

Alternatives

Fit Footwear has operated successfully in the past years, managing to double its growth year to year. Mr. Zaber, its founding CEO, wanted to continue its growth and was considering expansion options that would allow him to bring in additional clients. Before making a final decision, Zaber needed to evaluate the advantages and disadvantages of each option while considering Fit Footwear's current strategic position.

Option 1: Build a Brand

In addition to growing its wholesale client base, Zaber wanted to establish his own Fit Footwear brand for sale in international markets. If Zaber pursued this option, he would need to hire a talented designer to create unique styles for different seasons. He also wanted to expand his offerings to include shoes and earnings made from smaller pieces of scrap leather. This would allow him to reduce waste, create more jobs for locals and add to the product variety for his customers. He planned to use e-commerce as his primary sales channel. In order to proceed with this option, he would need to update his website and develop an online marketing strategy. He would also need to build a logistics network in Europe and the United States.

Pursuing this option would allow Fit Footwear to increase its margins significantly because wholesalers currently mark its products three to five times their cost before selling to the end-consumer. The company would also have more control over its products, designing in-house rather than having to cater to client demands for specific models and negotiating on price. However, Mr. Zaber worried that creating a Fit Footwear brand might reduce its current wholesale customers since it would be competing with them. For this reason, Fit Footwear currently had a very limited social media presence. While the company sell bags online, it did not list the prices, which kept the margins for its wholesale clients confidential. In addition to these concerns, Fit Footwear was unsure whether it would be able to devote the necessary time and attention to its clients while building its own brand. The founder also wondered whether he could make a name for Fit Footwear in the US market, amid fierce competition from major brands. After four years of hard work and investment in his business, Mr. Zaber wanted to evaluate this decision carefully. Was this the right time to launch Fit Footwear as a brand?

Option 2: Focus on wholesale clients through trade shows

Fit Footwear currently has 15 wholesale clients, seven of whom are larger clients and eight are smaller. Historically, trade fairs had been his most successful avenue in growing this client base. However, many of the wholesale orders he received from trade fairs were one-time orders, and repeat clients were more valuable. Attending trade fairs required a significant up-front investment to cover various costs associated with participation. The exposure provided long-lasting benefits to the brand and its mission, such as recognition from high-profile buyers who might consider ordering in the future. Mr. Zaber needed to consider what the unrealized value of these relationships were compared to the cost of attending these trade fairs. How many clients would she need to break even? Was this even realistic, considering his success rate these events?

Option 3: Pursue Alternative Sales Channels

Another option Mr Zaber wants to explore is a partnership with a subscription box company. Subscription boxes were a retail model whereby customers received a single or recurring delivery of niche and often themed products, packaged as an experience and designed to offer additional value on top of the actual products contained in a box. These boxes are becoming popular gift items across North America and Europe. One box that aligned particularly well with Fit Footwear's values was the Causebox. This box came filled with socially conscious products and products from emerging brands that gave back to their communities. In addition to the products, Causebox provided information about the stories behind the partner companies, outlining how they are making positive social or environmental impacts.

Subscription boxes provided merchants with a unique channel to reach consumers, exposing them to small, low-cost, and generic items that could increase brand awareness. In order to pursue this option, Mr. Zaber would need to brand his products as Fit Footwear. The boxes would require small items such as earrings and keychains, which could be produced from scrap leather. Mr. Zaber wondered if this would be a good avenue for building brand awareness from Fit Footwear. He would also need to obtain green trade certification, which could pose challenges due to his lack of control over the tanneries from which he purchases his leather.

Decision

Mr. Zaber considered his options with enthusiasm. He was proud of the company he had built, and there were many opportunities for expansion within the industry. He hoped to expand his client base and grow the company over the next year. He also knew that he wanted to eventually have his own brand. Fit Footwear's competition was also thriving, and it hoped that, whichever, option it pursued, it would allow the company to take action to leverage its competitive advantage. Mr. Zaber needed to ensure his strategic growth plans supported his long-term goals for the company.

Requirements:

a) Conduct an analysis of footwear industry in Bangladesh using:
   i) Porter's Five Forces analysis; and 5
   ii) PEST analysis. 4

b) Analyze Fit Footwear's current strategy, considering its value proposition, goals, and product market focus. 3

c) Outline the pros and cons of each alternative and the factors he needs to consider to arrive at his final decision. 6

3. Comfort Fashion is a 50-year-old fashion retailer that operates in the USA and Europe. It was established in the early 1970s with a single shoe store. From its journey, Comfort Fashion devoted itself to deliver superior customer service, exclusive selection with unique design and quality and superior customer value. The company is still well grounded to its core values of customer service and satisfaction. Over the years, the company has grown as a fashion specialty chain in both continents and presently owns about 400 stores in the USA and 200 stores in UK, Italy, Spain and Germany. It has generated about $ 30 billion in accumulated sales at all stores in 2019, a year before COVID-19 hit the world. It has consistently reported more than average industry returns on investment. In the year 2019, it has posted 18% return on invested capital (ROIC) and far above of its estimated 7% cost of capital.

Comfort Fashion focuses on a relatively affluent customer base that is looking for affordable luxury. Stores of the company are usually located in upscale areas and have expensive fittings and fixtures that convey an impression of luxury. Comfort Fashion displays exclusive collections of merchandise that are fashionable and high quality. Comfort Fashion prioritizes differentiating it from rivals by offering excellent customer service. Besides, it offers browsing inside the store with live music played on a grand piano that helps to create a superior atmosphere. Salespeople at Comfort Fashion are well-trained and dressed, polite, helpful and pay attention to detail. They are good at interacting with customers with a positive attitude. In its hiring process, Comfort Fashion employs situational interviews to tap service delivery attitudes and applicants' views on quality service. Employees are also well compensated with good benefits and commissions on sales that range from 6.75 to 10%, depending on the department.

Comfort Fashion's philosophy is 'customers are right' and hence fully relies on no-questions-asked returns policy, with no receipt required. To uphold a customer centric culture and values, the organization chart Comfort Fashion is depicted as an inverted pyramid, with salespeople on the top and the CEO at the bottom. This structural arrangement essentially tells that the CEO works for the employees and make them successful in their drive to deliver excellent services. Even though Comfort Fashion emphasizes quality and luxury, it does not ignore operating efficiency. Despite the large, open-plan nature of the stores, sales per square foot are $380, and yearly inventory turns exceed 4.5 times, up from 3.5 times a decade ago—good figures for a high-end department store. Management constantly seeks ways to improve efficiency and customer service. For example, it was among the first to put mobile checkout devices into the hands of 6500 salespeople, eliminating the need for customers to wait in a checkout line.

Comfort Fashion has also segmented the market, offering discounted branded clothing at its Comfort Fashion Rack stores and associated website. Comfort Fashion Rack has a younger demographic than the full-line department stores and is an important source of new customers. The stores are much smaller than Comfort Fashion's flagship department stores, are typically located in suburban shopping areas, and have a high inventory turnover. However, they share the same customer service philosophy as the flagship stores. As of 2019, around 130 of Comfort Fashion's stores were Comfort Fashion Rack stores. The Rack stores and website generated about one-fifth of the company's total revenues and had higher sales per square foot than the full-line department stores.

Requirements:

a) Summarize Comfort Fashion's segmentation strategy and business-level strategy. 6

b) What actions taken at the functional level have enabled Comfort Fashion to successfully implement its strategy? 5

c) How do the Comfort Fashion Rack stores fit the company's business-level strategy? 4

4. Cyba Ltd. is a large pharmaceutical company, involved in the research and development (R&D) of medicines and other healthcare products. Over the past few years, Cyba Ltd. has been finding it increasingly difficult to develop new medical products. In response to this, it has followed a strategy of acquiring smaller pharmaceutical companies which already have successful products in the market and/or have products in development which look very promising for the future. It has mainly done this without having to resort to major cost cutting and has therefore avoided large-scale redundancies. This has meant that not only has Cyba Ltd. performed reasonably well in the stock market, but it has also maintained a high level of corporate reputation.

Anatra Ltd. is involved in two business areas: the first area involves the R&D of medical products, and the second area involves the manufacture of medical and dental equipment. Until recently, Anatra Ltd.'s financial performance was falling, but about three years ago a new chief executive officer (CEO) was appointed and she started to turn the company around. Recently, the company has developed and marketed a range of new medical products, and is in the process of developing a range of cancer-fighting medicines. This has resulted in a good performance in the stock market, but many analysts believe that its shares are still trading below their true value. Anatra Ltd.'s CEO is of the opinion that the turnaround in the company's fortunes makes it particularly vulnerable to a takeover threat, and she is thinking of defence strategies that the company could undertake to prevent such a threat. In particular, she was thinking of disposing some of the company's assets and focussing on its core business.

Cyba Ltd. is of the opinion that Anatra Ltd. is being held back from achieving its true potential by its equipment manufacturing business and that by separating the two business areas, corporate value can be increased. As a result, it is considering the possibility of acquiring Anatra Ltd., unbundling the manufacturing business, and then absorbing Anatra Ltd.'s R&D of medical products business. Cyba Ltd. estimates that it would need to pay a premium of 35% to Anatra Ltd.'s shareholders to buy the company.

Financial information: Anatra Ltd.

Given below are extracts from Anatra Ltd.'s latest statement of profit or loss and statement of financial position for the year ended 31 December 2022.

	2022 (Tk. Million)
Sales revenue	21,400
Profit before interest and tax (PBIT)	3,210
Interest	720
Pre-tax profit	2,490
Non-current liabilities	9,000
Share capital (Tk. 10/share)	3,500
Reserves	4,520

Anatra Ltd.'s share of revenue and profits between the two business areas are as follows:

	Medical products R&D	Equipment manufacturing
Share of revenue and profit	70%	30%

Post-acquisition benefits from acquiring Anatra Ltd.

Cyba Ltd. estimates that following the acquisition and unbundling of the manufacturing business, Anatra Ltd.'s future sales revenue and profitability of the medical R&D business will be boosted. The annual sales growth rate is expected to be 5% and the profit margin before interest and tax is expected to be 17.25% of sales revenue, for the next four years. It can be assumed that the current tax allowable depreciation will remain equivalent to the amount of investment needed to maintain the current level of operations, but that the company will require an additional investment in assets of 40c for every Tk. 1 increase in sales revenue. After the four years, the annual growth rate of the company's free cash flows is expected to be 3% for the foreseeable future.

Anatra Ltd.'s unbundled equipment manufacturing business is expected to be divested through a sell-off, although other options such as a management buy-in were also considered. The value of the sell-off will be based on the medical and dental equipment manufacturing industry. Cyba Ltd. has estimated that Anatra Ltd.'s manufacturing business should be valued at a factor of 1.2 times higher than the industry's average price-to earnings ratio. Currently the industry's average earnings-per-share is Tk. 0.30 and the average share price is Tk. 240.

Possible additional post-acquisition benefits

Cyba Ltd. estimates that it could achieve further cash flow benefits following the acquisition of Anatra Ltd., if it undertakes a limited business re-organisation. There is some duplication of the R&D work conducted by Cyba Ltd. and Anatra Ltd., and the costs related to this duplication could be saved if

Cyba Ltd. closes some of its own operations. However, it would mean that many redundancies would have to be made including employees who have worked in Cyba Ltd. for many years. Anatra Ltd.'s employees are considered to be better qualified and more able in these areas of duplication, and would therefore not be made redundant.

Cyba Ltd. could also move its headquarters to the country where Anatra Ltd. is based and thereby potentially save a significant amount of tax, other than corporation tax. However, this would mean a loss of revenue for the government where Cyba Ltd. is based.

The company is concerned about how the government and the people of the country where it is based might react to these issues. It has had a long and beneficial relationship with the country and with the country's people.

Cyba Ltd. has estimated that it would save Tk.1,600 million after-tax free cash flows to the firm at the end of the first year as a result of these post-acquisition benefits. These cash flows would increase by 4% every year for the next three years.

Estimating the combined company's weighted average cost of capital

Cyba Ltd. is of the opinion that as a result of acquiring Anatra Ltd., the cost of capital will be based on the equity beta and the cost of debt of the combined company. The asset beta of the combined company is the individual companies' asset betas weighted in proportion of the individual companies' market value of equity. Cyba Ltd. has a market debt to equity ratio of 40:60 and an equity beta of 1.10.

It can be assumed that the proportion of market value of debt to market value of equity will be maintained after the two companies combine.

Currently, Cyba Ltd.'s total firm value (market values of debt and equity combined) is Tk.60,000 million and Anatra Ltd.'s asset beta is 0.68.

Additional information

- The estimate of the risk free rate of return is 4.3% and of the market risk premium is
- 7%. The corporation tax rate applicable to all companies is 22%.
- Anatra Ltd.'s current share price is Tk.3 per share, and it can be assumed that the book
- value and the market value of its debt are equivalent.
- The pre-tax cost of debt of the combined company is expected to be 6.0%.

Important note:

Cyba Ltd.'s board of directors (BoD) does not require any discussion or computations of currency movements or exposure in this report. All calculations are to be presented in Taka millions. Currency movements and their management will be considered in a separate report. The BoD also does not expect any discussion or computations relating to the financing of acquisition in this report, other than the information provided above on the estimation of the cost of capital.

PV Factors @9%	Y1: 0.917	Y2: 0.842	Y3: 0.772	Y4: 0.708

Requirements:

Prepare a report for the board of directors (BoD) of Cyba Ltd. which:

a) Estimates the value attributable to Cyba Ltd.'s shareholders from the acquisition of Anatra Ltd. before taking into account the cash benefits of potential tax savings and redundancies, and then after taking these into account; 11

b) Assesses the value created from (a) above, including a discussion of the estimations made and methods used; 3

c) Advises the BoD on the key factors it should consider in relation to the redundancies and potential tax savings. 3

5. Sembilan Co, a listed company, recently issued debt finance to acquire assets in order to increase its activity levels. This debt finance is in the form of a floating rate bond, with a face value of $320 million, redeemable in four years. The bond interest, payable annually, is based on the spot yield curve plus 60 basis points. The next annual payment is due at the end of year one.

Sembilan Co is concerned that the expected rise in interest rates over the coming few years would make it increasingly difficult to pay the interest due. It is therefore proposing to either swap the floating rate interest payment to a fixed rate payment, or to raise new equity capital and use that to pay off the floating rate bond. The new equity capital would either be issued as rights to the existing shareholders or as shares to new shareholders.

Ratus Bank has offered Sembilan Co an interest rate swap, whereby Sembilan Co would pay Ratus Bank interest based on an equivalent fixed annual rate of 3.76¼% in exchange for receiving a variable amount based on the current yield curve rate. Payments and receipts will be made at the end of each year, for the next four years. Ratus Bank will charge an annual fee of 20 basis points if the swap is agreed.

The current annual spot yield curve rates are as follows:

Year	One	Two	Three	Four
Rate	2.5%	3.1%	3.5%	3.8%

The current annual forward rates for years two, three and four are as follows:

Year	Two	Three	Four
Rate	3.7%	4.3%	4.7%

Requirements:

a) Based on the above information, calculate the amounts Sembilan Co expects to pay or receive every year on the swap (excluding the fee of 20 basis points). Explain why the fixed annual rate of interest of 3.76¼% is less than the four-year yield curve rate of 3.8%. 4

b) Demonstrate that Sembilan Co's interest payment liability does not change, after it has undertaken the swap, whether the interest rates increase or decrease. 3

c) Discuss the factors that Sembilan Co should consider when deciding whether it should raise equity capital to pay off the floating rate debt. 3

6. a) Westecs operates in the fashion retail industry and has a year-end of 31 December 2021. It owns fifteen stores all over in Bangladesh (and accounted for using the cost model in IAS 16 Property, Plant and Equipment). Due to an international pandemic, the government of Bangladesh shut-down non-essential retail and hospitality outlets for several months during 2021. It was also closed throughout 2022 until an effective vaccine was developed and rolled out in Bangladesh amongst the population.

The pandemic has had a negative impact on the fashion industry. Demand for new clothing has declined due to national and localised lockdowns as well as limits on intra-household socialising and the increased uptake of home-working. Moreover, the full economic impact of the pandemic has yet to be realised with unemployment expected to rise significantly throughout 2022.

Westecs's stores were open for trading during December 2021, normally the busiest month of the year. However, high street footfall was far lower than previous years with many consumers reducing expenditure or choosing to shop online. Westecs sells online through its website but the functionality is poor and customer uptake is low. The website is recognised as an intangible asset and is being amortised over a remaining life of five years.

The directors of Westecs are considering closing some larger stores in 2022 although, as at 31 December 2021, no firm plans had been drawn up. A significant operating loss is expected in 2022. The directors wish to provide for potential redundancy costs and the future operating loss in the financial statements for the year ended 31 December 2021.

Westecs has bank loans, some of which are repayable within 12 months of the reporting date.

Requirements:

Discuss the financial reporting implications of the above in Westecs's financial statements for the year ended 31 December 2021. 5

b) Kensignton Ltd., a public limited company, operates in several industries. It has a reporting date of 31 December 2022. One of the industries that Kensignton Ltd. operates in is shipping. Kensignton Ltd. owns shipping vessels classified as property, plant and equipment and measured using the cost model- which constitutes a material part of its total assets. The economic life of the vessels is estimated to be 30 years, but the useful life of some of the vessels is only 10 years because Kensignton Ltd.'s policy is to sell these vessels when they are 10 years old. Kensignton Ltd. estimated the residual value of these vessels at sale to be half of the acquisition cost and this value was assumed to be constant during their useful life. Kensignton Ltd. argued that the estimates of residual value used were conservative in view of an immature market with a high degree of uncertainty and presented documentation which indicated some vessels were being sold for a price considerably above carrying value. Broker valuations of the residual value were considerably higher than those used by Kensignton Ltd. Kensignton Ltd. argued against broker valuations on the grounds that they would result in greater volatility in reporting.

Kensignton Ltd. keeps some of the vessels for the whole 30 years and these vessels are required to undergo an engine overhaul in dry dock every 10 years to restore their service potential, hence the reason why some of the vessels are sold. The residual value of the vessels kept for 30 years is based upon the steel value of the vessel at the end of its economic life. In the current period, one of the vessels had to have its engine totally replaced after only eight years. Normally, engines last for the 30-year economic life if overhauled every 10 years. Additionally, one type of vessel was having its funnels replaced after 15 years but the funnels had not been depreciated separately.

In recent time, the expert engineering department is overwhelmed because of the scarcity of quality steel at a reasonable time. Eventually it happened because of Russia-Ukraine War and dollar-taka exchange rate volatility.

Requirements:

Advise the directors of Kensignton Ltd. on the accounting issues above. 5

c) STAR Infrastructure Development Company Limited is a nonbank financial institution licensed by the Bangladesh Bank. The company plays a major role in bridging the financing gap for developing medium to large-scale infrastructure and renewable energy projects in Bangladesh. The company now stands as the market leader in private sector energy and infrastructure financing in Bangladesh. Its stakeholders include the government, private sector, NGOs, multilateral and bilateral institutions, academics, and the people of Bangladesh at large.

The company receives different funds (loans) from bilateral and multilateral agencies in both local and foreign currencies. The organization financed a Public Private Partnership based Bridge project in US Dollars (foreign currency) under the refinancing/credit line of the Asian Development Bank. The project agreed to pay installment in US Dollars. The government guaranteed a minimum amount of traffic i.e., vehicles will use the bridge. The project will generate cash flows mainly from collecting tolls in local currency i.e., BDT. Besides, the project will receive a grant/subsidy from the government in Dollars (foreign currency) if a guaranteed number of vehicles do not use the bridge.

Requirements:

Do you find any credit risk due to currency fluctuation? Why or why not? 5

7. Retail Bangladesh Co. Ltd (RBCL) is a large company operating in the retail industry, with a year ending 31 December 2022. You are a manager in AKN & Co, responsible for the audit of Retail Bangladesh Co. Ltd (RBCL), and you have recently attended a planning meeting with Omar Khan, the finance director of the company. As this is the first year that your firm will be acting as auditor for Retail Bangladesh Co. Ltd (RBCL), you need to gain an understanding of the business risks facing the new client. The notes from your meeting are as follows:

Retail Bangladesh Co. Ltd (RBCL) sells clothing, with a strategy of selling high fashion items under the RBCL brand name. New ranges of clothes are introduced to stores every eight weeks. The company relies on a team of highly skilled designers to develop new fashion ranges. The designers must be able to anticipate and quickly respond to changes in consumer preferences. There is a high staff turnover in the design team.

Most sales are made in-store, but there is also a very popular catalogue, from which customers can place an order on-line, or over the phone.

The company has recently upgraded the computer system and improved the website, at significant cost, to integrate the website sales directly into the general ledger, and to provide an easier interface for customers to use when ordering and entering their credit card details. The new on-line sales system has allowed overseas sales for the first time.

The system for phone ordering has recently been outsourced. The contract for outsourcing went out to tender and Retail Bangladesh Co. Ltd (RBCL) awarded the contract to the company offering the least cost. The company providing the service uses an overseas phone call center where staff costs are very low.

Retail Bangladesh Co. Ltd (RBCL) has recently joined the Ethical Trading Initiative. This is a ‘fair-trade’ initiative, which means that any products bearing the RBCL brand name must have been produced in a manner which is clean and safe for employees and minimizes the environmental impact of the manufacturing process. A significant advertising campaign promoting Retail Bangladesh Co. Ltd (RBCL)’s involvement with this initiative has recently taken place. The RBCL brand name was purchased a few years ago and is recognized at cost as an intangible asset, which is not amortized. The brand represents 12% of the total assets recognized on the statement of financial position.

The company owns numerous distribution centers, some of which operate close to residential areas. A license to operate the distribution centers is issued by each local government authority in which a center is located. One of the conditions of the license is that deliveries must only take place between 8 am and 6 pm. The authority also monitors the noise level of each center and can revoke the operating license if a certain noise limit is breached. Two licenses were revoked for a period of three months during the year.

To help your business understanding, Omar Khan has e-mailed you extracts from the draft statement of comprehensive income, and the relevant comparative figures, which are shown below.

Extract from draft Statement of Comprehensive Income

Year ending 31 December. Revenue: Retail outlets	2022 Draft BDT million 1,030	2021 Actual BDT million 1,140
Phone and Online sales	425	395
Total revenue	1,455	1,535
Operating profit	245	275
Finance costs	(25)	(22)
Profit before tax	220	253
Additional information		
Number of stores	210	208
Average Revenue per store	4.95 million	5.77 million
Number of phone orders	680,000	790,000
Number of online orders	1,020,000	526,667
Average spends per order	250	300

Requirements:

a) Prepare briefing notes to be used at a planning meeting with your audit team, in which you evaluate FIVE (5) business risks facing Retail Bangladesh Co. Ltd (RBCL) to be considered when planning the final audit for the year ended 31 December 2022. 5

b) Using the information provided, identify, and explain FIVE (5) risks of material misstatements that may affect the financial statements you are going to audit. 5

8. You are a Senior manager in Ahmed & Co., Chartered Accountants which offers a range of assurance services. You are responsible for the audit of Maxwell Ltd, a company which provides approximately 10% of your firm's practice income each year. The Finance Director of Maxwell Ltd. has recently contacted you to provide information about another company, KMG Ltd, which is looking to appoint a provider of assurance servicees.

An extract from an email received from the Finance Director of Maxwell Ltd to you is stated below:

'One of my friends, Mr. Probal Chowdhury, is the Managing Director of KMG Ltd, a small company which is seeking to expand in the next few years. I know that Mr. Probal Chowdhury has approached the company's bankers for TK.6 million to finance the expansion. To support this loan application, Mr. Probal Chowdhury will need to present its audited Financial Statements, hence the need for an Auditor immediately. Mr. Probal Chowdhury is also in need of a firm to provide tax planning advice and also to prepare both the company's and his personal tax computations for submission to the tax authorities. In this regard, I have asked Mr. Probal Chowdhury to contact you, and I hope that Ahmed & Co. will be able to provide these services to KMG Ltd for a low fee. If the fee you suggest is too high, and unacceptable to Mr. Probal Chowdhury, then I will recommend that Mr. Probal Chowdhury approaches Thamesgate & Associates instead. Should the arrangement with KMG Ltd. not go through, then Maxwell Ltd would also advice itself.

Thamesgate & Associates is a firm of Chartered Accountants which has an office in the same town as Ahmed & Co. The company is owner-managed, with the Mr. Probal Chowdhury family owning 90% of the share capital. Mr. Probal Chowdhury is a director and majority shareholder of three other companies. An article in a newspaper from several years ago about Mr. Probal Chowdhury indicated that one of his companies was once fined for breach of employment law and that he had used money from one of the company's pensions funds to set up a business abroad, appointing his son as the Managing Director of that business.

Requirements:

Discuss the ethical issues and other matters which should be considered in relation to Ahmed & Co. Chartered Accountant and potential acceptance of KMG Ltd as its client. 5

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