

[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. Billy Russell is a famous Bangladeshi designer and manufacturer of knitwear clothing. She has based her designs on ethnic pattern, inspired by clothing she has seen in South Asia. She has sourced her products from Myanmar, Afghanistan, Pakistan, and India also from small factories in her native country Bangladesh. Her products though stylish are relatively cheap but her marketing strategy is totally passive. She has a website and most her sales are reactive, responding to the orders over the internet. The resultant sales and in particular, profits have been disappointing and so she has hired a marketing consultant to give her some advice. The following extract from consultant's report.

"Your product, although distinctive, is insufficiently unique. The designs have no patents nor copyright and the production technology is so simple and inexpensive there are few barriers to entry. Competition is all too prevalent. Your promotion is too general. It focuses on no specific market. By relying on the internet your advertising is rather indiscriminate, and you have failed to create a loyal following and your image is diffused with little opportunity for building brand awareness. There is a failure within distribution. Most consumers wish to see, handle, or try to products before making a purchase, particularly if the products do not already have a well-established reputation and/or a brand name. In your case the only exposure product have is via the world-wide web. Your pricing structure is too cost-based. You can source your products cheaply, but your margins are too low to provide you with the necessary capital to reinvest if the business is to develop profitably in the future."

"You have failed to establish yourself in the marketplace as a dominant player. Too many of your business decision are reactive and often too late to have adequate impact. You are following market trends and not attempting to lead them."

Billy is naturally disturbed by the criticisms which this report has levelled at her company's operations and has decided that she must be more positive in her actions. She has decided that her marketing efforts must be more focused, and she pursue more proactively her competitive activities.

Requirements:

In order to focus her company's marketing efforts more precisely Billy has decided to segment the market for knitwear products.

- a) Suggest potential bases for segmenting this knitwear market and discuss the benefits which a more focused segmentation could bring to the company. 10
 - b) Evaluate strategies which Billy might pursue as a market follower to make her knitwear company more competitive. 8
2. As the market leader in enterprise application software, SAP is helping companies of all sizes and in all industries run better by redefining ERP and creating networks of intelligent enterprises that provide transparency, resiliency, and sustainability across supply chains. End-to-end suite of applications and services enables customers to operate profitably, adapt continuously, and make a difference worldwide. Creating a diverse and inclusive culture makes a better company, fueling our innovation, enhancing our work experience, and enabling our success in a changing world.

Lead and Disruption: Consider the experience of the great German software firm SAP as its leaders attempted to enter the mid-market. Founded in 1972 by five former IBM engineers, the company has been extraordinarily successful at developing large, integrated, customized enterprise resource planning (ERP) systems for companies around the world. These software systems allow companies to integrate everything from inventory and materials management to customer relationship management and production planning. By 2006, SAP had grown its revenues to 9.4 billion euros and dominated the ERP market. The company employed almost forty thousand people and was three times the size of its nearest competitor, Oracle. But in 2006, its stock price was languishing. Estimates by both analysts and the company suggested that growth rates in the ERP market that the company served would be declining. Worse, this slower growth meant that the company might not be able to meet its 2010 growth targets, on which investors were counting. Faced with this disappointing reality, co-CEO Henning Kagermann

commissioned a review of the SAP strategy. This review confirmed the lack of opportunities for growth in SAP's conventional ERP market but offered a ray of hope: a large opportunity existed for growth in the small and medium-sized business (SMB) market. Recognizing this, Kagermann publicly stated that the company would address "a huge revenue opportunity among midsize companies that are not currently enterprise software buyers." He claimed that this would result in \$1 billion in new growth by 2010 from ten thousand new SMB customers. To accomplish this, SAP introduced a new midsize business product, Business ByDesign (ByD), which enabled these smaller businesses to access SAP software online. Rather than designing expensive customized software, this new offering relied on software as a service (SaaS). Instead of signing long service contracts and spending millions to implement strategic ERP, small businesses would be able to pay as needed for these services. This new business model was explicitly designed to be run in parallel with the conventional business of selling large, custom-designed systems to big companies. Let's now step back for a moment and think hard about the alignments required for these two different businesses. The mainstay ERP business model was based on selling very expensive complicated systems with long sales cycles to large customers. The design and implementation of these integrated systems was highly complex and required sophisticated programming and service skills. The technical people who delivered these products had often joined SAP precisely because of the complexity of the programming challenge. The formal organization required to run these projects relied on deep functional expertise, careful planning and design, and long-term time frames. The culture of SAP reflected these requirements and emphasized strong attention to detail, meticulous planning and coordination, and a long-term perspective toward innovation. In contrast, the new SaaS business model relied on low-margin, short-cycle sales; standardized products; revenues from a per-user basis; and quicker response times. Innovation was not solely the purview of the technical staff within SAP but everyone's responsibility, including partners. Given the significant differences in these alignments, how would you predict the Business ByDesign effort would unfold? Where would the problems in implementation most likely occur?

Although the strategy of entering the SMB business was sound, SAP's overall growth had stalled by 2009 and the ByD effort was failing. Reflecting on the ByD difficulties, co-CEO Leo Apotheker argued, "We are no longer selling technology. We are selling business opportunity. . . . At the same time, we are changing the business model for consulting from selling people to selling intellectual capital. To do this we have to change the genetic makeup of our people." Although the ByD product was technically a success, organizational issues plagued its introduction. These issues made the rollout of the product problematic. Many of the SAP technical staff saw the new offering as beneath their technical capabilities. They had joined the company to design and build complex, integrated software systems, not small modules. The sales force, used to selling large systems, was not motivated to sell small packages. Account managers for SAP's two hundred largest customers saw the lower-priced ByD offerings as at best a distraction and at worst a threat. Even the large functional organization that had served the company so well was not useful in promoting the fast, flexible model needed for the SMB market. But rather than set up a separate ByD organization, senior managers attempted to run the new enterprise using cross-functional teams.

By 2010, customers were buying from competitors such as SuccessFactors, NetSuite, Salesforce.com, and Microsoft Dynamics—and SAP had only a thousand customers, not the ten thousand they forecasted. The company had generated not the \$1 billion projected but only \$35 million in revenue. In February 2010, co-CEO Apotheker was fired, in part for his failure to make ByD successful. On October 20, 2013, SAP announced that it would discontinue its support of ByD with an estimated loss of 3 billion euros. The big successful business had killed the smaller one.

Although the ByD effort was a bust, the strategy of selling software as a service was the right one. In December 2011, SAP took another stab at it, paying \$3.1 billion to purchase Success Factors, a cloud-based maker of human capital software and, in 2014, another \$8.3 billion for Concur Technologies. Subsequently, all of SAP's SMB assets, and those of acquired companies like Arriba, were consolidated into this new organization, and a new cloud-based strategy was developed that positioned SAP's offerings as a hybrid, with both on-premises and SaaS products available to all customers. SaaS revenue is expected to reach \$418.92 billion by 2025.

Requirements:

- a) As a business operation head of a Software company, analyse the SAP Software as a Service (SaaS) business by porters' five forces model. 8
- b) Describe the SAP SaaS growth strategy to succeed. 5

- b) Alliance Pharma is a limited company incorporated in Bangladesh under Companies Act 1994. The company runs its manufacturing plant in collaboration with reputed global pharmaceutical companies in terms of development, manufacturing, marketing, sale and distribution of generic, brand pharmaceutical and over the counter (OTC) products. The Company competes with different companies depending upon product categories, and within each product category, upon dosage strengths and drug delivery systems. Such competitors include the major brand name, generic and OTC manufacturers of pharmaceutical products. In addition to product development, other competitive factors include product quality and price, reputation and service and access to proprietary and technical information.

Alliance Pharma has commercial operations in a number of established international markets with the opportunity for rapid growth in many emerging markets around the world. The chief operating officer (COO) believes that a global presence will allow the company to expand revenue base and manage risk through diversification. The COO and his team is expecting to capitalize on opportunities for growth within new markets that have opened up after the COVID-19.

The company has set a separate treasury unit to manage the foreign exchange risk (forex) and is headed by Chief Financial Officer (CFO). Two employees have been hired to monitor forex positions, exchange rates and use appropriate hedge products.

The following issues have been noted for your consideration –

- Alliance Pharma has several OTC brands that are immensely popular in the market. In recent time, quality issues have been raised by a significant number of customers. The management investigation in the matter has revealed that this happened because of weak control over the raw materials. In fact, audit team identified many more operational risks issues including the gaps in the procurement system. Frequent rejections in highly competitive OTC products segment have exposed the company to reputational risk.
- As the Company operates on a global basis with offices or activities in Europe, Africa, Asia, and North America, it faces several risks inherent in conducting business internationally, including compliances. These laws and regulations include data privacy requirements, labor relations laws, tax laws, anti-competition regulations, import and trade restrictions, export requirements etc. Given the high level of complexity of these laws, however, there is a risk that some provisions may be inadvertently breached. Violations of these laws and regulations could result in fines, criminal sanctions against the Company, officers or employees, and prohibitions on the conduct of our business. Any such violation could also include prohibitions on products in one or more countries and could materially damage reputation, brand, international expansion efforts, and the ability to attract and retain employees, business and operating results. The management believes that success depends, in part, on their ability to anticipate these risks and manage these difficulties.
- In addition to the foregoing, engaging in international business inherently involves a number of other difficulties and risks such as longer payment cycle, potentially adverse tax consequences, tariffs, customs charges, bureaucratic requirements and other trade barriers, difficulties and costs of staffing and managing foreign operations. These factors or any combination of these factors may adversely affect revenue or overall financial performance of Alliance Pharma.
- Alliance Pharma has now started using extensively online mode of order taking, payment and delivery. The company has hired number of vendors for this purpose. The operating model has now been completely revamped. The company has now created data base of customers which helps in marketing new products. This has started showing results but has also exposed the Company with new risks including cyber risks. Recently, the Company was attacked by Ma/ware which affected the operations of the Company for one day, Cyber security was not an agenda in the past. But with change in the operating model this has become one of the key risks of Alliance Pharma. The Board believes that:
- Now the company will have to invest in cyber security to minimize the possibility of having a cyber-loss and make the Company cyber resilient. For this reason, they want a comprehensive review of Business Continuity Planning (BCP).

- Currently Alliance Pharma has risk management system in place, but it is not integrated with surrounding systems. In other words, it is looking for a unifying philosophy that draws together management of all types of risks. The Board wants that risk management team must look at the risks that could affect the core process or stakeholder expectation on an enterprise-wide basis. The Board is fully aware that risk management has become more important because of increasing stakeholder expectations and the ever-increasing ease of communication. The Board wants to be confident that risks have been identified and that appropriate steps have been taken to manage risk to an appropriate level. Also, there is greater emphasis on accurate reporting of information by organizations, including risk information. In this backdrop, implementation of enterprise risk management (ERM), is being evaluated. While the management agrees with the need of ERM they are yet to take decision considering the cost involved in this decision.

Requirements:

- In the changed business model, the management of Alliance Pharma has identified vendor risk management as the key area of cyber security risk management. In the light of this, what would be your suggestions to the Company for vendor risk management? 5
- What are the two defining characteristics of cyber-resilient organization? What is 'Reverse Stress Testing' in case of a cyber-resilient organization? 5
- You are required to prepare a short note for the Board explaining what the ERM is and list its features of so that the Board can take a decision about the implementation of the same. Also, explain how ERM is linked with the BCP? 5
- The treasury team of Alliance Pharma has been using forward contracts as a tool to hedge forex risks. The CFO is not satisfied with this after the performance review of treasury function. Prepare a note for CFO listing advantages of a currency option contract as a hedging tool compared with the forward contract. 5

4. a) **Cash-settled share-based payment scheme**

On 1 July 2020, Rahim Azmol Ltd. granted 550,000 share appreciation rights to 55 executives and senior employees of the company with each eligible member of staff receiving 10,000 of the rights. The fair value of the rights was estimated on 30 June 2020 by an external expert using an options pricing model at TK.4.50 each. Rahim Azmol Ltd. prides itself on good employee relations and the senior management team has estimated that all 55 staff will qualify for the rights when they vest three years after the granting of the rights on 1 July 2020. The company recognised an expense of TK.825,000 with its associated liability in the draft accounts.

Requirement:

Evaluate the given accounting treatment and advise on the corporate reporting requirements in accordance with the IFRS 2 Share based payment. 3

b) **Regulatory penalties**

Rahim Azmol Ltd. has been subject to a review by the national telecom regulator following a complaint from a member of staff with safety concerns. The regulator identified breaches in safety regulations and issued a penalty notice on 30 December 2020. Rahim Azmol Ltd. has appealed against the initial penalty payable. Negotiations with the regulator are still ongoing and the amount payable has not yet been finalised. Rahim Azmol Ltd. currently estimates that the total penalty payable as a result of the breach will be TK.1.3 million which it expects to repay in equal annual instalments over the next ten years with the first payment falling due on 1 July 2023. The company's draft statement of profit or loss for the current year recognises an expense of TK.1.3 million and the draft statement of financial position includes a liability for the same amount.

Requirement:

Evaluate the given accounting treatment and advise on the corporate reporting requirements in accordance with the IAS 37 Provisions, Contingent Liabilities and Contingent Assets. 3

c) **Property development**

Rahim Azmol Ltd. owns an industrial property which it has historically used as a maintenance depot for its engines and carriages. The company has an accounting policy of revaluing its properties to fair value and at the interim audit it was noted that the depot was recorded at a carrying amount of TK.2.5 million in the non-current asset register. During the first week of the audit fieldwork, the

audit supervisor identified a year-end journal which has uplifted the depot to a fair value of TK.4.9 million in this year's statement of financial position as of 30 June 2022. Management has advised that this represents the estimated sales value of the building following Rahim Azmol Ltd.'s plan to develop the building as a residential property. The client has confirmed that the property is suitable for conversion into residential apartments at an estimated cost of TK.1.2 million and has negotiated secured finance for the development with their bank. The development will be subject to the payment of fees to the local council's building regulator of TK.173,000.

Requirement:

Evaluate the given accounting treatment and advise on the corporate reporting requirements in accordance with the IFRS 13 Fair Value Measurement.

3

5. a) The equity shares of ABC Ltd are currently being traded at Taka 30 per share in the market. ABC Ltd has total 100,000 shares outstanding in the market and promoters' equity holding in the Company is 50%.

OHP Ltd wishes to acquire ABC Ltd because of likely synergies. The estimated present value of those synergies is Taka 10, 000,000.

Further OHP feel that management of ABC Ltd has been over paid. With better motivation, lower salaries and fewer perks for the top management will lead to savings of Taka 500,000 p.a. Top management and their families are promoters of ABC Ltd. Present value of those savings would add Taka 3,200,000 in value of the acquisition.

Following additional information is available regarding OHP Ltd.

Earnings per share	Taka 5
Total number of outstanding shares	2000,000
Market value of share	Taka 50

Requirements:

- i) Calculate the maximum per equity share OHP Ltd can offer to pay for ABC Ltd? 3
- ii) Calculate the minimum price per share at which the management of ABC Ltd will be willing to offer their controlling interest? 3

- b) The following data relate to ABC Ltd.'s share price:

Current price per share	Taka 2,000
3 month's future's price/share	Taka 2,250

Requirements:

Assuming it is possible to borrow money in the market for transactions in securities at 9% per annum, you are required to:

- i) Calculate theoretical minimum price of a 6-month forward purchase. 3
- ii) Explain what is arbitrage opportunity. 3
- iii) Explain necessary conditions of Commodity Derivatives. 3

6. Blockchain is designed to establish a permanent record and may be integrated with existing supply chain and traceability systems. Blockchain is an ideal use for the technology because it can not only provide an audit trail that tracks drugs within the supply chain; it can track who has shared data and with whom, without revealing the data itself. Blockchain has the potential to transform how products data is controlled, managed, shared and acted upon throughout the lifetime history of a drug. One of the largest retailer in the U.S. has extensive experience in implementing blockchain solutions to help enhance the safety and traceability of products. Increasingly, customers are requesting more detailed information about products.

The cloud-based Blockchain Platform delivers the end-to-end capabilities that clients need to quickly activate and successfully develop, operate, govern and secure their own business networks.

Risks and uncertainties include but are not limited to, general industry conditions and competition; general economic factors, including interest rate and currency exchange rate fluctuations; the impact of a particular industry regulation and legislation in the Bangladesh and internationally; global trends toward health care cost containment; technological advances, new products and patents attained by competitors; challenges inherent in new product development, including obtaining regulatory approval; the company's ability to accurately predict future market conditions; manufacturing difficulties or delays; financial instability of international economies and sovereign risk; dependence on the

effectiveness of the company's patents and other protections for innovative products; and the exposure to litigation, including patent litigation, and/or regulatory actions. Following are the potential risks.

Category	Risks
Regulatory	Money laundering, regulatory ambiguity, health care regulation etc.
Operational Risks	Information, Traceability, Transaction speed, Commingling of funds, irreversibility, key management, insufficient infrastructure, manufacturing difficulties, new product developments etc
Financial Risks	Costs, currency fluctuation, Fraud, Market fluctuation, Theft, Embezzlement, financial reporting risks etc.

Requirements:

a) Blockchain technology have been expanding rapidly ever since the very first blockchain transaction occurred. Why blockchain innovation has the potential to significantly impact to the audit profession? 5

b) What are effects of Blockchain on Audit? 5

7. Ivory Coast produces about 45% of the global supply of cocoa, a core ingredient in chocolate. The production of cocoa in west Africa has long been linked to human rights abuses, structural poverty, low pay and child labour.

During field work it has been found that the children are using machetes, applying chemicals and undertaking other hazardous tasks on cocoa plantations.

As well as being morally repugnant, such abuses against children represent a "humanitarian disaster". The widespread use of child slavery is also credited for causing "long-term mental and physical trauma".

Requirements:

a) Recently you have been appointed as a compliance officer of a renowned chocolate manufacturing company in Bangladesh which is also a chain of a world-famous chocolate company. The raw material is importing from Ivory Coast. How to make the compliance policy? 5

b) What are the risks associated with using child labor in the chocolate manufacturing industry, and how can companies mitigate these risks? 5

---The End---