

[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. AK Group with its world class manufacturing facilities in Bangladesh. AK Group has proudly been manufacturing and exporting the highest quality products to European countries and beyond in addition to selling locally.

Since 1995, AK Group is now celebrating twenty-eight years of high quality, trusted and affordable products, our portfolio has grown dramatically, and the group has diversified extensively. Today, AK Group is a globally competitive group of businesses driven by global standards, manufacturing practices and an aggressive research and development agenda which has led to the high levels of innovation, constant improvement and a host of highly specialized, technically advanced products in recent years.

The scope of AK Group today includes four distinct clusters namely:

- **Food:** Confectionery, biscuits, baking powder, custard powder, castor sugar, soya fillets, spice mixes, breakfast cereals, infant cereals, potato crisps and maize snacks.
- **Beverage:** Tea beverage, carbonated soft drinks, energy drinks, juices, milk and dairy juice blends.
- **Laundry, Home and Personal Care Products:** Detergent (powder and paste), bleaches, floor cleaners, toilet cleaners, dishwashing liquids, all purpose creams, scouring powders, window and glass cleaners, bath soaps, hygiene soaps, beauty soaps, hair soaps, glycerin, hand sanitisers, liquid handwashing soaps, antiseptic liquids and fabric conditioners.
- **Steel:** Steel rebar, angles and channels.

The drive for diversification and a belief in the establishment of specialised businesses, to ensure focus and innovation within each category, has led to the AK Group we know today. AK Group is comprised of AK Group, AK Beverages, AK Brands (featuring several specialist sub businesses focusing independently on infant nutrition, cereals and baking products and spices), Dairy Gold, Swiss Bake, Yoyo Foods and Universal Chemicals Limited.

Since its first product, Blue Boom Detergent Paste and the establishment of the now iconic BOOM brand, AK Group has developed a portfolio of many of the foremost brands in the Bangladeshi and European markets across the categories and sectors in which it operates.

Thanks to the support of the Bangladeshi people and those in all European countries in which it operates, AK Group and its brands have become household names and are synonymous with quality, reliability and value for money across the portfolio and the group of companies.

At AK Group, it is aimed to create a connection between our products and their impact on people's lives. From the promotion of affordable hygiene with Yebo Carbolic soaps, the health benefits of Mediherb ayurvedic herbal soaps and the antibacterial family protection of Hygienix hygiene soap, to the livelihoods that selling our confectionary lines like Amazon and Milkit creates. Its role in the lives of others is never taken for granted and inspires our business approach, culture and way of thinking.

AK Group purpose is "Improving Lives", whether through its emphasis on providing branded products of superior quality and value, value addition and shared value projects with local suppliers, growers or producers, our corporate social responsibility initiatives and public private partnerships through the AK Group Foundation or its focus on women's and youth empowerment initiatives. All its efforts are aligned to deliver this single minded promise. Both evident in its history and the actions of its founders that aim to improve the lives of its consumers nationally, regionally and internationally both now and for future generations through carefully selected strategic projects.

Requirements:

- a) Discuss the Ansoff Matrix (Product-Market) Strategy applying it to the case of above of AK Group Limited.

- b) According to Johnson et al (2005), explain the advantages of diversification. 4
- c) With examples distinguish between Vertical and horizontal integration. 4
- d) If approached as a business consultant, what would you advise AK Group to do to keep ahead of their strategy? 2

2. Nabila Ltd. locally incorporated in Bangladesh as a foreign company. It has been operating in two diverse sectors: production of Pharmaceuticals and supermarkets. Whereas the Pharmaceutical production division has been growing rapidly, the supermarkets division's growth has been slower. The company is considering selling the supermarkets division and focusing solely on the Pharmaceutical production division.

Extracts from Nabila Ltd.'s most recent financial statements are as follows:

Year ended 31 December 2023

	<u>Tk. in million</u>
Profit after tax	166
Non-current assets	550
Current assets	122
Non-current liabilities	387
Current liabilities	95

About 70% of Nabila Ltd.'s non-current assets and current assets are attributable to the supermarkets division and the remainder to the pharmaceuticals production division. Each of the two divisions generates roughly half of the total profit after tax. The market value of the two divisions is thought to be equivalent to the price-to-earnings (PE) ratios of the two divisions' industries. The supermarket industry's PE ratio is 7 and the pharmaceuticals production industry's PE ratio is 12.

Nabila Ltd. can either sell the supermarkets division as a going concern or sell the assets of the supermarkets division separately. If the assets are sold separately, Nabila Ltd. believes that it can sell the non-current assets for 115% of the book value and the current assets for 80% of the book value. The funds raised from the sale of the supermarkets division will be used to pay for all the company's current and non-current liabilities.

Following the sale of the supermarkets division and paying off the liabilities, Nabila Ltd. will raise additional finance for new projects in the form of debt. It will be able to borrow up to a maximum of 100% of the total asset value of the new downsized company.

One of the new projects which Nabila Ltd. is considering is a joint venture with Pixel Ltd. to produce an innovative type of drug formula which will be used in the production of a flu vaccine. Both companies will provide the expertise and funding required for the project equally. Representatives from both companies will make up the senior management team and decisions will be made jointly. Legal contracts will be drawn up once profit-sharing and other areas have been discussed by the companies and agreed on.

Pixel Ltd. has approached Ulap Bank for the finance it requires for the venture, based on Islamic finance principles. Ulap Bank has agreed to consider the request from Pixel Ltd., but because the financing requirement will be for a long period of time and because of uncertainties surrounding the project, Ulap Bank wants to provide the finance based on the principles of a Musharaka contract, with Ulap Bank requiring representation on the venture's senior management team. Normally Ulap Bank provides funds based on the principles of a Mudaraba contract, which the bank provides for short-term, low-risk projects, where the responsibility for running a project rests solely with the borrower.

Requirements:

- a) Advise Nabila Ltd. whether it should sell the supermarkets division as a going concern or sell the assets separately and estimate the additional cash and debt funds which could be available to the new, downsized company. Show all relevant calculations. 8
- b) Discuss why Ulap Bank may want to consider providing the finance based on a Musharaka contract instead of a Mudaraba contract, and the key concerns Nabila Ltd. may have from the arrangement between Pixel Ltd. and Ulap Bank. 7

3. Personal computers (PC) is one of the highly innovative industries with a short span of product life. This is sometimes called an industry of destructive innovation. This is also a competitive industry focusing on both costs and differentiation.

BRAIN is one global brands in the PC industry with more than four decades of operations. However, the company was facing many issues simultaneously. In 2020, it was under pressure to abandon its tablet computer segment and was struggling with a decision about whether to exit from the personal computer business altogether which has been generating about \$50 billion annually. It also had a new CEO, a software engineer, who was intent on making a high-impact acquisition that would transform the firm from being primarily a hardware manufacturer into a fast-growing software firm. The board of the firm is also reconstituted with a new chairman, who was a software specialist.

As part of his original intention, the newly hired CEO had proposed buying two mid-sized software companies, but both deals fell through. The first was nixed by the board's finance committee, and the second fell apart during negotiations over price.

In 2021, the CEO proposed looking at Galaxy, a Nordic company that makes software firms use to search for information in text files, video files, and other corporate documents. The Chairman of the board was enthusiastic about the idea. When the CEO brought the proposal to the board members in July 2021, half of them were already busy analyzing the decision to shut down the PC business, so only half of the board evaluated the acquisition proposal. The board approved a price for Galaxy that was about 35% premium over its market value, which was already high at about 10 times its operating profit. BRAIN announced the acquisition in December 2022. On the same day, it announced it would abandon its tablet computer and was considering exiting the PC industry. The price of the acquisition was \$9.5 billion. Notably, ASSURE, another potential buyer of Galaxy had already considered acquiring Galaxy and decided that even if the numbers Galaxy was presenting were taken at face value, it was not worth buying even at a \$5-billion price tag. Following the acquisition announcement of Galaxy, the next day BRAIN's stock fell by 18%.

In the days following the announcement, BRAIN's stock continued to decline, and backlash from shareholders and others in the investment community was scathing. The Chairman of the company asked BRAIN's advisers if the company could back out of the deal and was told that, according to international takeover rules, backing out was only possible if BRAIN could show that Galaxy engaged in financial impropriety. BRAIN began frantically examining the financials of Galaxy, hoping for a way to get out of the deal. Amid harsh disapproval from BRAIN's largest stockholders and other senior executives within the firm, BRAIN fired the CEO within less than a month after the acquisition's announcement, and only 11 months into his tenure as CEO.

By May 2023, it was clear that Galaxy was not going to hit its revenue targets. In December 2022, BRAIN wrote down \$5.8 billion of the acquisition, essentially admitting that the company was worth significantly less than it had paid for it. Then the finger-pointing began in earnest. BRAIN attributed more than \$3.5 billion of the write-down to a "willful effort on behalf of certain former Galaxy employees to inflate the underlying financial metrics of the company to mislead investors and potential buyers. These misrepresentations and lack of disclosure severely impacted management's ability to fairly value Galaxy at the time of the deal.

The former board of Galaxy denied the charges, arguing that auditors from Deloitte had approved its financial statements, and pointing out that the firm followed home country accounting guidelines, which differ in some ways from rules in other countries. Instead, they accused BRAIN of mismanaging the acquisition and argued whether the write-off decision of BRAIN was connected with its own operational and financial mismanagement of Galaxy during the post-acquisition period. They also questioned why the senior management team of BRAIN waited about six months to disclose any material events related to the acquisition.

Many shareholders and analysts also pointed their fingers at BRAIN, claiming that the deal was shockingly overpriced. The Chairman of the board was found unfamiliar with any cash flow analysis done for the acquisition. He noted instead that he believed the price was fair because Galaxy was unique and critical to BRAIN's strategic vision. There was also debate among the key people of the BRAIN. The chief financial officer had spoken out against the deal before it transpired, arguing that it was not in the best interests of the shareholders and that BRAIN could not afford it. Furthermore, outside auditors for GALAXY informed BRAIN that an executive at GALAXY had raised allegations of improper accounting at the firm, but a review had deemed the allegations baseless, and they were never passed on to BRAIN's board or CEO. In the third quarter of after acquisition, BRAIN lost \$2.9

billion, largely because of the GLAXY mess. Afterwards, the Chairman of the board stepped down but he continued as a board member.

Requirements:

- a) Why do you think the new CEO of the BRAIN was so eager to make an acquisition? 2
- b) Why do most acquisitions result in paying a premium over the market price? 2
- c) Was it worth acquiring GALAXY at a 35% premium? Evaluate the role of the BRAIN's board in acquiring the GALAXY at 35%. 4
- d) Is there anything BRAIN and Galaxy could have done differently to avoid the public backlash and share price drop the company suffered? 4

4. Star Communications is a wireless service provider in Bangladesh. It started its journey in the late 1990s as a joint venture company that later went into public offering. It is the largest wireless service provider in the country with more than one-third market share in a competitive market. Services of the Star Communications have replaced conventional internet service providers in the market. The company continues to offer wider service packages to micro users and complete solutions to commercial users. In both segments, the market continues to rise. Another notable fact about the company is its lowest churn rate in the industry. Customer churn rate refers to the number of subscribers who leave a service within a given period. Churn is important because reduces promotional costs and negative word-of-mouth marketing. It also allows to recovery of fixed costs and increases profitability because a high churn rate causes low profitability. A low churn rate has enabled the company to grow its subscriber base faster than its rivals, which allows the company to better achieve economies of scale by spreading the fixed costs of building a wireless network over a larger customer base. The low customer churn at Star Communications is the result of several factors.

First, it has the most extensive network in the country, blanketing more than 90% of the nation. This means fewer dead zones as compared to its rivals. For years, Star Communications communicated its coverage and quality advantage to customers with its aggressive marketing strategies.

Second, the company has invested aggressively in high-speed wireless networks, including most recently 4G technology, enabling rapid download rates on smartphones. Alongside this, Star Communications has a high-speed, fiber-optic backbone for transporting data between cell towers. Star Communications has invested about \$50 billion in its wireless and fiber-optic network since 2010. The company also looks set to be a leader in 5G wireless networks, that will have download rates up to 1,000 times faster than 4G networks. For customers, this means a high-quality user experience when accessing data such as streaming video on their devices.

Another key driver of reduced customer churn is customer care. Star Communications has invested heavily in its customer care operation. Its automated software programs analyze the call habits of individual customers. Using that information, Star Communications representatives will contact customers and suggest alternative plans that might better suit their needs.

The company has also successfully integrated its wireless purchase options with fintech service providers to facilitate the convenient purchase of wireless services irrespective of amount and time. Integration of with mobile financial services keeps customer defection rate low as well as can easily attract new customers. The new technology infrastructure allows Star Communications to offer customized service packages that increase use rates and customer satisfaction. The goal is to anticipate customer needs and proactively satisfy them, rather than have the customer take the initiative and possibly switch to another service provider.

Star Communications has been ranked as the best in the industry in terms of overall network performance. The ranking was based on several factors, including dropped calls, late text message notifications, Web connection errors, and slow download rates. Again, Star Communications had the best score in the industry, reflecting faster service and greater satisfaction with the efficiency with which customer service reps resolved problems. This advantage has not only enabled Star Communications to reduce its churn rate but has also supported higher service prices than its rivals. In the face of intense competition for customers, Star Communications charges 10 to 15% more than other wireless providers.

In addition to its market-leading customer churn numbers, Star Communications has an advantage based on economies of scale. It can spread its massive, fixed costs for infrastructure over the largest subscriber base in the industry. Estimates suggest that Star Communications' cost of service per connection runs at about Tk. 10 per month, while other operators spend nearly Tk. 15 per connection. Star Communications is continuing to drive down network delivery costs through network virtualization and higher digital customer service engagement.

Nonetheless, dropped calls have become a concern for the company. Both urban and rural customers are increasingly experiencing dropped calls and poor networks that reduce customer satisfaction. As a result, the brand image might be a challenge to prospective users, and this can give rise to a customer churn rate. Competitors might utilize this growing weakness of Star Communications.

Requirements:

- a) Identify the underlying resources that give Star Communications a strong competitive position in the industry. 3
- b) Explain how these resources enable Star Communications to improve one or more of the following building blocks of competitive advantage: efficiency, quality, customer responsiveness, and innovation. 5
- c) What must Star Communications do to maintain its competitive advantage going forward in the increasingly competitive wireless telecommunications industry? 4

5. Digital Dhaka Ltd has agreed to work with Pixel Dhaka Ltd to develop a new musical platform for the Dhaka Musician Association. On 31 December 2023, the companies established a new entity called Blossom Ltd with equal shareholdings and share in profit. Digital Dhaka Ltd has contributed its own intellectual property in the form of employee expertise, cryptocurrency with a carrying amount of BDT 6 million, which now has a fair value of BDT 8 million and an office building with a carrying amount of BDT 12 million with a fair value of BDT 20 million. The cryptocurrency has been recorded at cost in Digital Dhaka Ltd.'s financial statements.

Pixel Dhaka Ltd has contributed the technology and marketing expertise required for the smooth operations of Blossom Ltd. The board of Blossom Ltd will be comprised of directors appointed equally by Digital Dhaka Ltd and Pixel Dhaka Ltd. Decisions are made by a unanimous vote.

Requirements:

In accordance with the provisions of relevant International Financial Reporting Standards:

- a) Advise on the classification of the investment which Digital Dhaka Ltd has in Blossom Ltd. 5
- b) Advise on the de-recognition of the assets exchanged for the investment in Blossom Ltd and any resulting gain/loss on disposal in the financial statements of Digital Dhaka Ltd on 31 December 2023. 5
- c) Advise whether cryptocurrency should be classified as a financial asset or an intangible asset. 5

6. You are the Audit Manager on the audit of the financial statements of Pragati Limited for the year ended 31 March 2023. You have just had a pre-audit meeting with the management of Pragati Limited at which the recently recruited Chief Financial Officer (CFO) expressed concern over the operating expenses of the company.

The company has had no CFO for the past 6 months since the sudden resignation of the former CFO. The new CFO is concerned that the audit fee has been increasing over the past 3 years to the level where it is now 4% of the operating expenses. He has strongly recommended a reduction in the audit fee because of increased computerization of the company operations and that the firm could take advantage of big data and data analytics in order to cut its own costs, the benefits of which should be passed onto the clients.

Pragati Limited has been manufacturing a particular brand of motor vehicles for the past 20 years and the target market has been the Government and corporate companies. Private individual customers make 5% of the total customers of Pragati Limited. The company has been facing stiff competition in the last 3 years with the coming onto the market of a leading car importer who brings in a wide range of reconditioned cars for sale from Japan.

There has been a noted decrease in revenue in the current year attributed to some corporate companies switching suppliers of motor vehicles to the new entrant. In view of the poor economic situation in the

country and the coming in of a new Government, the Government has undertaken austerity measures with a view to cut down on cost of running Government. One of the measures taken by the Government is that it will no longer buy new off-road vehicles and opt for smaller vehicles which are much cheaper. Further, the Government in the year under review lifted the ban on the importation of used cars from Japan. With reduced budget allocations, most Government departments and ministries will opt to import cheap used cars rather than buy brand new vehicles.

Due to increased operational costs, Pragati Limited recently imported components for its motor vehicles from cheaper sources in the Far East. There has been a noted increase in customer complaints due to high incidences of breakdowns arising from poor quality components.

In the current year, an investigation undertaken arising from a road accident involving a vehicle manufactured by Pragati Limited revealed that a key component of the motor vehicle suspension did not meet the minimum standards required thereby increasing the risk of accidents to motorists. The department responsible for quality control demanded that all vehicles that were fitted with the substandard component should be recalled and the part replaced. At the period end, only 20% of the vehicles with the substandard component had been returned for replacement of the part. The conditions of sale of the vehicles by Pragati Limited is that the company gives a 2year warranty for all vehicles during which period free maintenance is undertaken by the company. The financial statements of Pragati Limited have an amount of TK1.2 million as warranty provision.

At a recent regional meeting for Heads of States, the urgency of migrating from carbon fuel driven vehicles to electric cars was discussed. It was agreed at this meeting that all countries should pass the necessary legislation giving a timeframe within which car manufacturers would migrate from manufacturing carbon fuel driven vehicles to electric vehicles. It was emphasized that the region must not be left behind in the need to protect the environment and must avoid a transport crisis which could result due to non-migration to electric vehicles.

In the year under review, Pragati Limited spent significant amounts of money on research and development with a view to develop vehicles that will be compliant with new requirements. AK Chowdhury is a specialist that was recruited 3 years ago and he heads the research department. There is increased demand for skilled labor in electric vehicles and AK Chowdhury has demanded an increase in his salary and significantly improved conditions of service, failure to which he would resign from employment.

During the year, Pragati Limited engaged Borak Real Estate Ltd to carry out a revaluation of its two manufacturing factory buildings.

1. Factory one was revalued for the first time, 2 years ago and there was a revaluation loss of TK1.3 million which was charged to the profit or loss account. The current year revaluation shows a revaluation surplus of TK1.9 million.
2. Factory two is being revalued for the first time in the current year resulting in a revaluation surplus of TK1.1 million.

The results of the current year revaluations have been incorporated in the financial statements.

You are leading a team of four auditors to carry out the audit of the financial statements of Pragati Limited. In addition to performing substantive audit procedures on all material amounts, you wish to place reliance on internal controls in designing the nature and extent of further audit procedures.

Requirements:

- a) Discuss the argument by the Chief Financial Officer (CFO) that the audit fee should be reduced in view of the advantage of big data and data analytics that the firm can take advantage of. 3
- b) Explain the impact of big data and data analytics on sampling risk. 3
- c) Identify and explain five business risks in Pragati Limited. 5
- d) Identify and explain five audit risks in the audit of the financial statements of Pragati Limited and suggest suitable safeguards that should be applied. 5

7. NewGen is a global giant automobile brand that makes cars for diverse market segments. Headquartered in Europe, NewGen successfully outperformed in North America and Europe for many decades and expanded its success in the recent decade in emerging market of China by surpassing other dominant brands in the industry including Toyota, Ford, and General Motors. The company earned a reputation as it was one of the first manufacturers that adopted ISO 14001 to signify its commitment to environmental protection. The company was keenly engaged in community development activities, quality management programs, and fostering the achievement of many sustainable development goals. It also undertook innovation projects for the development of cars with less carbon emissions. Its multifarious actions and explicit initiatives for the promotion of people and the planet made it a brand of preference by global consumers.

However, the decades-long name and fame of the company tarnished in early 2020 when it was charged with multiple violations and fraudulent actions in North American markets by defrauding the importing country government, ignoring environmental regulations and import regulations. Being caught in red-handed, it agreed to pay about \$ 3 billion in criminal charges. There were also many indirect payments like legal fees, product withdrawal costs, and replacement costs. Apart from the financial loss, the scam tarnished the company's image and trust which has emerged as a major stumbling block in building business relationships globally.

The company utilized technological breakthroughs to shape its success. In the same way, technology was the source of its unethical and illegal conduct. In some European markets, it was detected that vehicles did not match emission tests on the road as with test reports in the lab. The result was then provided to the State Environmental Protection Agency which confronted the automaker with evidence. In the investigation process, the automaker admitted its hidden technology 'defeat device' that was used to modify emission levels during testing so that it would meet the emission standards. As a result, during the testing at the lab, the software kept the emission levels low eventually reaching to peak as high as 20 times more than the allowable limit of emissions. With this confessional statement, the claim of producing environment-friendly cars was dismissed. In the wake of this scandal, the CEO resigned though he claimed that he was unaware of this fraud. However, a later investigation found that it was a lie from the CEO. Such fraud not only violates ethical standards but also laws and regulations. The CEO and four members of his team were charged with conspiracy, unfair competition, embezzlement, tax evasion, and giving false witness. The company agreed to pay more than \$30 billion to compensate consumers affected by the defeat devices, which included retrofitting and buying back impacted vehicles. Those who were involved or were responsible for the defeat device's installation, have faced fines and prison time.

The post-scam investigation also detected that the CEO of NewGen was aware of the emissions test result manipulation efforts a few years before it came to the surface. Therefore, he was accused as one of the key planners of the scandal. The investigation team found evidence of internal communication and meetings between the CEO and other engineers about the hiding of emission status. Even they were aware of possible charges of violations in the future. Nonetheless, the team decided to continue its practices keeping the information hidden.

Another investigation by the SEC disclosed that there have been more allegations against the company and its CEO who defrauded its investors while selling bonds by making false and misleading financial positions to sell bonds at inflated prices. They conveyed misleading statements to government regulators, underwriters, and consumers about the quality of their automobiles and their environmental compliance.

Requirements:

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| a) How did the culture of NewGen create the ethical scandal? | 5 |
| b) While NewGen claimed to support ethics and sustainability, how can it recover from this ethical disaster? | 5 |

---The End---