CORPORATE REPORTING

May - 2026

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. You have recently been appointed as financial reporting consultant at Daisy Limited (Daisy) to help its management in preparing consolidated financial statements for the year ended 31 March 2026. Daisy is a listed company and a premier food commodity and Consumer Packaged Goods (CPG) manufacturer in Bangladesh since 2000. The company focuses on producing and selling daily essential food products. Lily Staples Limited (Lily) and Tulip Bakery Limited (Tulip) are two subsidiaries of Daisy.

   You have identified following information relevant for consolidation purposes:

   - Daisy established Lily on 1 January 2006 which later became a strategically important Business Unit. As part of a business restructuring, Daisy has decided to spin off Lily by distributing Lily's shares pro-rata basis to Daisy's current shareholders. Following regulatory approval, the spin-off scheduled for 31 March 2026 when Lily will become an independent listed entity with net assets valued at BDT 1,250,000,000.
   - Daisy acquired 45% share of Tulip on 01 April 2016 for BDT 70,000,000 when it had retained earnings of BDT 124,000,000 and no reserve. On 01 June 2025 Daisy acquired 35% more shares of Tulip for BDT 213,710,000 when it had retained earnings of BDT 358,142,493 and reserves of BDT 73,488,000.
   - During the year Daisy purchase inventory of BDT 850,000,000 and BDT 1,450,000,000 from Lily and Tulip respectively. At the end of the year 15% of these inventories remained unsold at Daisy's warehouse. Lily and Tulip earned 15% and 5% margin respectively from these transactions.
   - During the year Daisy performed various management functions on behalf of Lily and Tulip. Accordingly, it invoiced expense reimbursements to Lily and Tulip. At the year end, Daisy's invoice to Tulip for BDT 43,355,044 remains outstanding.
   - On 1 January 2026, Tulip purchased a machine from Daisy for BDT 2,000,000 on credit, this is recognized within trade payable which is repayable on demand with 10% annual simple interest. No payment was made by year-end, and Tulip recognized the accrued interest as a financing expense. Daisy purchased the machine on 1 January 2025 for BDT 2,000,000 with a five-year useful life but never used it due to a change in business plans. It was sold to Tulip in near-new condition, and Tulip recorded it with a full five-year useful life. Both companies use straight-line depreciation.

   You have received following financial statements for the year ended on 31 March 2026.

Statement of Profit or Loss and Other Comprehensive Income
For the year ended 31 March 2026

	Daisy	Lily	Tulip
Revenue	15,691,732,595	1,061,621,337	2,400,058,359
Cost of sales	(9,813,029,954)	(862,281,224)	(2,266,864,780)
Gross profit	**5,878,702,641**	**199,340,113**	**133,193,579**
Administrative and selling expenses	(4,119,510,475)	(107,232,621)	(98,512,957)
Other income	477,733,129	3,863,560	1,276,954
Operating profit	**2,236,925,295**	**95,971,052**	**35,957,576**
Net finance costs	(380,794,780)	50,590,534	23,334,081
Profit before contribution to WPPF	**1,856,130,515**	**146,561,586**	**59,291,657**
Contribution to WPPF	(92,806,526)	(7,328,079)	(2,964,583)
Profit before tax	**1,763,323,989**	**139,233,507**	**56,327,074**
Income tax expense	(403,854,982)	(38,242,284)	(24,662,975)
Profit after tax	**1,359,469,007**	**100,991,223**	**31,664,099**
Other comprehensive Income (net of tax)	371,567,955	16,082,272	58,912,650
Total Comprehensive Income	**1,731,036,962**	**117,073,495**	**90,576,749**

Statement of Financial Position
As at 31 March 2026

	Daisy	Lily	Tulip
Assets			
Non-current assets			
Property, plant and equipment	6,530,446,751	429,168,919	307,662,059
Investments	1,772,951,882	4,556,000	5,120,464
Right-of-use assets	228,715,055	64,375,338	-
Capital Work in progress	19,870,477	105,621,840	643,807
Intangible assets	3,545,556	22,587,838	41,953,917
	8,555,529,721	**626,309,935**	**355,380,247**
Current assets			
Inventories	3,243,594,681	227,803,558	144,298,921
Trade receivables	1,579,347,291	17,641,249	52,129,761
Other receivables	237,390,191	1,504,027	77,010
Inter-company receivables	43,355,044	604,179,882	798,866,040
Advances, deposits and prepayments	955,613,842	43,689,371	22,193,815
Cash and cash equivalents	523,655,688	6,759,286	14,629,897
	6,582,956,737	**901,577,373**	**1,032,195,444**
Total assets	**15,138,486,458**	**1,527,887,308**	**1,387,575,691**
Equity			
Share capital	454,000,000	102,000,000	13,600,000
Reserves	2,029,920,148	95,107,485	132,400,650
Retained earnings	3,323,767,682	746,619,040	381,890,567
	5,807,687,830	**943,726,525**	**527,891,217**
Non-current liabilities			
Long-term bank loans	2,248,580,433	10,568,532	378,243,942
Employee benefits	599,174,146	14,714,351	8,683,947
Lease liabilities	165,022,792	51,500,270	-
Deferred tax liabilities	76,513,966	55,287,342	34,792,741
	3,089,291,337	**132,070,495**	**421,720,630**
Current liabilities			
Bank overdraft	1,217,600,734	35,306,005	25,716,309
Loans and borrowings	741,634,480	255,192,040	64,528,069
Lease liabilities-current portion	67,655,863	12,875,068	-
Trade payables	1,063,089,852	55,508,843	184,987,686
Other payables	1,748,480,440	93,208,332	119,376,736
Inter-company payables	1,403,045,922	-	43,355,044
	6,241,507,291	**452,090,288**	**437,963,844**
Total liabilities	**9,330,798,628**	**584,160,783**	**859,684,474**
Total equity and liabilities	**15,138,486,458**	**1,527,887,308**	**1,387,575,691**

Requirement:

Prepare a Consolidated Statement of Financial Position and Consolidated Statement of profit or loss for Daisy Limited as at and for the year ended on 31 March 2026. 20

2. You are a professional accountant in practice. Some of your clients have separately requested for services to provide them with solutions for accounting problems with proper explanations, numbers, and journal entries. They want to use your note for future references for any repeat issues. The relevant financial year is July-June 2025 for all of these clients.

   i) **Impairment and revaluation surplus:** ABC Company Ltd. has an office building, which is carried at a revalued amount of Tk. 20.00 million. The Revaluation Surplus in Equity for this specific building is Tk. 3.50 million. Due to a property market crash in recent time in the area, the recoverable amount is now Tk. 15.00 million. The Company is trying to find out how to record the impairment will be recorded.

   ii) **Government Grant at Nominal Amount:** On 1 July 2024, the Government of Bangladesh granted a 10-year landing right at Shahjalal International Airport to a new private airline named Festoona Airline. The fair value of this right is BDT 10.0 million, but the airline acquired it by paying a nominal processing fee of BDT 0.5 million. The airline chose to record the asset initially at fair value as permitted by IAS 38. The organisation is trying to record the initial recognition, the year-end amortization, government grant/deferred income and other income for the year ended on 30 June 2025.

   iii) **Onerous Contract (Direct Cost Method):** Alpha Manufacturing entered into a non-cancellable contract to supply specialized parts for Tk. 2,000,000. Due to a surge in raw material prices, the incremental costs to fulfil the contract are Tk. 1,800,000. Additionally, the company must allocate Tk. 400,000 of factory overheads (depreciation and supervisor salaries) specifically related to the contract's fulfilment. The penalty for terminating the contract is Tk. 500,000. The Company is trying to make the calculation for the recognition of provision for the year ended on 30 June 2025.

   iv) **Right of Return:** Speed Master is a car and bike dealer. On 01 September 2025, it sold 5 motorbikes to a pharmaceutical Company for BDT 200,000 each. The cost per bike for Speed Master is BDT 120,000. The contract allows the buyer to return any unused bike within 30 days for a full refund. The dealer expects, based on past data, that 1 bike (20%) will be returned. The Company is trying to figure out the recognition of revenue, relevant cost, and right to return.

   v) **Valuation using Discounted Cash Flows under IAS 41 – Agriculture:** Sonar Bangla Dairy Ltd. possesses a unique high-yield breed of imported cows. As of 30 June 2025, there is no active market in Bangladesh for this specific high-yield breed. The Farm expects each cow to produce net cash inflows of Tk. 50,000 at the end of 2026 and Tk. 60,000 at the end of 2027 (point of disposal). The applicable risk-adjusted discount rate is 10%. The Company is trying to find out the fair value of one cow for the year ended on 30 June 2025.

   Requirements for each issue:

   a) Explain the contexts for the recognition and measurement for the year ended on 30 June 2025. Show your calculations. 12

   b) Provide the journal entry to record the above. 8

3. Karnaphuli Consumer PLC (KCP) is a publicly listed national retail chain. The Chief Financial Officer (CFO) has provided the draft, unadjusted financial highlights for the year ended 30 June 2025. The CEO's lucrative cash bonus is strictly tied to achieving an Operating Profit Margin of 18% and a Return on Capital Employed (ROCE) of 20%.

   Draft Financial Highlights (Unadjusted)

Statement of Profit or Loss	**BDT (m)**	**Balance Sheet Extract**	**BDT (m)**
Revenue	5,000	Non-Current Assets	3,500
Cost of Sales	(3,000)	Inventory	1,000
Gross Profit	**2,000**	Trade Receivables	1,200
Operating Expenses	(1,050)	Cash and Cash Equivalents	300
Operating Profit (PBIT)	**950**	**Total Assets**	**6,000**
Finance Costs	(150)	Total Equity	3,500
Profit Before Tax (PBT)	**800**	Long-Term Debt	1,500
Tax Expense (20%)	(160)	Trade Payables	800
Net Profit	**640**	Short-Term Debt	200
		Total Equity & Liabilities	**6,000**

Audit Findings (Five Required Adjustments)

1. Revenue & Right of Return (IFRS 15)
KCP introduced a new "30-day no-questions-asked" return policy. During June 2025, KCP sold goods for BDT 200 million (Cost: BDT 120 million). Based on statistical data, KCP expects a 10% return rate for these specific sales. The CFO recognized the full BDT 200 million as revenue and expensed the full BDT 120 million to cost of sales, ignoring the right of return.

2. Lease Modification (IFRS 16)
On 30 June 2025, KCP renegotiated a warehouse lease, reducing the leased floor space by 50%. The pre-modification Right-of-Use (ROU) asset was BDT 80 million, and the Lease Liability was BDT 100 million. The CFO left the balances unchanged, stating the modification applies to next year.

3. Subsidized Government Loan (IAS 20 / IFRS 9)
On 1 July 2024, KCP received a BDT 500 million, 3-year term loan from Bangladesh Bank under a special green retail initiative at 2% interest (market rate: 10%). The CFO recorded the liability at BDT 500 million and recognized only the BDT 10 million cash interest paid as finance cost. (Discount factors at 10%: Yr 1 = 0.909, Yr 2 = 0.826, Yr 3 = 0.751; Annuity factor = 2.486).

4. Share-Based Payments Cancellation (IFRS 2)
Due to poor performance, KCP entirely cancelled an executive equity-settled share option scheme on 1 January 2025, replacing it with a cash bonus plan. At the cancellation date, the unrecognized fair value of the unvested options was BDT 45 million. The CFO did not record any expense, arguing the options were forfeited.

5. Suspension of Capitalization (IAS 23)
KCP is constructing a new distribution hub, funded by a specific BDT 200 million loan at 12% interest. The CFO capitalized the full annual interest (BDT 24 million) into PPE. However, construction was completely suspended for 4 months (August to November 2024) due to severe nationwide labor unrest and curfews.

Requirements:

a) Construct the Adjusted Statement of Profit or Loss and calculate the Adjusted Balance Sheet for the year ended 30 June 2025. Detail the precise IFRS theoretical rationale and the numerical impact for each of the five adjustments. (Apply the Finance Act 2025 corporate tax rate of 20% for listed companies issuing >10% via IPO to the final adjusted PBT). 10

b) Make an extensive financial analysis on profitability, liquidity, solvency and productivity. Provide an extended, critical analysis of the entity's performance across these four pillars. Identify how the CFO's original accounting treatments systematically manipulated specific ratios to artificially trigger the CEO's performance bonuses, and provide a concluding summary with actionable recommendations for the Board of Directors. 10

4. a) As the audit manager of your Firm, you are currently engaged in the audit of financial statements of Galaxy Private Limited. The financial year is July-June 2025. At the mid-point of the audit works, you sat with your Team for a review of works they have done so far. You found the following issues concerning the audit:

The Company uses an accounting software. As part of audit verification, your Team member inquired about an adjustment of receivable. He informed you that the accounts officer instantly deleted the transaction and said that it was a mistake to pass that entry. Later on, when you inquired about it, the finance manager said, *"… when we make some errors, we delete those entries….and no…you won't find any trace of these deletions in the software….and why bother with that…these were just mistakes, we all knew!"*

Later, you sat with the finance manager and requested him to download the Trial Balance from the software in front of you and provide you the same. He agreed and did it. With this freshly downloaded data in a spreadsheet, you sat with your Team and asked them to show you the version the Company provided to them earlier. You found significant differences between the two versions on different line items in the Trial Balance. Your Team member informed you that the accounts manager did not inform them about any revision of the Trail Balance. They also told you, *"… they sent it over email in a spreadsheet… here is the proof …. as they mailed the Trail Balance in a spreadsheet over email, this is authentic and there's no reason to question it further."*

While reviewing the compliances for tax deduction at source against payments, you found that there were tax deductions at wrong rates by the Company. They did not consider that a latest SRO required a revision to a new rate of 10% instead of the old 7.5%. This relates to significant value as each transaction is of high value and recurring in nature. However, your Team member did not flag it in the working papers. You asked him about it and he said, *"I thought it would be better to check the rates with an AI application and I used this very popular AI application. The app gave 7.5% rate for deduction, same as the client used, and I was satisfied…. Afterall, AI can't be wrong, right?"*

You found that the Company incurred Tk. 500,000 to develop a website and concluded that they capitalised it under IAS 38 - Intangible Assets. Your Team member showed the relevant documents and explained that Tk. 100,000 was for the "Planning Stage" (feasibility studies) and BDT 400,000 was for the "Application and Infrastructure Development" (graphic design and hardware setup). The website is strictly for promoting and advertising the company's own products. Your Team member said, *"It is alright to capitalise this as the website showcases the products and will generate sales directly. Is there any reason why you are not agreeing to this?"*

Requirement:
For each scenario, explain the deviations in audit approach, professional standpoint in audit, accounting issue, including suggestion for reasonable approaches to audit works. 10

b) You are the Audit Manager of Salahuddin Tarafder & Co. You are responsible for the statutory audit of Modhumoti Manufacturing Ltd., a large garment accessories manufacturer in Gazipur, for the year ended 30 June 2025. To increase efficiency, the engagement partner encouraged the team to use a new "Audit-AI Platform" for the first time. The audit team has three seniors and several juniors. As a common trend among the youths these days, they are already habituated in using AI applications for many of their everyday personal purposes. During your managerial review, you discovered the following situations:

Inventory Valuation and NRV:
The Team fed the AI tool with historical sales data and current inventory lists. It automatically calculated the Net Realizable Value (NRV) and flagged only 2% of stock as "obsolete." The audit team accepted this. You are aware from the entrance meeting earlier that there was a recent fire incident in Warehouse - C that damaged 15% of the specialized raw materials. You asked your team whether they have made any physical verification. The team replied, *"This AI tool is highly sophisticated and designed specifically for audits, so we accepted the output from it. We're sure it has considered the fire incident."*

Taxation:
The team used a generative AI bot to interpret the Income Tax Act 2023. The AI suggested that a specific government grant received by the Company was "Non-Taxable Income." Your Team applied this logic, resulting in a significant reduction in the Tax Liability. As a committed professional Manager, you keep yourself updated and keep track of all the latest updates for taxation, audit, accounting etc. From your own resources, you found that the AI missed a specific SRO (Statutory Regulatory Order) that actually categorizes this specific grant as "Business Income" for manufacturing entities.

Internal Control Assessment:
To test "Procurement-to-Pay" controls, your team used AI to perform "Full Population Testing." The AI reported a 0% error rate in authorization. The team concluded internal controls were "Operating Effectively" and reduced substantive testing. When you inquired if they had done any walkthrough test on a sample basis, your team replied that they did not do that as they relied on AI driven results. You instructed them to make a walkthrough test now. Your Team found that the AI was only programmed to check for a "digital signature" field; it did not verify that the digital signatures or "user IDs" were shared among the staffs in violation of company policy. So, AI did not report any error.

Revenue Recognition:
Your team fed AI with 50,000 invoices. The AI application analysed those and matched them with bank statements. It concluded that revenue was 100% accurate. The team did not perform any external confirmations (ISA 505) or cut-off tests, trusting the AI's "data-matching" capability. They ignored the fact that the Company had started "Bill-and-Hold" arrangements in June 2025 which did not meet the criteria for revenue recognition under IFRS 15.

Allocation of Transaction Price:
The AI tool was used to determine the Stand-Alone Selling Price (SSP) for the hardware and the service component. The tool used "Global Market Averages" scraped from the web. When you inquired about it, they said that they accepted these values and concluded that revenue allocation was correct. They ignored the fact that in the Bangladesh market, the local SSP for maintenance services is significantly higher due to infrastructure costs, leading to a potential front-loading of revenue in the local accounts.

Your Partner wants your report on the issues:
After your discussion with your Partner, he said, *"This is not acceptable. I want you to write me item wise responses for each of the cases you found out. You must explain to me the professional breaches that your audit Team has committed. You must tell me the reasons and impacts of these breaches. I want you to suggest me for improvements in the audit procedure for the Firm."*

Requirement:
Write a report so that you can respond to your Partner's requirement. 10

5. a) Shapla Auto Parts Limited ("Shapla") is an automotive parts manufacturing company that has been operating in Bangladesh since January 2015. As a subsidiary of a global company, Shapla benefits from advanced technological support and technical expertise from its parent organization. Over the years, Shapla has been manufacturing high-quality parts for cars and other machinery, meeting the needs of customers who seek reliable and genuine components. Its products have gained strong acceptance in the local market, as customers can purchase authentic automotive parts at affordable prices without the need to import them or wait for long delivery periods.

Your firm has been appointed as the auditor of the Company for the year ended 31 December 2025 and you are the engagement partner. This is the first year of your audit and you recently had an introductory and audit kick-off meeting with Shapla's management. They informed you that the Board of Directors has approved the voluntary adoption of IFRS S1 and IFRS S2, as required by the parent company. Management explained that this reflects the Group's commitment to including sustainability matters in corporate reporting. However, they are unsure what sustainability-related disclosures should be included in the Company's financial statements and have requested your assistance.

During the overall review of the financial statements, one of your team members identified that Shapla had recognized a significant revaluation gain on its land. The gain was presented in other comprehensive income. However, in the statement of changes in equity, it was included within retained earnings instead of being shown separately as a revaluation surplus. There was no separate line for revaluation surplus in the equity section. It was also noted that cash and stock dividends were declared at the last AGM based on the retained earnings reported in the financial statements.

Near to the year-end, your team performed a surprise stock take which revealed that large quantity of raw material has been received in the warehouse, but it has not been included in the inventory list. Management has informed the team that these raw materials have been received recently from a new vendor. Due to the year-end work pressure, formal agreements have not been signed with the new vendor. However, Shapla's head of procurement is a very close friend of owner of the vendor. With his help, Shapla informally agreed with the commercial terms and requested raw materials supply to ensure uninterrupted manufacturing of the auto parts. Accordingly, vendor supplied the materials. Management explains that invoicing is expected after yearend when the formal agreement is signed.

During the kick-off meeting, management informed you that Shapla pays management and technology fees to its parent company for technical support, manufacturing know-how, and management support. However, no formal agreement or written documentation exists to support these charges. Management explained that the fees are determined based on the Group's internal policy.

Requirements:
i) Identify and evaluate the risks of material misstatement arising from Shapla's operations, financial reporting practices, and overall governance environment. 5

ii) Design appropriate audit procedures to address each of the identified risks. 6

iii) Explain the key sustainability-related disclosure matters Shapla should consider under IFRS S1 and IFRS S2. 4

b) Apex Apparels Ltd (Apex) is a major export conglomerate and a highly lucrative client for your audit firm. You are the engagement partner finalizing the statutory audit for the year to be ended 30 June 2026.

Detailed Ethical Dilemma:
During the final review phase, your senior audit team discovered that Apex utilized a highly complex, aggressive offshore tax-avoidance scheme routed through a network of shell companies in zero-tax jurisdictions. The scheme deliberately mischaracterizes domestic manufacturing profits as offshore intellectual property royalties. Your tax experts confirm this scheme severely violates the substance of the Finance Act 2025 and constitutes tax evasion rather than legal tax planning.

Upon formally raising this issue in a closed-door meeting, the CFO of Apex became enraged. He explicitly threatened to immediately terminate the audit engagement, withhold all outstanding audit fees (amounting to BDT 15 million), and launch a public defamation lawsuit against your firm if you issue a qualified or adverse audit opinion regarding the tax liabilities.

Furthermore, upon returning to your office to consult with the firm's risk management department, a devastating internal check revealed a conflict of interest: the specific offshore tax routing scheme currently being scrutinized was originally designed, aggressively marketed, and implemented for Apex three years ago by the Tax Advisory division of your very own accounting firm, prior to your firm winning the statutory audit tender.

Requirement:
Describe the mandatory actions, escalations, and safeguards the audit firm must immediately implement in accordance with the Code of Ethics of the IFAC and the ICAB. Given the severity of the dual threats (Intimidation Threat and Self-Review Threat), critically evaluate whether resignation from the engagement is the only viable professional option, and detail the subsequent reporting responsibilities to regulatory bodies. 5

---The End---