The Institute of
Chartered Accountants
of Pakistan

Multi Subject Assessment Stage

4 December 2023
4 hours and 15 minutes – 100 marks

Financial Reporting and Assurance Professional Competence

CRN: | | | | | | |

Name: ______________________

INSTRUCTIONS

Please carefully read the following instructions:

1. You are required to access your answer working area by using your Student ID and Password as mentioned on your Admit Card.
2. The overall duration of the exam is 4 hours and 15 minutes, which includes the reading time and an extra 30 minutes of time that has been allocated due to the introduction of computer-based examinations, for the Winter 2023 examinations only.
3. All questions are compulsory.
4. Questions can be attempted in any sequence.
5. There is no specific time allocated for individual questions.
6. An auto-save function runs every minute. Further, your answers are saved automatically when you navigate between questions or click on the > **(NEXT)** or < **(BACK)** symbols.
7. Each question provides an answer area with a Rich Text Format (RTF) editor for writing your answers. Additionally, below the RTF editor, a spreadsheet is provided to facilitate examinees in doing rough calculations or other workings. **However, please note that any work performed in the spreadsheet will not be considered for marking. To ensure your work is considered, you must copy and paste it from the spreadsheet to the RTF editor.**
8. Work done in the spreadsheet of one question can also be copied into the RTF editor of the same or another question.
9. You may use Microsoft Office applications such as MS Word or MS Excel for rough working. However, please remember that any work performed in these applications cannot be copied into the examination software, and vice versa. Furthermore, any such work will not be uploaded with your exam for marking.
10. You may use pen and paper for rough work, but please note that pen and paper work should only be done on the last two pages of the question paper that are specifically allocated for this purpose. Remember that any rough work done on these pages will not be uploaded with your exam for marking.
11. In accordance with the open book policy of this paper, you are allowed to have a maximum of **FIVE** original books duly bound. Please ensure that the books or notes you bring are permissible under the open book policy. Keeping a book or notes that are not permissible will be considered a violation of the use of unfair means policy.
12. An external calculator can be used, provided it is included in the list of permissible calculators issued by ICAP.
13. During the exam, access to any website other than Assessment Master is strictly prohibited. Engaging in such activities will be considered a violation of the use of unfair means policy, leading to disciplinary action.

QUESTION 1

You are Fatima Dhillon, an audit senior at Malik Co., Chartered Accountants, and are involved in planning the year-end audit of Rawalpindi Industries Limited (RIL). RIL is a conglomerate that operates in a number of different industry sectors. It has a number of subsidiaries.

Your audit manager is Bashir Baqri and the audit partner is Robina Chaudhry. Ahead of the audit of RIL for the year ended 30 September 2023, you have been presented with the following information:

Appendix 1 provides background information on RIL.

Appendix 2 includes extracts from the draft consolidated financial statements of RIL for the year ended 30 September 2023.

Appendix 3 is an email from Ghulam Buttar, the group financial accountant at RIL, providing information on outstanding issues.

Appendix 4 contains an email from Robina Chaudhry, including information supplied by Arshad Tarkani, the finance director at RIL, about potential related party transactions.

Appendix 5 details about two professional and ethical issues.

Requirements

(a) Identify and explain the key audit risks arising from your review of the background information (**Appendix 1**) and the financial reporting issues outlined in the email (**Appendix 3**). **(13 marks)**

(b) Explain the correct financial reporting treatment for the financial reporting issues identified in **Appendix 3** and prepare journals for any necessary adjustments. **(20 marks)**

(c) Prepare briefing notes that identify which parties listed in **Appendix 4** are related to the RIL group and explain the disclosures required by IAS 24 *Related Party Disclosures*. **(05 marks)**

(d) Identify the audit procedures that Malik Co. should perform to obtain sufficient, appropriate audit evidence in relation to the disposal of Sacha Limited in the consolidated financial statements (**Appendix 1**). **(06 marks)**

(e) Discuss the professional and ethical issues raised in **Appendix 5** and recommend the appropriate action that Malik Co. should take. **(06 marks)**

Total: 50 marks

APPENDIX 1 – BACKGROUND INFORMATION

Rawalpindi Industries Limited (RIL) is a conglomerate that owns several subsidiaries and operates in a number of different sectors.

RIL has an interest in the following companies:

- **Nasihat Limited**
  Nasihat Limited is a petrochemicals company based in Algeria and is a subsidiary of RIL. 100% of the company was acquired on 1 October 2022. No goodwill arose from the acquisition. This is the first time RIL has made an international acquisition – previously, all subsidiaries of RIL have been based in Pakistan. Malik Co. does not have a branch in Algeria and will need to rely on a component auditor for the audit of Nasihat Limited. Work performed by Malik Co. at the interim audit identified Nasihat Limited as a significant component.

- **Hafiz Chemicals Limited**
  Hafiz Chemicals Limited (HCL) is a significant component of RIL and is involved in the production of chemicals. RIL owns all the shares in HCL. The year-end of HCL is 30 June, with the most recent audited financial statements having been prepared to a year-end date of 30 June 2023.

- **Aam Limited**
  Aam Limited (AL) is a producer of fertilisers and is a 100% owned subsidiary of RIL. On 15 October 2023, F&B Co., the largest customer of AL, went into liquidation. AL has a receivable of Rs. 450 million outstanding from F&B Co. at 30 September 2023.

- **Sacha Limited**
  On 30 September 2023, RIL sold Sacha Limited (SL), a 100% owned subsidiary, to another conglomerate. A profit on disposal of Rs. 2,750 million has been recorded in RIL's draft consolidated financial statements for the year ended 30 September 2023.

- **Baqri Appliances Limited**
  On 30 September 2023, RIL acquired 75% of the 10 million Rs. 10 shares of Baqri Appliances Limited (BAL).

Malik Co. performed interim audit procedures at RIL. These procedures found that internal controls to identify related parties and related party transactions at RIL are weak. There are numerous related party transactions at RIL.

APPENDIX 2 – EXTRACTS FROM DRAFT FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2023

Consolidated statement of profit or loss and other comprehensive income

	2023	2022
	----- Rs. in million -----	
Revenue	51,560	52,190
Cost of sales	(24,310)	(23,680)
Gross profit	**27,250**	**28,510**
Distribution and marketing costs	(12,670)	(13,450)
Administrative expenses	(10,860)	(10,160)
Other incomes	870	650
Gain on disposal of subsidiary	2,750	-
Operating profit	**7,340**	**5,550**
Finance costs	(630)	(780)
Profit before tax	**6,710**	**4,770**
Taxation	(1,250)	(840)
Profit for the year	**5,460**	**3,930**
Other comprehensive income **Items that may be reclassified subsequently to profit or loss**		
Exchange difference on translation	(110)	-
Total comprehensive income	**5,350**	**3,930**

Consolidated statement of changes in equity

	Ordinary share capital	Retained earnings	Other components of equity	Total
	------------------- Rs. in million -------------------			
At 1 October 2022	750	53,530	2,220	56,500
Acquisition of BAL	100	3,450	250	3,800
Total comprehensive income for the year	-	5,460	(110)	5,350
Recognition of share-based payments	-	-	230	230
Dividends paid	-	(5,000)	-	(5,000)
At 30 September 2023	**850**	**57,440**	**2,590**	**60,880**

Consolidated statement of financial position

	2023	2022
	----- Rs. in million -----	
Non-current assets		
Property, plant and equipment	37,600	38,580
Investment property	9,210	8,940
Intangible assets	6,540	6,770
Investment in BAL	1,280	-
Goodwill	5,490	6,320
	60,120	**60,610**
Current assets		
Inventories	1,960	1,980
Trade receivables	6,780	7,570
Other receivables	950	1,340
Cash	3,570	780
	13,260	**11,670**
Total assets	**73,380**	**72,280**
Equity		
Ordinary share capital (Rs. 10 each)	850	750
Other components of equity	2,590	2,220
Retained earnings	57,440	53,530
	60,880	**56,500**
Non-current liabilities		
Borrowings	4,450	8,210
Convertible loan	2,500	-
Deferred tax	1,820	2,300
	8,770	**10,510**
Current liabilities		
Trade payables	1,840	2,470
Other payables	890	1,980
Current taxes	1,000	820
	3,730	**5,270**
Total equity and liabilities	**73,380**	**72,280**

Extract from accounting policies

Property, plant and equipment is measured at cost less accumulated depreciation less accumulated impairment losses. Depreciation rates are:

Property	2% straight line
Fixtures and fittings	10% straight line
Plant and machinery	5% straight line
IT equipment	25% reducing balance
Motor vehicles	30% reducing balance

Investment property is measured using the fair value model, with any changes in fair value recognised in profit or loss.

Non-controlling interest is valued on the acquisition date at its fair value.

APPENDIX 3 – EMAIL FROM GROUP FINANCIAL ACCOUNTANT AT RIL

To: Fatima Dhillon
From: Ghulam Buttar
Date: 18 October 2023
Subject: RIL's draft financial statements

Hi Fatima,

As discussed with Bashir, I attach the RIL's draft financial statements for the year ended 30 September 2023 so that you can start planning your audit. I should make you aware that there are a few outstanding issues that we are still working on that are not reflected in the draft figures. These issues will, of course, be resolved before the audit starts.

I have outlined the outstanding issues to which I refer below for your information.

Kind regards,

Ghulam

Ghulam Buttar
Group financial accountant
Rawalpindi Industries Limited

Outstanding issues

(i) A convertible loan was issued by RIL on 1 April 2023, raising proceeds of Rs. 2,500 million. Transaction costs of Rs. 50 million were incurred and recognised in profit or loss as a finance cost. The loan pays interest annually in arrears at 6% and a similar instrument without the conversion option would attract an interest rate of 8%. We have determined the effective interest rate to be 8.6%. The loan is convertible into a fixed number of ordinary shares on 31 March 2027 or instead may be redeemed at par at the option of the loan holder. No accounting entries have been made other than to record proceeds with a corresponding entry to a convertible loan account. No elections or designations were made in respect of the convertible loan at initial recognition.

(ii) On 30 September 2023, RIL acquired 75% of the 10 million Rs. 10 shares of Baqri Appliances Limited (BAL) for cash consideration plus shares in RIL. This resulted in RIL gaining control. The terms of the share-for-share exchange provided BAL's owners with one share in RIL for every four shares in BAL. At the acquisition date, the market value of an RIL share was Rs. 900 and the market value of a BAL share was Rs. 404. The retained earnings of BAL at the acquisition date were Rs. 3,450 million and other components of equity were Rs. 250 million. The carrying amount of its identifiable net assets was equal to fair value.

At the acquisition date, RIL agreed to issue 1 million share options to BAL employees to replace the 1 million share options issued by BAL on 1 October 2021. Both the original and replacement share options vest on 30 September 2024, if the staff member remains employed at that date. The share options issued by BAL each had a fair value of Rs. 210 at 1 October 2021 and a fair value of Rs. 247.5 at 30 September 2023. The replacement share options issued by RIL had a total fair value of Rs. 290 million on 30 September 2023. The draft consolidated statement of financial position of RIL includes the assets, liabilities and equity of BAL within the relevant line items. Only the cash consideration paid to acquire the company has been recognised as an investment.

(iii) At the year end, RIL became aware that one of its manufacturing divisions, known as GT78, which it has identified as a cash-generating unit, may be impaired. An impairment review has been conducted and the value in use of the division is determined to be Rs. 2,950 million, whilst its fair value is Rs. 3,300 million. RIL does not intend to sell the division but understands that legal and marketing costs would amount to 10% of selling price if it did so. The carrying amount of the assets and liabilities of the division that are included in the determination of value in use and fair value are as follows:

	Rs. in million
Property, plant and equipment	2,760
Intangible assets	450
Inventories	220
Receivables	280
Other current assets	260
Payables	(170)
	3,800

Included within the carrying amount of property, plant and equipment is a machine with an individual carrying amount of Rs. 300 million. This has become damaged and engineers have advised that it cannot be repaired. The machine is not insured and the value in use and fair value of the division were determined after the damage occurred and so exclude the asset.

The division makes use of a centralised sales and marketing function that operates from a property with a carrying amount of Rs. 800 million. Two other divisions also use this function and the carrying amounts of their net assets are Rs. 6,750 million and Rs. 3,750 million. No entries have been made in the draft financial statements in respect of any impairment.

(iv) During the year, RIL made the decision to close an office in the centre of Hyderabad and transfer the staff to an existing administrative centre on the outskirts of the city. The property in the centre of Hyderabad had been purchased by RIL on 1 February 2014 at a cost of Rs. 420 million. RIL has retained the property and split it into four equal units to let to tenants under 12 month leases. RIL staff vacated the property on 1 March 2023 and the property became available to rent on 1 April 2023, after repair work was complete. By the year end, two of the units had been let to tenants. The fair values of the property are as follows:

	Rs. in million
1 October 2022	392
1 March 2023	400
1 April 2023	403
30 September 2023	420

The rental income has been correctly recognised on the straight-line basis. However, the property continues to be recognised and accounted for as property, plant and equipment in the draft financial statements.

APPENDIX 4 – EMAIL FROM ROBINA CHAUDHRY

To: Fatima Dhillon
From: Robina Chaudhry
Date: 21 October 2023
Subject: Related party disclosures

Hi Fatima,

In advance of the RIL audit, I asked Arshad Tarkhani to pull together high-level information on corporate relationships that may fall within the definition of a related party. He has provided me with the attached. I would be most appreciative if you could prepare some notes that identify which of the relationships listed below fall within the scope of IAS 24 *Related Party Disclosures* for the purpose of preparing the consolidated financial statements. Could you also list the information under IAS 24 that should be disclosed in the consolidated financial statements in relation to these transactions.

Many thanks,

Robina

Potential related party transactions

(i) During the year, RIL launched a share option scheme for senior managers employed by RIL and its subsidiaries. This scheme was extended to provide a replacement share option scheme for staff at BAL when we acquired that company on 30 September 2023.
(ii) A subsidiary of the group, Hafiz Chemical Limited sold goods to Lahore Electronics Co. (LEC) in May 2023. The purchasing director of RIL has a 30% shareholding in LEC, which gives him significant influence.
(iii) RIL provided management consultancy services, free of charge, to Lakeside Retail Co. (LRC). LRC is controlled by the wife of RIL's chief operating officer.

APPENDIX 5 – PROFESSIONAL AND ETHICAL MATTERS

On 16 October 2023, Robina Chaudhry receives a telephone call from Ghulam Buttar, group financial accountant at RIL. Ghulam explains that RIL is planning to replace its IT system for accounting and finance. Ghulam would like Malik Co. to perform an additional non-assurance engagement to design and implement this new IT system.

Later that day, Robina Chaudhry receives another telephone call from Zahid Nawaz, the finance director of Jabbar Limited (JL), which is not connected to RIL. Zahid explains that JL does not agree with the opinion issued by another chartered accountant firm. JL wants to engage Malik Co. to provide a second opinion on the application of accounting standards to specific transactions.

QUESTION 2

You are Hazeem Dhanial, an accountant working in the finance team of FSG Pharmaceuticals Limited (FSG), a company that specialises in vaccine development. FSG has held a controlling interest for a number of years in another pharmaceutical company, Multan Pharma Limited (MPL). During the year ended 30 September 2023, FSG acquired an interest in a US company, Seattle Pharma Limited (SPL), with the aim of working collaboratively on several projects.

You have been presented with the following information relating to the year ended 30 September 2023:

Appendix 1: Separate statements of profit or loss and other comprehensive income for FSG, MPL and SPL

Appendix 2: A file note of transactions and issues in the year

Appendix 3: An email from the Huzaifa Bhati, financial controller at FSG

Appendix 4: An extract from exchangertoday.com providing details of exchange rates in the year

Appendix 5: Notes detailing two ethical matters impacting you as the accountant

Requirements

(a) Calculate the amounts to be presented in the FSG's consolidated financial statements for the year ended 30 September 2023 in respect of the investment in SPL. Your answer should include an explanation of the resulting exchange difference and the accounting treatment applied to it. **(09 marks)**

(b) Prepare the FSG's consolidated statement of profit or loss and other comprehensive income for the year ended 30 September 2023. **(11 marks)**

(c) Discuss the professional and ethical issues raised in **Appendix 5** and recommend the appropriate action you should take. **(05 marks)**

Total: 25 marks

APPENDIX 1 – DRAFT FINANCIAL STATEMENTS

Statements of profit or loss and other comprehensive income
For the year ended 30 September 2023

	FSG	MPL	SPL
	----- Rs. in million -----		$ '000
Revenue	12,200	7,910	33,650
Operating costs	(9,400)	(5,250)	(24,900)
Operating profit	**2,800**	**2,660**	**8,750**
Finance costs	(130)	(70)	(980)
Profit before tax	**2,670**	**2,590**	**7,770**
Tax on profits	(690)	(440)	(1,570)
Profit for the year	**1,980**	**2,150**	**6,200**
Other comprehensive income **Items that will not be reclassified to profit or loss**			
Revaluation surplus	470	220	1,400
Total comprehensive income	**2,450**	**2,370**	**7,600**

APPENDIX 2 – FILE NOTE OF TRANSACTIONS AND ISSUES IN THE YEAR

Multan Pharma Limited (MPL)

- The 90% shareholding in MPL was acquired in 2017 at a cost of Rs. 7,120 million. At this date, the non-controlling interest was recognised in the consolidated financial statements at its fair value of Rs. 760 million.
- When MPL was acquired, its recognised net assets had a carrying amount of Rs. 6,310 million, including Rs. 80 million of goodwill that arose on the acquisition of an unincorporated business. MPL had not recognised research costs in its separate financial statements, although a competitor had offered Rs. 300 million to MPL for the research just before the company was acquired. It was determined that the research would be useful to MPL for 10 years.
- Goodwill on the acquisition of MPL was impaired by 20% of its carrying amount in the year ended 30 September 2023. It had not previously been impaired.
- During the year ended 30 September 2023, FSG sold manufactured vaccines to MPL for Rs. 81 million, charging a margin of 40%. MPL has subsequently sold 75% of these vaccines to external healthcare providers.
- The following research and development costs have been recognised as an asset by MPL during the financial year:

	Rs. in million
Project Xdel	
Investigatory work into chemical compounds and properties	85
Formulation/evaluation of uses of chemical compounds	40
Project Zibb	
Clinical trials on Zibb	180
Plivigor	
Launch costs	60

In the pharmaceuticals industry, it is considered highly likely that the IAS 38 capitalisation criteria for development costs are met when, and only when, regulatory approval is obtained for a drug.

Seattle Pharma Limited (SPL)

- A 35% shareholding in SPL was acquired on 31 March 2023 at a cost of US$ 9.6 million.
- The revaluation gain reported by SPL was recognised on 30 September 2023.
- SPL is based in the US state of Washington. A new state law was introduced in July 2023 which made it more difficult to operate clinical trials on vaccines. This is likely to have an adverse effect on the operations of SPL and put it at a competitive disadvantage. As a result, FSG has conducted an impairment test on its investment in SPL and a loss of US$ 3 million needs to be recognised at the year-end.

APPENDIX 3 – EMAIL FROM FINANCIAL CONTROLLER AT FSG

To: Hazeem Dhanial
From: Huzaifa Bhati
Date: 19 October 2023

Hi Hazeem,

As you know, the R&D costing accountant at MPL is currently on long-term sick leave and a temporary member of staff has been employed to cover her role. I have not had a chance to review his work so, as part of your consolidation work, please could you check that all costs have been accounted for correctly.

The following information about R&D projects is relevant:

- Project Xdel was launched in February 2023 with the aim of identifying a vaccine for gastrointestinal viruses.
- Project Zibb has been ongoing since 2018; clinical trials were concluded in August 2023 and regulatory approval for Zibb was obtained in October 2023.
- Plivigor obtained regulatory approval in August 2022 and the launch costs were incurred in October and November 2022 and recognised as an asset at that time and they are being amortised over 10 years from the launch date of 1 December 2022.

Let me know if you have any problems or concerns.

Thanks,

Huzaifa

APPENDIX 4 – EXTRACT FROM EXCHANGERTODAY.COM

Date	Exchange rate
31 March 2023	US$ 1 : Rs. 230
30 September 2023	US$ 1 : Rs. 227
Average for the six-month period 31 March 2023 – 30 September 2023	US$ 1 : Rs. 226

APPENDIX 5 – NOTES ON PROFESSIONAL AND ETHICAL MATTERS

Your spouse has recently started a new role in the sales department at FSG. All sales roles at FSG are eligible for a bonus based on FSG's annual profits. You have influence over the calculation of the profit figure via your role in the finance department at FSG.

You have been offered a part-time role for working in the finance department of HP, a pharmaceutical firm that is a competitor of FSG. The job at HP offers flexible, home-based working. You believe you could perform the work in addition to your job at FSG by carrying out the work during your evenings and weekends. A member of your family requires costly medical care and you could pay for this by accepting the second job at HP.

QUESTION 3

You are Khaqan Hassan, an audit senior at Shamim Bee Co., Chartered Accountants, (SBC) and are working on the year-end audit of Batura Cuisine Limited (BCL) for the year ended 30 September 2023. BCL is a food manufacturer and is facing a number of challenges as a result of the trading environment in which it operates.

You have been presented with the following information relating to the year ended 30 September 2023:

Appendix 1: Notes from your discussion with the BCL finance manager, Irfan Khan

Appendix 2: Email from Aqsaa Bakri, the audit manager, with an attachment showing BCL's draft financial statements for the year ended 30 September 2023

Appendix 3: Another email from Aqsaa Bakri giving information on a new accounting policy adopted in the year ended 30 September 2023

Appendix 4: Transcript of a phone message left for you by the audit partner, Raja Shah

Appendix 5: An email from Ayub Khatoon, the finance director of BCL, requesting that SBC perform an additional agreed-upon procedures engagement

Requirements

(a) Prepare notes with supporting calculations for the audit manager in response to her email in **Appendix 2**. **(08 marks)**

(b) Prepare notes for the audit manager with supporting calculations that explain how the change in accounting policy referred to in **Appendix 3** should be accounted for and how it would affect the normalised return on capital employed and share option scheme. **(07 marks)**

(c) Discuss any quality control issues arising in the phone message transcribed in **Appendix 4** and suggest appropriate actions that should be taken. **(05 marks)**

(d) Explain the matters that SBC needs to agree in relation to the terms of agreement for the engagement requested by BCL in **Appendix 5**. **(05 marks)**

Total: 25 marks

APPENDIX 1 – NOTES FROM YOUR DISCUSSION WITH BCL FINANCE MANAGER

Notes
Date: 23 October 2023
Meeting with Irfan Khan, BCL

Trading conditions have been difficult for BCL in 2022/23 as a result of global events beyond the company's control. However, sales to the hospitality industry have largely recovered from the pandemic in terms of volume, but the selling price of many BCL products has been dropped in order to remain competitive.

The mid-market of the food and beverage industry, where BCL sits, is seeing increasing levels of competition as manufacturers that traditionally focused on niche and specialist top-end products refocus towards products that are perceived as more affordable to customers. In February 2023, BCL made the strategic decision to withdraw from the profitable baby and toddler food market and recognised an impairment charge of Rs. 70 million relating to the brand 'Good4Baby', which BCL had acquired in 2016. No other intangible assets or PPE were impaired in the year ended 30 September 2023, although one of BCL's divisions had been impaired by Rs. 140 million in August 2022. In August 2023, BCL closed one of its manufacturing operations which was making only negligible profits. As a result, it incurred direct closure costs of Rs. 160 million plus redundancy costs of Rs. 130 million. The property in which the operation was based was sold, realising proceeds of Rs. 790 million. This was used in part to repay borrowings, and so reduce the burden of finance costs and, in part, to invest in more efficient manufacturing technology at remaining sites.

BCL is facing rising costs partly as a result of constraints on the supply of produce globally, particularly grain and wheat. Further cost increases are the result of the depreciation of the Pakistani Rupee throughout 2023, making imported produce more expensive. In addition, BCL had freight and transport costs increase across its operations, as well as utility costs.

APPENDIX 2 – EMAIL FROM AUDIT MANAGER

To: Khaqan Hassan
From: Aqsaa Bakri
Date: 30 October 2023
Subject: BCL

Hi Khaqan,

I hope that your catch-up meeting with Irfan at BCL last week went well.

He may have mentioned that BCL has launched a share option scheme for its management at the start of this year, rather than provide cash pay rises. It's something that I think we'll see more of whilst trading conditions for many companies remain challenging. One of the vesting conditions of the BCL scheme is a requirement for 'normalised ROCE' to increase by 5% between the grant date and the vesting date four years later. The company defines this measure as ROCE calculated on the basis of 'normalised' profits, in other words excluding non-recurring items. The profit figure should also be before any share-based payment expense relating to the scheme.

As this is a non-market vesting condition, we need to get a feel for whether the share options are likely to vest, based on this year's figures. Can I therefore ask you to use your judgement to calculate the normalised ROCE for 2022 and 2023 using the attached draft financial statements, together with information that you obtained from your meeting with Irfan. No entries have been made for the share option scheme in the attached financial statements.

It would also be useful if you could prepare brief notes to analyse any change in normalised ROCE between the two years.

Kind regards,

Aqsaa

Attachment 1: Statement of profit or loss for Batura Cuisine Limited

	2023	2022
	----- Rs. in million -----	
Revenue	9,850	10,629
Cost of sales	(7,290)	(7,560)
Gross profit	**2,560**	**3,069**
Operating expenses	(1,280)	(1,262)
Profit on disposal of property	650	-
Operating profit	**1,930**	**1,807**

Attachment 2: Extracts from statement of financial position for Batura Cuisine Limited

	2023	2022
	----- Rs. in million -----	
Share capital	1,200	1,200
Retained earnings	3,720	3,117
Long term borrowings	680	1,190
Deferred tax	160	140
Trade payables	790	594
Total equity and liabilities	**6,550**	**6,241**

APPENDIX 3 – ANOTHER EMAIL FROM AUDIT MANAGER

To: Khaqan Hassan
From: Aqsaa Bakri
Date: 2 November 2023
Subject: BCL

Hi Khaqan,

I've just spoken with Irfan at BCL. He forgot to mention previously that the draft financial statements for the company do not reflect a new policy to revalue office buildings, which was implemented at the year end. The company has adopted this policy to demonstrate to users of its financial statements that it has a strong asset base that will help it to overcome present trading difficulties. The policy will not be extended to manufacturing facilities as these are a different class of PPE in BCL's financial statements. Irfan has provided me with the following information:

- BCL holds two owner-occupied offices, which were acquired in July 2021 and have a total carrying amount of Rs. 2,460 million at 30 September 2023.
- Property A has a carrying amount of Rs. 1,450 million. It is located in an area that is currently undergoing regeneration, with several properties being converted to residential use. Surveyors have indicated that Property A could be sold to developers to convert into luxury apartments for Rs. 2,100 million or it could be sold to another commercial organisation for office use for Rs. 1,950 million.
- Property B has a carrying amount of Rs. 1,010 million. It is located in a city centre within a legally established commercial zone. Property B has a fair value of Rs. 1,750 million for continued office or other commercial use. If an application to have Property B re-zoned were successful, it could be developed for residential use. Such applications are rarely successful. If Property B was to be developed for residential use, it would have a fair value of Rs. 1,900 million.

In all cases, BCL would expect to pay 10% of any selling price in costs to the various professional service organisations that arrange and facilitate property sales. BCL pays tax at 29%.

Previously, the fair values of each property were determined to be:

	30 September 2021	30 September 2022
	------ Rs. in million ------	
Property A	1,750	1,830
Property B	1,380	1,400

Please could you make notes that consider the effect of the new policy on normalised ROCE in the current year and any impact on the share option scheme.

Kind regards,

Aqsaa

APPENDIX 4 – TRANSCRIPT OF A PHONE MESSAGE

Hi, Khaqan. It's Raja Shah here, the audit partner responsible for the engagement of BCL.

I wanted to let you know that I am incredibly busy right now, so I've asked Aqsaa Bakri, the audit manager, to perform my review of all the audit documentation. Aqsaa will let me know if there are any issues before I sign the auditor's report.

Additionally, Jinani Khatoon, one of the audit juniors assigned to the BCL team approached me today to let me know she is the daughter of Ayub Khatoon, the finance director at BCL. I have told her she will have to remain on the BCL team as we are really short of staff right now. Please reassure Jinani this is fine if she asks again.

Another audit junior, Alina Bux, has questioned why she has been assigned the high-risk area of revenue to audit, as this is not an area she has worked on previously. We don't have a more senior staff member available to assign to this area so she will just have to manage. I told her it will be a good learning experience!

I think that's it. I'm in meetings all day so leave a message with my secretary if you have any questions.

APPENDIX 5 – EMAIL FROM FINANCE DIRECTOR

To: raja.shah@sbc.com
From: ayub.khatoon@BCL.com
Date: 22 November 2023
Subject: BCL sustainability targets

Dear Raja,

Some preliminary investigations by myself have given me reason to be concerned with whether we are meeting our sustainability targets here at BCL. I don't have time to continue a more detailed investigation myself and would like to invite SBC to perform an agreed-upon procedures engagement to examine the matter further.

Please can you give me a call and we can discuss how to proceed. I would really like to make use of your firm's expertise and knowledge of our business in helping with this matter.

Kind regards,

Ayub
Ayub Khatoon
Finance Director
Batura Cuisine Limited

(THE END)