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| **Client Name:** Cosmopolitan Industries (Pvt.) Limited (CIPL) | | |
| **Accounting period:** 01 July 2020 to 30 June 2021 | | |
| **Prepared by:** Rounak Rayhan Shuban | | **Date:** 30 May 2021 |
| **Reviewed by:** Humaun Ahamed |  | **Date:** 09 June 2021 |
| **Further Reviewed by:** Faruk Uddin Ahammed, FCA, CISA |  | **Date:** 09 June 2021 |
| **Subject:** Financial reporting closing process (FRCP) | | |

**Financial reporting closing process (FRCP)**

**Objective:** The objective of this memo is to document **financial reporting closing process** of Cosmopolitan Industries (Pvt.) Limited (CIPL).

**(Following process is noted from the discussion with Mr. Khayer Uddin, Deputy General Manager-Finance & Accounts, Epic Group BD)**

**Pearl Garments Company Ltd.’s (CIPL) FRCP:**

**Supporting documents checking, voucher preparation and journal entry booking system:**

**For Expense:**

1. At first delivery challan and invoice is received by the factory supervisor from the vendor for the product. Then those documents are checked & signed by Mr. Bakshi, Executive and approved by Mr. Manigandan Chandran, Manager from warehouse.
2. A GRN entry is made in the Factory OMS V-2 system which is linked with SAP. After GRN posting, System automatically creates a journal entry inside SAP, which is shown as follows:

Expenses A/C…….Dr

Temporary payable A/C…….Cr

1. This entry can be revised later by the only finance Controller ,Head of finance VP and Head of finance BD. But for now expense is created in the SAP and in the ledger. An unique documents number for this entry is created by the system, which is then handwritten on vendor invoice to trace the documents with ledger in future.
2. Then the invoice and delivery challan is sent to Mr. Belal, Senior Executive from central AP Team (Accounts Payable) who checks the invoice and delivery challan. After checking these two documents he also checks the system posted GRN entry and the document number on it. After that, he posts a journal entry in the System (SAP) by reversing the temporary payable A/c to Permanent payable A/c.

When a permanent payable account is created it cannot be revised/edited. The entry is shown as follows:

Temporary payable A/C……..Dr

Permanent payable A/C………..Cr

1. Treasury team than takes over from this and extracts a payable aging by list of required payment needed. Company has 60 days credit limit. The list is shared with group CFO at Hong Kong. After due diligence and review by CFO, a confirmation for payment is given on the revert mail. Upon approval from CFO, online batch is created for bank payment and authorised signatory approve the batches accordingly.
2. Treasury department makes payment to the vendor accordingly and then Mr. Abdullah Al Mamun, Assistant Manager, Treasury post a journal entry in the system (SAP) by reversing the permanent payable A/c to Bank A/c. The entry is shown as follows:

Permanent payable A/C………..Dr

Bank A/C…………………Cr

1. Any request for edit of entry must come from the persons who posted that entry in the system.

Mr. Khayer Uddin, DGM, F&A approves required adjustments (Edit or revise) when necessary after taking approval from Mr. Nilan Perera GM.

**Note:**

No voucher top sheet is printed. Voucher top sheet remains in the system. Supporting documents of that expense entry is traced by the Documents number from the ledger. Few documents are kept in system cloud storage by scanning but most of them are kept in factory. In future company is trying to go for full paperless system.

**For revenue**

1. Once a sale contract is finalized, the contract is received by mail from the customer by the Factory in charge.
2. After an order is complete and shipped, C&F agent provides bill of lading to the commercial department of CIPL. A gate pass is also forwarded to the commercial department by store in charge.
3. Based on Bill of lading and gate pass, commercial department raises commercial invoice. Commercial invoice is prepared by Mr. Md. Asaduzzaman and approved by Mr. Sujit Zine, head of commercial and logistics. After approval this commercial invoice along with bill of lading is forwarded to Mr. Mr. Rifat Ahmed, head office executive.
4. After receiving bill of lading and commercial invoice from the commercial department, Mr. Rifat Ahmed, head office executive, post an entry in the system (SAP). The entry is shown as follows:

Receivable A/C………..Dr

Revenue A/C………….. Cr

This entry generates a documents number in the revenue ledger and this document number is manually posted in the face of the Commercial invoice to trace the supporting document with ledger entry in future.

1. The central reconciliation team checks the journal entry posted in the SAP and reconciled with counter intercompany.
2. After receiving the payment from the customer, Mr. Rezaul Karim, Assistant Manager, Treasury, checks and confirms the amount and post a journal in the system (SAP). The entry is shown as follows:

Bank A/C…………………Dr

Receivable A/C………..Cr

1. Any request for edit of entry must come from the persons who posted that entry in the system.

Mr. Khayer Uddin, DGM, F&A approves required adjustments (Edit or revise) when necessary after taking approval from Mr. Nilan Perera GM.

**Note:**

No voucher top sheet is printed. Voucher top sheet remains in the system can be printed from system. Supporting documents like commercial invoice, Bill of lading, gate pass, Sales contract and others are stored in the system storage. Documents are traced by the documents number from the ledger.

**For provision and estimation**

Estimate is mainly involved for depreciation of non-current assets, deferred taxation, inventory valuation, workers incentives calculation, ’ and corporate tax provision. The process of the estimate is given below:

1. Mr. Apu, Manager, FP&A team provides/prepares calculations for provision and estimation.
2. After checking, Mr. Apu sends the details to Mr. Mehedi, Executive, central AP Team for checking
3. Then he sends it to Mr, Khayer Uddin DGM, Finance for approval.
4. After confirmation from Mr. Khayer Mr. Mehedi post the provision entry in the system.
5. Management follows consistent policies for estimation and provision.

For any new estimation or provision other than the existing, proposal must come from VP/GM finance and it is shared to group CFO for final approval.

**Financial statement preparation and approval:**

1. Each month end, Mr. H. M. Zahidul Islam (Controller, central finance) extracts Trial Balance from SAP and manually prepares a monthly financial statement. This monthly FS is prepared on a accrual basis. For example, if for the month of April-21 FS is prepared, it means that FS consists of data from July-20 to April-21. After preparation of the FS, it is sent to Mr. Khayer Uddin, DGM for review and comments. Mr. Khayer Uddin then checks/evaluates the same.
2. After the review from Mr Khayer Uddin, he places the financial statements before GM (Mr. Nilan Perera) of central finance team for further review and comments.
3. After the review from Mr. Nilan Perera, he places the Financial statements to Mr. Himanshu Gupta (Vice President-Finance and Accounts) for final review.
4. After the review is performed by Mr. Himanshu Gupta, monthly financial statements are submitted via mail to Board of Directors for their review and approval.
5. The final FS is sent to the group for consolidation purpose.
6. At the year end which is June, financial statements which consist of the full year data are also approved by the same procedure mentioned above and then it is sent to the External Auditor for audit purposes.

**Risk and Control analysis:**

**What could go wrong? (Risk)**

Management override of controls may occur in various ways, including journal entries and other adjustments, accounting estimates that are subject to management bias that could result in a material misstatement in the financial statements, unsupportable or inappropriate business rationale for material transactions.

**Control Points:**

**1. Control over Journal Entries:**

* Mr. Bakshi, Executive checks the following supporting documents which are approved by Mr. Manigandan Chandran, Manager from warehouse such as

1. For Sales: sales contract, bill of export, export, commercial invoice, bill of lading & bank status
2. For Salaries and wages: salary/wages payments sheet, contracts (if applicable) and cross checked the payment amount with the bank statement
3. For procurement: commercial invoice, purchase order, GRN, & Import document advice(if applicable)
4. For expenses: bill/invoice of expense and/or bank status
5. For export incentive: auditor's incentive certicificates, auditors attached sheet,PRC form & bank statement
6. For liabilities with third parties: Agreement, repayment schedule etc.

* DGM, Finance and accounts approves required adjustments (Edit, or revise) after taking approval from GM, Finance and Accounts;

**2. Control over accounting estimates:**

Estimates calculation is prepared by Mr. Apu, Manager, then it is checked by Mr. Mehedi, Executive, central AP Team and approved by Khayer Uddin (DGM). Then the entry is given in SAP (What reviewed check)

**3. Control over Financials and other unusual transactions:**

Monthly Financial statement is prepared by Mr. H. M. Zahidul Islam (Controller, central finance), then it is reviewed by Mr. Khayer Uddin, DGM, F&A. Then it is further reviewed by Mr. Nilan Perera GM and Mr. Himanshu Gupta (VP); After review by above-mentioned persons, the reviewed Financial Statements are submitted to the Board of Directors for approval. (What reviewer check)