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| **Client name:** Cosmopolitan Industries Pvt. Ltd. (CIPL) | | |
| **Accounting period:** 01 June 2020 to 30 June 2021 | | |
| **Prepared by:** Tanvir Ahamed |  | **Date:** 07 June 2021 |
| **Reviewed by:** Humaun Ahamed |  | **Date:** 09 June 2021 |
| **Final Reviewed by:** Faruk Uddin Ahammed, FCA, CISA |  | **Date:** 09 June 2021 |
| **Subject:** Property, plant and equipment acquisition process |  |  |

**Objective:** The objective of this memo is to document **Property, plant and equipment acquisition process** of the Cosmopolitan Industries Pvt. Ltd. (CIPL).

**Process performed:** Following process is noted from the discussion with Mr. Khayer Uddin, Deputy General Manager-Finance & Accounts, Epic BD.

**Property, plant and equipment acquisition process**

Items of property, plant and equipment are measured at cost or revalued amount less accumulated depreciation. The cost of acquisition of an asset comprises of its purchase price and any directly attributable cost inclusive of inward freight, duties and non-refundable taxes for bringing the asset to its operating condition for its intended use. Repairs and maintenance expenses are charged to revenue when incurred.

The following are the procurement procedures of Property, plant and equipment that we have summarized from interviewing with Mr. Md. Khayer Uddin (Deputy General Manager-Finance & Accounts (Controller).

1. **Addition process of Property, plant and equipment**

Step by step process is described below:

1. At first user department identifies the need for capital expenditure (CAPEX) and subsequently requisition is created based on budget by user department, reviewed by Plant finance head and approved by Board;
2. After approved PR, purchased order (PO) is created by Central Purchase team (to make capex PO it is required to assign the asset number and based on the nature of the capex unique number is created in SAP);
3. Purchased order (PO) is approved by plant finance head after budget and document verification;
4. Approved PO is dispatched to selected vendors including some conditions like work completion or assets delivery date, terms of payment, mode of payment, AIT/VAT etc.;
5. The vendor delivers asset and warehouse team does a quality check and notifies the vendor in case of defects. After quality confirmation warehouse team prepare GRN;
6. GRN Approved by Plant finance head after performs three-way matching with PO, delivery challan and invoice;
7. After PO matching, if there are no discrepancies, purchase order is closed and send to central finance for invoice booking;
8. Payable entry is posted in SAP system

Property, plant and equipment………………..Dr.

Vendor Account…………………………………..…...Cr

1. Voucher is prepared by AP team and verified by respective plant controller;
2. Plant finance team (Respective engineer) prepare asset completion certificate based on the nature of assets and verified & approved by Plant CFO;
3. On yearly basis Fixed asset is counted and checked by Mr. Borhan Uddin, Senior Executive, which is reviewed by Mr. Nilesh Singh, Senior Manager from Factory. After reviewing Mr. Nilesh Singh, Senior Manager forwards the status from factory to head office for the finalization of FAR. From head office Mr. Ms. Afsar Jahan, deputy Manager- A&F, reviews and forwards to Mr. Khayer Uddin, Deputy General Manager-Finance & Accounts for the approval of entry in books of record. Upon reviewing the overall process approves the FAR. Moreover, fixed asset is verified by external auditor once in every audit period.
4. Before completion of the recognition criteria of Assets as per IAS 16: Property, Plant and Equipment assets usually booked to Capital work In progress;

Accounting entries:

1. When booking initial CWIP

Capital work in progress (CWIP)…..…………Dr.

Bank/ Accounts payable………………..……….Cr.

1. When transferred to PPE

PPE……………………………………………..………….Dr.

CWIP………………………………………………………Cr.

1. After approved asset completion certificate, central finance team transfers asset under construction (AUC) to main assets;
2. In case of payment is made to vendor, entry is posted in SAP system

Vendor Account……………..Dr.

Bank…………………………………..…..Cr

1. Treasury team process the payment and list of signatory will be shared separately.
2. **Depreciation:**

The Company uses straight line method for charging depreciation. Depreciation is charged on addition to property, plant and equipment from the month of acquisition irrespective of the date of acquisition while no depreciation is charged during the month of disposal. Depreciation is allocated to factory overheads and administrative expenses on the basis of utilization of assets.

1. **Disposal:**

For disposal of any assets they first obtain management approval after that obtain approval from customs bond Commissionerate for imported machinery. And finally remove that assets from the fixed assets register.

**What could go wrong? :**

1. All Addition of PPE for which entity takes ownership during the year may not be under ownership of the entity.
2. The asset recorded in books of accounts may not exist in reality

**Control points:**

1. Fixed assets purchased during the year is strictly monitored based on that approved budget from the Board of Directors. Requestor raises a Purchase order by generating a unique number in the system following the limit of budget. Upon delivery of the product warehouse team generates a Good receive note (GRN). That GRN is then approves by the Plant Finance head by matching Purchase Order, Delivery Challan and Invoice. On confirmation of the GRN and fixed assets set up from Plant Finance head, fixed assets are booked in the general ledger as assets by the accounts department.
2. On yearly basis Apu Datta, Plant head of finance, reviews and forwards fixed asset register to Mr. Khayer Uddin, Deputy General Manager-Finance & Accounts. Upon reviewing Mr. khayer Uddin finalizes the FAR. Moreover, fixed asset is verified by external auditor once in every audit period.