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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:** Loan process |  |  |

**Objective:** The objective of this memo is to document **Loan 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

Loan of Cosmopolitan Industries Pvt. Ltd. (CIPL) includes Loan from promoters and Short-term loans.

**Loan from Promoter**

Epic Designers Ltd. (Holding Company) provides loan to CIPL which is classified as loan from promoter. A prior approval must be taken from Bangladesh Bank and BEPZA for such kind of loan. Before taking loan from promoter an agreement is made between Cosmopolitan Industries Pvt. Ltd. (CIPL) and Epic Designers Ltd. (EDL). Terms & condition, purpose of the loan, loan limit and loan repayment schedule must be mentioned in the agreement. While loans have been taken through Bank, a liability entry is created into the system (SAP):

Bank A/C……….Dr.

Loan from Promoter EDL-HK………Cr.

Epic management accrues interest and entry is posted to SAP in every month and repayment the loan quarterly as per repayment schedule that is maintained by management according to agreement. For accrual, entry is created into the system (SAP):

Interest on Holdings…….Dr.

Interest Accrued on Holding…..Cr.

Note: Interest on loan from holding company booked as per agreement in financial expenses on the FS.

When payment was paid for principal plus interest through bank then entry is created to SAP (Payment as per agreement, Quarterly).

Loan from Promoter EDL-HK………Dr.

Bank A/C…………..Cr.

Loan from promoter are split between non-current portion and current portion.

**Short Term Loan**

Short-term loan may be taken from bank and intercompany. Bank provides two type of short-term loan:

1. Export Development Fund (EDF)
2. UPAS Loan

If epic management can fulfil all export conditions declared by a bank then bank can provide **EDF loan** (Limit on Restriction) against master LC. Bank create loan and paid to suppliers when credit balance is not available. After receiving goods receipt notes a liability is created and entry is made in the system:

Inventory A/C……..Dr.

Accounts Payable…….Cr.

When Bank create EDF loan, entry is made in the system:

Accounts Payable…….Dr.

EDF Loan……….Cr.

Epic management makes provision for interest in each month manually. The due date of repayment is generally 180 days with 3% interest. If management fails to repay the loan within due time bank transfers the loan into general loan where interest varies from 7%-8%.

**UPAS Loan** is like a EDF loan but the main difference is no limit on restriction but higher interest rate than EDF loan interest.

**Unsecured Loan** is generally taken from intercompany. Only a prior approval is taken from management via email but no agreement is made between two companies. Generally write off this kinds of loan as at 30 June.

**What could go wrong? :**

1. Loan from promoters reported in the financial statement may not exist;
2. Short term loan reported at the closing day of the financial statement may be understated.

**Controls:**

1. Management applies to Bangladesh Bank for approval to take loan from promoter (EDL). An agreement is signed with the promoter for receiving such kind of loan. Loan is received through banking channel directly to the bank account. Loan documents are verified by Finance Manager and approved by Finance controller/CFO, then the loan entry is posted in the ledger.
2. For short term loan an agreement is signed between entity and loan provider (Bank). The loan is approved against master LC opened for the purchase of raw material from abroad. Loan entry is posted upon verifying and accepting delivery challan against invoice after which supplier presents the relevant documents to the concerned bank.