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| **Client Name:** Cosmopolitan Industries Pvt. Ltd. (CIPL) | | |
| **Accounting period:** 01 July 2020 to 30 June 2021 | | |
| **Prepared by:** Mahdi Mohammad Mehrab |  | **Date:** 12 August 2021 |
| **Reviewed by:** Rounak Rayhan Shuban |  | **Date:** 29 August 2021 |
| **Further reviewed by:** Humaun Ahamed |  | **Date:** 29 August 2021 |
| **Subject:** Memo on revaluation | | |

**Purpose of the workings:** To have a clear understanding of the revaluation of factory building and its impact on the financial statements of Cosmopolitan Industries Pvt. Ltd. (CIPL).

**Background of revaluation:** The revaluation reserve represents a surplus of value assigned by the valuer over the book value after considering depreciation for the past years. An amount equivalent to the difference between depreciation based on revalued carrying amount of the assets and depreciation based on assets original carrying amount is transferred from revaluation reserve to retained earnings. Factory buildings are revalued from time to time by the firm of professional valuers on the basis of fair market value.

The Company has first revalued its freehold land and factory building in 2010 and 2014 based on the report by an independent valuer creating a total revaluation reserve of BDT 737,059,587 (freehold land BDT 537,035,522 and factory building BDT 200,024,055) as on that date, which stood at BDT 681,805,675 as at 30 June 2017 after adjustment of deferred tax and depreciation.

Another revaluation was carried out on 03 June 2018 by M/s Jorip O Paridarshan Company Limited to arrive at fair value of the aforesaid assets applying replacement cost method and thus creating a total revaluation reserve of BDT 766,186,879 and resulted an increase in revaluation reserve by BDT 29,127,292 on factory building only.

The recent revaluation was carried out on 01 June 2021 by M/s Jorip O Paridarshan Company Limited to arrive at fair value of the aforesaid assets and thus creating a total revaluation reserve of USD 9,969,945 that resulted an increase in revaluation reserve by USD 1,206.

**Details about the Valuer**

**Name:** M/s Jorip O Paridarshan Company Limited

**Address:** Paltan Tower, 4th Floor, Suite: 404, Purana Paltan Line, Dhaka-1000.

**Listing details:** The Company has all the requisite Licenses to operate as surveyors cum valuers from IDRA (Insurance Development & Regulatory Authority)

**License number:** 67 (MISC) valid upto 12 June 2021

**Key personnel details**

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| **SL.** | **Name of Key personnel** | **Designation** |
| 01. | Mr. Ataur Rahman | Managing Director & Chief Surveyor |
| 02. | Md. Abdur Rab | Manager |
| 03. | Md. Nazmul Ahsan | Operation Manager |
| 04. | Md. Mominul Ahsan | Operation Manager |
| 05. | M. A. Islam | In-Charge (Accounts and IT) |

**Auditor’s conclusion on the Valuer:** First, we have received the information from the CIPL management then cross checked with the valuer valid website which is <https://joripbd.com/our-team/>. In our analysis and understanding nothing unusual caught our attention during the process.

**Criteria details used for the valuation**

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| **Building Revaluation** | | |
| **Criteria** | **Criteria details basis** | **Auditor Comment** |
| Class of constructions | * 1st class construction: Burnt brick side walls, r.c.c floor, r.c.c roof supported by r.c.c columns and beams; * Pre-fabricated construction: pre-fabricated steel roof with extended steel side walls supported by strong steel trusses set up on heavy r.c.c machineries foundation with burnt brick walls side; * 2nd class construction: Burnt brick side walls, c.c. floor and c.i sheet roof supported by steel frames trusses. | Depending on the quality asset the class of construction been set which is also confirmed by the Chief engineer Md. Abdullah Al Mamun, VP and Md. Sanjid Hossen, AGM from CIPL. Based on the above we think that the criteria used for valuation is justified one. |
| Year of constructions | Total number age on average after the construction been completed | From the asset completion certificate to valuation date been taken as the total year of construction. Based on the above we think that the criteria used for valuation is justified one. |
| Floor area | Total area of floor space | Space been verified by Md. Mominul Ahsan, Operation Manager from valuer along with Chief engineer Md. Abdullah Al Mamun, VP and Md. Sanjid Hossen, AGM from CIPL. Based on the above we think that the criteria used for valuation is justified one. |
| Rate per square feet | Standard rate on area basis | Considering the class and area of construction the rate been identified from the standard rate sheet of the valuer which is indifferent for the CIPL. Based on the above we think that the criteria used for valuation is justified one. |
| New value | The value of the valuable asset as on valuation date | Calculated based on the floor space and rate per square feet above. New value= Total Floor area in Square feet\* Rate per square feet. Based on the above we think that the criteria used for valuation is justified one. |
| Depreciation | Depreciation is calculated using following standard formula:  Depreciation=((New value – Scrap value)/Useful Life)\*Age as on date | As, the formula is commonly accepted in the similar valuation. So, it is acceptable. Based on the above we think that the criteria used for valuation is justified one. |
| Present value | Value after deduction of depreciation from the new value | Present value is the balancing amount. Present value= New value-Depreciation. Based on the above we think that the criteria used for valuation is justified one. |

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| **Land Revaluation** | | |
| **Criteria** | **Criteria details basis** | **Auditor Comment** |
| Land | Location, Legal papers and area (in decimal normally) of the land | Standard rate is used by the valuer which is applicable in Bangladesh considering the mentioned criteria. The value is commonly accepted and no different than the valuation applicable for the other surrounded lands. As there is no depreciation for land, revaluation amount should be calculated based on the difference between new value and previous value of the land. |

**Revaluation in FS for Leasehold Building:**

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| **Particulars** | **Amount in BDT** |
| WDV as per revised valuation report 2021 | 699,488,952 |
| Less: WDV as on 31 May 2021 | 699,386,485 |
| **Total** | **102,467** |

|  |  |
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| **Amount in USD @ 84.95** | **1,206** |

**Accounting treatment:**

**Land:**

Land and land development Dr. 19,659

Revaluation reserve Cr. 19,659

(For booking the additional reserve on the revaluation of Land and land development) (amount used as an example)

**Building:**

* **To record revaluation in FS**

Building Dr. 1,206

Revaluation reserve Cr. 1,206

(For booking the additional reserve on the revaluation of factory building)

* **To charge regular depreciation of the revalued factory building**

Depreciation expense Dr. 231,619

Accumulated Depreciation-factory building Cr. 231,619

(Depreciation charged for the FY 2020-2021 on the factory building including revaluation)

* **For the transfer of excess depreciation**

Revaluation reserve Dr. 57,773

Retained earnings Cr. 57,773

(For the transfer and recognition of excess depreciation charged @2% on total revaluation)

**Conclusion:**

From the above analysis and review it can be noticed that the revaluation done by third party is reliable and the accounting implication was done as per IAS 16: Property, Plant and Equipment.

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