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| **Client Name:**  Cosmopolitan Industries (Pvt.) Limited (CIPL) | | |
| **Accounting period:** 01 July 2020 to 30 June 2021 | | |
| **Prepared by:** Mahdi Mohammad Mehrab | | **Date:** 03 June 2021 |
| **Reviewed by:** Rounak Rayhan Shuban  **Further reviewed by:** Humaun Ahamed  **Final Reviewed by:** Faruk Uddin Ahammed, FCA, CISA |  | **Date:** 09 June 2021  **Date:** 15 June 2021  **Date:** 15 June 2021 |
| **Subject:** Export sales process | | |

**Objective:** The objective of this memo is to document Export sales process of the Cosmopolitan Industries (Pvt.) Limited (CIPL).

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

**General Information on Export sales of CIPL:**

CIPL has mainly two customers. Details are given below.

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| **Customer name** | **Export sales in USD** | | **% of 2019-2020** | **% of 2020-2021** |
| **2019-2020** | **2020-2021** |
| EPIC Designers Limited (EDL) (HongKong) | 70,158,216 | 58,080,805 | 97.95% | 91.74% |
| EPIC Garments DWC-LLC (Dubai) | 253,609 | 3,973,300 | 0.35% | 6.28% |
| Other intercompany | 1,216,445 | 1,259,270 | 1.70% | 1.99% |
| **Total** | **71,628,270** | **63,313,374** | **100%** | **100%** |

**Customers order process:**

* EDL and DWC have business relationships with fashion brands around the world. These fashion brands put a requisition for garments products to EDL or DWC. Then EDL or DWC holds meetings with those fashion brands and negotiates the deal.
* EDL and DWC then place the production order to the CIPL’s factory via mail to the Plant merchandize head.
* In the mail, a Cost break down (CBD) of the order is given. The CBD generally includes the below information about the order.
* Plant merchandize head of the factory analyses the order and confirms whether the plant can meet the order requirement and timeline. If yes, order goes for the production and if no, order goes back to the EDL or DWC and they look for other factories for production. This communication happens through email

**Production and delivery process of an order:**

* After confirmation of the order, Plant merchandizer head assigns a member from Merchandizing team for the order to be managed. A unique order number is given to the order to trace. He also informs the Head of logistics to take necessary procurement procedures based on requirements. (Follow Procurement process).
* According to CBD requirement, goods are produced and the finished goods are transferred to the warehouse for delivery.
* A notification mail is given to the assigned merchandising team member from the Warehouse Manager- Mr. Manigandan Chandran that the order is ready for delivery.
* Then a confirmation is sent to Mr. Shariful Islam, AVP (Head of Logistics) by the merchandizer to select a C&F agent for delivery trucks. Mr. Shariful Islam also provides a gate pass for the truck to enter into the factory.
* Mr. Shariful Islam provides truck and product details to the Warehouse Manager- Mr. Manigandan Chandran and asks to take necessary steps for loading the product to the truck.
* Based on the information provided, Warehouse Manager- Mr. Manigandan Chandran and his team with presence of a representative from C&F agent, merchandizer team and logistics team load the product in the truck. Warehouse Manager provides Challan and packing list with the truck.
* After loading, the truck is sealed with a special one-time use lock.
* Gate security guard checks the lock, challan, packing list and other documents before the truck passes the factory gate and a register is maintained with details of the truck.
* When the truck reaches the port, product is unloaded from truck. The one time lock is checked in presence of representatives from CIPL, C&F agent and ship authority. If the one-time use lock proves that it remained unopened, quantity and condition of product is considered ok for loading in the ship.
* After loading the product in the ship, C&F agent provides Bill of lading and other export related documents to the commercial department.
* Based on the gate pass of the goods, commercial department raises commercial invoice and packing list . Then they collect bill of lading from the shipper. Commercial invoice and packing list are confirmed and signed by Mr. Sujit Zine, head of commercial and logistics.
* Bill of Lading is reviewed and confirmed by Mr. Alauddin Chowdhury, Manager-commercial department. Then Mr. Rifat, Executive, Accounts and Finance works for the recognition of the Revenue in the SAP accounting system. He raises a revenue entry in the system based on the Bill of Lading date:

Customer Receivable account--------------------------Dr.

Revenue-----------------------------Cr.

* The central reconciliation team check the journal entry posted in SAP and approves it.
* Ex-factory goods are recorded as Goods in Transit till the date of ETD (Expected time of Delivery)/BL date.
* Generally, shipments are made from Sea Vessel but in case of emergency and to meet the deadlines, CIPL sends product by Air also.

**Payment receiving process:**

* Payment is received from customer within 14 days from Bill of lading. Customer makes payment in CIPL’s SCB/HSBC bank account by telegraphic transfer (TT).
* Head of treasury retrieves monthly bank statements and “Form C” to confirm whether the payment has been made by the customer and the following entry is posted:

Bank ……………………………………………………………………..Dr.

Customer receivable account-----------------------------Cr.

**Advance from buyers:**

Most of the times, CIPL receives advance from its buyers EDL and DWC against the export sales at the time of order confirmation. Following accounting entry is passed to record advance from buyer:

Cash at Bank --------------------Dr.

Advance from Buyer ------------ Cr.

When the Bill of Lading is reviewed and confirmed by Mr. Alauddin Chowdhury, Manager-commercial department, following accounting entry is passed to record recognition of revenue and adjustment of advance from the buyer:

Advance from Buyer --------------------Dr.

Export Revenue -----------------------Cr.

**Risk and Control analysis:**

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| **What could go wrong? (Risk)** | **Risk Category** | **Control identified** |
| Revenue may be accounted for before issuing commercial invoice and receiving Bill of Lading to show a better performance by the management of the company. | **Significant Risk** | 1. Revenue is recognized based on Commercial Invoice, Bill of Lading and other documents, i.e. packing list and gate pass. Commercial invoice and Bill of Lading are confirmed by Mr. Alauddin Chowdhury, Manager-Commercial Department. After confirmation from Mr. Alauddin, Mr. Rifat, Executive of Accounts and Finance records revenue in SAP. 2. The Company is taking confirmation from the Parent to confirm the balance at the end of each month. |
| Revenue may be recognized in inappropriate period. There may be some goods in transit which transferred from the factory but not boarded for shipment yet included into GL of revenue. | **Higher Risk (Cut off)** | Bill of lading is taken as confirmation of loading of the goods to the vessel/plane for shipment. Sales entry is posted in the system only after the bill of lading is received and checked. |
| Revenue may not be recorded completely (Completeness) | **Normal-Low Risk (Completeness)** | 1. There is a reconciliation between three system CIMS, FGMS and SAP at the month end. 2. Each month company submit VAT return where total revenue amount is mentioned which is prepared by Mr. Afsarul Islam, Assistant Manager approved by Mr. Md. Golam Mowla, DGM |
| Revenue may be recorded inaccurately | **Normal-Low (Accuracy)** | Mr. Alauddin Chowdhury, Manager-Commercial Department checks and reviews the price of the contract after his confirmation Mr. Rifat, Executive of Accounts and Finance records books the revenue |
| Advance from buyer reported in the financial statement may be recorded inaccurately. | **Normal-Low**  **(Valuation and allocation)** | Advance from buyer is received as per sales contract and entry is posted after checking of Finance Manager and approval of Finance controller/CFO. All advance from buyer is received from banking channel. |