

CA DILIP JAIN

COOKED UP BALANCE

50 Case Studies
SHEETS



Identify B/S , P&L manipulations
A beginners practical guide

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Foreword

In an era where financial complexities often mask the true nature of corporate activities, the need for transparency and ethical conduct has never been greater. The objective of this book is twofold: to empower even those without a financial background to understand the misuse of balance sheets for various vested interests, and to

serve as a guide for professionals on how to identify frauds in financial statements and plan mitigation measures.

Features of the Book

Educational Case Studies: *The book contains 50 meticulously crafted case studies that span various industries and types of businesses. Each case study is followed by a detailed analysis that explains how to identify the financial manipulations and what could be the potential implications, such as money laundering or tax evasion.*

IFRS Standard Presentation: *All financial statements in the case studies are presented as per the International Financial Reporting Standards (IFRS), making them universally applicable.*

Notes and Disclosures: *To provide a comprehensive understanding, relevant extracts of notes to accounts and any disclosures are included.*

Step-by-Step Solutions: *Each case study is followed by a solution that not only identifies the fraudulent activity but also explains how it was identified, thereby serving as a practical guide for auditors and accountants.*

Mitigation Strategies: *The book offers actionable insights into how users of financial statements can mitigate risks associated with financial fraud.*

Benefits

Enhanced Understanding: *This book will enhance your understanding of how financial statements can be manipulated and how to spot such manipulations.*

Risk Mitigation: *It serves as a tool for risk managers, compliance officers, and auditors to mitigate the risks associated with financial fraud.*

Universal Applicability: *The use of IFRS standards makes the content globally applicable.*

Ethical Awareness: *By understanding the mechanics of financial fraud, readers will be better equipped to promote ethical conduct within their organizations.*

Purpose

The purpose of this book is to contribute to a culture of transparency and ethics in the financial profession. It aims to equip its readers with the tools needed to identify and prevent financial fraud, thereby fostering a more ethical and transparent business environment.

A Note of Thanks

I would like to extend my heartfelt gratitude to you, the reader, for choosing this book as your guide to improving transparency and ethics in the financial profession. Your commitment to avoiding abuse and promoting ethical conduct is commendable and forms the cornerstone of a transparent financial ecosystem.

By reading this book, you are taking a step towards a more transparent and ethical financial world, and for that, I thank you.

About the Author:



CA Dilip Jain has multi-faceted financial experience over his 20 years of banking and financial services career with Kotak Bank, ICICI Bank in India, Daiwa Capital Markets, Bahrain, Daiwa Capital in DIFC, Dubai, Nimai, Crowe Vistra, Oasis Investment Co., Century Private Wealth Ltd, DIFC. His experience spans from lease and hire purchase, asset securitization, indirect tax planning, credit- mortgages, AML risk, compliance, anti-money laundering, trade and corporate finance solutions.

In his compliance role, he is also currently active in the Century Financials Transition towards Securities and Commodities Authority – Category 1 license regime for process and policy implementation - CFD broking business.

He was a faculty trainer at ICAI GMCS as well part of Core ICAI VAT trainer faculty. He had led vat lectures on different forums from ICAI Dubai VAT clinic at Indian Consulate in association with Khaleej times, business community. He was also speaker in ICAI Dubai three live webcast on VAT in 2017-18. He was also part of Q n A series on VAT with Khaleej times and VAT Quiz, first VAT Games held by ICAI and regularly contributes to VAT brainstorming sessions. He has contributed more than 60 articles on vat on his LinkedIn posts. Current implementation on VAT includes sectors like logistics, IT distribution, construction, Oil and Gas, trading, travel and manufacturing, distribution, vacation homes, EPC contractors, watch and jewelry sector, digital media, Designated zone, DMCC companies etc.

He was the compliance officer for DFSA regulated firms (Category 3C and 4) having diverse business in wealth and asset management, payment services, advisory and arranging services. He was a faculty trainer at ICAI GMCS as well part of Core ICAI VAT trainer faculty.

As a Qualified Chartered and Cost Accountant, he is also Certified Anti-Money Laundering Specialist (ACAMS). He has done his executive management development program in 2011 from IIM-Ahmedabad. He is also level 3 certified Risk in financial Services, Securities and Global Financial Compliance, DIFC and UAE rules and regulations, Combating Financial Crime from CISI. He has more than 800 hours of research and learning experience in AML, compliance and Risk space.

He also led knowledge sessions UAE AML and VAT law implementation and has compiled books on Customs, VAT, ESR Corporate Tax and AML laws.

He is also an active Toastmaster, have reached its highest level as Distinguished toastmasters and have undertaken many youth leadership programs and speech craft. He also led Guinness record

for world largest memory Game. In his free time, he likes to travel, enjoys early morning walk, read books, network. He is an active member of ICAI Dubai chapter, Jito International and was past Area Director, Toastmasters International in Dubai. He was featured in Khaleej Times in the UAE Year of Giving for his contribution to community, has featured in “Pearls of Rajasthan” as well as in Nelson Mandela Inspired “Good Deeds” Book, Abu Dhabi.

Other Books By same Author:

- 1. AML Brain GYM*
- 2. AML brain GYM – For DNFBPs*
- 3. Decoding Corporate Governance*
- 4. 360 Compliance for beginners*
- 5. Case Studies on UAE Corporate Tax (Joint initiative)*

Other earlier Compilations by same Author:

- 1. UAE Vat law*
- 2. UAE Corporate Tax Law*
- 3. UAE Economic Substance Regulations*
- 4. UAE AML provisions for DNFBPs*
- 5. UAE Customs Law*
- 6. Zidd Aage Badhne Ke (determined to move ahead)*

How to Read This Book for Best Results

Navigating the complexities of financial statements and identifying fraudulent activities can be a daunting task. This book is designed to make that journey easier and more effective for you. Here's a guide on how to read this book for the best results:

Start with the Basics

If you're new to financial statements or the concept of financial fraud, start with the introductory chapters. These chapters lay the foundation by explaining key terms and concepts that will be used throughout the book.

Understand the Structure

The book is divided into multiple parts, each focusing on a different aspect of financial fraud. Each part contains a series of case studies followed by solutions. Familiarize yourself with this structure to navigate the book more efficiently.

Take One Case Study at a Time

Each case study is a self-contained unit designed to illustrate a specific type of financial fraud. Start by reading the case study and try to identify the fraudulent activities yourself before moving on to the solution.

Utilize the Notes and Disclosures

Relevant notes to accounts and disclosures are provided for each case study. These are crucial for understanding the nuances of each case and will aid in your analysis.

Focus on the Solutions

The solutions not only identify the fraudulent activities but also explain how they were identified. Pay close attention to this section to understand the methodology used for identifying fraud.

Apply the Mitigation Strategies

Each case study concludes with mitigation strategies that can be applied in real-world scenarios. Make a note of these as they will be valuable in your professional life.

Reflect and Revisit

After completing each case study, take a moment to reflect on what you've learned. How would you apply this knowledge in your work? Revisit the case studies periodically to refresh your understanding.

Engage with the Exercises

Some chapters include exercises designed to test your understanding and application of the material. These are excellent opportunities for hands-on learning.

Take Notes

Feel free to jot down key points, methodologies, or any questions that arise while reading. This will not only help reinforce what you've learned but also serve as a quick reference in the future.

Share and Discuss

The learning doesn't have to stop when you close the book. Share your insights with colleagues or engage in discussions to further deepen your understanding.

By following these guidelines, you'll gain the most from this book, equipping yourself with the knowledge and skills to identify and prevent financial fraud effectively.

Happy Reading!

Dilip Jain

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1: XYZ Tech Corp.- Revenue Inflation & Related Party Transactions

Nature of Business Activity

XYZ Tech Corp. is a fictional technology company based in Silicon Valley, specializing in cloud computing services.

Balance Sheet (Statement of Financial Position)

As of December 31, 2022, and 2021 (in USD)

Items	2022	2021
ASSETS		
<i>Non-Current Assets</i>		
Property, Plant, and Equipment	600,000	400,000
Intangible Assets	120,000	90,000
Investments	50,000	40,000
Total Non-Current Assets	770,000	530,000
<i>Current Assets</i>		
Inventories	60,000	40,000
Trade Receivables	40,000	25,000
Cash and Cash Equivalents	50,000	30,000
Total Current Assets	150,000	95,000
TOTAL ASSETS	920,000	625,000
LIABILITIES		
<i>Non-Current Liabilities</i>		
Long-term Borrowings	220,000	180,000

Deferred Tax Liabilities	30,000	20,000
Total Non-Current Liabilities	250,000	200,000
<i>Current Liabilities</i>		
Trade Payables	60,000	45,000
Short-term Borrowings	40,000	30,000
Total Current Liabilities	100,000	75,000
TOTAL LIABILITIES	350,000	275,000
EQUITY		
Share Capital	300,000	300,000
Retained Earnings	270,000	50,000
TOTAL EQUITY	570,000	350,000
TOTAL LIABILITIES & EQUITY	920,000	625,000

Profit and Loss Account (Statement of Comprehensive Income)

For the Years Ended December 31, 2022, and 2021 (in USD)

Items	2022	2021
Revenue	700,000	400,000
Cost of Goods Sold (COGS)	200,000	180,000
Gross Profit	500,000	220,000
Operating Expenses	100,000	80,000
Operating Profit	400,000	140,000
Finance Costs	10,000	8,000

Profit Before Tax	390,000	132,000
Taxation	80,000	30,000
Profit for the Year	310,000	102,000

Notes to Accounts and Disclosures

Property, Plant, and Equipment

The increase in PPE is due to the acquisition of a new data center.

Intangible Assets

Includes software licenses and patents.

Long-term Borrowings

Consists of a 5-year loan at an interest rate of 4%.

Revenue Recognition

Revenue is recognized when services are rendered to customers.

Taxation

The company is subject to a corporate tax rate of 21%.

Related Party Transactions

The CEO, John Doe, has a 10% stake in a supplier company.

Contingent Liabilities

The company is currently facing a lawsuit, the outcome of which is uncertain.

Post Balance Sheet Events

No significant events have occurred after the reporting period that would require adjustments to or disclosure in the financial statements.

Solution

a) Identification of Fraudulent Financials

The total assets increased from \$625,000 in 2021 to \$920,000 in 2022, a jump of nearly 47%, which is disproportionate compared to the industry average.

The profit for the year more than doubled from \$102,000 in 2021 to \$310,000 in 2022.

b) How Did You Identify?

A detailed analysis of the notes reveals that the CEO, John Doe, has a 10% stake in a supplier company. This could lead to related party transactions not conducted at arm's length, potentially inflating the Trade Receivables from \$25,000 in 2021 to \$40,000 in 2022.

The Property, Plant, and Equipment (PPE) increased from \$400,000 in 2021 to \$600,000 in 2022, a 50% increase, without a corresponding increase in long-term borrowings,

which only increased from \$180,000 in 2021 to \$220,000 in 2022. This suggests potential asset inflation.

c) Implications

- Possible money laundering through inflated revenue.
- Tax evasion through under-reporting of liabilities.

d) Mitigation Strategies for Users of Financial Statements

- Conduct a forensic audit focusing on related party transactions, particularly the Trade Receivables account.
- Scrutinize the contingent liabilities and post-balance-sheet events for any undisclosed information that could affect the valuation of assets, especially PPE.

FashionHub Inc. - Textile Trading with Unsecured Loans and Inflated Investments

Business Model:

FashionHub Inc. is a textile trading company that deals in various types of fabrics and garments. They source materials from different countries and sell them to retailers and wholesalers.

Financials:

Balance Sheet (Statement of Financial Position) as per IFRS (in USD)

Assets

Particulars	2023	2022
-------------	------	------

Cash and Cash Equivalents	3,000,000	1,000,000
Trade Receivables	10,000,000	5,000,000
Inventory	7,000,000	3,000,000
Investments	15,000,000	2,000,000
Total Assets	35,000,000	11,000,000

Liabilities

Particulars	2023	2022
Unsecured Loans	20,000,000	1,000,000
Trade Payables	5,000,000	2,500,000
Total Liabilities	25,000,000	3,500,000

Equity

Particulars	2023	2022
Share Capital	8,000,000	6,000,000
Retained Earnings	2,000,000	1,500,000
Total Equity	10,000,000	7,500,000

b) How to Identify:

- **Unsecured Loans:** The unsecured loans increased from \$1,000,000 to \$20,000,000, which is a significant jump and raises questions about the source of these funds.

- **Inflated Investments:** Investments in the asset side increased from \$2,000,000 to \$15,000,000, which is not supported by a corresponding increase in revenue or other assets.

c) Implications:

- **Money Laundering:** The sudden increase in unsecured loans could be a method of laundering money.
- **Misrepresentation:** The inflated investments could mislead investors and other stakeholders.

d) Mitigants:

- **Due Diligence:** Conduct due diligence on the source of the unsecured loans.
- **Forensic Audit:** A specialized forensic audit can help trace the origin of the funds and the nature of the investments.

48: GreenTech Energy - Renewable Energy Sector with Overstated Assets and Underreported Liabilities

Business Model:

GreenTech Energy is a company in the renewable energy sector, focusing on solar and wind energy solutions. They design, manufacture, and install solar panels and wind turbines for both residential and commercial clients.

Financials:

Balance Sheet (Statement of Financial Position) as per IFRS
(in USD)

Assets

Particulars	2022	2021
Cash and Cash Equivalents	1,500,000	1,000,000
Trade Receivables	5,000,000	4,000,000
Inventory	3,000,000	2,500,000
Property, Plant, and Equipment	20,000,000	10,000,000
Total Assets	29,500,000	17,500,000

Liabilities

Particulars	2022	2021
Short-term Loans	2,000,000	1,000,000
Trade Payables	3,000,000	2,000,000
Deferred Tax Liabilities	500,000	200,000
Total Liabilities	5,500,000	3,200,000

Equity

Particulars	2022	2021
Share Capital	20,000,000	12,000,000
Retained Earnings	4,000,000	2,300,000
Total Equity	24,000,000	14,300,000

b) How to Identify:

Overstated Assets: The assets "Property, Plant, and Equipment" increased from \$10,000,000 to \$20,000,000, which is a red flag given there were no major projects or revenue increases.

Underreported Liabilities: Deferred Tax Liabilities only increased from \$200,000 to \$500,000, which seems low for the scale of operations and asset increases.

c) Implications:

- **Misrepresentation:** Overstating assets and understating liabilities can mislead investors and stakeholders.
- **Tax Evasion:** Underreporting of deferred tax liabilities could be a form of tax evasion.

d) Mitigants:

Forensic Audit: Conduct a specialized forensic audit to verify the asset values and liabilities.

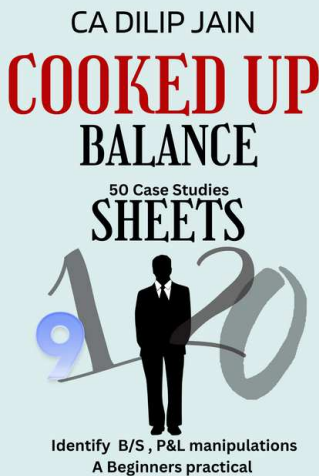
Regulatory Reporting: Report any discrepancies to the relevant tax and corporate governance authorities.

Ultimate guide to detecting and preventing Balance Sheet deceptive practices



CA Dilip Jain

Unlock the Secrets



WHAT SETS THIS BOOK APART?

50 Real-World Case Studies

Dive into meticulously crafted scenarios across various industries, each illustrating a unique type of financial fraud

Notes and Disclosures

Gain deeper insights into each case with relevant notes to accounts and disclosures, aiding in your analysis.

Step-by-Step Solutions

Each case study is followed by a detailed solution, explaining how the fraud could be identified, its implications, and mitigation strategies

Expert Commentary:

Understand the intricacies of financial frauds with expert commentary that breaks down complex concepts into easily understandable language.

Financial Statements and Uncover Hidden Frauds & Manipulations

In an era where financial frauds are increasingly complex and pervasive, this book serves as your ultimate guide to detecting and preventing such deceptive practices. Whether you're a seasoned accountant, a forensic auditor, or someone with no financial background, this book is designed for you.

Simply intrigued !



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FIRST STEP TOWARDS A FRAUD-FREE FUTURE!