



Investigative & Forensic Accountants

Forensic Due Diligence (FDD) Case Study 1

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After normal due diligence the Investing company was not satisfied with the figure of turnover of the target company and the dispatches of finished goods. As such, the resultant profit of the last three years appeared probably hiked. We were invited to confirm the financial results produced after due diligence.

We studied the products manufactured by the target company and gathered that nine different compositions of various raw materials are needed for five different products in a desired ratio to meet the ISI standard and to meet the demand of the export market. Based on the opening and closing stock of the finished goods, we derived the figure of goods produced after making necessary adjustments for W-I-P. The records for the goods produced allowed us to work out the consumption of various types of raw materials needed to manufacture the quantity we had derived. We noted that a particular type of material X which was not a major component but was essential to maintain the tensile strength of the final product was not purchased to that extent. This created doubts about the volume of goods produced. An overview of the hours of production and optimum speed of the machine indicated that the plant had run at least 20% lower than needed to produce the desired quantity as claimed.

After scrutinising the log book of the plant, workers' overtime and other related facts based on the testing of various hypothesis, it was confirmed that the plant was running only to the extent needed to justify the consumption of the special raw material X. We had derived the quantity with the help of their production



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unit staff. The vendor could not provide any logical reasons for the said discrepancies and agreed with the revised figures of sales expected profits with existing customers and order book. This allowed the vendor to accept the revised consideration for majority stakes in the company by the interested party whom had engaged for our services.
