



ICAN STUDENTS' JOURNAL

JANUARY/MARCH 2018

Activity Based Costing (ABC) for Decision Making

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- ⇒ ICAN Partners Caleb University on MCATI
- ⇒ Police Academy Seeks Collaboration with ICAN
- ⇒ Integrity Has Remained ICAN's Watchword



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(Established by Act of Parliament No. 15 of 1965)

Founding Member, International Federation of Accountants (IFAC).



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Editor's Note

Activity Based Costing (ABC) is a very significant refinement of the cost accounting system. Our lead article describes an activity as any event, task or unit that drives up the costs of a business.

The article entitled "**Activity Based Costing (ABC) for Decision Making**", posited that if a department, product or service uses more of any activity, event, task or unit, then that would drive up the costs the product sustains.

The author made it clear that the advocates of ABC believe that it also leads to a more equitable costing environment and that each product or service is charged in accordance with the costs that each actually incurs.

According to him, the advocates maintain that ABC eliminates the proposition of the 'cross-subsidisation' of one product by some other product or products.

However, the author took time to give details of what Product Cost Cross-subsidisation and simple Average (Absorption) are. He also explained how ABC works as well as when to introduce it.

In the news section, you will read about the recent Memorandum of Understanding signed between the Institute and a Malaysian University to promote accounting research.

Also, the details of the commissioning of the ICAN Lecture Theatre at the University of Port Harcourt, Mutual Cooperation Agreement signed between ICAN and Caleb University, as well as the induction of new members of the Association of Accounting Technicians West Africa are reported in this edition.

As usual, under The Examiner column, we publish some past questions and their solutions to guide students on how to approach questions to ensure success in ICAN examinations.

* * *

Your comments and contributions are welcome. Write to corporateaffairs@ican.org.ng or editor@ican.org.ng

ICAN Signs MOU with Malaysian University

The Institute has signed a memorandum of understanding with the management of a leading Malaysian University, Universiti Utara Malaysia (UUM). The MOU which was signed in January 2018 will focus on Accounting research.

In his speech at the occasion, the ICAN President, Ismaila Zakari explained that for sustainable national development, there was urgent need for collaboration between professionals and academics.

He disclosed that establishing functional relationship with academic institutions and related bodies within and outside

Nigeria was one of the cornerstones of ICAN's desire to enhance professionalism and contribute its quota to national development.

Responding, the Vice Chancellor of the University, Professor Mohammed Ishak

commended ICAN for deeming it fit to collaborate and commence mutually beneficial relationship with the University.

Meanwhile, in pursuance of its determination to spread its tentacles all over the world, the Institute has inaugurated its 55th District Society in

Malaysia.

Congratulating the interim Chairman of the District Society, Dr. Oluwatoyin Popoola FCA and members of his executive committee, Zakari reiterated that Popoola's leadership qualities, traits and skills were unquestionable as such qualified him for the job.

In his acceptance speech, Dr. Popoola assured that as usual, he would continue to use his wealth of experience to support the activities of the Institute both in Malaysia and Nigeria.

* * *

Integrity Has Remained ICAN's Watchword

The Institute has been eulogized for living up to its name by keeping to its promise of a lecture theatre to the University of Port Harcourt, thereby setting a standard of integrity for others to emulate.

The eulogy was given by the Vice Chancellor of the University of Port Harcourt, Prof. Ndowa Lale at the university campus during the commissioning of the Lecture Theatre donated to the University by ICAN.

Prof Lale praised the Council and management of the Institute for making possible the commissioning of the theatre

five months after the groundbreaking.

According to the VC, "ICAN is a worthy professional body to emulate, it promises and delivers. In my 25 years of service at the university, this is first time I am experiencing such a speed of work".

He said the University would ever remain grateful to the Institute, noting that the gesture would go a long way to improve on the successful deliverables particularly the vibrant accounting department.

In his own speech, the Head of department of accounting observed that

the donation of the lecture theatre to the school had demonstrated that ICAN had the best interest of the education sector of the country in mind.

He called on other well meaning professional bodies, religious organisations and philanthropist to emulate the kind gesture so as to put education in the right place.

In another development, ICAN members have been praised for applying diligence and integrity to the way they do their jobs.



ICAN Lecture Theatre at Uniport



Picture shows the ICAN President Ismaila Zakari unveiling the plaque of the 350 sitting capacity lecture theatre donated to the department of Accounting, University of Port Harcourt by ICAN, with him is the Vice Chancellor of UNIPORT Prof. Ndowa Lale and ICAN vice President, Razak Jaiyeola at the commissioning recently.

Adhere Strictly to Conduct of Professionalism, Zakari Tells AATWA members

The newly inducted members of the Association of Accounting Technicians West Africa (AATWA) have been charged to adhere strictly to the rules and conduct of professionalism.

The President of the Institute, Ismaila Zakari gave the admonition at the 47th induction ceremony for AATWA members at Amuwo Odofin, Lagos in December 2017. He advised the 650 inductees to adhere to the ethics of the profession and remain focused in order to succeed since they have chosen the best profession.

On his part, the guest speaker, Mr.

Blessing Ayemhere who was also an AATWA graduate enjoined the new members not to relent in the pursuance of their set goals.

Speaking on the topic, 'Strategic Positioning for Success', Ayemhere observed that sixty million Nigerians were unemployed but assured that all hopes were not lost.

He said, "The way to success is to free your potential. Your potential is the unlimited you, the limitless you. Success is about setting reasonable goals as without goals, you simply drift and flow on the current of life. Goals are the fuel in the furnace of achievement,"



L-R, Alhaji Razak Jaiyeola, Vice President, Institute of Chartered Accountants of Nigeria (ICAN); Mr. Blessing Ayemhere, Special Guest of Honour; Ismaila Zakari, President, ICAN and Nnamdi Okwuadigbo, 1st Deputy Vice President, ICAN during the induction of new members of the Association of Accounting Technicians West Africa (AATWA) of ICAN

* * * Police Academy Seeks Collaboration with ICAN

The Police Academy has signified its intention to partner with the Institute in order to balance and strengthen the accounting department of the Academy which has just received an interim accreditation from the National Universities Commission (NUC).

This was disclosed by a team from the Academy led by the Director, Academic Planning, Professor Sani Umar during a visit to ICAN in January. Umar disclosed that the Academy wishes to collaborate with the Institute since ICAN determines the standards of accountancy profession in the country.

He said, "Our visit is to discuss ways of partnering with ICAN, particularly for our accounting department. ICAN is a giant to us; we therefore seek assistance from you to accredit our accounting department in order to have a balanced and robust department."

The President of the Institute, Ismaila Zakari in his response assured the team of the Institute's willingness to partner with the Academy, noting that ICAN was established to regulate the accounting profession in Nigeria, train financial experts, and also

provide support for the country's educational sector. Therefore, it would partner with the Academy in the public interest.

He assured the team that ICAN would plan an accreditation visit to the Academy since it had a partial accreditation from the NUC and also provide the academy with books, laptops and accounting software if found

worthy.

He stated further that the Institute could sign a Memorandum of Understanding (MOU) on trainings with the Academy through its Audit and Forensic Faculty to train the Cadets in fraud prevention and detection in support of the Federal Government's anti corruption crusade.



President of the Institute, Ismaila Zakari flanked by the team from Nigeria Police Academy and ICAN team during the visit of the academy to ICAN in Lagos.

Ijebu Ode & District Organizes Quiz Competition at Catch-them-Young Programme

The Federal Government Girls College, Sagamu has emerged the winner of the 5th edition of the Catch-them-Young programme for secondary schools Quiz Competition organized by the Ijebu-Ode & District Society of ICAN.

The grand finale of the quiz competition which took place at Federal Government College, Odogbolu on February 6, 2018 had eight schools as finalists out of 29 schools that entered the competition few months ago.

In his advice to the students who gathered for the Catch-them-young programme, the President of the Institute, Ismaila Zakari advised the young students to pursue a career in accounting profession.

He noted that among the over 43,000 chartered accountants produced by the Institute are decision makers, business leaders, administrators as well as governors who stand tall among their pairs, excelling in their chosen career and contributing positively to the

economy.

'If you pursue accountancy, you will go places; you will be good ambassadors representing different spheres of the economy both in the public and private sectors. There is no reason why we should advise you to follow a profession that is not prosperous, accounting is prosperous', he added.

He noted that though the Institute's examinations can be seen as difficult, with good preparation, determination and diligence, candidates can pass the examinations easily, noting that the objective of the rigorous examinations is to mold the candidates to become better professionals preparing them for the task ahead.

He said that ICAN training and certificate can afford them the opportunity to set up their own business, be self employed and even become employers of labour.



Representative of Federal Government Girls College, winner of Quiz Competition, Miss Amaka Ossai receiving trophy from the ICAN President, Ismaila Zakari after the quiz competition organised by Ijebu-Ode District Society

* * *

ICAN Partners Caleb University on MCATI

The Institute and Caleb University, Imota, Lagos, have signed a Memorandum of Understanding on the Mutual Cooperation Agreement with Tertiary Institutions (MCATI), which is an initiative of ICAN aimed at deepening the standards of learning and dissemination of knowledge of accountancy in Nigerian tertiary institutions.

Explaining what MCATI is all about, the President of the Institute, Ismaila Zakari said it was collaboration between ICAN and Caleb University wherein the Institute's syllabus for qualifying professional examinations will be integrated with Caleb University's NUC approved curriculum for undergraduate accounting programme.

"The objective is primarily to deepen the standards and content of the Bsc. Accounting curriculum as well as the quality of dissemination of Accounting knowledge to the students so as to remarkably improve their learning experience", he added.

Speaking further, Zakari explained that the Institute's qualifying professional examinations syllabus is designed to develop candidates core technical, commercial and ethical skills and knowledge in a structured and rigorous way made up of 16 subjects broken down into three distinct levels.

He maintained that the successful completion of the ICAN examinations adequately equips

candidates with the necessary skills and training and a recognized global accounting qualification.

According to him, the mutual cooperation agreement requires that undergraduate accounting students will study using the integrated ICAN/NUC approved accounting curriculum and those who graduate from the accounting department of Caleb would be granted 11 subject exemptions as against 7 subjects exemptions granted to students whose universities are under the normal ICAN accreditation scheme.

"That represents full exemptions from Foundation and Skill levels of the ICAN professional examinations. Students who

successfully complete their undergraduate accounting degree programme, would be granted exemptions from all the 5 papers in Foundation and 6 papers in Skill levels of the Institute's examinations. That means they would be required to write just the 5 subjects of the professional level only to qualify as Chartered Accountants," he concluded.

In his response, the Vice Chancellor of the University, Professor Ayandegi Daniel Aina expressed gratitude to the Council of the Institute for counting the University worthy of the MCATI scheme. While expressing optimism that the scheme will be successful, he promised to execute the terms and conditions of the MOU to the letter.



Vice Chancellor, Caleb University, Professor Ayandegi Aina (left), ICAN President, Ismaila Zakari, signing a Memorandum of Understanding between the two organisations in Lagos

INSTRUCTIONS TO AUTHORS

Authors wishing to have their articles published in The Nigerian Accountant and ICAN Students' Journal are advised to adopt the following guidelines:

1. Articles must be well researched on contemporary issues in the field of:
.Accounting .Audit .Investigations .Forensic Accounting .Taxation and Fiscal Policy Management
.Consultancy .Information Communication Technology .Insolvency and Corporate Re-engineering .Public Finance .Corporate Finance .Banking .Insurance .Manufacturing .Capital Market .Articles from other disciplines e.g. Health/Medicine; Agriculture; Engineering; Education; Religion; Fashion; Construction; Oil and Gas etc are welcome.

Opinion articles would also be accommodated

2. All articles should be typed on standard A4 paper and must not exceed twenty pages in 12-point Time Roman font and double spaced.
3. The title page should include the title and author's contact information (no other page should include author's information).
4. The second page should include the title and an abstract of not more than 150 words.
5. The research paper must be properly referenced. The American Psychological Association style should be used in the following format:
 - a. In-text referencing: Author's name and year of work e.g. Lucey (1997) or (Lucey, 1997) at the end of sentence. Page numbers must be included for direct quotations e.g. (Lucey, 1997, p. 8).
 - b. List of references: arranged in alphabetical order in the author-date format. e.g.

Book Reference

Lucey, T. (1997). Management information systems (8th ed.). London: Letts Educational.

Journal Article Reference

Wainer, H. (1997). Improving tabular displays: With NAEP tables as examples and inspirations. *Journal of Educational and Behavioural Statistics*, 22, 1-30.

Internet Reference

Baker, F. M. & May, A. J. (2007). Survey research in accounting. Unpublished manuscript retrieved January, 2008 from <http://www.maybaker.org/journals/webref.html>.

6. Every page must be numbered.
7. Two hard copies of the paper should be delivered to the Editor, Corporate Communications & Marketing, The Institute of Chartered Accountants of Nigeria, Plot 16, Idowu Taylor Street, Victoria Island, P.O. Box 1580, Lagos, while the soft copy saved in Microsoft word 2007 should be forwarded to:

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Activity Based Costing (ABC) for Decision Making

By Dr. Ben Ukaegbu

Introduction

Activity Based Costing (ABC) is a very significant refinement of the cost accounting system. An activity is any event, task, unit that drives up the costs of a business. If the department, product or service uses more of any activity, event, task or unit then that will drive up the costs that it (the product) sustains. It is stated by the advocates of ABC that it leads to a more equitable costing environment and that each product or service is charged in accordance with the costs that each actually incurs. They maintain that ABC eliminates the proposition of the 'cross-subsidisation' of one product by some other product or products.

Product Cost Cross-subsidisation

A simple example of product cross-subsidisation is given below: Assume, Bako, Obi, Kunle and Etim are four friends who met at a local restaurant. Instead of paying for what each individual consumes, the friends decided to 'average' the bill. Assume further that their consumption was as follows:

	Main course	Desert	Drinks	Total
	N	N	N	N
Bako	55.00	0.00	20.00	75.00
Obi	100.00	40.00	70.00	210.00
Kunle	75.00	20.00	40.00	135.00
Etim	<u>70.00</u> <u>20.00</u>	<u>30.00</u>	<u>120.00</u>	
Total	<u>300.00</u> <u>80.00</u>	<u>160.00</u>	<u>540.00</u>	



Simple Average (Absorption)

Based on a simple average, each of the friends will be expected to pay N135.00 (absorption costing). However, note that Obi has consumed N210.00 of food and drinks and that Bako has only consumed N75.00 of food and drinks. It means that Bako is cross-subsidising Obi. This is all well and good for Obi who obviously knows how to enjoy himself but what about 'poor' miserable Bako who has not even had a desert but has made a contribution to the N60.00 spent by his colleague.

The refinement of a costing system endeavours to track as much as of the costs as possible directly to the product, service or department that generates the cost. With the example, above the refinement process is quite simple because instead of the bill being 'averaged' it just leads to each colleague paying according to the amount of actual costs incurred in consuming the direct items on the menu. If this were the case, then the notion of cross-subsidisation would not arise.

ABC arose from a dissatisfaction with the information that is provided by traditional overhead absorption methods. An ABC system looks more carefully at what actually causes overhead costs and attempts to allocate overheads more realistically to the products produced/services provided.

How ABC works

The first step in an ABC exercise is to analyse the activities (rather than departments as required by absorption costing) that are undertaken in an organisation. Activities may be consulting with clients, maintaining client accounts, ordering stationery supplied and so on.

Once the activities have been identified, the next step is to determine the cost driver for the activity. A cost driver causes

the costs of the activity to alter. For example, the cost driver for maintaining client accounts might be the number of clients currently on a company's books.

Each activity is treated as a cost pool and the costs are collected in much the same way as with a traditional cost centre system. Each total cost pool is then divided by the appropriate number of cost drivers to find the cost per cost driver. The number of cost drivers a product (or service) causes is then identified (which is equivalent to the degree by which the products/service has caused the costs of the activity to change). The cost per cost driver is then multiplied by the appropriate number of cost drivers to determine the share of the activity's cost the product/service must bear.

When to introduce ABC

ABC should only be introduced if the additional information it provides will result in action that will increase the organisation's overall profitability. This is most likely to occur in situations such as the following:

- (i) when the ABC analysis differs significantly from the traditional absorption costing analysis
- (ii) production overheads are high in relation to direct costs, especially direct labour
- (iii) overhead resource consumption is not just driven by production volume
- (iv) there is wide variety in the product range; and
- (v) the overhead resource input varies significantly across the product range.

Demonstration Question

The scenario below is used to illustrate the finer points of ABC system.

Etudoko plc manufactures three types of computer units at the same factory: the BX unit; the MPZ unit and the Sedam mode. It sells the units throughout the ECOWAS region. In response to market pressures, Etudoko plc has invested heavily in new manufacturing technology in recent years and, as a result, has significantly reduced the size of the workforce.

Historically, the company has allocated all overhead costs using total direct labour hours, but is now considering introducing Activity Based Costing (ABC). The company's accountant has produced the following analysis:

	Annual Output (units)	Annual Direct Labour hours	Selling price (N per unit)	Raw material cost (N per unit)
BX	2,000	200,000	4,000	400
MPZ	1,600	220,000	6,000	600
SEDAM	400	80,000	8,000	900

The three cost drivers that generate overheads are:

- Deliveries to Retailers** - the number of deliveries of units to retail showrooms
- Set-ups** - the number of times the assembly line process is re-set to accommodate a production run of different type of unit
- Purchase orders** - the number of purchase orders.

The annual cost driver volumes relating to each activity and for each type of computer units are as follows:

	Number of Deliveries to Retailers	Number of Set-ups	Number of Purchase Orders
BX	100	35	400
MPZ	80	40	300
SEDAM	70	25	100

The annual overhead costs relating to these activities are as follows:

	N
Deliveries to Retailers	2,400,000
Set-up Costs	6,000,000
Purchase Orders	3,600,000

All direct labour is paid at N5.00 per hour. The company holds no inventories. At a Board meeting there was some disagreement over the introduction of ABC.

Required:

Calculate the total profit on each of Etudoko plc's three types of product using each of the following methods to attribute overheads:

- (i) The existing method based upon labour hours; and
- (ii) Activity based costing.

Suggested Solutions:

(i) Labour Hours			
Total overhead cost	=	N12,000,000	
Total labour hours	=	500,000 hours	
Overhead per labour hr.	=	N12,000,000/500,000 =N24.00	
		BX	MPZ
Direct labour (N5.00 p/h)		1,000,000	1,100,000
Materials @ (N400/600/900)		800,000	960,000
Overhead (@ N24.00)		<u>4,800,000</u>	<u>5,280,000</u>
Total costs		<u>6,600,000</u>	<u>7,340,000</u>
		SEDAM	
		400,000	
		360,000	
		<u>1,920,000</u>	
		<u>2,680,000</u>	
Output (units)		2,000	1,600
Cost per unit		N3,300.00	N4,587.50
Selling price		<u>N4,000.00</u>	<u>N6,000.00</u>
Profit/(loss)		N700.00	N1,412.5
		N1,300.00	
Total Profit for the company		N1,400,000	N2,260,000
	=	N4,180,000	
(ii) Activity Based Costing:			
Deliveries to Retailers:	N2,400,000/250 =	N9,600.00	
Set-ups	N6,000,000/100 =	N60,000.00	
Deliveries Inwards (purchase order)	N3,600,000/800 =	N4,500.00	
		BX	MPZ
Direct labour (N5.00 p/h)		1,000,000	1,100,000
Materials @ (N400/600/900)		800,000	960,000
		SEDAM	
		400,000	
		360,000	
Overheads:			
Deliveries at N9,600.00		960,000	768,000
Set-ups at N60,000		2,100,000	2,400,000
Purchase Orders at N4,500		<u>1,800,000</u>	<u>1,350,000</u>
		<u>6,660,000</u>	<u>6,578,000</u>
		SEDAM	
		672,000	
		1,500,000	
		<u>450,000</u>	
		<u>3,382,000</u>	
Output (units)		2,000	1,600
Cost per unit		N3,333.00	N4,111.25
Selling price		<u>N4,000.00</u>	<u>N6,000.00</u>
Profit/(loss)		N670.00	N1,888.75
		(N455.00)	
Total Profit for the company		N 1,340,000	N3,022,000
	=	N4,180,000	

The four products are similar and are usually produced in production runs of 20 units and sold in batches of 10 units.

The production overhead is currently absorbed by using a machine hour rate, and the total of the production overhead for the period has been analysed as follows:

	N
Machine department costs (rent, business rates)	10,430
Set-up costs	5,250
Stores Receiving	3,600
Inspection/Quality control	2,100
Materials handling and despatch	4,620

You have ascertained that the 'cost drivers' to be used are as listed below for the overhead costs shown:

Cost	Cost Driver
Set up costs	Number of production runs
Stores receiving	Requisitions raised
Inspection/quality control	Number of Production runs
Materials/handling and despatch	Orders executed.

Note that ABC should not change the overall company's profit but could change the product individual profit as exemplified above.

Test Your Knowledge on ABC: If you encounter problems – contact me on beukaegbu@ican.org.ng

Below is an adapted Past Examination Question of a similar level as ICAN Performance Management.

Having attended a Management course on ABC, you decide to experiment by applying the principles of ABC to the four products currently made and sold by your company. Details of the four products and relevant information are given below for one period:

Product	A	B	C	D
Output in units	120	100	80	120
	N	N	N	N
Costs per unit:				
Direct material	40	50	30	60
Direct labour	28	21	14	21
Machine hours (per unit)	4	3	2	3

The number of requisitions raised on the Stores was 20 for each product and the number of orders executed was 42, each order being for a batch of 10 of a product.

Required:

- (a) Calculate the total costs for each product if all overhead costs are absorbed on a machine hour
- (b) Calculate the total costs for each product, using ABC
- (c) Calculate and list the unit product costs from your figures in (a) and (b) above, to show the differences and to comment briefly on any conclusions which may be drawn which could have pricing and profit implications.

(CIMA adapted)

Our goal is to ensure success in ICAN exams. We have, therefore, provided solutions to some past questions to guide candidates in future exams. Although these suggested solutions have been published under the Institute's name, they do not represent the views of the Council of the Institute. ICAN will, therefore, not enter into any correspondence about them.

PROFESSIONAL LEVEL EXAMINATION – MAY 2017 CORPORATE REPORTING

Time Allowed: 3 hours

INSTRUCTION: YOU ARE REQUIRED TO ANSWER FIVE OUT OF SEVEN QUESTIONS IN THIS PAPER

SECTION A: COMPULSORY (30 MARKS)

QUESTION 1

Rapuya Plc. is a Nigerian public limited company operating in the mining industry. The draft Statements of Financial Position of Rapuya Plc., and its two subsidiaries, Puta Limited and Soma Limited as at April 30, 2017 are as follows:

	Rapuya N.m	Puta N.m	Soma Defa.m
Non-Current Assets			
Property, Plant and Equipment	740	220	760
Investments in subsidiaries			
Puta	226	-	-
Soma	184	-	-
Financial Assets	30	14	100
	1,180	234	860
Current Assets	236	200	660
Total Assets	1,416	434	1,520
Equity			
Share Capital	316	76	400
Retained Earnings	604	112	600
Other Components of Equity (OCE)	14	8	-
	934	196	1,000
Non-Current Liabilities	112	84	320
Current Liabilities	370	154	200
Total Liabilities	482	238	520
Total Equity and Liabilities	1,416	434	1,520

The following information is relevant to the preparation of the group financial statements:

- (i) On May 1, 2016 Rapuya acquired 52% of the ordinary shares of Soma Limited a foreign subsidiary. The retained earnings of Soma Limited on this date were 220million defas. The fair value of the identifiable net assets of Soma Limited on May 1, 2016 was 990million defas. The excess of the fair value over the net assets of Soma Limited is due to

an increase in the value of non-depreciable land.

Rapuya Plc. wishes to use the „full goodwill“ method to consolidate the financial statements of Soma. The fair value of the non-controlling interest in Soma Limited at May 1, 2016 was 500million defas.

Soma Limited is located in Tome, a small country in West Africa and operates a mine. The income of Soma Limited is denominated and settled in defas. The output of the mine is routinely traded in defas and its price is determined initially by local supply and demand. Soma Limited pays 30% of its costs and expenses in naira with the remainder being incurred locally and settled in defas. Soma's management has a considerable degree of authority and autonomy in carrying out the operations of Soma Limited and is not dependent upon group companies for financial support. The Finance Controller is not certain from the above whether the defas or naira should be taken as the functional currency of Soma Limited.

There have been no issue of ordinary shares and no impairment of goodwill since acquisition.

- (ii) Also on May 1, 2016, Rapuya Plc. had acquired 70% of the equity interests of Puta Limited. The purchase consideration amounted to N226million which Rapuya Plc. paid through bank transfer in compliance with the cashless policy of the Federal Government of Nigeria. The fair value of the identifiable net assets recognised by Puta Limited was N240million excluding the patent below. The identifiable net assets of Puta Limited at May 1, 2016 included a brand which had a fair value of N8million. This had not been recognised in the financial statements of Puta Limited. The brand is estimated to have a useful life of four years. The retained earnings of Puta Limited were N98million and other components of equity were N6million at the date of acquisition. The remaining excess of the fair value of the net assets is due to an increase in the value of non-depreciable land.

Rapuya Plc. wishes to use the „full goodwill“ method in consolidating the financial statements of this subsidiary. The fair value of the non-controlling interest in Puta Limited was N92million on May 1, 2016. There have been no issue of ordinary shares since acquisition and goodwill on acquisition is not impaired.

(iii) The following exchange rates are relevant for the preparation of the group financial statements:

	Defas to N
May 1, 2016	3:1
April 30, 2017 2.	5:1
Average for year to April 30, 2017	2.9:1 3

Required:

- (a) Advise the Finance Controller on what currency should be taken as the functional currency of Soma Limited applying the principles set out in IAS 21 - The Effects of Changes in Foreign Exchange Rates. (5 Marks)
- (b) Prepare a consolidated statement of financial position of the Rapuya Group as at April 30, 2017, in accordance with International Financial Reporting Standards (IFRS). (Show all workings) (25 Marks)
(Total 30 Marks)

QUESTION 3

a. The economic environment in the country has been very harsh and it is now a common knowledge that the economy is in recession. This in turn may impact on the income generating capacity of assets of companies especially in those industries experiencing a downturn in fortunes. This calls for the financial reporting regulators to pay attention to evidence of impairment of assets in the financial statements submitted by these companies.

Required:

Discuss briefly the reasons why the Financial Reporting Council of Nigeria (FRCN) should focus on the impairment of non-financial assets and deferred tax assets of listed companies in Nigeria in this period of slow economic growth, setting out the key areas which entities should focus on when accounting for these items.
(7 Marks)

b. IAS 36 stipulates how a company should test for impairment of assets.

A multinational oil marketing company operating in Nigeria is not sure how to test for impairment of its assets especially those that do not generate cash flows that are independent of other assets.

Required:

- (i) Identify TWO external and TWO internal indicators that an asset of the multinational oil company may have been impaired. (2 Marks)
- (ii) Briefly discuss how the multinational oil company should test for impairment of assets that do not generate independent cash flows. (6 Marks)

c. A cash generating unit holds the following assets:

	N.Million
Goodwill	160
Patent	320
Property, plant and equipment	480

An annual impairment review is required as the cash generating unit contains goodwill. The most recent review assesses its recoverable amount to be N720million. An impairment loss of N240million has been incurred and has been recognised in profit or loss.

Required:

Show how the value of the assets held by the cash generating unit will change after the impairment test based on the information provided above. (5 Marks)
(Total 20 Marks)

QUESTION 4

Dango Plc is a conglomerate company operating in Nigeria with diverse interest across Africa. It prepares its financial statements in accordance with International Financial Reporting Standards with year ending September 30. The following transactions relate to Dango Plc.

- (a) In February 2016, Dango Plc won a significant new contract to supply large quantities of rice to the government of Guyama, a small West African Country for the next two years. Under the terms of the arrangement, payment is made on delivery in cash once goods have been cleared by customs.

The rice will be delivered in batches four (4) times every year, on April 1, July 1, October 1 and January 1. The batches for April 1, 2016 and July 1, 2016 amounting to N250million and N380million respectively were delivered and paid. Dango incurred significant costs on customs duties for the first batch of delivery. The October 1 batch valued at N520million was shipped prior to the year-end but delivered and paid for on October 1, 2016.

(8 Marks)

- (b) On October 1, 2010 a 12-year licence was awarded to Dango Plc by the Federal Government to be the sole manufacturer of a chemical used in the Nigerian pharmaceutical industry. The licence was recognised on that date at its fair value of N196million. The award of the licence motivated Dango Plc in 2011 to purchase a division of another Nigerian competitor company making similar products. Goodwill of N240million was recognised on purchase of the division. Dango Plc merged the activities of the newly acquired division with its own to create a specialist chemical sub-division which it now classified as a separate cash-generating unit. By 2016, the revenue of this cash generating unit now amounts to 5% of the Group's revenue. (4 Marks)
- (c) Dango Plc. buys raw materials from overseas suppliers. It has recently taken delivery of 1,000 units of components X, used in the production of chemicals.

The quoted price of component X was N1,200 per unit, but Dango Plc. has negotiated a trade discount of 5% due to the size of the order.

The supplier offers an early settlement discount of 2% for payment within 30 days and Dango Plc. intends to achieve this.

Import duties of N60 per unit must be paid before the goods are released through customs.

Once the goods are released, Dango Plc. must pay a delivery cost of N5,000 to have the components taken to its warehouse.

Required:

Write a report to the directors advising them on the correct accounting treatment of the above transactions in the financial statements for the year ended September

30, 2016 in accordance with the provisions of the relevant standards.

Note: You may consider the relevance of the following standards to the transactions: IAS 20, IAS 2, IAS 38, IFRS 3 and IFRS 15.

(8 Marks)

(Total 20 Marks)

SECTION C: YOU ARE REQUIRED TO ANSWER ANY TWO OUT OF THREE QUESTIONS IN THIS SECTION (30 MARKS)

QUESTION 5

An annual report is a comprehensive report on a company's activities intended to give information about the company's activities and financial performance. In addition to the audited financial statements, annual reports contain a great deal of extra information which could be financial and non-financial. The extra information provided may be required by law, hence, it is mandatory. However, many companies provide additional information not required by law, on voluntary basis.

Required:

- a. Identify THREE of such reports that are voluntarily disclosed in annual reports of Nigerian companies. (3 Marks)
- b. Why would a company disclose information not required by law in its annual report? Propose FOUR reasons for and give any TWO limitations of such disclosures. (7 Marks)
- c. Institutional investors, if not all investors, need information about corporate governance in order to make rational and reasonable investment decisions. As such, the Securities and Exchange Commission (SEC) of Nigeria requires that the annual reports of all quoted companies should include a corporate governance report.

Required:

Identify the contents of such corporate governance report. (5 Marks)

(Total 15 Marks)

SOLUTION 1

(a) ADVICE ON THE FUNCTIONAL CURRENCY OF SOMALTD

The financial controller should note the following for consideration:

According to IAS 21 – The Effects of Changes in Foreign Exchange Rates, the functional currency is the currency of the primary economic environment in which the entity operates. This has the implication that the functional currency should be determined at the entity level. The primary economic environment in which an entity operates is normally the one in which it primarily generates and expends cash.

Soma’s functional currency should be determined by considering the following factors in accordance with IAS 21:

(i) The currency:

- that mainly influences the determination of the sales prices for goods and services (this will often be the currency in which sales prices for its goods and services are denominated and settled); and
- of the country whose competitive forces and regulations mainly the sales prices of its goods and services.

(ii) The currency that mainly influences labour, material and other costs of providing goods or services (this will often be the currency in which such costs are denominated and settled).

Other factors that may also provide evidence of an entity’s functional currency include:

- The currency in which funds from financing activities (i.e. issuing debt and equity instruments) are generated.
- The currency in which receipts from operating activities are usually retained.

Additional factors to be considered are:

- The degree of autonomy of a foreign operation. An example is when the foreign operation only sells goods imported from the reporting entity and remits the proceeds to it.
- Whether transactions with the reporting entity are a high or a low proportion of the foreign operation’s

activities.

- Whether cash flows from the activities of the foreign operation directly affect the cash flows of the reporting entity and are readily available for remittance to it.
- Whether cash flows from the activities of the foreign operation are sufficient to service existing and normally expected debt obligations without funds being made available by the reporting entity.

In Soma’s case, sale prices are influenced by local demand and supply, and are traded in defa.

Analysis of the revenue stream points to the defa as being the functional currency. The cost analysis is variable as the expenses are influenced by the defa and the Naira.

Soma’s management operates with a considerable degree of authority and autonomy in carrying out the operations of Soma and is not dependent upon group companies for financial support. Consideration is given to whether the foreign operation generates sufficient functional cash flows to meet its cash needs, which in this case Soma does, as it does not depend on the group for finance.

Therefore, the functional currency of Soma will be the defa as the revenue is clearly influenced by the defa, and although the expenses are mixed, secondary factors point to the fact that the functional currency is different to that of Rapuya Plc.

(b) Rapuya Plc

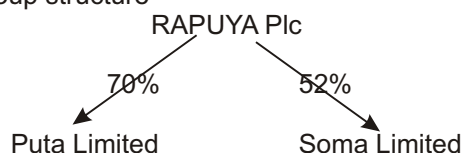
Statement of financial position as at April 30, 2017

	N.m
PPE	1,472.00
Goodwill (wk 3&4)	94.80
Intangible asset -patent wk 5	6.00
Financial asset	<u>84.00</u>
	1,656.80
Current assets	<u>700.00</u>
	2,356.80
Equity and liabilities	
Share capital	316.00
Retained earnings (wk 7)	727.91
Other components of equity (wk 8)	<u>15.40</u>
	1,059.31
Non-controlling interest (wk 9)	<u>369.49</u>
	1,428.80

Non-current liabilities	324.00
Current liabilities	<u>604.00</u>
	<u>2,356.80</u>

Workings

1. Group structure



2. Translation of the financial statements Soma

Item	Defas	Rate	N.m
Property, plant and equipment	760.00	2.50	304.00
Financial assets	100.00	2.50	40.00
Current assets	660.00	2.50	264.00
	1,520.00		608.00
Share capital	400.00	3.00	133.33
Retained earnings:			
- pre-acquisition	220.00	3.00	73.33
- Post acquisition (including exchange gain)	380.00		193.34
Non-current liabilities	320.00	2.50	128.00
Current liabilities	200.00	2.50	80.00
	1,520.00		608.01

3. Goodwill-Putu

			N.m
Fair value Consideration transferred		226.00	
Fair value of NCI		92.00	
		318.00	
Net assets acquired			
Total Fair of Net asset at acq	240.00		
Add: Patent	<u>8.00</u>		
Fair value of consideration transferred		248.00	
Goodwill		<u>70.00</u>	

4. Goodwill-Soma

Rate	N.m	Defas	
Consideration transferred (N184 x 3)	552.00	3.00	184.00
NCI at fair value	<u>500.00</u>	3.00	<u>166.67</u>
	1,052.00		350.67
Less: Fair value of net asset at acq.	<u>990.00</u>	3.00	(330.00)
Goodwill May 1, 2016	62.00	3.00	20.67
Exchange gain			<u>4.13</u>
Goodwill April 30, 2017	62.00	2.50	24.80

5. Fair value Adjustments . Putu

Fair value of identifiable assets	240.00
Carrying amount net assets	
Share capital	76.00
Retained earnings	98.00
Other components of equity (8 - 2)	6.00
Fair value land	60.00
Dr Land and Cr OCE with N60m	

6. Fair value Adjustments . Soma	Defas	Rate	N.m
Fair value of identifiable assets	990.00		
Share capital	400		
Retained earnings	220	620.00	
Fair value - Adj. Land May 1, 2016	370.00	3.00	123.33
Fair value Adj. - Land April 30,2016	370.00	2.50	148
Exchange gain as the land is non-depreciable			24.67

7. Retained earnings

	Rapuya N.m	Putu N.m	Soma N.m
As per question	604.00	112.00	266.67
Amortisation patent		(2.00)	
Fair value Land Exchange Gain Soma			24.67
Pre-acq - per question		(98.00)	
Pre-acq - as translated (wk 2)			(73.33)
Post acquisition retained profit		12.00	218.01
Putu share - 70% x 12	8.40		
Soma share - 52% x 218.01	113.36		
Share of Exchange gain on goodwill			
52% x 4.13	<u>2.15</u>		
	727.91		

8. Other Components of Equity (OCE)

	Rapuya N.m	Putu N.m
As per question	14.00	8.00
Pre-acquisition		(6.00)
Group's share 70% x 2	1.40	
	15.40	

9. Non controlling Interest

	Putu N.m	Soma N.m	NCI
At acquisition (wk 3 and wk 4)	92.00	166.67	
NCI Share of post acquisition profit			
Putu (wk 7) 30% x 12	3.60		
Soma (wk 7) 48% x 218.01		104.64	
Post acq OCE 30% x 2	0.60		
Exchange gain on goodwill (48% x 4.13)		1.98	
Acquisition of 10% of NCI	<u>96.20</u>	<u>273.29</u>	<u>369.49</u>

EXAMINER'S REPORT

The question tests principles that determine functional currency in accordance with IAS 21 and preparation of consolidated statement of financial position in accordance with IFRS.

Candidates' understanding of Part (a) of the question was fair. However, all the candidates attempted part (b) of the question and most of them performed above

average.

The commonest pitfall of the candidates in part (a) was their inability to mention the factors that determine the functionality of currency. That of part (b) was the inability to calculate goodwill arising on consolidation and the related non-controlling interest (NCI).

Candidates are advised to pay more attention to this section of the syllabus for better performance in future examination.

MARKING GUIDE

SOLUTION 1	MARKS	MARKS
a. Identification of any four factors from IAS 21 @ 1 mark each Conclusion/Advice based on above	4	5
b. Correct postings in the consolidated statement of financial Position @ ½ mark each	5	
c. Correct entries in the working notes @ ¼ mark each	<u>20</u>	<u>25</u>
Total marks		<u>30</u>

SOLUTION 3

a. Impairment of non-financial assets and deferred tax assets

The following are the reasons why Financial Reporting Council of Nigeria (FRCN) should focus on the impairment of non-financial assets and deferred tax of listed companies:

- Particular attention should be paid to the valuation of goodwill and intangible assets with indefinite life spans.
- The entity should focus on certain specific areas including cash flow projections, disclosure of key assumptions and judgements, and appropriate disclosure of sensitivity analysis for material goodwill and intangible assets with indefinite useful lives.
- IAS 36 Impairment of Assets points out that greater weight should be given to external evidence when

determining the best estimate of cash flow projections.

The following are the key areas which entities should focus on when accounting for these items:

- A continuous period of slow economic growth could indicate to regulators that non-financial assets will continue to generate lower than expected cash flows, especially in those industries experiencing a downturn in fortunes.

“ In measuring value-in-use, cash flow projections should be based on reasonable and supportable assumptions which represent the best estimate of the range of future economic conditions.

- Each key assumption should be consistent with external sources of information, or there should be disclosure of how these assumptions differ from experience or external sources of information.
- Such an economic climate could result in the recognition of tax losses or the existence of deductible temporary differences where perhaps impairments are not yet deductible for tax purposes.
- The recognition of deferred tax assets requires detailed consideration of the carry forward of unused tax losses, whether future taxable profits exist, and the need for disclosing judgements made in these circumstances.
- IAS 12 Income Taxes limits the recognition of a deferred tax asset to the extent that it is probable that future taxable profits will be available against which the deductible temporary difference can be utilised.
- IAS 12 states that the existence of unused tax losses is strong evidence that future taxable profit might not be available. Therefore, recent losses make the recognition of deferred tax assets conditional upon the existence of convincing other evidence.
- The probability that future taxable profits will be available to utilise the unused tax losses will need to be reviewed and if convincing evidence is available, there should be disclosure of the amount of a deferred tax asset and the nature of the evidence supporting its recognition.

It is particularly relevant to disclose the period used for the assessment of the recovery of a deferred tax asset

as well as the judgements made.

b. IAS 36 "Impairment of assets".

(i) Indications that an asset or group assets may have been impaired

External factors

- A significant decrease in the market value of an asset in excess of normal passage of time.
- A significant adverse changes in the market or business in which the asset is used.
- Adverse changes to the technology, economical or legal environment of the business.
- An increase in market interest rates likely to affect the discount rate used in calculating value in use.
- The carrying amount of the entity's net assets exceeds its market capitalisation.
- Where interest rates increase adversely affecting recoverable value
- Unexpected changes in government policies that could affect the business adversely.

Internal factors

- Physical damage or obsolescence has occurred.
- Adverse changes to the method of use of the asset
- Where indications suggest that the economic performance of the asset will be worse than expected.
- Where management intends to re-organise the entity.
- Where actual cash flows are less than estimated cash flows if an asset is appraised in terms of value.

(ii) Test for impairment of an asset that does not generate independent cash flows

Where the oil company's asset does not generate independent cash flows i.e. cash inflows that are largely independent of those from other assets, it will be assumed that:

- The recoverable amount of that individual asset cannot be determined;
- If it is not possible to estimate the recoverable amount of an individual asset, an entity shall determine the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit);
- In such cases, value in use and, therefore,

recoverable amount, can be determined only for the asset's cash-generating unit, and impairment is then tested at the level of cash generating unit for such asset;

- An impairment loss shall be recognised for a cash-generating unit if, and only if, the recoverable amount of the unit is less than the carrying amount of the unit or group of units;
- The impairment loss shall be allocated to reduce the carrying amount of the assets of the unit or in the following order:
 - first, to reduce the carrying amount of any goodwill allocated to the cash-generating unit, and
 - then, to the other assets of the unit; pro rata on the basis of the carrying amount of each asset in the unit.

These reductions in carrying amounts shall be treated as impairment losses on individual assets and recognised; and

- In allocating an impairment loss in accordance with IAS 36, an entity shall not reduce the carrying amount of an asset below the highest of:
 - its fair value less costs to sell (if determinable);
 - its value in use (if determinable); and
 - zero.

(c) Impairment is calculated as the higher of

Carrying amount	960
Recoverable amount	720
Impairment	240

Allocation of the impairment

Asset	Carrying amount	Impairment	Carrying amount after impairment
	N.million	N.million	N.million
Goodwill	160	160	----
Patent	320	32	288
Property, plant and Equipment	480	48	432

EXAMINER'S REPORT

The question tests candidates' understanding of IAS 36 and IAS 12 with particular emphasis on impairment as it relates to non-financial assets.

About 75% of the candidates attempted the question but did not display good understanding of the requirements of the question, hence, performance was very poor.

Candidates are advised to read thoroughly all the International Financial Reporting Standards specified in the ICAN Study texts for better performance in future examinations.

MARKING GUIDE

	MARKS	MARKS
a. Impairment of non-financial assets and deferred tax asset (any 7 points @1 mark each)	7	
b. Identify 2 external and 2 internal indicators		
i. Two external indicators (any 4 points @ ¼ mark each)	1	
Two internal indicators (any 4 points @ ¼ mark each)	1	
		2
ii. Test for impairment of an asset that does not generate independent cash flows (6 points at 1 mark each)	6	
c. Calculation of the value of the assets held after the impairment test	5	
Total		13 20

SOLUTION 4

REPORT

From: Mr. ABC
To: The Directors
Dango Plc
Date: May 16, 2017

Subject: Relevant accounting treatments of transactions

The purpose of this report is to explain the relevant accounting treatments on mentioned transactions in accordance to the applicable accounting standards and International Financial Reporting Standards (IFRS) such as IAS 20, IAS 38, IFRS 3 and IFRS 15. The explanations are as follows:

(a) Revenue recognition: In accordance with IFRS 15, Revenue from Contracts with Customers, the core principle is delivered in a five step model framework

viz:

- IFRS 15 requires revenue to be recognised when (or as) the performance obligation is satisfied;
- The performance obligation is satisfied when an entity transfers a promised goods or service to a customer;
- The good or service is considered transferred when (or as) the customer obtains control of the good or service (i.e. the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset);
- To determine the point in time when a customer obtains control of a promised asset and an entity satisfies a performance obligation, the entity would consider indicators of the transfer of control; and
- Indicators of transfer will include the customer having the significant risks and rewards of ownership of the asset and the customer accepting the asset.

Applying the above to the Dango case, the performance obligation and transfer of control will be deemed to take place on delivery of the rice of the government of Guyama. This is when the customer takes on the risks and rewards and accepts the goods.

Therefore, in the year ended September 30, 2016, revenue should be recognised for the April 1, 2016 (N250million) and July 1, 2016 deliveries (N380million) making total revenue of N630million. 26

Based on the above, revenue will not be recognised for the October 1, 2016 delivery as it does not take place until after the year end.

The significant costs incurred by Dango on customs for the first batch of delivery should be expensed in line with the matching concept.

Costs incurred in relation to the October 1, 2016 delivery should be held as work in progress in the statement of financial position until revenue is recognized in the year ended September 30, 2017.

(b) In compliance with IAS 38, the license awarded by the Federal Government to Dango Plc on October 1, 2010, which was recognized on that date at its fair value i.e. N196million, should be amortized over its useful life of 12 years. It should be noted that fair value implies the price that would be received to sell an asset or paid to transfer or settle a liability in an orderly transaction between market participants at the measurement date.

Goodwill of N240million was created as a result of business combination (purchase of division). The goodwill created in this manner should be recognized in the financial statements. Under IFRS 3 "Business combination" goodwill is the excess of the purchase consideration over the fair value of the acquiree's identifiable net assets. Once recognized, goodwill is held indefinitely and will not be amortized but will be subjected to annual impairment review.

Also, according to IAS 38, all internally generated goodwill should not be recognized in the financial statements.

A cash generating unit according to IAS 38 is the smallest identifiable unit that generates independent cash-flows. There is no requirement by IAS 38 that it must constitute a minimum revenue threshold before such classification as a cash generating unit can be made.

(c) Valuation of Inventory as at September 30, 2016

According to IAS 2 "Inventory", inventory should be valued or measured at the lower of cost and net realisable value. Based on IAS 2 "Inventory", cost of inventory includes the purchase price and all directly attributable costs incurred in bringing the item of inventory to its current location and saleable condition. IAS 2 states that "the cost of inventories shall comprise all cost of purchase, cost of conversion and other costs incurred in bringing the inventories to their present location and condition".

Calculation of cost of inventory

	N
Purchase price (1,000 units x N1,200)	1,200,000
Less trade discount (5% x N1,200,000)	<u>(60,000)</u>
Net purchase price	1,140,000
Import duties (N60 x 1,000 units)	60,000
Delivery costs	<u>5,000</u>
	<u>1,205,000</u>

Note: It should be noted that purchase price excludes any settlement discounts and is the cost after deduction of trade discount. This implies that purchase cost of inventory involves deduction of trade discount, but settlement discount is irrelevant.

The cash discount of 2% represents discount received and should not affect inventory valuation but should be recognised as an income in the statement of profit or

loss.

Conclusion

The provisions of IFRS on the correct treatment of revenue for contracts with customers, the recognition of internally generated goodwill and valuation of inventory has been dealt with in the above explanation for Dango Plc. to apply in the financial statements.

EXAMINER'S REPORT

The question tests the understanding of the correct application of the provisions of International Financial Reporting Standards (IFRS), that are relevant to scenarios illustrated in the question.

About 40% of the candidates attempted the question and they demonstrated poor understanding of the requirements of the question, therefore resulting in poor performance.

Commonest pitfall was the inability of the candidates to apply the specific provisions of IAS 20, IAS 2, IAS 38, IFRS 3 and IFRS 15 to practical situations.

Candidates are advised to understand the IFRS in-depth for better performance in future examinations.

MARKING GUIDE

	MARKS	MARKS
a. Core Principle of Revenue recognition Main points listed on IFRS 15 (any 3@ 1 mark each) (any five @ 1 mark each)	3 5	8
b. Explanation relating to Federal Government license (any three parts @ 1 mark each)	3	
Goodwill created under business combination	1	4
c. Explanation on IAS 2 "Inventory" Computation of Purchase cost of inventory	1½ 5	
Explanation regarding trade discount and settlement discount	1½	8
Total		20

SOLUTION 5

- a. Identification of reports that are voluntarily disclosed in annual reports of Nigerian companies:
- Statement of corporate governance;
 - Environmental and social report;
 - Report on corporate and social responsibility/Sustainability Report;
 - Five-year Financial Summary;
 - Key Performance Indicator (KPI);
 - Value added statement;
 - Chairman’s report; and
 - Statement of Director’s responsibilities.

b. A company would disclose information not required by law in its annual report for the following reasons:

- As a marketing and public relations tool;
- It enhances the level of transparency upon which the financial information is produced;
- It helps in projecting an entity as a better managed company;
- It enhances the demand for an entity’s shares as investors tend to allocate more capital to a more transparent company;
- To build goodwill or enhance reputation; and
- As a competitive advantage strategy.

Limitations:

- The company can decide what to include in the report and what to leave out; the reality you see is the reality the company wants you to see;
- Since such voluntary disclosures are not regulated by laws or standards, such disclosures tend to lack uniformity and standardization;
- The information is often presented in a very positive form, as public relations for investors, and might not be entirely reliable;
- Information overload; and
- Window dressing (Creative Accounting).

c. The contents of corporate governance report are:

- Compliance with laws and regulations;
- The Board Composition;
- Role of the Board;
- Directors’ Interest in Contracts;
- Board Meetings;
- Board changes;
- Committees of the Board;

- Roles and responsibilities of the Board committees and the discharge of such;
- Control Environment;
- Induction and Training;
- Performance Evaluation process;
- Code of Business Conduct and Code of Governance for Directors;
- Human resource policies, internal management structure, relations with employees, employee share ownership schemes and other work place development initiatives;
- Statement of Company’s Risk Management Policies and Practices; and
- Dealings in Securities Code.

EXAMINER’S REPORT

The question tests the knowledge of the candidates on the content of company’s Annual Report with reference to voluntary disclosure, mandatory disclosure and corporate governance report.

About 90% of the candidates attempted the question and the performance was average.

Commonest pitfall is that most of the candidates could not clearly distinguish between the mandatory and voluntary information in the annual report.

Candidates are advised to familiarise themselves with the annual report of various companies as well as relevant Accounting Standards on disclosure of information in the annual report.

MARKING GUIDE

	MARKS	MARKS
a. i. Identification of Voluntarily disclosed report (any three @ 1 mark each)		3
b. Reasons for disclosing information		
i. Not required by law (any four @ 1 mark each)	4	
ii. Limitation of such disclosure (any three @ 1 Mark each)	3	7
c. General requirements of contents of corporate governance report (any five @ 1 mark each)		5
Total		15



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