



# ICAN<sup>STUDENT</sup> STUDENTS' JOURNAL

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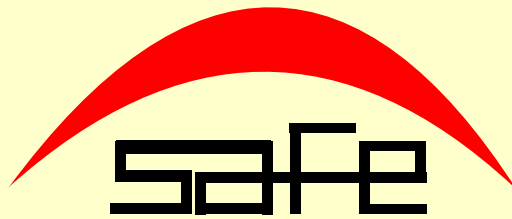
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## IN THIS ISSUE

### NEWS

4-9

- ICAN Elects New President, Other Officers ...
- Avoid Corruption like a plague, Soetan Implores new AAT Members
- Support ICAN SSP Initiative for the Benefit of your Subjects, ICAN admonishes Ooni of Ife
- ICAN Honours Best Candidate Ronke Okewole, Inducts 649 Associates
- Examination Malpractice: ICAN Blacklists ATSWA Student
- Nigeria Needs Ethical Leadership, Severe Sanctions Against Corruption, says SOETAN

### ARTICLE

10-12

Standard Setting and the Learning Curve Effects

### PRESIDENTIAL INTERVIEW

13-18

We Need Appropriate Regulations, Legal Framework to Attract Investors - SOETAN

### THE EXAMINER

19-22

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## Editor's Note

**T**HE Institute on Tuesday, May 31, 2016 elected its 52nd President, Deacon Titus Soetan, FCA and other officers to run its affairs for year 2016/2017.

*In his inaugural speech, Deacon Soetan vehemently made a call on chartered accountants to join the federal government in the fight against the monumental corruption and sharp practices in the nation.*

*In his interview with the ICAN Students Journal team, Soetan did not mince words in calling on all and sundry that having appropriate regulations and legal framework is a panacea for dearth of investment. He emphasised that chartered accountants must redouble their efforts in assisting government on policy issues.*

*The prolific and quintessential professional and administrator also urged the government to step up its stance on corruption eradication to revamp the ailing economy of the country. He expressed belief that government should diversify the economy so as to insulate it from the dynamic shocks occasioned by the fall in global oil prices and exchange rates.*

*Also in this edition, we have an article entitled "Standard Setting and the Learning Curve Effects". To succeed in ICAN examinations, we publish some past questions and solutions to serve as a guide to candidates in future examinations. The detailed reports of all these and other regular news items are contained in this edition.*

\* \* \*

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## ICAN Elects New President, Other Officers ...

**T**he Institute of Chartered Accountants of Nigeria (ICAN) has elected new officers to run its affairs for the next one year. Deacon Titus Alao Soetan, FCA emerged as the 52nd President. His investiture took place after an election on May 31st, 2016 at the Institute's Secretariat in Victoria Island, Lagos.

Also elected are: Alhaji Isma'ila Muhammadu Zakari mni, BSc, FCA as Vice President; while Alhaji Razak Jaiyeola, BSc, ACFE, CRISC, FCA and Mrs Uchenna Ifesinachi Erobu, MBA, FCA were elected 1st and 2nd Deputy Vice Presidents respectively. Mr. Tayo Phillips MBA, FCA became the Institute's Honorary Treasurer.

### Deacon Titus Alao Soetan, FCA 52nd President

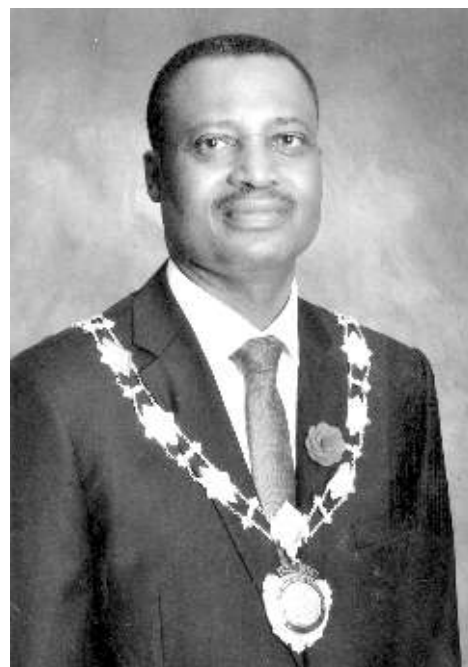
**T**he President, Deacon Titus Alao Soetan, is a Fellow of the Institute and the Senior Partner, Baker Tilly Nigeria (Chartered Accountants). He commenced his professional career as Accounts Clerk at W.N Housing Corporation (1972 to 1973). He was the Accountant, Nigerian Television Authority (1978 – 1979). He was Audit Senior Manager at Z.O. Ososanya & Co (1979 – 1985) and became Partner, Z.O. Ososanya & Co (1985 – 1998). He was Partner and co-founder of Oyelami Soetan Adeleke & Co (1998 to 2005) and Senior Partner in the same firm (2005-2008) before moving to Baker Tilly.

He attended Premier Grammar School, Abeokuta (1967 – 1971), where he obtained WASC (Division One). He also

attended The Polytechnic Ibadan (1973 – 1975) and made a distinction in OND Accountancy. He was also at the City of Birmingham Polytechnic, U.K. (1976 – 1977) where he qualified as ACCA.

Soetan has been a Council member of ICAN since 2004 and has served on various committees and sub committees either as member or Chairman.

He is a versatile paper presenter and resource person at various levels of the Institute. He was member, Governing Council of Nigerian Accounting Standards Board (NASB); member, Budget Committee, Nigerian Baptist Convention (2000 - 2009); and Chairman, Nigerian Baptist Bookstore Limited (2001-2009).



### Alhaji Isma'ila Muhammadu Zakari mni, Bsc, FCA Vice President

**T**he Vice President, Alhaji Isma'ila Muhammadu Zakari is a Fellow of the Institute of Chartered Accountants of Nigeria (ICAN) and a member of the ICAN Governing Council since 2004. He has served on many ICAN Committees. He is currently Chairman, Professional Examinations Committee and also Deputy Chairman, Insolvency and Corporate Re-engineering Faculty. He is also a Fellow of the Business Recovery and Insolvency Practitioners Association of Nigeria

(BRIPAN) where he also serves as Council Member.

He is a member of the National Institute, mni having successfully attended Senior Executive Course No. 33, 2011 at the National Institute for Policy and Strategic Studies (NIPSS) Kuru Jos.

He is currently the Managing Partner of Ahmed Zakari & Co. (Chartered Accountants), a firm he co-founded in partnership with other professional





colleagues in 1998 providing Auditing & Assurance, Tax Advisory, Insolvency and Business Consulting and Business Valuation services to a wide range of clients in Nigeria. As Managing Partner, he is responsible for providing leadership and strategic direction to a resourceful team of multi-disciplinary professionals providing high quality client service engagements creating value for numerous clients in the private and public sectors.

\* \* \*

## **Alhaji Razak Jaiyeola, BSc, ACFE, CRISC, FCA 1st Deputy Vice President**

The 1st Deputy Vice President, Alhaji Razak Adeleke Jaiyeola, is a Fellow of the Institute of Chartered Accountants of Nigeria, and Chief Consultant of A.J. Silicon.

He holds a Bachelor of Science Degree in Chemistry from University of Ife (Now Obafemi Awolowo University) in 1974. He enrolled and passed all the successive stages of the Institute of Chartered Accountants of Nigeria examinations in a record time. During his professional examination days, he won a prize in AUDITING at intermediate level and FIRST MERIT POSITION prize at the final level in 1980 when he qualified.

Alhaji Jaiyeola is very passionate about information technology. He is a member of Information Systems Audit and Control Association (ISACA), Institute of Software Practitioners of Nigeria (ISPON), Association of Certified Fraud Examiners (ACFE) and Certified in Risk and Information Systems Control.

He started his accounting career in 1977 at Coopers and Lybrand, an international accounting firm (Now PriceWaterHouseCoopers). To date, he has a total of 38 years' experience spanning all areas of Accounting, Financial Information Technology Consulting, Information Systems Auditing, IFRS/IPSAS Training, Consulting and Implementations, Taxation, Secretarial, Insolvency and Management Practice.

He worked at A.C.Christlieb Group, Ayor Group consisting of Nigeria Distilleries, Sphinx, Philbit, Bems etc and Olusola Adekanola & Co before becoming Chief Executive of Consolidated Management Consultants: during which he was the Project Director for Computerized Financial Consulting for Ogun and Niger States Water Agencies under the National Water Rehabilitation Projects funded by the World Bank.

As the Chief Executive of A. J. Silicon, he has handled several Consulting assignments including, design of Financial Management System under the Nigerian Community Development project funded by the World Bank, design of the Accounting System and financial procedures manual for Universal Basic Education project in Nigeria, Computerization of Accounting, Human Resources and Audit of West African Examinations Council as well as world bank funded financial

He has attended numerous training courses and is a regular speaker in the fields of Accounting, Auditing, Taxation, Corporate Finance, Insolvency, Leadership and Practice Management.

He is actively involved in serving the public interest and the development of his community. He serves on the Board of Trustees of Jigawa Forum in his home State – Jigawa State, Nigeria.



and economic assessment of all irrigation projects in Nigeria under the River Basin Development Authorities among others.

He was a Co-Development and Implementation Consultant for ICAN Technology Competence Initiative (TCI) which was a practical IT training precondition for induction of ICAN qualified students' into the profession. A leader in the training of Certified Information Systems Auditor (CISA) in Nigeria as well as foremost trainer in Full IFRS, IFRS for SMEs and IPSAS. He also offers IFRS Consulting and Implementation. He has delivered many highly researched and topical papers at different fora including Accountants' conference, ICAN faculty, district societies, regional conferences and ICAN MCPE programs among others.

He has also served in several committees, subcommittees and adhoc committees of the Institute as Chairman, Deputy Chairman and member such as Information Technology Committee, Students' Affairs, Publication and image and Professional examinations committee. He is a pillar of Consulting & IT faculty where he has served as the Vice Chairman since inception. He was Council Coordinator of various district societies such as Port Harcourt, Osun, Ondo, Akure, Ekiti, Benin etc.

Alhaji Jaiyeola is happily married with four of his five children being qualified accountants: two of whom are fellows of the Institute. Three of the children are also Certified Information Systems Auditors (CISA) with several IT certifications.

## Mrs Uchenna Ifesinachi Erobu, MBA, FCA 2nd Deputy Vice President

The 2nd Deputy Vice President, Mrs Uchenna Erobu, FCA. Uche Erobu is a seasoned Chartered Accountant. A fellow of the Association of Certified Chartered Accountants (1985), Fellow of the Institute of Chartered Accountants of Nigeria (2003), and an Associate of Institute of Taxation of Nigeria. She holds an MBA from the University of Manchester Business School.

She has had over 37 years of proven professional experience, which traverses Auditing, Accounting, Risk and Financial Advisory Services. She started her career in Akintola Williams & Co in July 1977 and qualified as a chartered accountant (ACCA) same year. She progressed to the position of a Manager in Akintola Williams & Co now Akintola Williams Deloitte in 1988. From 1988 to 1990, she was seconded to the National Bank of Nigeria as the Head of Inspectorate division of the bank. Uche had audit experience in a wide variety of industries viz banking, consumer business, hotel etc. She was at a time acclaimed the Bank Specialist of the firm. Uche was the Manager in charge of the audit of African Development Bank for three consecutive years. She became the 1st female Partner of the firm in May 1993. Following her admission in 1993, she became the Partner in charge of the Professional Standards Review department and was also in charge of the Risk & Independence functions of the firm till 2001. From 2001 to 2007, she headed the Financial Advisory Services (FAS) department and at the same time overseeing the risk functions of the firm. As Head of the FAS department, she led various Initial Public Offerings, the mergers & acquisitions of five banks during the Banking Consolidation in Nigeria, the due diligence exercises for twelve banks and valuations of 3 banks during same bank consolidation. She was also involved in many Reporting Accountants assignments. Later in 2007, she was appointed the regional Reputation & Risk



Partner for Deloitte West & Central Africa (WeCA) comprising Nigeria, Ghana, Cameroon and The Gambia. In June 2009, she was appointed the Head of Audit for Deloitte WeCA. She took up the strategic role of Audit Market Leader for Deloitte West & Central Africa (WeCA) in 2011. She retired as a Senior Partner in May 2015.

She was a foundation member of Society of Women Accountants of Nigeria formed in 1978. She has been a member of the Governing Council of the Institute of Chartered Accountants of Nigeria (ICAN) since May 2007 and has held various chairmanship and Deputy Chairmanship positions in various committees of the Institute. She served on the Committees of the Nigerian Accounting Standards Board now Financial Reporting Council of Nigeria for setting the Standards on Cash flow statements and Small & medium enterprises. Uche is happily married with children and grandchildren.

## Mr. Tayo Phillips, MBA, FCA Honorary Treasurer

The Honorary Treasurer, Mr. Tayo Phillips is an alumnus of the University of Lagos where he holds a Masters degree in Business Administration. He is a seasoned Chartered Accountant since 1986 and a Fellow of the Institute of Chartered Accountants of Nigeria. He has been a member of the Governing council of the same Institute since 2005.

He is a Certified Forensic Accountant and Certified IFRS practitioner. He was an examiner of the professional examination of ICAN for over 20 years. His over 30 years professional carrier cuts across diverse sectors of the economy including professional accounting practice, multinational corporations and consulting. He was an Audit Manager with UTC Plc and in Rank Xerox, he was Chief Accountant, Finance controller, Executive Director Finance and Administration and ultimately the Managing Director of the world's reprographic giant.

He attended and participated in several training executive development programs in and outside Nigeria. He became the pioneer Managing Director of Systems Derivatives Limited, an IT based company before assuming the role of Managing Consultant with TP Consulting, a multidisciplinary firm of Consultants.

His service to the Institute include among others, Chairmanship of the Annual Accountants' Conference for a record three years that witnessed unprecedented innovations to the program. Chairmanship



of the Accounting Technician Scheme for West Africa (ATSWA) and Chairman Harmonization and Implementation committee that introduced ATSWA examination to Sierra Leone and Liberia.

He served as a consultant/committee member on some World Bank IDF funded projects in both Nigeria and West Africa sub region. He was the Chairman of the ICAN/ICAEW Twinning arrangement that gave birth to the new professional examination structure and syllabus.

He was appointed by the Federal Government to serve on the Governing Board of the Financial Reporting Council of Nigeria. Tayo Phillips is widely travelled, plays Golf and loves reading at his leisure.

## Avoid Corruption like a plaque, Soetan Implores new AAT Members

Accounting Technicians of the Institute have been advised to avoid corrupt practices in order to function effectively in both the public and private sectors of the economy.

The advice was given by the 52nd President of the Institute, Deacon Titus Soetan, FCA and a Past President of the Institute Chief (Mrs.) Elizabeth Omeresan Adegite, FCA at the 44th induction of new members of the Association of Accounting Technicians of West Africa (AATWA) held recently in Lagos.

Admitting the 518 newly qualified members into AATWA, the ICAN President said an accounting technician must strive to perform his duties in accordance with acceptable technical standards, irrespective of the sector of the economy he is employed, adding that the competence he exhibits would convince the public and the organizations he serves that he is truly a professional.

He advised the inductees not to tamper

with their employers' monies, temporarily borrow them or use the cash entrusted in their care, to settle personal and/or unofficial claims, no matter how legitimate.

On her part, a Past President of the Institute, Chief (Mrs.) Elizabeth Adegite, who was the guest speaker at the occasion, spoke on the need to abhor corruption in its entirety, noting that the consequence is usually very grievous.

Speaking on the theme, 'The Fight

Against Corruption – The Role of the Accounting Profession', she observed that professionals are expected to play a significant role in championing a corruption free society at all times and more so in this critical phase of our national development and state of the economy, adding that Accounting Technicians can play a pivotal role individually and collectively to ameliorate the situation and turn the fortunes of the nation around for the good of all.



*A cross-section of the AAT Inductees*

## Support ICAN SSP Initiative for the Benefit of your Subjects, ICAN admonishes Ooni of Ife

The Ooni of Ile-Ife, HRM, Oba Adeyeye Enitan Ogunwusi has been admonished to support the Institute's Students Special Project (SSP).

Otunba Femi Deru, the 51st President of the Institute, stated this when he paid a courtesy call on the Ooni, as part of a visit to Osun and District society in May. He explained that supporting such a laudable initiative would not only benefit the monarch's subjects but the society at large.

According to him, the project was initiated by the Council of the Institute to increase students' enrollment and improve the success rate of candidates in the Institute's examinations.

He added that since its commencement, the SSP has increased the number of chartered accountants

produced in the regions where they were cited.

In his response, the Ooni commended the ICAN team for deeming it fit to visit him. He expressed his appreciation for the Students' Special Project initiative and promised that he would ensure

that the project is a success in his territory and Nigeria as a whole.

"When I hear something that will benefit my youths and my territory, like education and other useful programmes, I jump at it. My people installed me to protect their interest in whatever form, so, I am all out to do that for the benefit of humanity", he declared.



*(L-R) : Chief Abiodun Ajomale; Balogun Olabisi Omidiora; Ooni of Ife, Oba Adeyeye Enitan Ogunwusi; 51st ICAN President, Otunba Olufemi Deru; Mr Sunday Bammeko, and Mrs Comfort Eyiayo at Ooni's Palace*

## ICAN Honours Best Candidate Ronke Okewole, Inducts 649 Associates

**M**ISS Ronke Okewole has emerged the best qualifying candidate in the Institute's professional examinations for the year following her exceptional performance at the November 2015 diet. She was recognized and applauded at the 57th induction of new members held in May.

Miss Okewole, who was also one of the 649 candidates inducted as Associates at the 57th induction of the Institute, won three prizes namely Akintola Williams Deloitte & Touche prize, Akintola Williams prize for the best qualifying candidate for the year as well as the Society of Women Accountants of Nigeria (SWAN) prize for the best qualifying female candidate for the diet.

The 51st President of the Institute, Otunba Samuel Olufemi Deru, FCA, was delighted to hand over the prizes to the recipient for proving that success will always come the way of anyone who is determined to achieve his/her goal.

"As Chartered Accountants, we must hold firmly to our main strength, that is, the virtue of integrity and credibility on which our survival depends. This is a compelling mandate we must continue to discharge because being the conscience of the nation, accounting professionals must strive to create oasis of sanity in their spheres of influence such that a virtuous society will emerge," he said.



**Ronke Okewole - Best Overall Candidate**

\* \* \*

### Examination Malpractice: ICAN Blacklists ATSWA Student

In line with its discipline and zero tolerance for examination malpractices, the Institute has blacklisted a student caught cheating during the March 2016 diet of ATSWA examination.

The student, Fakeye Titilayo Omobolanle was caught on Wednesday March 16, 2016 at Lagos Centre, with pre-written materials related to "Quantitative Analysis" paper she was writing.

After a thorough investigation, the Council of the Institute approved that the student be blacklisted and banned from all the Institute's examinations. He was subsequently deregistered as a candidate of the Institute and have all the papers taken during the March 2016 diet ATSWA examination cancelled.

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## Nigeria Needs Ethical Leadership, Severe Sanctions Against Corruption, says SOETAN

**T**HE 52nd President of the Institute, Deacon Titus Alao Soetan has called for good, ethical leadership, strong and enforceable laws and severe sanctions for corrupt crimes underpinned by a national culture of promoting ethics from the family to national levels.

He posited that it is by doing this that the corruption cankerworm that has eaten deep into the country's system could be totally expunged or at reduced the barest minimal in the society.

Soetan made the appeal while speaking at his investiture as the 52nd President of ICAN on May 31, 2016 in Lagos.

territory in the North East, could be shared, without shame and conscience, by political stalwarts in the last administration and their allies in other parties" he lamented.

Speaking further, Soetan described as inconceivable that funds in the sum of over N23billion meant to pay the pension claims of senior citizens who had served the nation meritoriously over the years would be embezzled by a few persons assigned to superintend and manage such funds.

"It is unimaginable that graduates of Nigerian universities would be required to pay fees to sit for phony pre-employment test by a government agency as a ploy not only to raise funds from unsuspecting and

"We must collectively resolve to strengthen the foundation of accountability in order to have a worthy legacy to bequeath to future generations. We must individually and collectively stand up and be counted on the side of selfless-service and justice so that we can continue to earn the trust of the people who elected us. As a collective and as individuals, we must indulge in self-examination today to impact the future of the Institute and profession. The time to act and walk the talk is now", he appealed.

Declaring the theme of the Presidential year as "Rebuilding the Broken Wall of

Integrity" the ICAN President explained that Chartered Accountants must strongly

encourage and support the government to revisit the framework for public sector



*52nd ICAN President and his wife (middle) with ICAN Past Presidents at the investiture ceremony.*

According to him, the Nigerian nation is going through very difficult times, caused by large scale corruption and sharp practices by leaders both in the low and high places, adding that given the huge natural and human resource endowments as a nation, Nigerians have no reason to be poor.

"Unfortunately, public resources that should have been used for the good of the majority are pilfered, stolen or diverted for reasons that are not altruistic. We do not need the annual appalling rating of Transparency International to realize that we have not kept faith with integrity and service for the common good".

"In various tiers of governance, personal gains have taken precedence over the public interest. It is unimaginable that the huge funds of US\$2.1billion meant to fight insurgents and terrorists, who brazenly and illegally annexed part of our country's

unemployed youths but to also fund the greed of its leadership. The stampede and death of many promising Nigerian youths in that dishonest process inside the National Stadium shattered a lot of dreams and some families have been ruined and left without a breadwinner".

He called on other professionals and chartered accountants trained in the art and science of wealth creation, protection and management, not to fold their arms and stand idle. He urged them to act to save the country from the stronghold of corruption.

While imploring Chartered Accountants to explore the strength of accounting profession to help government in stamping out corruption, he also appealed to the Council of the Institute to re-double its efforts at providing leadership to its entire membership and the country on policy issues.

accountability and reporting in line with global mandate of IFAC to all its member-bodies.

He however promised that as a foundation and active member of IFAC, ICAN will be in the vanguard of promoting the principles, ideologies and best practices embedded in the IFAC's ongoing global campaign titled "Accountability Now".

Also elected to serve with Deacon Soetan in the next one year were: Alhaji Isma'ila Muhammadu Zakari, BSc, FCA as Vice President; Alhaji Razak Jaiyeola, BSc, FCA as 1st Deputy Vice President; Mrs Uchenna Ifesinachi Erobu, MBA, FCA as 2nd Deputy Vice President and Mr Tayo Phillips, MBA, FCA as the Honorary Treasurer of the Institute.

## Standard Setting and the Learning Curve Effects

By Dr. Ben Ukaegbu



### Introduction

Everyone knows that the first time one does something, it is likely to take more labour hours than the second time hence the familiar adage “practice makes perfect”. Everyone, at some point, has performed a repetitive task over a long period of time. With each repetition one becomes proficient and requires less time. Machinists, as a result of their accumulated skills, know how to lay out their work and choose their tools in an efficient way. Accrued skills and familiarity, orderly work layout and tooling and better selection of suitable designs and materials are sources of improvement and experience. In practice, it is often found that the resources required to produce given amounts of a product tend to decline as output accumulates. It cost more to produce the first unit of a product than it does to produce the hundredth or even less the one thousandth unit. Various factors contribute to this relating to labour, material and overhead costs, a significant element being the learning curve effect.

The learning curve relates to the observed tendency for workers to become more adept at a task the more times they perform it. Therefore, if standard costing is to be meaningful, the standards set must incorporate an allowance for the learning curve effect. Making allowance for the learning curve effect involves an

exercise in mathematical modelling.

### The nature of the learning curve

**According to CIMA Official Terminology:**  
*Learning curve: the mathematical expression of the performance that, when complex and labour-intensive procedures are repeated, unit labour times tend to decrease at a constant rate. The learning curve models mathematically this reduction in unit production time.*

Let us take as an example a learning rate of 90 per cent. In this case, if the first batch of a product is produced in 100 hours, the cumulative average time taken to produce two batches (a doubling of the cumulative productive) would be 90 hours, giving a total production time of  $2 \times 90 = 180$  hours. The actual time taken to produce the second batch (the batch being the unit of measure in this case) would thus be 80 hours, the cumulative total time taken to produce two batches – 180 hours – less the time taken to produce the first batch – 100 hours. As a doubling of cumulative production is required, in order to observe the benefits of learning in the form of reduced average labour hours per unit of cumulative production, it is seen that the effects of the learning rate on labour time will become much less significant as production increases. Table 1 shows this:

Table 1. Cumulative average time learning rate: 90%

Batches	Cumulative average time per batch (hrs)	Cumulative total (hrs)
1	100.00	100
2	90.00	180
4	81.00	324
8	72.90	583
16	65.61	1,050
32	59.05	1,890
64	53.14	3,401
128	47.83	6,122
256	43.05	11,021
512	38.74	19,835

### The Equation Approach

Let us illustrate the use of the learning curve equation with an example. In financial accounting courses, as most students will recall, they are often asked to prepare depreciation schedules over the life of a machine using a particular depreciation method. A student may often take 45 minutes to solve one of these problems the first time it is encountered. However, if the student solves a second, similar problem, the solution time will usually be much less, say, 27 minutes. From these two observations, we can determine the equation that describes the amount of learning as a function of the number of problems solved. The time to solve the first problem,  $a$ , is 45 minutes. When  $x$ , the total number of problems solved, is 2, then the average time to solve both problems, or  $y$ , is 36 minutes – that is, (27

+ 45)/2. Substituting the values for a, x, and y, we find that the learning curve becomes

$$36 = (45)(2)^{-\beta}$$

To solve the equation for  $\beta$ , first take the log of both sides of the equation to get

$$\log(36) = \log(45) - \beta \log(2)$$

$$\beta = \frac{\log(45) - \log(36)}{\log(2)}$$

$$\log(2)$$

(<sup>1</sup>log refers to the common (base – 10) logarithm; use of the natural (base-e) logarithm, represented by ln, would yield identical results).

At this point, we either refer to a table of logarithms, or better, have a calculator that handles logarithms. In either case, we find that the value of  $\beta$  is 0.3219.

The general equation for the average time to solve a total of x problems is

$$y = (45)(x)^{-0.3219}$$

$$= 25.3 \text{ minutes.}$$

How long would it take this student to solve the last (sixth) problem? We can answer this question by first calculating the average time to solve all six questions, done above. Then we multiply this average time by 6 to get the total time to solve six problems. Similarly, we calculate the average time to solve five problems as

$$Y = 45(5)^{-0.3219}$$

$$= 26.8 \text{ minutes}$$

and multiply by 5 to get the total time to solve the first five problems. Subtracting the total times then provides us with the predicted time to solve the last (sixth) problem:

$$\text{Total time to solve the first six problems } 6 \times 25.3 = 151.8 \text{ minutes}$$

$$\text{Total time to solve the first five problems } 5 \times 26.8 = 134.0$$

$$\text{Time to solve the sixth problem } 17.8 \text{ minutes}$$

Therefore, if learning continues at the same rate as occurred between problem 1 and 2, then the sixth problem should be solved in 17.8 minutes.

### Learning Curve Names

“ The learning curve generally applies to those situations where the labour input for an activity is large and the activity is complex. Learning curves are not theoretical abstractions but are based on observations of past events. When new products have been made in previous periods, the learning curve principles can be applied from the experience that has been gained. ”

Specific learning curves are given names (such as a 90% learning curve). The names are derived from the effect that learning has on average production time when production is doubled. For example, let x equal a particular level of production and y equal the average time to produce all x units. When we observe a new value for y (say, y') after production reaches 2x, the learning curve is named after the relationship y'/y. Thus, if y' is 80%, we say we have an 80% learning curve. For example, if it takes 10 hours to produce the first unit of product and an average of 9 hours each to produce 2 units, we say we have a 90% learning curve. Similarly, if it took an average of 40 hours per unit to build the first 100 units of another product, then the average time to build 200 units should be 32 hours if we experience an 80% learning effect.

### Learning Curve Phenomenon

The learning curve phenomenon does not only affect direct labour, it also affects variable overhead. We can recall that when variable overhead is measured on a labour hour basis, it increases or decreases as a function of labour time. This labour savings will also save variable

overhead costs.

In an industry, with a large production volume, the learning curve becomes less significant over time. Firms with a large volume of repetitive operations move quickly down the learning curve, soon they are operating at a volume where the curve is relatively flat. The learning curve is still operative but the results are not as spectacular.

### Implications of Learning Curve

Learning curve have an effect on many aspects of accounting. For an illustration, let us assume that a firm begins producing a new product line on January 1, that is subject to the learning curve. The following implications are likely to occur:

(i) **Budgeting/planning** – production started in January is likely to take more labour hours than units produced than production in December and this will have to be reflected in the labour budget. This could also have an impact upon the number of people employed.

(ii) **Standard cost setting** – the establishment of standard costs, particularly for direct labour and variable overhead, will have to reflect the learning curve. For example, assuming that the firm produce 20 units of the new product and the firm uses the labour hours of the first unit to establish the standard, then all subsequent activities and hence variances will appear favourable. If the firm uses the average labour hours at the 20th unit, then all variances prior to that will be unfavourable.

(iii) **Performance evaluation** –without taking learning curve into account, it can appear that management is doing a good job of operating cost control because costs are decreasing over time. Yet, given the knowledge of the learning, this is an expected result. Successful performance evaluation should include all known facts.

(iv) **Decision making** –coupled to performance evaluation is decision making, the learning curve could have a significant impact upon how management makes decisions. As an example, it could affect decisions about

employee stability. High turnover or massively interrupted production runs could mean 'starting over' again on the learning curve, which would waste labour costs. A second example of the impact of learning curves on decision making is in the area of product pricing.

**(v) Inventory (stock) valuation** – where a firm uses historical costing, any products produced in January would appear to cost more than products produced in the following December, other things being equal. This would affect inventory valuation, income measurement and overhead rates, all of which management would have to consider.

### Conclusions

The learning curve generally applies to those situations where the labour input for an activity is large and the activity is complex. Learning curves are not theoretical abstractions but are based on observations of past events. When new products have been made in previous periods, the learning curve principles can be applied from the experience that has been gained. In new situations where there is no historical data the curves for previous products or processes with known improvement factors can be used if management can identify similarities with the new situation.

In view of the importance of the topic for professional examination candidates, we shall conclude by reviewing an examination-type question.

### Practice Question

Ahmed plc is having difficulties in quantifying the effect of learning curve on its budgeting process. Over the last few months, substantial product changes occurred and result in the need for retraining.

An order for 30 units of a new product has been received by Ahmed plc. So far, 14 have been completed; the first unit required 40 direct labour hours and a total of 240 direct labour hours has been recorded for the 14 units.



The production manager expects an 80% learning effect for this type of work. The company uses standard absorption costing. The direct costs attributed to the centre in which the unit is manufactured and its direct material costs are as follows:

Direct material	N30.00 per unit
Direct labour	N6.00 per unit
Variable overhead	N0.50 per direct labour hour
Fixed overhead	N6000 per 4-week operating period.

There are 10 direct employees working a 5-day week, 8 hours per day. Personal and other downtime allowances account for 25% of the total available time.

The company usually quotes a 4-week delivery period for orders.

### Requirements:

- Determine whether the assumption of an 80% learning effect is a reasonable one in this case, by using the standard formula  $y = ax^b$

Where  $y$  = the cumulative average direct labour time per unit (productivity)

$a$  = the average labour time per unit for the first batch

$x$  = the cumulative number of batches produced

$b$  = the index of learning

- Calculate the number of direct labour hours likely to be required for an expected second order of 20 units;
- use the cost data given to produce an estimated product cost for the initial order, examining the problems which may be created for budgeting by the presence of the learning effect.

### Suggested Solution

- The learning curve is expressed as:  $yx = ax^b$

The exponent  $b$  is defined as the ratio of the logarithm of the learning curve improvement rate divided by the logarithm of 2. For an 80% learning curve

$$B = \log 0.8 / \log 2 = -0.322$$

For an output of 14 units:

$$Y_{14} = 40 \times 14^{-0.322} = 17.1 \text{ hours per unit}$$

$$\text{Time taken for 14 units} = 14 \times 17.1 = 239.4 \text{ hrs}$$

$$\text{Actual hours} = 240.$$

It is therefore reasonable to assume an 80% learning effect.

- For an output of 50 units:

$$y_{50} = 40 \times 50^{-0.322} = 11.35 \text{ hours per unit}$$

$$\text{Hours required for 50 units} = 50 \times 11.35 = 567.5 \text{ hrs}$$

For an output of 30 units;

$$y_{30} = 40 \times 30^{-0.322} = 13.38 \text{ hours per unit}$$

$$\text{Hours required for 30 units} = 30 \times 13.38 = 401.4 \text{ hours}$$

$$\text{he time required for the additional 20 units} = 166.1 \text{ hours (567.5 - 401.4)}$$

- Estimated cost for an Order of 30 units.

	(N)
Direct material (30 x N30)	900.00
Direct labour (401.4 hrs x N6)	2,408.40
Variable overhead (401.4 hrs x N0.50)	200.70
Fixed overhead (401.4 x N5) <sup>1</sup>	2,007.00
	5,516.10

The above product cost has been calculated on an absorption costing basis.

Note1 Fixed overhead for the period = N6,000

Direct labour hours for the period = 1,200  
(75% x 40 hrs x 10 employees x 4 weeks)

Fixed overhead hourly rate = N5  
(N6000/1200).

*"Dr. Ukaegbu is the Director, Technical and Education at The Institute of Chartered Accountants of Nigeria".*



## **We Need Appropriate Regulations, Legal Framework to Attract Investors - SOETAN**

*The 52nd President of the Institute of Chartered Accountants of Nigeria (ICAN) is not a novice in the practice of accounting, having spent over 40 years to ply the trade he knows best. Before his election to lead and be the spokesperson for over 40,000 chartered accountants, his experience and exposure played a vital role.*

*In this interview with the editorial team of ICAN Students' Journal led by the editor, Bunmi Owolabi, Muyiwa Dare and Nkem Jacob, the soft spoken and highly experienced professional opened up on how to improve the nation's economy, how to move accounting practice forward, and the best ways to tackle corruption in the country.*



***Congratulations sir on your election as the 52nd president of ICAN, which is a dream of most Chartered Accountants in Nigeria. What special feeling did you get on assumption of office?***

First of all I feel grateful to the Almighty God because it is one thing to have a dream as you said, and it is another thing for the dream to come to reality. I know that it is God that guides, leads and make things possible. So, I want to give thanks to God for this special privilege to be in this position.

As for personal feeling I can tell you that I feel personally inadequate because of the challenges that I feel the office will entail, inadequate in the sense that I cannot do everything myself. I have to rely on people and the processes that are in place to be able to achieve meaningful results. If my people does not support and cooperate with me I may not be able to achieve results and I know that leading people who are at par with me calls for maturity, tact, humility and respect. As chartered accountants, we all did the same examination to qualify, so if I am lifted up above other people who are on the same level with me to be the leader, it is not because I am special, it is just by the grace of God and mercy. I must have that at the back of my mind at all times.

***What will be the main thrust of this presidency?***

The thrust has been enunciated in my acceptance speech and it includes strengthening our Institute in all areas to remain the Institute of repute, the first choice among professional bodies in Nigeria. This will affect our systems, our structures, and our processes. Yes, we have a good system, yes we have a good brand; but nothing is so good that it cannot be improved upon.

***The last president pursued the entrepreneurship initiative. Have we seen the end of that programme?***

No. The entrepreneurship initiative cannot die. In fact we have just seen the beginning, not the end of it. The feedback we got from the programme implementation so far is very positive. We would take the programme a step



further by narrowing it down into specialised segments of entrepreneurship. Don't forget that what we did was just general entrepreneurship. Now is time for us to narrow down to specifics. For those interested in going into agriculture, we will look into various branches of agriculture; for those who are interested in going into real estate, those who are interested in going into entertainment, manufacturing, and hospitality management, etc we will be examining these areas more closely.

***You have rightly noted that the nation's economy is in dire straits. One of the evidences is massive unemployment of professionals including accountants. How can chartered accountants help rebuild the economy and create jobs for accountants and other professionals?***

I have this strong view that job creation is the responsibility of everybody, not just government. Economies that are doing well all over the world are those ones that

the small and medium enterprises have been running very well. We are five people sitting here now, if each one of us sets up a business and the first person employs 25, the other person employs 20, another one employs 15, another 10 and the last person employs 5. The multiplier effect of this would be as if we have employed a thousand persons and that is how economy works. Everyone cannot work in the ministry, government agency or department. But for the SME to thrive, we need an enabling environment. Top of this need is infrastructure. Once you have good roads, water, electricity, etc Nigerians are hard working, they would find their level. We are very hard working. So that is what I will encourage government to do immediately to kick start our economic revival. At the moment we are running a generator country, without generator you cannot run any business. But there are factories and establishments that cannot run on generators due to certain limitations. I know the government is trying to do something, but they should

do more. Also our entrepreneurship programme could help our members see themselves as prospective employers, not just employees. We would partner with development funding organisations to provide some form of financial and mentoring aids to people who have good projects at hand. This we believe would help our members exit the employment circle and become more productive.

***You also said in your inaugural address that chartered accountants must act now to save our nation from the stranglehold of corruption as espoused by the current administration. What exactly is the role of chartered accountants in this anti-corruption crusade?***

Yes, chartered accountants should play their own role in helping salvage the country from corruption. With corruption, we are going nowhere as a nation, even if our earnings quadruples and corruption is still deeply rooted, we are not going to make progress. So it behoves on us as accountants to help the government in building a virile economy that we all will be proud of. As a chartered accountant, if you are working somewhere, you must have a good conscience that cannot be bought. You should not be bought because if you compromise and take what you shouldn't take or allow someone to have access to a commonwealth, you could be called to account in future. You may be forced to vomit what you ate and that will bring shame to that person and the profession. Our motto is "accuracy and integrity" and chartered accountants should observe that in their dealings wherever they find themselves. They should know that we should not condone corrupt practices. We have always said that corruption is not the issue. It festers because we do not deal with it whenever it arises and plug the loopholes as well as remove identified incentives that promote it. Nevertheless,



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**Everyone cannot work in the ministry, government agency or department. But for the SME to thrive, we need an enabling environment. Top of this need is infrastructure. Once you have good roads, water, electricity, etc Nigerians are hard working, they would find their level. We are very hard working.**

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ICAN has a system through which it tries members who run foul of the professional ethics. If they are found guilty severe punishments are imposed and depending on the level of culpability, such accountant could have his/her certificate cancelled and membership of the institute withdrawn. We are the conscience of the nation and we must act as such at all times. Our training is not only in figures, we have ethics which we must observe at all times. I believe we have a key role to play. We intend to partner more with the government in training its workforce on the International Public Sector Accounting Standards (IPSAS).

We have started that during the last presidential year and we would strengthen it this year. The training would not be only at the Federal level, we would take it to the State and Local Government levels. When people are trained they can do things properly.

***Do you think that the adoption of the global financial standards like IFRS and IPSAS in Nigeria can really make any difference in the country, considering our own peculiarities?***

Yes, they will make the difference. Let us look at the IFRS first. It has taken root in the private sector. Every company quoted on the Nigerian Stock Exchange prepares its accounts using the IFRS, even unquoted ones are observing a transition period that the Financial Reporting Council (FRC) has stipulated. So the private sector is already operating with IFRS. But it is not the same story with the IPSAS implementation in the public sector. Although Nigeria has adopted it in principle, we would like to see it in practice. We call on government to make this happen and we will partner with government to provide the necessary technical support and capacity building. It will surely be helpful in our environment because the major tenet of those standards is disclosure and transparency. If you disclose something it

becomes a public knowledge and the chance of not complying diminishes and it becomes easier for you to be called to account. I think it would help us when government's business and organisations disclose their operations in such a way that makes it transparent and government has to adopt this accrual system of accounting rather than the cash based system.

**Accounting just like other professions are facing challenges that affect their operations. What do you consider as the major challenges facing accounting profession in Nigeria today and what will ICAN under your presidency do about them?**

The challenges could be grouped into two – the studentship challenge and the membership issues. For the students they have no choice than to key into the prescriptions handed down by the Institute. That is the laid down rules and regulations. I know that educational institutions are facing some challenges that affect their students including accountancy students such as shortage of qualified manpower, shortage of equipment, facilities and accessories. That is one area we have begun to intervene by building, equipping and donating lecture theatres to tertiary institutions. We will continue in this effort to enhance the welfare of our students by making the learning environment conducive. We will do all we can to continue in this regard. For the students themselves, they must not be satisfied with what their lecturers teach. They must go out of the way to research further, consult widely and seek information from various sources. Good enough, the Internet is there as a very versatile source of information.

For our members one of their major challenges is economic as reflected in the lack of opportunities, lack of jobs and harsh operating environment. These are not restricted to accountants alone. But the institute will still continue to do its



**what do you expect to be the profile of a future chartered accountant?**

The profile of the chartered accountant is already changing. The new chartered accountant is one that is conversant with the application of modern information technologies and systems. We have recognised and incorporated this into our student training modules. Post qualification, we have organised our members into specialisation areas called faculties so that our members could be specialists in various areas of accounting including tax, audit, insolvency & corporate re-engineering, information technology, financial reporting, etc.

Altogether we have seven faculties each with its own certification process and the aim is to make our members formidable (intellectually and practically) in their areas of specialisation.

The era when accounting was perceived to be about counting numbers alone has gone. The new accountant is versatile, knowledgeable and a strategist in almost all aspects of organisational leadership and administration. So I expect the future chartered accountants to be so versatile and knowledgeable that he/she could run any operation from small business to agriculture, from large scale commercial operations to rocket propulsions companies. Even the training we receive prepare us for diverse roles, not just accounting and my vision is that the future chartered accountant will be a complete leader.

**Still on IT, many examination bodies have adopted the computer based test for their examinations. What is ICAN doing in this direction?**

That is one of our major on-going projects. We have adopted it because that is the way to go. We are working on it seriously and very soon full implementation will begin. However, you must note that we are not just starting to use IT in our operations. We have been facilitating our

best. One area I have mentioned is the entrepreneurship programme. We will continue to enlighten our members that they can make it by becoming entrepreneurs. For those who are in practice we will continue to partner with them to strengthen their practice to international best standard so that they can attract the right kind of clients.

**What about the quality and quantity of those who are coming newly into accounting, are you getting the right calibre and numbers?**

We have our own standard and until you meet that standard, you are not just there and we cannot take you in. Our admission criteria are strict and our examination process is not compromised. That is why people think that the number of people who pass our examinations were pre-determined. No. The issue has always been that we insist on high standard and have been strict about it. Whatever your educational background, the door is open if you want to be a chartered accountant but you must meet our standard whether as a student taking the exams or members already in practice.

**Considering the impact of globalisation, changing technologies and innovation of processes and systems on the profession**

processes with IT for a long time. What we are working to achieve now is full computer based testing of our candidates. Once we achieve that, which I expect to be soon, it will eliminate paper work, reduce cost of operations and put the institute at par with other global organisations.

***Let us go back to the Nigerian economy and look at the current challenges the government is facing on exchange rate management and reduced earnings. What is your take on these issues?***

I think when the present government came in, the president was resolute when people advised him to devalue the Naira, he was not convinced. He insisted that people should convince him. I think he meant well because we are by and large a consuming nation. So if you devalue your currency you begin to pay more for items that you import and this is virtually everything. He meant well for the economy and the people. But you see meaning well does not translate into having dollar in your foreign exchange vault. In a situation where our income has plummeted by about 70% means we cannot do the things we used to do before. So we need to look realistically. In the last one year the government was defending the Naira but has suddenly found out that it is not sustainable. That is what the new flexible exchange rate is all about and people have hailed it as the right step in the right direction. I think so too. The new system will eliminate rent seeking because several people do nothing else other than buy and sell forex and make margins through diversion of official allocations to the autonomous market. Now we will know those who really need dollars. Again, Naira that will be available to the three tiers of government will increase notwithstanding that actual dollar revenue has reduced. I expect they will find it much easier to pay salaries and allowances. But there is another side to it. You will find out that some of these state governments have loan obligations that are denominated in dollars and they will need more Naira now to meet those obligations. But I think in the long run if we implement it faithfully, the Nigerian economy and people will be better for it.

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***With a reduction in the revenue accruing to government due to declined oil price and losses caused by the activities of the Niger Delta Avengers who are blowing up oil installations. What do you think is the way out for the country?***

A: I believe every well meaning Nigerian should appeal to those people who have taken up arms to dialogue with government and bring their grievances to the negotiation table. Government should also listen to them and do something about resolving the issues once and for all. The point is that this is the only country we have. If we wreck it, there is nowhere else to go. See the countries at war today – Syria, Iraq, Yemen, etc everyone is affected in those places. This is happening because issues that should be managed and resolved properly have not been properly managed. The aggrieved people should talk to government and government should listen and find out a win-win solution. If they continue like that the implications are grave. For one, it will get to the point where you cannot produce the oil we all depend on, there will be nothing to sell

and this will not be good for everybody. Then also it is a challenge to government to think seriously about diversification which it appears to have been paying lip service to over the years. We have come to a situation where we can no longer rely on only one product for our economy. Luckily there are several sectors to open up, all that is required is appropriate regulation, guidelines and legal framework to attract investors. Some countries don't have oil, they don't even have mineral resources but their tourism sector is lifting up their economies and we can do the same thing. But we cannot have proper tourism when the infrastructure is not there. So, as I said earlier, government should work on infrastructure especially electricity, transport, communication and security.

***Many states in Nigeria are down economically. Most of them owe several months' salaries and allowances. What can they do to enhance their economies?***

I think they know what they can do. People have told them times over what they should do. But if you are used to a particular pattern of life, it is not always easy to change. They are used to going to Abuja every month to collect hand outs from the Federal Government and as such find it difficult to think out solution to their economic problems. But to face the economic realities of the day they should all look inwards. But there is a limit to what some states can do to generate substantial revenue internally. Some states without industries or serious commercial activities will find it extremely difficult in that regard. By and large every state must look inward to see what it could do to generate more revenue internally. Again, they need to reduce their financial commitments. There is this over-bloated bureaucracy in every state – a state governor is going for a state assignment and there is a convoy of ten cars following him, all bought, fuelled and serviced by the government whereas 90% of those on the trip have no relevance. When state officials travel they go on first class, some even have private jets. Perhaps this is the right time for them to subject every item of state expenditure to scrutiny to ensure that only those that will add value directly or indirectly are

allowed.

***We are also hearing about a second bailout for the states. Will this help?***

Yes, it could help. If someone is sick, he needs medical help and you may need to give such help repeatedly until he/she gets well otherwise the situation may deteriorate further to a state of comma; he/she may even die. I believe the bailout is necessary because when you go to some states civil servants are owed up to five months and that has implications for families and for the economy. So as much as possible I support the bail out in the short run to help them but in the long run, they should devise home-grown strategies to get out of the economic downturn.

***One of the sources of loss of government revenue is waivers and exceptions which are often abused and the fact that some organisations and individuals are outside the tax net due to negligence of government. What is your advice to government in this regard?***

Government will not come out with a policy without thinking about it and how it could benefit the country. For instance companies that are first in critical sectors are often given tax holidays because of their pioneering role. But the experience with us is that in the operation of these waivers, things are not usually transparent, what governs it is more of who you know than the benefits that will later come to the country. When they are operated like that, the purpose is defeated. But if they are operated to meet their objectives there is nothing wrong with them. In the real sense of it there is no company that is outside the tax net but some can have certain privileges. But the most important thing is for the system to be transparent.

***If we heard you well, are you saying government should continue to grant waivers despite its current economic challenges?***

Yes, why not. Don't forget that it is for a temporary period, not for eternity. But if government gives waiver for three years, what you see more often than not is perpetually elongation of the period. That is where the problem lies.

Q: Do you have any advice for young people aspiring to become accountants?

A: Being an accountant, a chartered accountant for that matter is a desirable one. The profession is a noble one and is achievable by any serious minded person whether young or old. You may not be very rich, but the profession guarantees you a reasonable standard of living, but you must work hard for it. They need to be forthright, they need to be dogged and morally sound. They must put in their best in whatever they are doing. At the end it will pay off. But it is not a profession for those who want to get rich quick. But if you are ready to live your life normally, it is a good profession.

***How can you describe yourself, your leadership style and your philosophy in life?***

One does not see oneself, others will see and describe you. You only try to be what you think you want to be. But as I have said earlier, the challenge I have as a person is to live a life that matters. The life that matters is the one that touches others and the world in a positive way. People have challenges and find it difficult to see who can put a smile on their faces. But someone that lives a life that matters seeks to put a smile on people's faces. The challenge for me is living out this kind of life in truth and in principle.

***What do you do when you are not working?***

When I have the time I like to jog. Not only does it keep me fit and strong it also makes me mentally alert. But I don't have the luxury of time to do it all the time. I am a religious person. I engage in church activities and speak when it is necessary. I mentor people both in accounting and business as well in secular life.

***Thank you for finding time to talk to us.***

The pleasure is mine.





**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.**

## FINANCIAL ACCOUNTING

### SECTION B: ATTEMPT ANY FOUR OUT OF SIX QUESTIONS (80 Marks)

#### QUESTION 1

- a. The elements which are directly related to the measurement of profit are Income and Expenses.  
i. In line with the above statement, what is Income? (2 Marks)  
ii. List TWO characteristics each of Capital Income and Revenue Income. (4 Marks)

- b. Babariga Trading Company has the following extracts from its financial records as at 31 January, 2014:

		N'000
Jan 1	Cash in hand	50
	Cash at bank	150
	Receivables	300
	Inventory	100
Jan 2	Purchased goods for cash	70
5	Goods Bought from Faleye	500
9	Bought shop fittings and paid by cheque	27
12	Cash sales	129
15	Goods sold to Okonkwo	100
16	Paid Faleye by cheque on account	400
17	Cash sales	350
18	Paid cash into bank	150
20	Bought goods from Faruk	140
25	Sold goods to Shola	150
28	Bought desk-top computer by cheque	70
31	Paid for stationery in cash	40

#### Required:

Use Journal entries to record the above balances and transactions in the books of Babariga Trading Company. (14 Marks)  
(Total 20 Marks)

#### QUESTION 2

- a. The purpose of a trial balance is to prove the accuracy of the General Ledger accounts of a business. However, the "balancing" of the debit side and the credit side of a trial balance does not guarantee that there is no error in the General Ledger accounts.

#### Required:

- State TWO uses of a trial balance to an entity. (2 Marks)
- State FOUR errors that may lead to difference in trial balance total figures. (2 Marks)
- State FOUR errors that may NOT affect the "balancing" of a

trial balance. (2 Marks)

- b. The following balances were extracted from the books of Omoba Enterprises as at 31 December, 2013:

	N
Accumulated for depreciation	85,000
Administrative expenses	775,000
Accounts payables	585,000
Subscription	15,000
Rent and rates	130,000
Account receivables	475,000
Postage and stationery	125,000
Newspapers & periodicals	40,000
Utility	35,000
Allowances for Bad debt	85,000
Property, plant and equipment	925,000
Retained earnings	575,000
Audit fees	85,000
Revenue	2,500,000
Cost of sales	800,000
Other income	82,000
Cash and bank balances	882,000
Capital	375,000

#### Required:

- Use the information above to extract a trial balance of Omoba Enterprises at 31 December, 2013. (12 Marks)
- Use the information below to recompute the entity's capital for the period under review:  

Drawings	N250,000	
Profit for the period	N315,000	(2 Marks)
		(Total 20 Marks)

#### QUESTION 3

Success Sports Club had a membership strength of 140 members who paid annual subscription of N20,000 each for the year 2014. The receipts and payments account shows the following:

	N	N
Opening cashbook balance		120,000
Subscription		2,900,000
Donations		500,000
Sale of games tickets		450,000
		3,970,000
Cost of games	270,000	
Rent	20,000	
Groundman's wages	24,000	
Cost of refreshment	49,000	
Squash racquets	60,000	
Hockey sticks	100,000	

Games trophies	120,000	
Annual awards	1,000,000	(1,643,000)
Closing cash book balance		2,327,000

Additional information:

	31/12/2013	31/12/2014
	N	N
(i) Subscriptions outstanding	300,000	250,000
Subscriptions in advance	100,000	150,000
Sports equipment	400,000	-

(ii) Sports equipment are to be depreciated at 50% annually.

**You are required to prepare**

- Subscriptions account (3 Marks)
  - Income and Expenditure Account for the year ended 31 December, 2014 (7 Marks)
  - Statement of Financial Position as at 31 December, 2014 (10 Marks)
- (Total 20 Marks)

#### QUESTION 4

Financial data extracted from the books of Kandor Enterprises Limited for the year ended 31 December, 2014 are shown below:

	N'000
Revenue	6,990
Decrease in receivables	177
Cost of sales	5,128
Increase in inventories	1,483
Increase in payables	613
Selling and distribution expenses	300
Administrative expenses	343
Loss on disposal of non-current assets	6
Depreciation charges for the year	62
Ordinary shares issued for cash	400
Purchase of property, plant and equipment	113
Income tax paid	198
Proceeds from disposal of non-current assets	3
Repayment of loan notes	10
Dividend paid	86
Interest paid on loan notes	191
Cash and cash equivalent at the beginning of the year	(409)

Prepare the Statement of Cash Flows for the year ended 31 December, 2014 using direct method showing:

- Net cash flow from operating activities (5 Marks)
  - Net cash flow from investing activities (5 Marks)
  - Net cash flow from financing activities (5 Marks)
  - Cash and cash equivalents at the end of the year (5 Marks)
- Show all workings (Total 20 Marks)

#### SOLUTIONS

##### SOLUTION 1

- Income is the increase in economic benefits in the form of any of the following:
    - Inflows

- Increases of assets that lead to increases of equity other than contributions by the shareholders in their capacity as shareholder.
- Decreases of liabilities that lead to increases of equity other than distributions to the shareholders in their capacity as shareholders.

(ii)

##### ❖ Characteristics of Capital Income

- It is not earned frequently
- It is derived from the sale of non-current assets such as property, plant and equipment and investments that are not held for sales in the ordinary course of business
- The amount involved is very significant
- It is normally presented as other income rather than income from operating activities or investment income

##### ❖ Characteristics of Revenue Income

- It is frequently earned
- It is the major source of income of an entity
- It is matched against revenue expenditure to determine profit or loss
- It flows mainly from sales of goods or rendering of services engaged in by the entity in the ordinary course of business
- It may also result from incomes received from investment such as dividend and interest

#### (b) BABARIGA TRADING COMPANY JOURNAL ENTRIES FOR THE PERIOD ENDED JANUARY 31, 2014

PARTICULARS	DR N'000	CR N'000
Cash account	50	
Bank account	150	
Trade receivables control account	300	
Inventory account	100	
Capital account (Difference)	600	
Being opening balances for the month of January 2014		
Purchases account	70	
Cash account		70
Being cash purchases of 2/1/2014, now recorded		
Purchases account	500	
Trade payables – Faleye account		500
Being the recording of shop fittings purchased by cheque on 9/1/2014		
Shop fittings account	27	
Bank account		27
Being the recording of shop fittings purchased by cheque on 9/1/2014		
Cash account	129	
Revenue account		129
Being the recording of cash sales of 12/1/2014		
Trade receivables - Okonkwo account	100	
Revenue account		100
Being the sale of goods on credit to Okonkwo on 15/1/2014, now recorded		

Trade payables – Faleye account	400	
Bank account		400
Being part payment to Faleye by cheque on 16/1/2014 now recorded		
Cash account	350	
Revenue account		350
Being the recording of cash sales of 17/1/2014		
Bank account	150	
Cash account		150
Being the recording of cash paid into bank on 18/1/2014		
Purchases account	140	
Trade payables – Faruk account		140
Being goods purchased from Faruk on 20/1/2014, now recorded		
Trade receivables – Shola account	150	
Revenue account		150
Being the sale of goods on credit to Shola on 25/1/2014, now recorded		
Office equipment account	70	
Bank account		70
Being the recording of cheque payment for purchase of desk-top computer on 28/1/2014		
Stationery account	40	
Cash account		40
Being the recording of stationery purchased by cash on 31/1/2014		

#### EXAMINER'S REPORT

The question tests candidates' knowledge of definition of income and characteristics of capital and revenue incomes. Candidates' ability to raise appropriate journal entries to record transactions in the books of a trading company is also examined.

About 75% of the candidates attempted the question and performance was below average. Some candidates could not differentiate between journal entries and ledger postings, while some others did not include narration in their journal entries.

Candidates are advised to pay more attention to this vital basic principles of recording accounting transactions of entries.

#### SOLUTION 2

(a) i) The uses of trial balance include the following:

- Proving the arithmetical accuracy of all the ledger postings
- Showing ledger balances at a glance
- Revealing arithmetical errors whenever it fails to balance
- Facilitating the preparation of financial statements

ii) Errors that may lead to disagreement in trial balance total figures include

- Casting error
- Transposition error
- Wrong amount being transferred from ledger to the trial balance
- Omission of ledger balances in the trial balance
- Posting of transaction to the wrong side of either the ledger or the trial balance

iii) The following errors may not affect the balancing of a trial balance:

- Error of omission

- Error of original entry
- Error of principle
- Error of commission
- Complete reversal of entries
- Compensating error

#### (b) (i) OMOBA ENTERPRISES TRIAL BALANCE AS AT DECEMBER 31, 2013

	DR N	CR N
DETAILS		
Accumulated depreciation		85,000
Administrative expenses	775,000	
Accounts payables		585,000
Subscription	15,000	
Rent and rates	130,000	
Account receivables	475,000	
Postage and stationery	125,000	
Newspaper and periodicals	40,000	
Utility	35,000	
Allowances for bad debt		85,000
Property, plant and equipment	925,000	
Retained earnings		575,000
Audit fees	85,000	
Revenue		2,500,000
Cost of sales	800,000	
Other income		82,000
Cash and bank balances	882,000	
Capital		<u>375,000</u>
	<u>4,287,000</u>	<u>4,287,000</u>

#### (ii) OMOBA ENTERPRISES COMPUTATION OF CAPITAL AS AT DECEMBER 31, 2013

	N
Capital as per trial balance	375,000
Add: Profit for the period	315,000
	690,000
Less: Drawings	250,000
Revised capital	440,000

#### EXAMINER'S REPORT

The question examines candidates' knowledge of the uses and nature of errors that affect the trial balance and their ability to extract a trial balance from given balances.

About 70% of the candidates attempted the question and performance was above average.

The major pitfall of few candidates who failed in the question was their inability to differentiate between items that should be posted to the debit or credit side of the trial balance. A few other candidates used the ledger format for the trial balance.

Candidates are required to master the double entry principles and the formats for journals and ledgers.

#### SOLUTION 3

#### (a) SUCCESS SPORTS CLUB SUBSCRIPTIONS ACCOUNT

	N		N
Bal b/d	300,000	Bal b/d	100,000
Income & expenditure	2,800,000	Receipts & payments	2,900,000
Bal c/d	150,000	Bal c/d	250,000

	3,250,000		3,250,000
Bal b/d	250,000	Bal b/d	150,000

b) **SUCCESS SPORTS CLUB**  
**INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED**  
**31 DECEMBER, 2014**

	N	N
Subscriptions		2,800,000
Donations		500,000
Sales of games tickets		450,000
		3,750,000
Cost of games	270,000	
Rent	20,000	
Guardsman's wages	24,000	
Refreshment	49,000	
Games prizes	120,000	
Annual awards	1,000,000	
Depreciation	280,000	1,763,000
<b>SURPLUS</b>		<b>1,987,000</b>

(c) **SUCCESS SPORTS CLUB**  
**STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER, 2014**

	N	N
<b>Assets</b>		
Sports equipment	560,000	
Less depreciation @ 50%	280,000	280,000
Subscription owing by members		250,000
Cash		2,327,000
		2,857,000
<b>Less:</b>		
Subscription received in advance		150,000
		2,207,000
<b>Represented by:</b>		
Accumulated fund		720,000
Surplus		1,987,000
		2,707,000

**WORKINGS**

Statement of Affairs as at 1/1/2014

	N
<b>Assets</b>	400,000
Equipment	120,000
Subscription owing	300,000
	820,000
Less subscription received in advance	100,000
<b>ACCUMULATED FUND</b>	<b>720,000</b>

**EXAMINER'S REPORT**

The question examines candidates' ability to prepare financial statements of a Not-for-profit organisation.

About 70% of the candidates attempted the question and performance was average.

The commonest pitfalls of candidates were their inability to make distinction between capital and revenue expenditure and wrong posting of transaction, such as wrong posting of income to the debit side and expenditure to the credit side.

The distinction between capital and revenue item determines items of income and expenditure account and the Statement of Financial Position. Hence, candidates are advised to master these technicalities.

**SOLUTION 4**

**KANDOR ENTERPRISES LIMITED**  
**STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER**  
**31, 2014**

	N'000	N'000
<b>CASH FLOW FROM OPERATING ACTIVITIES:</b>		
Receipts from customers (Wk 1)	7,167	
Payments of suppliers (Wk 2)	(5,998)	
Payment for other operating expenses (Wk 3)	(575)	
Income tax paid	(198)	
Net cash flow provided by operating activities		396
<b>CASH FLOW FROM INVESTING ACTIVITIES:</b>		
Payments for purchase of non-current assets	(113)	
Proceeds from disposal on non-current assets	3	
Net cash flow used for investing activities		(110)
<b>CASH FLOW FROM FINANCING ACTIVITIES:</b>		
Issue of shares	400	
Repayment of loan notes	(10)	
Dividend paid	(86)	
Interest paid on loan notes	(191)	
Net cash flow provided by financing activities		113
Net increase in cash and cash equivalents		399
Cash and cash equivalents at the beginning of the year		(409)
Cash and cash equivalents at the end of the year		(10)

**KANDOR ENTERPRISES LIMITED**  
**WORKING NOTES**

<b>Wk 1: Determination of total receipts from customers</b>		N'000
Revenue for the year	6,990	
Add: Decrease in trade receivables	177	
		7,167
<b>k 2: Determination of payment to suppliers</b>		N'000
Cost of sales as per account	5,128	
Add: Increase in inventories	1,483	
		6,611
Total purchases for the year (Wk 2)	(613)	
Increase in trade payables		5,998
<b>Wk 3: Cash paid for other expenses</b>		N'000
Selling and distribution expenses		300
Administration expenses		343
Loss on sale of non-current assets		(6)
Depreciation charged for the year	(62)	
		575

**EXAMINER'S REPORT**

The question examines candidates' knowledge of IAS 7 in relation to its application for the preparation of the Statement of Cash Flows, using the direct method.

Only about 35 percent of the candidates attempted the question and about 75% of them scored just average of the marks allotted.

The pitfalls identified among the candidates' were their inability to use the correct classification or format and their inability to calculate cash received from customers and cash paid to suppliers, employees and for other expenses.

Candidates are advised to study and master the requirements of IAS 7 for presentation of the statement of cash flow using the direct method or the indirect method as may be required by the examiners.

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