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Islamic Financing and its Products

7 REASONS Why A Business Will Not Outlive The Owner



**ICAN Does Not
Stress Students - AJAEGBU**

ICAN PROFESSIONAL

WEEKEND / INTENSIVE LECTURES - MAY 2015 DIET

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Editor's Note

The controversy that heralded the advent of Islamic banking in Nigeria few years ago was largely due to its newness in the country's financial landscape. At the time, most people were oblivious of what this novel banking system was all about. Many even mistook it for a product that promotes religious dichotomy due to its nomenclature.

In his article titled "Islamic Financing and its Products", Oye Akinsulire explores the nitty-gritty of Islamic banking, thus making the concept clearer to all. He posits that despite its name, Islamic banking is not a religious product per se, but is meant to meet the needs of a specific group of people. He also explains that the elements associated with conventional finance such as interest, uncertainty and risk, are absent in Islamic banking.

When a business is set up, the main objective of the promoter is to make it a source of income to take care of the needs of the family. But when

the business is not properly handled, it will fail to provide the expected income, decline and may die prematurely. In the article, "Seven Reasons Why a Business Will Not Outlive the Owner" Mr. Nwadei Ifeanyi argues that businesses should be nurtured to enable them fulfill their roles in the society by ensuring that the seven signs that a business will not outlive the owner do not manifest.

The Institute has debunked an erroneous impression that ICAN unduly stresses its students by making its examination difficult to pass. In this issue, the perception was cleared by the President. The rationale behind this as explained by the President is contained herein.

In this edition, we serve you detailed reports of all these and other regular news items. Your comments and contributions are welcome. Write to: corporateaffairs@ican.org.ng or aoolowolabi@ican.org.ng

ICAN Does Not Stress Students, Says Ajaegbu

The Institute of Chartered Accountants of Nigeria (ICAN) has debunked insinuation in some quarters that it subjects its students to undue stress by making its examinations difficult to pass. The Institute explained that it only strives to conform with its enabling Act and the international standards in order to produce world class chartered accountants.

This explanation was given by the 50th President of the Institute, Mr. Chidi Ajaegbu during the induction of 511 new members of the Association of Accounting Technicians in West Africa (AATWA) held recently in Lagos.

The ICAN Boss advised the inductees to continue to tread on the path of professionalism in order to become full-fledged members of the Institute.

While congratulating the new AAT members, Ajaegbu said it was a remarkable occasion for them as it marks the beginning of an inseparable relationship with the Institute and the highly revered accountancy profession in Nigeria and in West Africa, noting that it is an honourable professional career path that offers them self-fulfilment, social respect and unrestricted prestige. He implored them not be found wanting in the course of their job.

"As an accounting technician, you must strive to perform your duties in accordance with acceptable technical standards irrespective of the sector of

the economy in which you are employed or engaged as an entrepreneur", he said. He added that accountants are "trained to function effectively in both the public and private sectors of the economy".

"You must not collude with anyone either to cheat or defraud your employer. You are expected to be above board in all you do. You must not tamper with your employers' funds, temporarily borrow them or use the cash entrusted in your care, to settle claims, no matter how legitimate," he stated.

He further explained that only by observing the norms of the profession would they be able to contribute to the sustenance of the leadership role of accountants in corporate



L-R, Special Guest of Honour, Mrs. Morenike Onasanya, ICAN President, Mr. Chidi Ajaegbu, Award Winner, Miss Christana Chioma Ujo, ICAN Past President, Mrs. Ibironke Osiyemi and Council member, Mrs. Uchenna Erobu during the induction of the new AAT members.

ICAN Donates to Abia Poly, Trains Lecturers on Accounting Software

The Institute has donated books worth one hundred thousand naira, three laptops and accounting software to the Accountancy Department of Abia State Polytechnic, Aba.

Announcing the donation at the institution's Departmental Day and Public Lecture, the ICAN President Mr. Chidi Ajaegbu also promised that The Institute would train lecturers of the polytechnic on how to use the accounting software to enable them impart the knowledge to their students.

He implored the students to put other activities aside for the next few years and face academic and professional studies, pointing out that there would be enough time and resources to enjoy later.

He enjoined the students to take their academic and professional education very seriously insisting that "there is

nothing more important".

According to him, "you must get involved in studying and writing professional exams; if you study hard, you will pass and become professionally qualified before your graduation.

"Even if you don't pass, preparing for the professional examination helps you enhance your reading habit which is essential for success in academic work".

Mr. Ajaegbu also informed the students about the ICAN scholarship schemes at home and overseas for candidates who excel in its professional examinations, urging them to seize the opportunities.

The Head of department of Accounting at the polytechnic, Mr. Fijo Kalu Okafor, who is a fellow of ICAN thanked the president for the noble gesture extended to his department by the Institute.

In his own remarks the President of Abia Polytechnic chapter of the National Association of Polytechnic Accountancy Students (NAPAS) Comrade Azuh Ugochukwu commended the president for his personal contribution to accountancy students especially through his annual scholarship award to over 100 students.

ICAN, NNDC to Set Up More Study Centres in Northern States

The Institute of Chartered Accountants of Nigeria (ICAN) and the New Nigeria Development Company Ltd are setting up more ICAN – NNDC Study Centres in all the 19 states of the North in a bid to improve the quality of accounting education in the Northern part of the country under the ICAN Students Special Project (SSP) scheme.

A new agreement was signed recently by ICAN President Mr. Chidi Ajaegbu and NNDC Group Managing Director Dr. Ahmed M. Muhammed to strengthen an existing partnership and take the scheme to 16 more states in the region.

The SSP was introduced to NNDC by ICAN in 2006 and both parties entered into a Memorandum of Understanding (MoU) which led to the establishment of three ICAN/NNDC Study Centres in Kaduna in 2007 and Ilorin and Kano in 2008.

Since inception of the project to May 2014 the three centres have produced a total of 539 chartered accountants with Kaduna centre accounting for 211 while Ilorin and Kano accounted for 137 and 191 respectively.

Under the enhanced agreement, the NNDC/ICAN Study Centre which took off in three states about seven years ago has now been expanded to all the 19 states in an attempt to address the lopsided nature of students' enrolment and poor performance in accounting examinations in the area.

The agreement also provides that ICAN will continue to set standards tailored to the peculiarities of NNDC locations to ensure continuous implementation of the goals and objectives of setting up the centres. It will also manage the centres and give periodic financial and operational situation reports on them.

On its own part the NNDC will mobilize adequate number of students for each diet of ICAN examination as well as

provide incentives to students to promote their sustained interest in the programme.

Some states in the North have since indicated their interest in partnering with ICAN and NNDC to establish the ICAN-NNDC Study Centres in their states, among them are Sokoto, Katsina, Gombe and Jigawa States where work has reached advanced stage of completion. However, the centre in Sokoto will also cater for students in the surrounding states of Kebbi and Zamfara while the one in Gombe will cater for students in Adamawa, Bauchi and Taraba in addition to Gombe.

The Study Centre is part of the Institute's Students Special Project, an initiative that seeks to increase the number of Chartered Accountants in educationally disadvantaged areas of the country and the first set of model centres for the Northern states were set up in collaboration with NNDC in Kaduna (in 2007) as well as Kano and Kwara (in 2008).

Outside the NNDC states, centres were also set up in two Southern States of Bayelsa and Cross River in 2007 and 2008 respectively under a collaborative arrangement with their state governments. Centres in the Southern states which are slated for commissioning soon include those in Abia, Anambra and Imo.

An initiative of ICAN governing council, the student's special project, is meant to improve the quality of Chartered Accountants and address the dismal performance of candidates at the Institute's professional examinations due to a combination of reasons such as poor academic background, lack of good tuition facilities, poor preparation and dearth of qualitative study materials.

Objectives of the scheme, among other things, include to attract the best brains into accountancy profession in Nigeria, to provide high quality human capital for the country, and expand studentship in educationally less developed parts of the country, among others.

ICAN Names Uniben Lecture Theatre after Aghaowa

The Institute of Chartered Accountants of Nigeria (ICAN) has named the Lecture Theatre it donated to the accounting department of the University of Benin (UNIBEN) after Chief Garrick Aghaowa, the oldest living member of the Institute in the area.

ICAN president Mr. Chidi Onyeukwu Ajaegbu announced this when he visited Pa Aghaowa's Benin City home with some Council members to mark his 98th birthday. He said that the entire membership of the Institute owe it a duty to immortalize the pioneers who sacrificed so much to set the standards that current members of the Institute are advancing.

Pa Aghaowa is the first cost accountant in West Africa and the pioneer bursar of Uniben. He was among the 14 pioneer members of the Institute.

The Lecture theatre which is under construction is one of the five being provided by ICAN to universities across the country as part of its efforts to enhance accounting education. Looking very strong and elated, Chief Aghaowa said he was very grateful to God and to the Golden Jubilee President for

making out time to honour him as he marked his 98 years on earth, noting that the birthday was unique and special to him because it was on a Sunday.

Recalling how he became educated at a time that going to school was difficult, pa Aghowa said it was an act of God.

He said: "I believe that whatever a person would be in life has been arranged by God. It was my brother who was meant to go to school but God maneuvered things in my favour and I got a scholarship".

Though his education was briefly interrupted because the scholarship was terminated after the missionaries who funded it left, his quest for education made him to proceed to Benin City where he found another benefactor who assisted him to continue.

Pa Aghaowa who was once described as "one whose heart is bigger than him" was at various times the first Chairman of ICAN Benin & District Society, Member of the defunct Bendel State House of Assembly and Acting Bursar at the University of Lagos.

He gave credit to the visionaries who founded ICAN such as Mr. Akintola Williams and Mr. F.C. Coker, among others who gave their time and resources to lay a solid foundation for the Institute.

Stanbic IBTC Bank Launches Credit Card for ICAN Members

Stanbic IBTC Bank has launched a credit card scheme for members of The Institute of Chartered Accountants of Nigeria (ICAN). The service allows fellows and associates of the institute a standby credit at no interest.

Fellows of ICAN can access up to N400,000 (four hundred thousand Naira for 55 days while associates can access up to N150,000 (one hundred and fifty thousand Naira) for the same duration.

At the presentation of the product in Lagos, the president of the Institute Mr. Chidi Ajaegbu said it was meant to empower members. He however pointed out that only those who are financially up-to-date could access it.

He added that Stanbic IBTC Bank was providing the product without any form of collateral as a demonstration of the confidence it has in ICAN members.

He said that subscription to the product was voluntary and implored members who would want to take advantage of it to live up to expectation in terms of proper utilization and prompt repayment.

Mr. Ajaegbu described the credit card launching as historic because it marked a new level of

relationship between ICAN and Stanbic IBTC which had been on for over 20 years.

In his own remark at the product launch Stanbic Bank's Executive Director, Private and Personal Banking Mr. Obinnia Abajue described the product as a first of its kind, where a professional institute would partner with a bank to provide a credit scheme to its members through a credit card. He assured members that there were no hidden charges attached.



L-R, President of ICAN, Mr. Chidi Ajaegbu, Executive Director, Stanbic IBTC, Mr. Obinnia Abajue; 1st Deputy Vice President of ICAN, Deacon Titus Soetan and Registrar/CE of ICAN, Mr. Rotimi Omotoso at the presentation of Credit Card for ICAN members by Stanbic IBTC Bank.

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Islamic Financing and its Products

By Oye Akinsulire

INTRODUCTION

The advent of Islamic banking in Nigeria in 2011 brought about some controversies in terms of what it entails, its modalities, the non interest charging concept, beneficiaries etc. Islamic finance can be described as a financial business that is not contradictory to the principles of Shari'ah. Despite its name, Islamic finance is not a religious product per se. It is however targeted to meet the needs of a specific group of people.

Interest, uncertainty and risk are the major elements that are associated with conventional finance but which are prohibited under the Shari'ah law. They are known in Arabic as *riba* (Interest/Usury), *gharar* /*maysir* (Risk/Uncertainty). *Maysir* occurs in contracts where the ownership of a good depends on the occurrence of a predetermined, uncertain event in the future whereas *gharar* describes speculative transactions.

Interest (*riba*) is the predetermined amount received by a provider of finance, over and above the principal amount of finance provided. *Riba* is absolutely forbidden in Islamic finance. *Riba* can be seen as unfair from the perspective of the borrower, the lender and the economy. For the borrower, *riba* can turn a profit into a loss when profitability is low. For the lender, *riba* can provide an inadequate return when unanticipated inflation arises. In the economy, *riba* can lead to allocational inefficiency, directing economic resources to sub-optimal investments.

Islamic financial instruments require that an active role be played by the provider of funds, so that the risks and rewards of ownership are shared.

RELATIONSHIP BETWEEN ISLAMIC FINANCING AND ISLAMIC BANKING

Islamic banking is a sub-set of Islamic finance (better referred to as 'Shari'ah compliant finance'). It does not operate like conventional banking and must be viewed from a different perspective. The reason being that the most important

underlying principle of conventional banking is that money when invested judiciously has multiplier effect in that it has a premium, known as interest or usury.

Non-interest banking is a profit growing global concept that is practiced in more than 65 countries around the world including, United States of America, United Kingdom, Canada, United Arab Emirate, Malaysia, China, Singapore, South Africa, Kenya etc. Global Banks like HSBC, Barclays Bank, Citibank etc are also offering it. It is an alternative financial service which is open to all irrespective of race or religion.

It is based on ethical principle of fairness, transparency and objectivity. Non-interest banking offers almost all the services offered by conventional banks except that they do not give or receive interest, nor finance anything that is considered harmful to society like alcohol, tobacco, gambling etc in line with Shari'ah ethics. It also seeks to avoid *gharar*-speculation, uncertainty, deception and more.

The practice of earning interest is the antithesis of Islamic finance because Islamic law, from the beginning, has categorically denounced it.

Shari'ah prohibits investment in businesses that provide goods or services considered contrary to Islamic principles (e.g. gambling, pork or alcohol) which are considered *haraam* ("sinful and prohibited").

Central to Islamic banking and finance is an understanding of the importance of risk sharing as part of raising capital and the avoidance of *riba* (interest or usury) and *gharar* (risk or uncertainty).

MICROFINANCE

Microfinance is an important concern for Muslim states and recently Islamic banks as well. Microfinance is ideologically compatible with Islamic finance, because it is believed to be in accordance with the Shari'ah, and possesses a sizeable potential

market.

ISLAMIC BANKING IN MALAYSIA

In 1983 the first Islamic bank was established in Malaysia while commercial banks, merchant banks and finance companies began to offer Islamic banking products and services under the Islamic Banking Scheme (IBS banks) in 1993. The IBS banks have to separate the funds and activities of the Islamic banking transactions from the funds of their conventional banking activities.

ISLAMIC BANKING IN NIGERIA - JAIZ BANK PLC

Jaiz Bank Plc was created out of the former Jaiz International Plc which was set up in 2003 as a special purpose vehicle (SPV) to establish Nigeria's first non-interest bank.

It is an unquoted public company owned by over 3,000 shareholders of different religious background spread over the six geographical zones of Nigeria.

Jaiz Bank Plc obtained a regional license to operate as a full-fledged non-interest bank from the Central Bank of Nigeria on November 11, 2011 and begun full operations in Nigeria on January 6, 2012 with three branches in Abuja FCT, Kaduna and Kano. The regional license allows the bank to operate geographically in a third of the country. Also, based on the recommendations from Islamic Development Bank (IDB), which is also a shareholder of the bank, Jaiz Bank Plc has partnered with Islamic Bank Bangladesh (IBBL) for Technical and Management Assistance.

CONCEPTS UNDER ISLAMIC FINANCE

MURABAHAH

This refers to the sale of goods at a price which includes a margin for profit agreed to by both parties. The purchase and selling price, other costs, and the profit margin must be clearly stated at the time of the sale agreement. The bank is rewarded for the time value of its money in the form of the profit margin.

It is a fixed-income loan usually for the purchase of a real asset (such as real estate or a vehicle), with a fixed rate of profit determined by the profit margin. The bank is not compensated for the time value of money outside of the contracted term (i.e the bank cannot charge additional profit on late payments); however, the asset remains as a mortgage with the bank until the default is settled.

BAI' MUAJJAL (Credit sale)

Bai' muajjal literally means a credit sale. Technically, it is a financing technique adopted by Islamic banks that takes the form of murabahah muajjal. It is a contract in which the bank earns a profit margin on the purchase price and allows the buyer to pay the price of the commodity at a future date in a lump sum or in installments. It has to expressly mention cost of the commodity and the margin of profit is mutually agreed. The price fixed for the commodity in such a transaction can be the same as the spot price or higher or lower than the spot price. Bai' muajjal is also called a deferred-payment sale. However, one of the essential descriptions of riba is an unjustified delay in payment or either increasing or decreasing the price if the payment is immediate or delayed.

MUSAWAMAH

In a Musawamah contract the selling price is negotiated between the two parties without reference by the seller to either costs or asking price. While the seller may or may not have full knowledge of the cost of the item being negotiated, they are under no obligation to reveal these costs as part of the negotiation process. This difference in obligation by the seller is the key distinction between Murabahah and Musawamah with all other rules as described in Murabahah remaining the same. Musawamah is the most common type of trading negotiation seen in Islamic commerce.

MUDARABAH (Partnership)

Mudarabah is a special kind of partnership where one partner gives money to another for investing it in a commercial enterprise. The capital investment should normally come from both partners.

The Mudarabah (profit sharing) is a contract, with one party providing 100 percent of the capital and the other party providing its specialized knowledge to invest the capital and manage the investment project. Profits generated are shared between the parties according to a pre-agreed ratio. If there is a loss, the first partner "rabb-ul-mal" will lose his capital, and the other party "mudarib" will lose the time and effort invested in the project.

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Islamic financial instruments require that an active role be played by the provider of funds, so that the risks and rewards of ownership are shared.

MUSHARAKAH (Joint venture)

Musharakah is a relationship between two or more parties that contribute capital to a business and divide the net profit and loss pro-rata. This is often used in investment projects, letters of credit, and the purchase of real estate or property. In the case of real estate or property, the bank assesses an imputed rent and will share it as agreed in advance. All providers of capital are entitled to participate in management, but not necessarily required to do so. The profit is distributed among the partners in pre-agreed ratios, while the loss is borne by each partner strictly in proportion to respective capital contributions.

IJARAH (lease)

Ijarah is equivalent to a lease, rent or wage. Generally, the Ijarah concept refers to selling the benefit of use or service for a fixed price or wage. Under this concept, the bank makes available to the customer the use of service of assets / equipment such as plant, office automation, motor vehicle for a fixed period and price.

IJARAH THUMMA AL BAI' (Hire purchase)

Parties enter into contracts that come into effect serially, to form a complete lease / buy back transaction. The first contract is an Ijarah that outlines the terms for leasing or renting over a fixed period, and the second contract is a Bai that triggers a sale or purchase once the term of the Ijarah is complete. For example, in a car financing facility, a customer enters into the first contract and leases the car from the owner (bank) at an agreed amount over a

specific period. When the lease period expires, the second contract comes into effect, which enables the customer to purchase the car at an agreed price. The bank generates a profit by determining in advance the cost of the item, its residual value at the end of the term and the time value or profit margin for the money being invested in purchasing the product to be leased for the intended term. The combining of these three figures becomes the basis for the contract between the Bank and the client for the initial lease contract. This type of transaction is similar to the "contractum trinius", a legal maneuver used by European bankers and merchants during the Middle Ages to sidestep the Church's prohibition on interest bearing loans. In a contractum, two parties would enter into three concurrent and interrelated legal contracts, the net effect being the paying of a fee for the use of money for the term of the loan. The use of concurrent interrelated contracts is also prohibited under Shari'ah Law.

IJARAH-WAL-IQTINA

A contract under which an Islamic bank provides equipment, building, or other assets to the client against an agreed rental together with a unilateral undertaking by the bank or the client that at the end of the lease period, the ownership in the asset would be transferred to the lessee. The rentals as well as the purchase price are fixed in such a manner that the bank gets back its principal sum along with profit over the period of lease.

BAI' AL 'INAH (Sale and buy-back agreement)

Bai' al inah is a financing facility with the underlying buy and sell transactions between the financier and the customer. The financier buys an asset from the customer on spot basis. The price paid by the financier constitutes the disbursement under the facility. Subsequently the asset is sold to the customer on a deferred-payment basis and the price is payable in installments. The second sale serves to create the obligation on the part of the customer under the facility. There are differences of opinion amongst the scholars on the permissibility of Bai' al 'inah, however this is practiced in Malaysia and the like jurisdictions.

BAI' BITHAMAN AJIL (Deferred payment sale)

This concept refers to the sale of goods on a deferred payment basis at a price, which includes a profit margin agreed to by both parties. Like Bai' al 'inah, this concept is also used under an Islamic financing facility. Interest payment can be avoided as the customer is paying the sale price which is not the same as interest charged on a loan. The problem here is that this includes linking two transactions in one which is forbidden in Islam. The common perception is that this is simply straightforward charging of interest disguised as a sale.

BAI SALAM

Bai salam means a contract in which advance payment is made for goods to be delivered later on. The seller undertakes to supply some specific goods to the buyer at a future date in exchange of an advance price fully paid at the time of contract. It is necessary that the quality of the commodity intended to be purchased is fully specified leaving no ambiguity leading to dispute.

The objects of this sale are goods and cannot be gold, silver, or currencies based on these metals. Barring this, Bai Salam covers

almost everything that is capable of being definitely described as to quantity, quality, and workmanship.

BASIC FEATURES AND CONDITIONS OF SALAM

1. The transaction is considered Salam if the buyer has paid the purchase price to the seller in full at the time of sale. This is necessary so that the buyer can show that they are not entering into debt with a second party in order to eliminate the debt with the first party, an act prohibited under Shari'ah. The idea of Salam is normally different from the other either in its quality or in its size or weight and their exact specification is not generally possible.
2. Salam cannot be accepted on a particular commodity or on a product of a particular field or farm. For example, if the seller undertakes to supply the wheat of a particular field, or the fruit of a particular tree, the salam will not be valid, because there is a possibility that the crop of that particular field or the fruit of that tree is destroyed before delivery, and, given such possibility, the delivery remains uncertain. The same rule is applicable to every commodity the supply of which is not certain.
3. It is necessary that the quality of the commodity (intended to be purchased through salam) is fully specified leaving no ambiguity which may lead to a dispute. All the possible details in this respect must be expressly mentioned.

“The concept of Islamic banking is not materially different from the conventional banking except for the prohibition of interest earning/payment, businesses forbidden etc.

4. It is also necessary that the quantity of the commodity is agreed upon in unequivocal terms. If the commodity is quantified in weights according to the usage of its traders, its weight must be determined, and if it is quantified through measures, its exact measure should be known. What is normally weighed cannot be quantified in measures and vice versa.
5. The exact date and place of delivery must be specified in the contract.
6. Salam cannot be accepted in respect of things which must be delivered at spot. For example, if gold is purchased in exchange for silver, it is necessary, according to Shari'ah, that the delivery of both be simultaneous. Here, salam cannot work. Similarly, if wheat is bartered for barley, the simultaneous delivery of both is necessary for the validity of sale. Therefore the contract of salam in this case is not allowed.

ISTISNA (Manufacturing Finance)

Istisna (Manufacturing Finance) is a process where payments are made in stages to facilitate step wise progress in the Manufacturing / processing / construction works. Istisna enables any construction company get finance to construct slabs / sections of a building by availing finances in installments for each

slab. Istisna also helps manufacturers to avail finance for manufacturing / processing cost for any large order for goods supposed to supply in stages. Istisna helps use of limited funds to develop higher value goods/assets in different stages / contracts.

QARD HASSAN / QARDUL HASSAN (Good loan/benevolent loan)

Qard hassan is a loan extended on a goodwill basis, with the debtor only required to repay the amount borrowed. However, the debtor may, at his or her discretion, pay an extra amount beyond the principal amount of the loan (without promising it) as a token of appreciation to the creditor. In the case that the debtor does not pay an extra amount to the creditor, this transaction is a true interest-free loan. Some Muslims consider this to be the only type of loan that does not violate the prohibition on 'riba, for it alone is a loan that truly does not compensate the creditor for the time value of money.

SUKUK (Islamic bonds)

Sukuk, plural of Sakk, is the Arabic name for financial certificates that are the Islamic equivalent of bonds. However, fixed-income, interest-bearing bonds are not permissible in Islam. Hence, Sukuk are securities that comply with the Islamic law (Shari'ah) and its investment principles, which prohibit the charging or paying of interest. Financial assets that comply with the Islamic law can be classified in accordance with their tradability and non-tradability in the secondary markets.

TAKAFUL (Islamic insurance)

Takaful is an alternative form of cover that a Muslim can avail himself against the risk of loss due to misfortunes. Takaful is based on the idea that what is uncertain with respect to an individual may cease to be uncertain with respect to a very large number of similar individuals. Insurance by combining the risks of many people enables each individual to enjoy the advantage provided by the law of large numbers. It is also a form of co-operation among participants.

HIBAH (Gift)

This is a small amount (token) given voluntarily by a debtor in return for a loan. Hibah usually arises in practice when Islamic banks voluntarily pay their customers a 'gift' on savings account balances, representing a portion of the profit made by using those savings account balances in other activities.

While it appears similar to interest and may in effect have the same outcome, Hibah is a voluntary payment made (or not made) at the bank's discretion. It cannot be guaranteed, similar to dividends earned by shares. Additionally, it is not time bound but is instead at the bank's discretion. However, the opportunity of receiving high Hibah will draw in customers' savings, providing the bank with capital necessary to create its profits; if the ventures are profitable, then some of those profits may be gifted back to its customers as Hibah. It is important to note once again that although the preceding descriptions of Hibah do sound like interest payments, there is a fundamental difference beneath: Hibah is voluntary, and at the sole discretion of the giver, whereas payment of interest is contractual obligation that is made or to be made between the parties.

WADIAH (Safekeeping)

In Wadiah, a bank is deemed as a keeper and trustee of funds. A person deposits funds in the bank and the bank guarantees refund

of the entire amount of the deposit, or any part of the outstanding amount, when the depositor demands it. The depositor, at the bank's discretion, may be rewarded with Hibah (see above) as a form of appreciation for the use of funds by the bank.

WAKALAH (Power of attorney)

This occurs when a person appoints a representative to undertake transactions on his/her behalf, similar to a power of attorney.

SUMMARY AND CONCLUSION

The concept of Islamic financing is an emerging one in Nigeria. Its features and products are relatively unknown and it may take some time before Nigerians will come to appreciate its evolution. Some of the products are similar, yet differences exist.

The significance of Islamic financing cannot be over emphasized. Islamic finance is widely misunderstood but its core principles could provide a blueprint for a sustainable global economy.

The concept of Islamic banking is not materially different from the conventional banking except for the prohibition of interest earning/payment, businesses forbidden etc. It could be deduced from some of the different products that their modalities are as different from each other as we have in a conventional banking system.

Though Islamic banking is relatively new in Nigeria, it is my candid opinion that when Nigerians come to understand its modalities and appreciate that it does not have negative religious connotations or discriminatory tendencies, it will be a future vehicle for commercial development and success.

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7 REASONS

Why A Business Will Not Outlive The Owner

By Nwadei Ifeanyi

1.0 Introduction

Businesses are economic units that provide sources of income to the household and the society. They are artificial personalities created by human economic interest, recognised by the law and respected by the society. They can do nothing of their own but require the help of man to live their useful lives. When they are treated with carelessness, the result is that they would fail to provide income as expected, decline in their ability to support man and the society as well as die prematurely. Therefore, man ought to nurture these businesses to enable them fulfill their roles in the society by ensuring that the 7 signs that a business will not outlive the owner are properly taken care of before they manifest.

2.0. Reasons for Business Failure

2.1 When the record of business transactions are not kept

Most business owners understand the importance of good record keeping of their business transactions. However, some business owners fail to keep records because of so many factors. Some of these factors are:

1. They are too busy and have little or no spare time for record keeping.
2. They consider some transactions too small to take them out of their busy schedule in order to record them.
3. Reliance on the ability to remember transactions.
4. Blind trust on business partners and assistants.
5. Shyness in asking for evidence of transactions such as receipt vouchers, signing of payment vouchers etc from business partners or clients to avoid being labeled stingy or wicked.

Record keeping is a sub system in business unit. This sub system is very vital to the survival of the business. It keeps track of economic transactions in business operations. Failure to keep records is an invitation for business failure. To avoid this, every business owner is required to plan for how the record keeping of the business would be done before commencement of the business. The ability to solve the problem of record keeping is a signal that the other 6 signs that a business will not outlive the owner could be taken care of.

One may not require the knowledge of accounting or similar

knowledge to achieve good record keeping in business. A simple recording of all transactions could be kept in a book. In addition to this, one should endeavour to issue receipt for all monies received and ask for receipts for all monies paid out. Where reasonable, one could make clients sign for monies received.

There would be need to design receipts in duplicate or triplicate as the case may be and it should include contact information. This would enhance internal control of the business unit. The design of business documents should be aimed at creating trust between the business and clients. The business owner should be able to contact clients for enquiries when the need arises. The clients should also be able to contact the business owner or any responsible persons whenever the need arises.

All accounting forms and business documents should be properly and neatly kept in safe place. The organization of these documents should take cognizance of ease of retrieval. The used forms should not be disposed within a couple of years. There could be need to refer to them in the future.

2.2 The business profit or loss cannot be determined with certainty

The reason why people go into business is to make profit. It becomes a problem when business operator cannot determine profit or loss periodically. Incidentally, many business owners determine profit by markup margin. That is, they add a little amount of money to the cost price. This markup is what they refer to as profit. Such persons fail to realize that other costs associated with the operation of the business such as phone call charges on negotiating business deals etc are included in running the business.

On the other hand, some business owners are not able to distinguish private expenses from that of the business. This kind of persons thinks that they may be making losses in their business operation. However, when such expenses are properly classified, the business may be operating profitably.

The accurate determination of profit or loss of businesses is very crucial to making rational business decisions. The likelihood that a business can determine periodic profit or loss is dependent on proper record keeping. The revenue and expenses of the business would be matched from the records to show whether profit or loss is made.

A little bit of skill is required to match revenues and expenses

extracted from business records to determine the performance of any business. The revenues and expenses require proper classifications to determine revenues and expenses that should be matched. The reason for this is that some expenses items such as payment for services or expenses in advance etc should not be matched in periods under review.

The business owner that wants to determine periodic profit or loss with certainty may require the knowledge of basic accounting skills. Where this is not possible, a professional accountant should be invited to handle the processes.

The periodic determination of profit or loss with certainty will enable the business owner to:

1. Note areas of weaknesses and strength;
2. Note unnecessary expenses that should be eliminated;
3. Identify slow moving stock and make appropriate business decisions;
4. Identify major sources of the business income and pay more attention on them;
5. Determine the prospects of the business;
6. Understand clients' behaviour; and
7. Prevent depleting of invested capital.

2.3 Stock records are not maintained including that taken by the owner

Stocks are kept by business units to enable the business meet the needs of the clients. Stocks may be in form of raw materials, work in process, finished goods and or stationery. These items may be frequently used by the business in providing services or in exchange for revenues from clients. They are subject to frequent changes. The frequency of changes in stock level makes it more difficult for business owners to pay attention on them. This gives advantage to a dubious assistant to help himself/herself.

Stock cards are designed with ease to assist business owners in minimizing stock loss. However, one could make do with simple recording of purchases, usage or sales. When one subtracts usage or sales from purchases, one get the stock balance. There should be actual periodic stock counting to reconcile the actual stock balance with the books. Losses of stock should be investigated.

The business owner should subject self to the rule of recording stocks taken for personal use. This would improve the credibility of the business operation. When the owner thinks that stock withdrawal could be remembered and fail to record, the assistants could help themselves without the owner knowing. That will also affect the determination of profit or loss with certainty. Such a business is bound to fail.

Investigating stock loss without applying deterrent sanctions on the culprits is as useless as not keeping stock records. It may be worse because time and resources are wasted on the investigation in addition to the loss in stock.

Stock records are beneficial to business owners in determining optimum stock level to be maintained. It would also assist in identifying obsolete and slow moving stocks. This would prevent businesses especially those involved in selling of consumable items from not selling poisons to consumers. This is because, failure in frequent stock taking may result in high stocking of slow moving products that may go bad on the shelf.

Some businesses may not want to lose their investments; they would then sell the expired items to unsuspecting consumers. Their investment would be saved but many will die as a result.

Therefore, some benefits of frequent stock taking include:

1. Prevention of stock losses.
2. Prevention of high stocking of slow moving items.

2.4 Cash is taken without recording same

Many business owners are not able to differentiate between their person as individuals and businesses. They take cash from their businesses as if they are withdrawing money from personal bank account. Some even place a call on their assistants demanding for a third party that has no dealings with the business to be paid from the business income. This attitude is not in consonant with good business practices.

Businesses are established to improve the income of the owners. The owner has right to make drawings at whatever time but such drawing ought to be recorded. Drawings are not free money from the business. In fact, there is no free money anywhere. When a business owner makes drawing from the business, the capital invested or profit retained is reduced by that amount. Recording it would help to determine the impact on business survival.

“Many business owners are not able to differentiate between their person as individuals and businesses. They take cash from their businesses as if they are withdrawing money from personal bank account.”

When business owner fails to ensure that all drawings are recorded, business assistants may capitalize on this weakness to help themselves. Cash can easily be stolen. It is therefore imperative for business owners to adequately protect it. It may be better for business owners to have instruction for release of cash documented in writing. This would be a check on unscrupulous assistants.

Business owners need to know that documentation of transactions should be done before the actual cash is released. The business may incur additional cost in procuring the documentation of the transactions once money has exchanged hands. This is because of the general attitude of man to avoid responsibility.

So many businesses have crumbled because of carelessness in handling cash. The attitude for cash handling should be a prerequisite for determining who should work as business assistant. The cost of getting the right person should be matched with the cost of business failure. This would enhance the quality of decision in this regard.

However, business owners should note the following:

1. Cash can easily be stolen and the culprit willing to disengage from the business without remorse.
2. When the owner fails to lead by example, it becomes an open door for all possibilities.
3. Loss of cash can easily crumble a business.

2.5 Remunerations are fixed without assessing the ability of the business to pay

The welfare of employees of any business is very paramount to the success of the business. Incidentally, high remuneration of employees is thought to be the best welfare package. This may not always motivate for hard work. The employees work for the business. It is only rational that the business should be able to pay for their services.

Sometimes, the performance of the business is not known to the employees. Some of them are able to see the huge cash inflow but may not have the privilege of matching it with the expenses. The result of this is frequent demand for wage increase. There is no explanation that would persuade such employees other than loss of job resulting from business failure.

Some business owners may want to respond to frequent demand for increase in remuneration by applying all manners of sanctions on the employees. This also may result in high rate of job turnover. The business loses experienced and undetected may negatively affect the performance of the business.

The success of any business depends on the quality of staff. Some businesses consider their staff as the most valuable assets. This may be correct because the business resources cannot bring about business operation except man is available. Man manages business resources to meet the profit objective of the business owner.

The business owner invested resources to make profit while the employees are out to earn income. Both parties have similar objectives and may be willing to cooperate to achieve their respective objectives. For this to work, both parties must display high level of transparency. There is nothing wrong in allowing the employees analyze the performance of the business as prepared periodically. This may make them begin to design new growth paths that the business owner may not have paid attention to. Such innovative ideas could put the business on growth path that would lead to sustainability.

Business owners may also apply bonuses for outstanding performances of employees to encourage repetition of such fits. Other motivating tools such as public recognition, training, award presentation etc could be used in addition to encourage employees' performance.

2.6 Rent for the business premises is paid from income outside the business

Rent is incurred whether the business is making profit or loss. Some business owners own the premises of business operation so may not consider the impact of rent on the operation. This is a wrong approach of assessing business performance. Such person may consider that the premises could also be given out on rent to earn income. The rent income would be alternative forgone.

Some business owners have in the time past paid rent in advance for businesses that they have no experience to run. They stay in the premises whiling away time until their rent expires. Some others that could not stand the shame of failing in business could muster income from other sources to pay the business rent. This could be likened to one burying scarce economic resources that have alternative uses. It is ridiculous.

Businesses could start small to enable the owner learn salient skills required for growth. The mistakes made using small capital could be remedied. Periodic review of performance would show when the business could move to bigger premises. It means that

the business should drive expansion. Business expansion cannot be done by the rule of the thumb.

Incidentally, many business owners that pay business rent from other sources of income may not be involved in the business operation. They rely on the intelligence of the operators who either use intimidation or persuasion to make them invest more with the hope of profit in the future which may not happen.

Business owners should periodically evaluate the performance of their businesses to avoid further loss of capital. It would be better to stop so far than losing without remedy. There is no business that cannot be redirected for profit making. This could be done when a proper diagnosis of the problem is done and the problem solved.

2.7 When no particular individual is charged with the management of the business

In any entity, someone must take charge. Taking charge does not make the responsible party the owner of the business. It would only make someone accountable for the operation of the business. This would appear a little difficult for families that own family business or inherited the businesses of their parents.

The difference between family business and families is the control unit. This means that the family head is traditionally the man and

“Businesses could start small to enable the owner learn salient skills required for growth. The mistakes made using small capital could be remedied.”

father of the home. However, the control of operations of family activities may lay on another, the more dominant member of the family may be the woman or any of the children. This may not be so in family businesses. The person in charge must have business acumen and should be ready to participate in the day to day activities of the business.

Members of the family may take titles as they deem fit without negatively interfering with the running of the business. The role of everyone has to be properly defined to streamline family politics. The assessment of the quality of the responsible party should be strictly on business performance and prudence in the management of economic resources of the business.

However, it may become necessary to engage an employee to take charge of the business. This is particularly prudent if such decision has economic benefits. This would not make the owners to neglect their investments.

3.0 Conclusion

The manifestation of any of the signs is an indication that business failure would occur. This may happen when the investor has become too weak to support the business through other means. The intention of bequeathing a thriving business that would create employment for children/wards may be defeated. The society would also suffer loss of income through taxation from the business. Therefore, it would be imperative for business owners to seek information that could prevent or eradicate the manifestation of any of the signs that a business will not outlive the owner.

Mr. Nwadei is the Chairman of Nwadei Foundation, Asaba, Delta State.



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MARCH 2015 ACCOUNTING TECHNICIANS SCHEME (WEST AFRICA) EXAMINATIONS

The Accounting Technicians Scheme, West Africa (ATSWA) examinations will hold in member countries on March 17 & 18, 2015 under the Council of The Association of Accountancy Bodies in West Africa (ABWA). The examinations will hold in the following centres in Nigeria: Abuja, Abakaliki, Abeokuta, Abuja, Ado-Ekiti, Akure, Awka, Benin-City, Calabar, Enugu, Ibadan, Ilesha, Ilisan, Ilorin, Ikorodu, Jos, Kaduna, Kano, Lagos, Lokoja, Makurdi, Ogbomoso, Okeja, Ojo, Oshisha, Owerri, Port-Harcourt, Sokoto, Umuahia, Uyo, Warri and Yenagoa.

Note: The Institute reserves the right to transfer any candidate from his or her chosen centre to another centre.

MODE OF REGISTRATION FOR MARCH 2015 EXAMINATIONS

Candidates are required to register online for March 2015 dot examination at the ICAN website www.icanexamsonline.org/ats using any of Pay direct, ATM Visa, Verve or Master Card options.

Kindly note that registration for the examination is restricted to registered students of the Institute, that is, those that have been given registration numbers.

The Study Packs, Insights and Pilot Questions & Answers will be made available to candidates at the ICAN District Offices and Liaison Offices in the respective centres outside Lagos while those for Lagos centre will be made available at 82, Murtala Muhammed Way, Ebute-Metta, Lagos on presentation of a hardcopy of online-completed-form for the examination.

Candidates may also download copies of the Insight, Pilot Questions & Answers and Study Packs from our website, www.ican-ng.org under 'STUDENTS' module by a click on 'STUDENTS', then 'Study Packs' and finally the chosen subject.

DIRECTIVES FOR ONLINE REGISTRATION

1. **BEFORE PAYMENT:** Check and Print out your Examination/Financial Status under the Student icon on the Institute's website: www.ican-ng.org, or directly at: www.ican-ng.org/ats before effecting payment through Paydirect, Verve/Master/Visa ATM card.

2. METHODS OF PAYMENT FOR EXAMINATION FEES

- Pay Direct:** pay directly into ICAN e-Collection Account at any Commercial bank in Nigeria.
 - Obtain your payment Receipt and thereafter
 - Proceed with your application for the exam at ICAN website: www.icanexamsonline.org paydirect
 - Enter your Deposit Slip Number on the payment receipt
 - Enter your receipt number
 - Click on the SUBMIT button to generate eVoucher containing 12 digits and 6 digits PIN and Serial Number respectively required for your online registration
 - Proceed to the web address on the e-voucher i.e. www.icanexamsonline.org/ats to register for the examination.
- Naira ATM Card:** Pay online using your Naira ATM Visa or Verve or Mastercard by selecting the relevant pay type and clicking on either "Pay/View Online on Verve/MasterCard Debit Card" OR "Pay/View Online on VISA Debit Card" following steps enumerated below:
 - Go to ICAN website www.ican-ng.org/ats
 - Enter your Registration Number to view your Financial Status
 - Select "Pay/View Online on Verve/MasterCard" OR "Pay/View Online on VISA Debit Card" under methods of payment on financial status page
 - Click on "sign on" to set up your account or enter your password if you had set up your account before

3. ON-LINE REGISTRATION:

- Requirements:**
 - Scan a copy (JPEG format, 200k maximum file size) of your passport photograph (white background) for the online registration if registered before commencement of online examination registration.
 - Scan a copy of your signature. (JPEG format, 200k maximum file size)
- Procedures:**
 - Complete the Online form at ICAN website: www.icanexamsonline.org/ats and click on submit.

- Print the following after clicking on submit:
 - Completed online examination form.
 - Examination Time Table, centres and their addresses.
 - Examination offences and disciplinary measures.
 - Examination warning to all candidates.

Note that (i) and (iv) above should be thoroughly understood and applied as appropriate.

IMPORTANT NOTICE

- Registration for March 2015 ATSWA Examinations closes at 12 noon on **Wednesday, March 9, 2015**.
- Candidates may not have access to the examination website after **Wednesday, March 9, 2015 afternoon**.
- Deferment of March 2015 examinations application will not be entertained.
- No refund will be made once examination fee is paid.
- Candidates will not be allowed to sit for the examination at centres other than the ones indicated on their forms.
- Application for change of examination centres will not be processed after 12 noon on **Wednesday, March 9, 2015**.
- Candidates are to ensure the accuracy of the information on their forms. The passport photographs must be the true likeness of the applicants and must be of white background.
- The signature on the registration form must be the personal signature of the candidate.
- Any discrepancy discovered on the signature when compared with signature on the attendance sheets, dockets and answer booklets at the examination hall or marking centre will be taken as a breach of the examination rule. This shall attract appropriate disciplinary action which would be communicated to the affected candidates in due course.
- Candidates may download the ATSWA Insights, Pilot Questions and Answers, Study Packs, Examination Time Table, Dockets and other instructions from the ICAN website: www.ican-ng.org
- Candidates must come to the examination hall with the downloaded docket to locate their desks.

Candidates may seek assistance by contacting the ICAN Help Desk through the following telephone numbers and e-mail addresses: 01-6283680, 01-2912821, 01-6477705, 08033741804, 08188432663, 09023145547 and 01-7747660. jhd@ican.org.ng or atbsa@ican.org.ng

MARCH 2015 EXAMINATION FEES (Exclusive of Bank Charges of N 400.00)

	AMOUNT (N)			
LEVELS	4 PAPERS	3 PAPERS	2 PAPERS	1 PAPER
PART I	20,300	18,100	15,900	13,700
PART II	22,400	19,900	17,300	14,800
PART III	25,700	22,550	19,350	16,200

ATSWA EXAMINATIONS TIME TABLE FOR MARCH 2015

DAY / DATE	TIME	PART I	PART II	PART III
TUESDAY 17/03/2015	9:30 a.m. 10:30 p.m.	Basic Accounting Procedures & Systems	P & P of Financial Accounting	Principles of Accounting
	2 p.m. - 6 p.m.	Business Law	Information Technology	Management
WEDNESDAY 18/03/2015	9:30 a.m. 10:30 p.m.	Statistics	Quantitative Analysis	Cost Accounting
	2 p.m. - 6 p.m.	Communication Skills	Public Sector Accounting	Preparing for Computation & Revision

For further enquiries, please write or contact:

The Institute of Chartered Accountants of Nigeria (Annexe)
82, Murtala Muhammed Way, Ebute Metta, Lagos.
Tel: 01 - 7740627, 01 - 4705336, 7747660, 7642297, and 7642298
Website: www.ican.org.ng

ROTIMI A. OMOTOSO, FCA
Registrar/Chief Executive
Plot 16, Idowu Taylor Street, Victoria Island
Lagos Tel: 01- 7642294 - 5

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.

ECONOMICS AND BUSINESS ENVIRONMENT (FOUNDATION - NOVEMBER 2013)

SECTION A: PART II SHORT ANSWER QUESTIONS

ATTEMPT ALL QUESTIONS IN THIS SECTION

Write the correct answer that best completes each of the following questions/statements

1. A form of economic integration in which there is free internal trade, a common tariff and free movement of labour and capital among partner states is called.....
2. The portion of a balance of payment that portrays the market value of a country's visible and invisible exports and imports with the rest of the world is called.....
3. The income that is available to households for spending and savings after personal income taxes have been deducted is referred to as
4. Unemployment rate (UR) is measured by the following equation.

$$UR = \frac{\text{unemployment}}{y} \times 100$$
 where y =
5. The price that reflects the true opportunity cost of a resource is called.....
6. The price elasticity of linear supply curve which passes through the origin is
7. The economic system in which the market price is determined by the invisible forces of demand and supply is known as
8. The part of after-tax-profits that is ploughed back into the business rather than paid out to shareholders as dividends is called.....
9. An example of is the coming together of an oil extracting firm and a firm of filling stations.
10. To economists, the cost of producing any good and service is its
11. Money made of any metal such as gold, silver, copper etc is called
12. The policies and instruments employed by a country to regulate its money supply are known as
13. Staff at the lowest level of management who are directly responsible for overseeing the work of production employees are called
14. The aspect of the environment over which organisations have no control is
15. The management techniques that involve active participation of all members of an organisation towards continuous improvement of quality to meet and exceed customers' expectation are called
16. The process of selecting missions, objectives and actions to be taken to achieve them is known as
17. Standing plans which guide thinking in decision-making is called
18. The activities carried out by employees in checking the quality of products/services in order to ensure adherence to the

organisation's quality standard is known as

19. The managerial process by which individuals and groups obtain what they need/want through creating and exchanging products and value with others via the internet is
20. The process of determining the fundamental elements of jobs through systematic observation and analysis is

AUDIT AND ASSURANCE (INTERMEDIATE - NOV. 2013) SECTION B

ATTEMPT ANY FOUR QUESTIONS (60 Marks)

Question 1

A young accounting trainee picked up a text book on auditing and came across the concept "True and fair view" and has approached you for its meaning in practice.

You are required to:

- (a) Explain the concept "True and fair view" as it relates to financial reporting. (4 marks)
- (b) State any THREE Nigerian Standards on Auditing (NSAs). (6 Marks)
- © Outline any FIVE factors affecting materiality in auditing. (5 Marks)

(Total 15 Marks)

Question 2

Your audit firm has been appointed as auditors to ZOBO Nigerian Limited, a quoted company engaged in food processing. You are expected to take over from the existing auditor who has been relieved of his appointment.

You are required to:

- (a) Outline the rules of professional conduct which must be observed in practice when there is a change of auditors. (6 Marks)
- (b) State THREE factors each to be considered before accepting a new audit under the following headings:
 - (i) Legal
 - (ii) Ethical
 - (iii) Practical

Question 3

The audit of the accounts of a partnership is not statutorily required, but it is clear that various benefits would accrue to the firm if its accounts are voluntarily audited.

You are required to:

- (a) State FOUR reasons which may necessitate the audit of accounts of a partnership firm. (4 Marks)
- (b) State FIVE important issues that you, as an auditor, would look into while auditing the books of a partnership. (5 Marks)
- (c) Draft an audit programme to audit the receipts of a school owned by a partnership. (6 Marks)

(Total 15 Marks)

SOLUTIONS

PART II SHORT ANSWER QUESTIONS

1. Common market
2. Current Account
3. Disposable income
4. Labour force
5. Shadow price
6. One or unity
7. Free market economy/profit after tax
8. Profit after tax
9. Vertical integration/merger
10. Opportunity cost
11. Commodity money
12. Monetary policies
13. First-line managers
14. External environment
15. Total Quality Management
16. Planning
17. Policies
18. Inspection/Quality control
19. Electronic marketing/E-marketing/Online marketing
20. Job Analysis

AUDIT AND ASSURANCE

Question 1

(a) Concept of "True and fair view"

(i) Meaning of "True"

- There is no statutory or judicial definition of the word "true".
- For accountants, truth is not absolute while in the sciences, truth means a fact that is fixed and will never change.
- For accountants, the word "true" means truth in accordance with the facts available at the time of signing a financial statement or auditor's report.
- For accountants, truth means an objective verification that the information contained in the financial statements is factual and without error.

(ii) Meaning of "fair"

- Fairness implies that relevant values have been applied impartially and objectively, considering the interest of all stakeholders.
- Fairness means that the financial statements presented create the right impression and not intended to mislead the users.

(iii) Meaning of "True and fair"

- "True and fair view" requires compliance with the legislation and all the applicable accounting standards and regulations. Therefore, when a practitioner says that a set of accounts shows a true and fair view, it implies that:
- The auditor has requested for and obtained all information and explanations considered necessary for his audit.

- Proper books of accounts have been kept and the financial statements are in agreement with the books.
- Adequate returns have been received from branches not visited where applicable.
- The financial statements comply with statutory provisions and other relevant regulations and pronouncements.
- The assets are fairly stated, that is, they exist, are owned by the business and are properly valued.
- All the liabilities have been fully disclosed.
- There are no material errors or misstatements in the financial statements.
- Fundamental accounting concepts have been followed in the preparation of the accounts.
- The accounting policies adopted have been fully disclosed as required by International Financial Reporting Standards (IFRS).
- The financial statements have been properly presented.

(b) The current Nigerian Standards on Auditing are:

S/N	NSA Code	Name of Standards (ISA/NSA)
1.	NSA 1	Overall objectives of the independent Auditor and the conduct of an audit in accordance with International Standards on Auditing.
2.	NSA 2	Agreeing the Terms of Auditing Engagements
3.	NSA 3	Quality control for an Audit of Financial Statements
4.	NSA 4	Audit Documentation
5.	NSA 5	The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements.
6.	NSA 6	Consideration of Laws and Regulation in an Audit of Financial Statements.
7.	NSA 7	Communication with those charged with Governance
8.	NSA 8	Communication Deficiencies in Internal Control to those charged with Governance and Management
9.	NSA 9	Planning an Audit of Financial Statements
10.	NSA 10	Identifying and Assessing the risks of material misstatement through understanding the entity and its environment
11.	NSA 11	Materiality in planning and performing an audit.
12.	NSA 12	The auditor's responses to assessed risks
13.	NSA 13	Audit considerations relating to an entity using a service organisation
14.	NSA 14	Audit evidence
15.	NSA 15	Audit evidence - specific considerations for selected items
16.	NSA 16	External confirmations
17.	NSA 17	Initial audit engagements - Opening balances
18.	NSA 18	Analytical procedures
19.	NSA 19	Audit sampling
20.	NSA 20	Audit accounting estimates, including fair value accounting estimates and related disclosures
21.	NSA 21	Related parties
22.	NSA 22	Subsequent events
23.	NSA 23	Going concern
24.	NSA 24	Written representations

SOLUTIONS

25. NSA 25 Special considerations - Audits of group financial statements (including the work of component auditors)
26. NSA 26 Using the work of internal auditors
27. NSA 27 Using the work of an auditor's expert
28. NSA 28 Forming an opinion and reporting on financial statements
29. NSA 29 Modifications to the opinion in the independent auditor's report
30. NSA 30 Emphasis of matter paragraphs and other matter paragraphs in the independent auditor's report
31. NSA 31 Comparative information - correspondence figures and comparative financial statements
32. NSA 32 The auditor's responsibilities relating to other information in documents concerning audited financial statements.
33. NSA 33 Special considerations - audits of financial statements prepared in accordance with special purpose frameworks
34. NSA 34 Evaluation of misstatements identified during the audit
35. NSA 35 Special considerations - audits of single financial statements and specific elements, accounts or items of a financial statement.
36. NSA 36 Engagements to report on summary financial statements

- (c) The factors affecting the materiality of financial information include:
- The magnitude of the item compared with the overall view presented by the financial statements.
 - The magnitude of the item compared with the magnitude of the item in previous year's financial statements.
 - Some items are always material if they are subject to statutory disclosure.
 - Departures from generally acceptable accounting standards may necessitate an item being termed material.
 - The frequency of occurrence of non-recurrent items are often considered more material than recurring items of equal values.
 - The impact which an item has on the financial results of the enterprise, for instance, if the item can change a small profit-making enterprise to a loss-making one.

EXAMINERS' REPORT

The question tests candidates' knowledge on (a) True and Fair View (b) the Nigerian Standards on Auditing, and (c) matters affecting materiality. More than 75% of the candidates attempted the question. Even though the question is straightforward, the understanding of the candidates was poor. Candidates' understanding was the exhibition of shallow knowledge and poor interpretation of the requirements of the question.

Candidates should study hard and be current.

QUESTION 2

- (a) The auditors are expected to take the following steps:
- The incoming auditors should obtain authority from the client to contact the existing auditors.
The auditors should then write to the former auditors seeking information which could influence their decision as to whether or not to accept the appointment.
 - If the client fails or refuses to grant the new auditors permission to contact the former auditors, then they should not accept the appointment.
 - If permission is granted, the former auditors should communicate in writing to the new auditors stating that no matters exist why they should not accept the assignment.
 - Where such matters exist, the former auditors should inform the new auditors of those facts within their knowledge, which in their opinion, the new auditors should be aware of. They should feel free to discuss such matters with the new auditors.
 - Where the former auditors do not respond within a reasonable time, the new auditors should endeavour to contact them by telephone, facsimile or e-mail. If no reply is received, they should send a final letter by registered delivery service stating that unless they receive a reply within a specified time, they will assume that no matters exist to prevent them from accepting the appointment.
 - If the former auditors state some matters of conflict in their reply, the new auditors should discuss with the client on such matters and thereafter decide whether to accept or reject the appointment.

(b) Factors to be considered:

(i) Legal

- The auditors must be duly appointed, for example, by members of the company at a general meeting.
- The auditors must not be an officer or servant of the company or a body corporate.
- The auditors must not be a partner or an employee of an officer of the company.
- The auditors must be a member of a recognised professional body of accountants.

(ii) Ethical

- When the acceptance of the audit will give rise to conflict of interest between the client and the auditor.
- When the audit fees constitute a significant proportion of the total fee income.
- Where the audit fees are payable subject to conditions placed by the management.
- Where the outgoing auditors have not given professional clearance.
- Where the new auditors are prevented from contacting the former auditors.
- Where the auditors take loan or advance from the client and not under normal lending conditions
- Where the auditors have personal relationship (blood or marriage) with the Directors or Officers of the client's company.
- Where the auditors have financial interest in the enterprise or other business relationship with the Directors of the client's company.

SOLUTIONS

- or other business relationship with the Directors of the client's company.
- Where there is an offer of undue hospitality from the client.

(iii) Practical

- Where the auditors lack the skills and experience necessary to carry out the audit.
- Where the client is not willing to pay the fee charged by the auditors.
- Where the time available to carry out the audit work is not enough.
- Where the auditors are in doubt about the integrity of the officers of the client's company.

EXAMINERS' REPORT

The question tests the candidates' knowledge on professional ethics and the ICAN Code of Conduct. More than 50% of the candidates attempted the question, but the general performance was poor, especially in part (b). Their commonest pitfall was misunderstanding of the requirements of the question. Candidates should prepare well for the examinations and exercise due care before answering questions.

QUESTION 3

(a) Reasons for the Audit of Partnership

Audited Accounts:

- provide a convenient and reliable means of settling accounts among the partners.
- reduce the possibility of dispute among partners.
- constitute a reliable evidence for computing the amount due from the firm to a retiring or deceased partner.
- admission of a new partner is facilitated if a set of past audited accounts is available for examination.
- are relied upon by banks for advancing facilities (loan & overdraft).
- are generally accepted by the tax authority for computing the assessable income of each partner.
- facilitate negotiation for sale or conversion of the firm to a company.
- serve as moral deterrent and checks on the partners against fraudulent practices.

(b) The issues the auditors would look into while auditing the books of a partnership include:

- Confirmation of scope of audit**
The scope of the audit must be confirmed.
- Examination of partnership deed/articles of partnership**
Partnership deed must be examined to ascertain capital contribution, profit sharing ratios, powers and responsibilities of each partner of the firm.

(iii) Examination of minutes book

Examine the minutes book to check for the policy decisions taken by the partners.

(iv) Ascertaining the business of the partnership

Verify that the business in which the firm is engaged is duly authorized and legally allowed by the articles of partnership.

(v) Compliance with the provisions of Partnership Act

Ascertain that relevant provisions of the Partnership Act, as applicable, are complied with.

(vi) Ascertain that profits are shared in the agreed ratio.

(vii) Confirm if professional indemnity insurance policy is in place.

(c) Audit programme for receipts in a school owned by a Partnership

- Check the fees received on account of admission and compare them with admission forms.
- Check the names entered in the students' attendance register to ascertain the total number of students enrolled. This should then be compared with students' fee register to verify the amount of fees charged and received. Ascertain the system recovery of fines and penalty imposed on account of late payment (if applicable).
- Confirm that all hostel dues have been paid by students.
- Vouch the rental income or interest/dividend income from investments held by the school.
- Check grants received from government or donations received from donors (if any).
- Check for other incomes received by the school.
- Verify that the school operates a system of internal check which ensures that fees are properly raised.
- Check fees received by comparing it with the counterfoil of receipts and pay-in-slips through to the bank statements.
- Ensure that the person receiving cash is not responsible for entries in the cash book and other records.
- Where payments are made directly into the bank, check the bank reconciliation statements prepared to ensure completeness in accounting for receipts.
- Review the control systems on enrolment and recordings of tuition income.
- Confirm if fidelity insurance policy is in place.

EXAMINERS' REPORT

The question tests candidates' understanding of the needs and requirements for the audit of a partnership firm.

More than 50% of the candidates attempted the question and performance was generally poor.

Most candidates performed poorly because they are not familiar with the audit programme of schools. It is recommended that candidates should expand their knowledge of various audit programmes.

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