

INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA

PROFESSIONAL LEVEL EXAMINATION – NOVEMBER 2025

CASE STUDY

Time Allowed: 4 hours (including reading time)

INSTRUCTION: **YOU ARE TO USE CASE STUDY ANSWER BOOKLET FOR THIS PAPER**

PRE-SEEN

This material is circulated prior to the examination date to enable you familiarise yourself with the case scenario so that you can undertake any research and analysis that you deem fit. This pre-seen part of the Case Study examination is also published on the Institute's website: www.icanig.org.

You **MUST NOT** bring this material with you to the Examination Hall. Upon receipt of the material, you are to spend the next few days to the examination date to familiarise yourself with the information provided, carry out any additional research and or analysis about the industry, together with relevant developments and analyse the financials provided in preparation for the examination. You should note that the use of pre-seen part of the Case Study will not significantly help you in responding to all the requirements during the examination. It is essential that you carry out sufficient analysis on your own so that you can leverage the pre-seen part of the case scenario as appropriate during the examination.

At the start of the examination, you will receive the complete case scenario which will include both the pre-seen and the unseen sections which include the questions to be answered. You must use the answer booklet provided by ICAN in the Examination Hall. Any solution presented with other papers **WILL NOT** be marked.

Assessment of the Case Study

The marks in the Case Study examination are awarded for professional skills and are approximately allocated as follows:

▶ Assimilating and using information provided	20%
▶ Structuring problems and solutions	20%
▶ Applying judgement	20%
▶ Drawing conclusions and making recommendations	20%
▶ Demonstrating integrative and multidisciplinary skills	10%
▶ Presenting appropriate appendices	10%

Of the total marks available, 20% will be assigned to the executive summary section of your response and approximately 10% will be assigned for your proper consideration of ethical issues within your answer to the requirements. Although ethical issues are

not a specific requirement of this paper, as it has been tested in other subjects of the ICAN professional examination, it will be tested within a requirement which may include the following areas:

- ▶ Lack of professional independence or objectivity;
- ▶ Conflicts of interest among stakeholders;
- ▶ Doubtful accounting and or creative accounting practice;
- ▶ Unethical business/commercial practice; and
- ▶ Inappropriate pressure to achieve a reported result.

You should note that marks are not awarded for simply restating facts from the case scenario, but marks are awarded for demonstrating professional skills and technical competence. Therefore, to succeed, you are required to:

- ▶ Show sufficient evidence of knowledge of the case scenario;
- ▶ Be able to carry out appropriate analysis of the issues involved and suggest feasible solutions to the problems identified;
- ▶ Demonstrate ability to make informed judgement on the basis of analysis carried out; and
- ▶ Generate reasoned conclusions upon which relevant recommendations are made.

Omission of any one of the above will diminish your chance of success in the examination.

Case Study: Folak Motors Nigeria Limited (Folak Motors)

List of exhibits

- Exhibit 1: About you (Sylvester Chukwudi) and your employer, Bagudu, Ademola & Co. (Chartered Accountants)
- Exhibit 2: The Nigerian economy and the services sector
- Exhibit 3: Analysis of motor vehicle sales and distribution business in Nigeria: 2022–2025
- Exhibit 4: Analysis of motor repairs, service centres, and spare parts sales in Nigeria
- Exhibit 5: Folak Motors: Unaudited summarised 2023 – 2024 financial statements

About you (Sylvester Chukwudi) and your employer, Bagudu, Ademola & Co. (Chartered Accountants)

You are **Sylvester Chukwudi**, an accounting graduate, writing the Professional level of ICAN examination. You are employed as a Trainee in the firm of Bagudu, Ademola & Co (Chartered Accountants) reporting directly to Dauda Bagudu, a Partner in the firm. Your position requires a proactive approach to client services and technical competence in accounting, financial analysis, and business advisory.

Key responsibilities

- **Preparation of financial analyses and reports:** You are tasked with preparing detailed financial analyses and reports regarding the performance of the firm's clients. This involves gathering relevant financial data, performing rigorous analyses, and presenting findings in clear, structured reports to facilitate informed decision-making.
- **Analysis of financial statements:** Your role includes analysing clients' financial statements to identify areas of weakness. Upon identifying these anomalies, develop and recommend likely solutions aimed at correcting deficiencies and improving financial health.
- **Assessment of Business Proposals:** Assess various operational and strategic business proposals, evaluating how each aligns with the client's objectives. Additionally, consider the impact of these proposals on the client's business and financial risks to ensure recommendations are both practical and strategic.
- **Evaluation of forecasts and assumptions:** You are also to examine clients' financial and business forecasts, scrutinising the assumptions upon which they are based. This is to enable you form well-grounded judgements, draw reasoned conclusions, and make relevant recommendations tailored to the client's context.
- **Strategic tax planning advice:** Provide advice on strategic tax planning, guiding clients towards approaches that result in optimal tax liabilities and compliance with relevant regulations.
- **Drafting analytical reports:** Based on your operational and strategic business analyses, draft comprehensive reports for your line report's review, ensuring that findings and recommendations are clearly communicated and actionable.

To effectively fulfil these responsibilities, you are to keep abreast of developments in the accounting and taxation sectors, as well as matters relating to business sustainability, both at national and international scale. This commitment to continuous learning ensures that your work reflects current best practice and supports the firm's clients in achieving their objectives.

The Nigerian economy and the services sector

Introduction

The Nigerian economy, one of Africa's largest by GDP, is driven by a diverse array of sectors, with the Services sector accounting for a significant share of national output. The motor repairs business stands out as vital sub-sector, supporting the country's extensive road transportation system by ensuring the functionality and longevity of vehicles used by millions of Nigerians.

The structure of the services sector in Nigeria

Nigeria's services sector has experienced significant growth over the past decade. According to the National Bureau of Statistics, the sector contributes over 50 percent to Nigeria's GDP, outpacing agriculture and oil in recent years. Its components include trade, transport, real estate, finance, information technology, professional services, and personal services.

The motor repairs services sub-sector

Motor repairs, while often grouped under trade and personal services, represent a critical link in Nigeria's transportation value chain. As the country's urban centres expand and vehicle ownership rises, the demand for reliable, professional motor repair services has surged, creating opportunities for entrepreneurs and skilled technicians alike.

Key features affecting motor repairs

The following are the key features of the motor repairs sub-sector in Nigeria:

- **Informal versus Formal Enterprises:** The majority of motor repairs businesses operate within Nigeria's vast informal sector, characterised by small-scale workshops, roadside mechanics, and family-run garages. Formal enterprises, often branded service centres, represent a smaller, but growing segment, typically catering for newer vehicles and clients seeking higher standard of services.
- **Skills and training:** Technical expertise is mostly acquired through informal apprenticeships rather than structured vocational education, leading to variable service quality and innovation. The services sector's increasing sophistication has begun to drive demand for higher standards and technical certifications.
- **Access to infrastructure:** The efficiency of motor repairs businesses depends on access to reliable electric power, good road networks, and modern diagnostic equipment, all of which are shaped by wider services sector investments.
- **Supply chains:** Access to spare parts and technical information is strongly influenced by trade regulations, import policies, and logistics infrastructure within the services sector.

Economic impact of motor repairs within the services sector

Motor repairs businesses contribute meaningfully to job creation, skills transfer, and local economic development. By supporting the road transport system, which moves over 90 percent of Nigeria's goods and people, they help sustain the productivity of other services sub-sectors, such as retail and logistics.

Economic merits of the motor repairs sub-sector

- **Employment generation:** The motor repairs business absorb thousands of apprentices and skilled workers, offering a pathway for youth employment in an economy where formal jobs are scarce;
- **Entrepreneurship:** The low barriers to entry in the sector enable the proliferation of micro and small enterprises, thus fostering economic inclusion; and
- **Complementary service:** Successful motor repairs businesses often evolve into broader service providers, including auto-electrics, car wash, sales of spare parts, and accessory installation, further deepening their economic footprint.

Challenges facing motor repairs businesses in the Nigeria services sector

Despite its importance, the motor repairs sub-sector faces considerable challenges arising from both the broader services environment and its own internal dynamics.

- **Infrastructure constraints:** Power supply remains low and erratic, forcing many businesses to rely on generators, which increases operational costs. Poor road conditions complicate access to clients and the movement of supplies. Inadequate workshop facilities and outdated equipment also limit the competitiveness of local businesses.
- **Regulatory and policy constraints:** The absence of formal regulation for many informal motor repairs businesses results in inconsistent service standards and customer trust issues. Where regulation exists, compliance can be expensive and complex, particularly for small businesses.
- **Access to finance:** Limited access to affordable finance restricts business expansion, investment in modern tools, and capacity building. Financial institutions often prefer lending to well established businesses with formal documentation and collateral, leaving smaller workshops at a disadvantage.
- **Technical skill gaps:** Reliance on informal training limits the sector's ability to adapt to evolving automotive technologies, such as hybrid and electric vehicles. Limited availability of structured vocational programmes and certifications impede workers mobility and overall sector professionalism.
- **Supply chain and spare parts quality:** Motor repairs businesses are frequently affected by counterfeit or substandard spare parts, which undermine service quality and vehicle safety. Trade policies affecting the importation of genuine spare parts can also disrupt supply chains.

- **Digitalisation and technology adoption:** Nigeria's services sector is increasingly shaped by technological advances, yet most motor repairs businesses remain outside the digital economy. Limited access to digital diagnostic tools, online marketing platforms, and management software restrict their ability to scale and serve a modern clientele.

Opportunities for growth and transformation

Amidst these challenges, the evolving services sector offers several pathways for enhancing the performance and prospects of motor repairs businesses. These include:

- **Vocational training and certification:** Investment in formal technical education and certification can improve service standards, foster innovation, and enhance consumer confidence. Partnerships between government, private sector, and international organisations can help deliver targeted training programmes. The current government policy on technical and vocational education is expected to improve the availability of trained technicians in the sub-sector.
- **Access to finance:** Tailored financial products for small businesses, such as micro-loans and equipment leasing, can help entrepreneurs invest in modern tools, workshop upgrades, and staff development.
- **Infrastructure upgrades:** Improvements in the services sector's physical infrastructure, power, roads, and logistics, will have direct positive effects on motor repairs businesses, enabling greater efficiency and customer satisfaction.
- **Regulatory reform:** Streamlining registration and compliance processes, and encouraging self-regulation through industry associations, can help raise standards while enabling smaller businesses to access broader markets.
- **Digitalisation:** Adoption of digital tools for diagnostics, inventory management, and customer engagement can revolutionise service delivery. E-commerce platforms for spare parts and services also offer new growth avenues.
- **Quality assurance:** Collaborations with reputable suppliers and distributors, and the enforcement of standards for spare parts, can help combat counterfeiting and ensure safety.
- **Local production capacity:** The volume of cars sold by dealerships in Nigeria and the demand for high quality service and repair workshops is an indication that the capacity for parts production and for certification of technicians exist.

The roles of government and stakeholders

The government of Nigeria, in collaboration with industry stakeholders, have a pivotal roles to play in shaping the future of motor repairs within the services sector. The roles of the government includes:

- **Policy formulation:** Development of clear, supportive policies for motor repairs businesses can unlock their potential for job creation and economic growth.
- **Public-private partnerships:** Joint initiatives between the government, private sector, and development agencies can deliver infrastructure upgrades, promote skills training, and encourage best practice.
- **Industry associations:** Strengthening associations for motor repairs businesses can provide a platform for advocacy, skills development, and regulatory self-enforcement.

The services sector is a significant part of the Nigerian economy, providing employment, fostering innovation, and supporting social mobility. Motor repairs businesses, a vital sub-sector, is both a beneficiary and contributor to this dynamic environment.

Strategic investments in education, infrastructure, finance, and digitalisation, combined with regulatory reforms and industry collaboration, can help motor repairs businesses thrive within Nigeria's evolving services sector. The financial success of the sub-sector will sustain the nation's mobility, drive its economic productivity, and empower the aspirations of its people.

Analysis of motor vehicle sales and distribution business in Nigeria: 2022–2025**Introduction**

The Nigerian motor vehicle sales and distribution sector is a critical portion of the economy. As one of the continent's most populous nations, Nigeria's automotive industry reflects the broader economic, infrastructural, and regulatory trends that shape its commercial landscape. Since 2022, the sector has undergone substantial shifts, faced economic headwinds, evolving consumer preferences, and policy-driven reforms that collectively reshape the terrain for manufacturers, importers, and distributors.

Market overview: 2022–2025

Nigeria's automotive sector is predominantly import-driven, with a vast majority of vehicles, both new and used, sourced from Asia, Europe, and North America. Despite efforts to foster local assembly, the market remains reliant on imports due to cost advantages, limited manufacturing capacity, and consumer demand for affordable vehicles.

Size and growth

Since 2022, Nigeria's motor vehicle market has experienced both moderate growth and volatility. In 2022, total annual vehicle sales, made up of both new and used vehicles, were estimated at around 280,000 units. The market was dominated by used vehicles, constituting more than 80% of sales. The new vehicle segment, severely impacted by scarcity of foreign exchange and high import duties, accounted for 10 - 15% of total sales.

By 2023, a slight uptick in economic activities and modest improvements in infrastructure spurred a minor rebound. Nonetheless, the industry faced challenges such as persistent inflation, a depreciating naira, and increasing costs of finance for consumers and businesses. By 2024 and into 2025, the market's trajectory remained uncertain but demonstrated resilience, with projections estimating total annual sales growing to around 320,000 units by the end of 2025, assuming gradual economic stabilisation.

Key segments and distribution channels

- a. **Used vehicles ("Tokunbo"):** These make up the largest segment. Imported mainly from the United States of America, Europe, and Asia, used cars are distributed through a network of dealers, independent resellers, and auto marts concentrated in major cities like Lagos, Abuja, and Port Harcourt.

- b. **New vehicles:** With international brands such as Changan, Geely, Kia, Honda, Hyundai, Mercedes Benz, Toyota, Volkswagen etc, the new vehicle segment is mainly served through authorised dealerships. However, high prices and limited access to credit confine their customer base to government agencies, corporates, and a small affluent consumer class.
- c. **Local assembly:** Despite policy incentives, locally assembled vehicles still account for a minor fraction of total sales due to limited production capacity and high input costs.

Distribution structure

- a. **Authorised dealerships:** Typically located in urban centres, these outlets represent international automakers and provide sales, financing, after-sales services, and warranties. They rely heavily on brand reputation and long-term relationships with corporate clients.
- b. **Independent dealers:** These actors dominate the used vehicle market, importing in bulk and reselling directly to consumers or through auto marts.
- c. **Online platforms:** The digitalisation of commerce has seen the emergence of online marketplaces where consumers can browse, negotiate, and purchase vehicles with increased transparency and convenience.

Key market drivers

- a. **Population growth and urbanisation:** Nigeria's population exceeds 237 million with a rapidly growing urban middle class. The need for mobility in expanding cities drives consistent demand for both personal and commercial vehicles.
- b. **Infrastructural development:** While public transit remains inadequate, investments in road infrastructure, especially in Lagos and Abuja, have encouraged private vehicle ownership. The improvement of expressways and urban roads has a direct impact on vehicle sales figures.
- c. **Government policy and regulation:** The Nigerian Automotive Industry Development Plan (NAIDP) introduced incentives for local assembly and placed higher tariffs on fully built imports to stimulate domestic manufacturing. However, inconsistent enforcement and policy reversals have hindered the Plan's effectiveness.

- d. **Access to Finance:** Microfinance institutions and emerging automotive finance products are making vehicle ownership more accessible to consumers, though high interest rates and economic volatility remain barriers for many.

Challenges facing the sector

- a. **Foreign exchange constraints:** The Naira's depreciation and foreign currency shortages have significantly increased import costs, impacting both new and used vehicle prices. The exchange rate remain volatile, creating uncertainty for businesses reliant on imports.
- b. **High import duties and tariffs:** To protect domestic assemblers, the government imposed high tariffs (up to 70% on some segments) on fully built imported vehicles. While this was intended to boost local production, it resulted in higher vehicle prices and increased the influx of low-quality used vehicles.
- c. **Weak manufacturing base:** Despite policy incentives, local assembly plants face high production costs, unreliable electricity, and limited economies of scale. Imported components and inconsistent supply chains further hamper their competitiveness.
- d. **Smuggling and informal markets:** Due to high tariffs and complex procedures, smuggling of vehicles through neighbouring countries remains rife, undermining formal businesses and depriving the government of revenue.
- e. **Poor infrastructure and insecurity:** Underdeveloped transport infrastructure and security challenges restrict distribution networks and increase logistical costs for distributors and dealers.

Trends and opportunities (2022–2025)

- a. **Digital transformation:** Online sales platforms, digital financing solutions, and data-driven inventory management are reshaping vehicle distribution. The COVID-19 pandemic accelerated this trend, with consumers increasingly relying on online research and virtual showrooms.
- b. **Local assembly and value addition:** Ongoing investments are gradually increasing the share of locally assembled vehicles. Government procurement policies favouring locally produced vehicles offer a growth opportunity, though significant scale-up is needed to compete with imports.
- c. **Electric and Alternative Fuel Vehicles:** Though still in early stages, there is growing interest in electric vehicles (EVs) and hybrid technologies, particularly for commercial fleets. Pilot projects and public awareness campaigns are underway,

but infrastructure such as availability of charging stations and reliable electricity pose major hurdles.

- d. **After-sales market and value chain expansion:** The growth of the Nigerian auto sector is driving demand for spare parts, servicing, and maintenance. There are significant opportunities for businesses offering genuine parts, quality repair services, and complementary products such as insurance and fleet management solutions.

Competitive landscape

The key players in the motor vehicle sales and distribution in Nigeria can be classified into indigenous and foreign based companies. The market is further segmented into dealers in new vehicles, dealers in used vehicles and dealers in both new and used vehicles.

Folak Motors is one of the indigenous businesses selling both new and used vehicles in the sector.

Projections and future outlook: 2025 and beyond

The Nigerian motor vehicle sales and distribution business is projected to see cautious growth through 2025, with annual sales potentially reaching 320,000 units. Key drivers will include gradual economic recovery, policy reforms aimed at encouraging local manufacturing, and the continued rise of digital sales and financing platforms.

However, significant risks remain. Currency volatility, inflation, and potential policy reversals could impact market stability. To unlock the sector's full potential, stakeholders are calling for:

- Consistent automotive policy implementation;
- Expansion of auto financing solutions;
- Investment in infrastructure and security; and
- Capacity building and skills development for local assembly

Analysis of motor repairs, service centres, and spare parts sales in Nigeria**Introduction**

Nigeria has a rapidly expanding automotive sector. The growing demand for personal and commercial transportation has led to the proliferation of motor repairs, service centres, and spare parts sales retailers across the nation.

Overview of the automotive after sales market in Nigeria

The automotive after sales market in Nigeria encompasses a wide array of services, including vehicle repairs, routine maintenance, and the sale of spare parts. The sector is largely driven by the aging vehicle population, importation of used vehicles, and challenging road and environmental conditions that accelerate vehicle wear and tear. Most vehicles in Nigeria are imported, with a significant portion being used cars, further intensifying the demand for maintenance and replacement parts.

Motor repairs

Motor repair workshops range from informal roadside mechanics to formalised, branded service centres. Informal operators dominate the market, offering cost-effective solutions but often lacking advanced diagnostic tools and standardised practices. Formal workshops, typically affiliated with car manufacturers or franchises, are concentrated in major urban centres. These centres provide higher quality service, access to genuine parts, and better-trained personnel, but their services are often more expensive.

Service centres

Service centres in Nigeria are evolving, with more dealerships and manufacturers establishing authorised service facilities. These centres offer comprehensive maintenance packages, warranty services, and customer support. However, their reach is limited, and many vehicle owners still rely on independent workshops for routine maintenance due to cost and accessibility. There is a growing trend towards digitisation, with some service centres adopting online booking, customer relationship management, and telematics to enhance service delivery.

Spare parts sales

The spare parts market in Nigeria is extensive and fragmented. It includes both genuine original equipment manufacturer (OEM) parts and after sales market (non-OEM) alternatives. The prevalence of counterfeit and substandard parts is a persistent challenge, often resulting in compromised safety and vehicle performance. Major spare parts markets serve as hubs for distribution. The rise of e-commerce platforms is gradually transforming the sector, making it easier for customers to access a wider range of products, compare prices, and verify authenticity.

Key challenges

The major challenges in the subsector include:

- a. **Counterfeit parts:** The influx of fake and substandard parts undermines consumer trust and vehicle safety.
- b. **Skills gap:** Many mechanics lack formal training, leading to inconsistent service quality.
- c. **Infrastructure:** Poor road conditions and inadequate workshop facilities hamper efficient service delivery.
- d. **Import dependency:** Heavy reliance on imported vehicles and parts exposes the sector to currency fluctuations and supply chain disruptions.
- e. **Regulatory oversight:** Weak enforcement of standards and regulations exacerbates the proliferation of counterfeit goods and unqualified service providers.

Opportunities

The subsector presents the following opportunities:

- a. **Training and certification:** Investment in skills development and certification programs can improve service quality and industry reputation.
- b. **Digital platforms:** E-commerce and digital service management tools offer new avenues for growth and customer engagement.
- c. **Localisation:** Encouraging local manufacturing and assembly of spare parts can reduce import dependency and create jobs.
- d. **Partnerships:** Collaborations between manufacturers, service centres, and training institutes can drive industry standards and innovations.

Future outlook

The motor repairs, service centre, and spare parts sales sector in Nigeria is poised for growth, driven by increased vehicle ownership and urbanisation. However, realising the sector's full potential requires addressing the challenges of counterfeit parts, skills infrastructure gaps, and regulatory enforcement. The integration of technology and investment in quality assurance will be critical in shaping a sustainable and competitive automotive after sales market in Nigeria.

New entrants into the motor repairs, service centre and spare part sales could potentially be companies that buy and sell new and used vehicles, such as Folak Motors.

Folak Motors: Unaudited summarised 2023 – 2024 financial statements
Income statement: 2023 – 2024

	2023 ₦000	2024 ₦000
Revenue	1,761,910	1,849,920
Cost of sales	1,505,500	1,584,340
Selling, administrative, and other expenses	<u>201,830</u>	<u>213,390</u>
Total costs and expenses	<u>1,707,330</u>	<u>1,797,730</u>
Operating income	54,580	52,190
Interest expense	(13,020)	(11,150)
Other loss	<u>(1,890)</u>	<u>(31,290)</u>
Income before income tax	39,670	72,330
Benefit from/(Provisions for) income taxes	<u>3,620</u>	<u>(13,390)</u>
Net income	<u>43,290</u>	<u>58,940</u>

Statement of financial position

	2023 ₦000	2024 ₦000
Assets		
Current assets		
Cash and cash equivalents	248,620	229,350
Marketable securities	153,090	154,130
Trade and other receivables	620,260	665,730
Inventories	156,510	149,510
Other assets	<u>36,330</u>	<u>46,020</u>
Total current assets	1,214,810	1,244,740
Non-current assets		
Property, plant and equipment	1,234,030	1,314,820
Deferred income taxes	169,850	163,750
Other assets	<u>114,410</u>	<u>128,650</u>
	<u>1,518,290</u>	<u>1,607,220</u>
Total assets	<u>2,733,100</u>	<u>2,851,960</u>
Liabilities		
Current liabilities		
Payables	756,610	790,770
Other liabilities and deferred revenue	<u>258,700</u>	<u>277,820</u>
Total current liabilities	1,015,310	1,068,590

Long term liabilities		
Other liabilities and deferred revenue	284,140	288,320
Long-term debt	995,620	1,035,730
Deferred income taxes	10,050	10,740
	<u>1,289,810</u>	<u>1,334,790</u>
Total liabilities	2,305,120	2,403,380
Equity		
Share capital	420	420
Share premium	207,440	206,920
Retained earnings	<u>220,120</u>	<u>241,240</u>
Total equity	427,980	448,580
Total equity and liabilities	<u>2,733,100</u>	<u>2,851,960</u>