

INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA

PROFESSIONAL LEVEL EXAMINATION – MAY 2026

CASE STUDY

Time Allowed: 4 hours (including reading time)

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

PRE-SEEN

This material is issued 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/students.

You **MUST NOT** bring this material with you to the Examination Hall. On receipt of the material, you are to spend the 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 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 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 which includes the requirements to respond to. 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	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%
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	100%

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 depth. 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: Sadeco Cocoa Processing Limited (SCPL)

List of exhibits

- Exhibit 1:** About you (Tokunbo Adeolu) and your employer, Garba, Chukwuemeka, Adelani & Co.
- Exhibit 2:** The Cocoa Business in Nigeria: From the Golden Era to Challenges and Revival (1960-Present)
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- Exhibit 4:** Sadeco Cocoa Processing Limited: Company overview, management structure, challenges and strategic direction
- Exhibit 5:** Sadeco Cocoa Processing Limited: Financial statements summary – 2022 to 2023

About you (Tokunbo Adeolu) and your employer, Garba, Chukwuemeka, Adelani & Co.

You are **Tokunbo Adeolu**, an accounting graduate, writing the Professional level of ICAN examination. You are employed as a Trainee in the firm of Garba, Chukwuemeka, Adelani & Co (Chartered Accountants), reporting directly to Thomas Chukwuemeka, a Partner in the firm. Your position requires a proactive approach to client service 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:** You are to assess various operational and strategic business proposals, evaluating how each aligns with the client's objectives. Additionally, you are to 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:** You are responsible for providing 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 partner'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 on a national and international scale. This commitment to ongoing learning ensures that your work reflects current best practices and supports the firm's clients in achieving their objectives.

The Cocoa Business in Nigeria: From the Golden Era to Challenges and Revival (1960-Present)

Introduction

Nigeria's cocoa industry has witnessed dramatic changes over the decades. Once a leader on the global stage, the sector has faced considerable hurdles but is now showing signs of resurgence. This section explores the historical trajectory, challenges, and recent revival efforts shaping the cocoa business in Nigeria.

The Golden Era (1960-1980): Dominance and National Pride

During the period from 1960 to 1980, Nigeria's cocoa production thrived, placing the country among the world's leading cocoa producers, comparable with Ghana and Ivory Coast. Several key features characterised this era of prosperity:

- **Booming Production:** Cocoa output soared, underpinning Nigeria's status as a major exporter and a critical earner of foreign exchange. The revenues from cocoa exports supported vital national development projects.
- **Government Support:** The Western region government, where cocoa farming was concentrated, played a significant role in promoting the crop. This support included agricultural extension services, subsidies for inputs, and investment in research.
- **Marketing Boards:** The creation of the Nigerian Cocoa Marketing Board (NCMB) was aimed to stabilise prices, enhance quality, and guarantee fair returns for farmers.
- **Smallholder Dominance:** Smallholder farmers formed the backbone of the industry, providing livelihoods for millions and ensuring the widespread adoption of cocoa cultivation.
- **Research and Development:** The Cocoa Research Institute of Nigeria (CRIN) made notable contributions by developing improved varieties and farming techniques, leading to higher yields and better-quality beans.

Several factors contributed to the sector's success during this period, including the favourable climate and soils of the southwest rainforest belt, well-established farming traditions, supportive government policies, and robust global demand for cocoa.

The Era of Decline (1980-2000): Challenges and Setbacks

Between 1980 and 2000, Nigeria's cocoa industry suffered a marked downturn due to a combination of adverse factors such as:

- **Oil Boom:** The focus of government policy shifted towards the oil sector, leading to a decline in investment and interest in agriculture, including cocoa.
- **Collapse of Marketing Boards:** The dissolution of the NCMB as part of Structural Adjustment Programmes, exposed farmers to unstable prices and uncertain markets.
- **Aging Tree Stock:** Many cocoa trees planted decades earlier, experienced declining yields, with limited efforts made to replant or rejuvenate farms.
- **Pest and Disease Outbreaks:** Problems such as black pod disease and pest infestations devastated yields.
- **Lack of Access to Inputs:** Farmers found it increasingly difficult to obtain affordable and reliable fertilisers, pesticides, and other inputs.
- **Rural-Urban Migration:** The migration of young people to urban areas in search of better opportunities resulted in a shortage of labour on cocoa farms.
- **Political Instability:** Inconsistent policies and political uncertainty further undermined the sector's stability.

The consequences of this decline were dramatic. Export earnings from cocoa fell, many farmers were plunged into poverty, jobs were lost in related industries, and Nigeria lost its status as a world-leading cocoa producer.

The Current State (2000-Present): Striving for Revival

Recent years have brought a renewed focus on reviving the cocoa sector. Recognising its economic potential, a variety of initiatives such as the following have been launched:

- **Government Initiatives:** Programmes have been introduced to support farmers by distributing improved seedlings, providing subsidised inputs, rehabilitating old farms, and investing in research and development.
- **Private Sector Involvement:** Private companies are playing a greater role, offering finance, building processing plants, and providing technical training for farmers.
- **International Collaborations:** Organisations such as the World Bank and the International Cocoa Organisation (ICO) are supplying technical and financial assistance.
- **Focus on Sustainable Practices:** There is an increasing emphasis on agro forestry, integrated pest management, and fair labour standards to make cocoa farming more sustainable.
- **Value Addition:** The sector is shifting towards more domestic processing of cocoa beans, aiming to produce cocoa butter, powder, and other products, thereby increasing export earnings and job opportunities.

Despite these efforts, challenges remain. Farmers and processors still struggle with limited access to finance, poor infrastructure, inadequate extension services, unclear land tenure arrangements, climate change, and weak farmer cooperatives.

The Future of Cocoa in Nigeria: Prospects and Opportunities

Nigeria possesses several advantages that could help restore its status as a major cocoa producer. The country benefits from favourable agro-ecological conditions, an abundance of arable land, and rising demand for cocoa products both at home and abroad.

Key opportunities for growth include adopting modern farming techniques, expanding value-added processing, strengthening farmer cooperatives, promoting sustainable practices, attracting foreign investment, exploring new export markets, and improving infrastructure, particularly in rural areas.

Conclusion

The cocoa business in Nigeria has undergone substantial transformation since 1960. From a position of global dominance, the industry suffered decline due to neglect and unfavourable policies. Today, new efforts are being made to revitalise the sector. By confronting ongoing challenges, seizing emerging opportunities, and enacting sound policies, Nigeria can re-establish itself as a leading force in the world cocoa market. The road to success lies in the sustained commitment and collaboration of all stakeholders—government, farmers, private sector, and international partners to ensure the long-term sustainability and prosperity of the country's cocoa industry.

Cocoa Processing Industry in Nigeria

Nigeria, once a prominent player in the global cocoa market, has experienced significant fluctuations in its cocoa industry over the years. While the nation remains a significant producer of raw cocoa beans, its cocoa processing sector has not developed at the same pace, limiting Nigeria's ability to fully benefit from its abundant cocoa resources.

Overview of the Nigerian cocoa industry**Historical context**

In the 1960s, Nigeria was among the world's leading cocoa exporters, with export income from the product making a substantial contribution to the national economy. However, several factors led to the decline of the sector, including the oil boom, the ageing of cocoa farms, neglect of agricultural policy, and volatility in cocoa prices.

Current status

Presently, Nigeria is the fourth-largest cocoa producer in Africa, following Ivory Coast, Ghana, and Cameroon. Cocoa production is primarily concentrated in the southwestern states, notably Ondo, Osun, Oyo, Ogun, and Ekiti.

Production volume

The country's annual production of cocoa beans typically fluctuates between 250,000 and 350,000 metric tons.

Export orientation

A large share of Nigeria's cocoa output is exported as raw beans, with only a smaller proportion processed domestically.

The Nigerian cocoa processing industry: A detailed assessment**Size and capacity**

The cocoa processing sector in Nigeria is relatively small compared to other major cocoa-producing nations. Although there is significant installed processing capacity, much of it remains underutilised. Most processors operate below capacity due to factors such as limited availability of beans, financial constraints, and outdated equipment. The industry is primarily dominated by a few large-scale processors, with several smaller participants also present.

Technology and infrastructure

Many cocoa processing plants in Nigeria rely on outdated technology, resulting in operational inefficiencies and increased production costs. The sector faces inadequate infrastructure, including unreliable electricity supply, poor transportation networks, and limited access to modern storage facilities. Access to dependable water sources, which is essential for processing, is not always assured.

Product range and quality

The main products resulting from domestic cocoa processing are cocoa liquor, cocoa butter, and cocoa powder. The quality of these processed products varies; while some processors meet international standards, others struggle with inconsistency. There is also a limited range of value-added products beyond these ones.

Market and distribution

Within Nigeria, the domestic market for processed cocoa products remains relatively small, restricting the growth potential of the processing industry. Export markets include Europe, Asia, and North America, but Nigerian processed cocoa faces intense competition from established processors in other countries. Distribution within Nigeria and for export is further hampered by inadequate transportation and logistics infrastructure.

Regulatory and policy environment

While government policies exist to promote the cocoa industry, their implementation has often been inconsistent and ineffective. Enforcement of quality standards and regulations is weak, and processors have limited access to financing and incentives.

Financing and investment

Access to affordable financing remains a major challenge for cocoa processors. Commercial banks are frequently hesitant to lend to the sector, perceiving it as high-risk due to insufficient collateral. There is also limited foreign direct investment in Nigeria's cocoa processing industry.

SWOT analysis: Strengths, weaknesses, opportunities, and threats

Strengths

- Abundant and relatively consistent supply of cocoa beans.
- Favourable climate and soil conditions for cocoa cultivation.
- Longstanding expertise among cocoa farmers, developed over generations.
- Potential to meet growing global demand for organic cocoa.

Weaknesses

- Underdeveloped processing capacity relative to production levels.
- Reliance on outdated technology and inefficient equipment.
- Poor electricity, transportation, and storage infrastructure.
- Inconsistent quality control for processed cocoa products.
- Restricted access to affordable financing for processing businesses.
- Ineffective regulatory framework and enforcement of standards.

Opportunities

- Rising global demand for cocoa, particularly in emerging markets.
- Potential to increase exports of processed cocoa products instead of raw beans.
- Possible increase in government support and incentives for processing activities.
- Opportunities to expand exports to neighbouring African countries through regional trade agreements.
- Chance to attract both foreign and domestic investment to modernise and expand the sector.
- Development of specialty cocoa and chocolate products targeting niche markets.

Threats

- Price volatility in global cocoa markets, affecting profitability.
- Stiff competition from established processors in other countries.
- Adverse effects of climate change on cocoa production.
- Risks from pests and diseases reducing crop yields.
- Political instability and insecurity impacting production and processing.
- Fluctuations in the value of the Nigerian Naira, affecting costs and competitiveness.

Challenges facing the Nigerian cocoa processing industry

Despite Nigeria's significant cocoa output, processors sometimes struggle to source enough high-quality beans, due to competition from exporters and logistical hurdles. Unreliable electricity supply is a persistent problem, raising production costs and causing operational disruptions. Poor transportation infrastructure increases costs and delays deliveries of both raw beans and processed products. Limited access to affordable financing constrains investments in technology upgrades and capacity expansion. Nigerian processors also face intense competition from more advanced industries in countries like Ivory Coast and Ghana. Finally, policy inconsistencies and unstable regulations create uncertainty that discourages further investment in the sector.

Sadeco Cocoa Processing Limited: Company overview, management structure, challenges and strategic direction**Company overview**

Sadeco Cocoa Processing Limited (SCPL) was founded in 2014 in Ondo State, a region renowned for its significant contribution to Nigeria's cocoa output. The company was established with the aim of adding value to Nigerian cocoa industry and positioning itself competitively on the global stage. To achieve this, SCPL invested in a medium-sized cocoa processing facility with the capability to process around 10,000 metric tons of cocoa beans each year. The company's initial operations focused on the production of cocoa butter, cocoa cake, and cocoa powder, supplying both the domestic and export markets.

During its formative years, SCPL experienced moderate growth by tapping into the rising domestic demand for cocoa products and securing a handful of export contracts. However, over the last five years, the company has encountered numerous difficulties, which have resulted in considerable financial losses.

Board of directors and management team

SCPL is governed by a board of directors comprising six members:

Dr. Olafemi Aderopo	Chairman
Jide Ademokun	Managing Director/CEO
Dorcas Folagade	Non-executive Director
Johnson Eze	Executive Director, Finance and Strategy
Zamani Garuba	Non-executive Director
Marian Adewole	Non-executive Director

The management team is led by:

Jide Ademokun	Managing Director/CEO
Johnson Eze	Executive Director, Finance and Strategy
Dunni Abioye	Marketing Controller
Ibiyemi Adebola	Supply Chain and Logistics Controller
Michael Abimboye	Human Resources Controller
John Omiyale	Technical/Production Controller

Current challenges – The two main challenges are:**(1) Lack of working capital**

SCPL is currently grappling with a severe shortage of working capital, which is attributable to several factors:

- **Delayed payments from customers:** Both domestic and international clients often delay their payments, which places significant strain on the company's cash flow.
- **High interest rates:** Borrowing costs in Nigeria are high, making it challenging for SCPL to secure loans for working capital on reasonable terms.
- **Outdated plant:** The processing plant is obsolete and frequently breaks down, resulting in inefficiency and lower product quality. This has also affected the acceptability of SCPL's products in international markets.

- **Inefficient inventory management:** Excessive inventory levels have tied up capital that could be used more productively elsewhere.
- **Poor financial planning:** Inadequate financial planning and budgeting have exacerbated cash flow issues and led to excessive borrowing.

These challenges have resulted in a number of adverse consequences, including:

- Inability to purchase sufficient quantities of raw cocoa beans, leading to underutilisation of the processing plant.
- Delayed payments to suppliers, which has damaged relationships with cocoa farmers and other partners.
- Operational inefficiencies caused by insufficient funds for maintenance and repairs, resulting in plant breakdowns and reduced efficiency.

(2) International rejection of products

The company is also contending with rejections of its products in international markets, primarily due to:

- **Poor quality control:** Inconsistent quality control has led to contamination and failure to comply with international standards, such as the European Union's regulations on pesticide residue.
- **Lack of certification:** The absence of certifications; like UTZ, Rainforest Alliance, or Fairtrade, has restricted access to premium markets.
- **Inadequate packaging:** The packaging currently used by SCPL is not robust enough for long-distance shipping and does not sufficiently protect the products.
- **Lack of market research:** Insufficient research has resulted in a poor understanding of customer preferences and quality expectations abroad.
- **Industry risk:** International organisations perceive that industry players in Nigeria adopt unethical practices.

The repercussions of these issues include:

- Loss of export markets due to repeated product rejections.
- Damage to the brand's reputation arising from negative publicity about product quality.
- Increased costs associated with the storage, handling, and disposal of rejected products.

Strategic direction: The way forward

To address these challenges and restore profitability, SCPL's board has adopted a comprehensive strategy focused on resolving financial constraints, enhancing product quality, and expanding market reach. The key components of this strategy are as follows:

(1) Financial restructuring and working capital management

- Engage with creditors to restructure existing debts, which may involve extending repayment periods or negotiating lower interest rates.
- Seek equity investment from private equity firms, venture capitalists, or strategic partners to inject new working capital into the business.

- Adopt a just-in-time (JIT) inventory management system to minimise capital tied up in inventory.
- Develop a detailed financial plan and budget with a strong focus on cash flow forecasting and cost control.
- Investigate and apply for government grants and incentives available to agro-processing companies.

(2) **Quality improvement and certification**

- Implement a robust Quality Management System (QMS), incorporating stringent quality control procedures throughout the production process—from raw material sourcing to packaging and storage. Consideration should be given to implementing ISO 22000 (Food Safety Management System).
- Invest in up-to-date quality control equipment to ensure compliance with international standards regarding pesticide residues, heavy metals, and other contaminants.
- Provide comprehensive training to staff involved in production on quality control best practices.
- Obtain relevant certifications such as UTZ, Rainforest Alliance, and Fairtrade to gain access to premium markets and demonstrate a commitment to sustainable practices.
- Launch a supplier development programme to work with cocoa farmers, offering training and improved agricultural inputs to enhance the quality of cocoa beans and reduce contamination risks.
- Upgrade packaging by investing in high-quality materials that protect the products during shipping and meet international requirements.

(3) **Backward integration**

- Consider acquiring or leasing cocoa farms to ensure a stable supply of high-quality cocoa beans and lessen dependency on external suppliers. This approach will require substantial capital investment and management expertise.
- Form partnerships with cocoa farmers through cooperatives or outgrower schemes, providing them with training, inputs, and financial support in exchange for a consistent supply of quality beans at competitive prices.

(4) **Strategic alliances**

SCPL intends to pursue strategic alliances with global chocolate and cocoa-based consumer goods manufacturers. Such partnerships are expected to be mutually beneficial:

International Partner Contribution: Supply of modern chocolate manufacturing machinery, provision of technical expertise in quality control, branding, and product development, and injection of additional working capital.

SCPL Contribution: Access to raw cocoa supply chains within Nigeria, existing processing facilities and workforce, and established local market knowledge and government relationships.

The anticipated benefits for SCPL include value addition by moving up the value chain to produce branded chocolate products, improvement in quality through the adoption of international best practices, enhanced financial stability, and improved market access via the partner’s global distribution network.

For the international partner, the advantages encompass a secure supply of Nigerian cocoa beans, production cost savings by processing near the source, access to the expanding West African chocolate market, and an opportunity to enhance sustainability branding by supporting local cocoa processing.

(5) Risks and mitigation strategies

Risk	Impact	Mitigation strategy
Policy inconsistency in Nigeria.	Could affect incentives and export grants.	Negotiate long-term agreements with government support.
Quality control lapses.	Could damage brand reputation.	Continuous training, strict quality control protocols, and obtaining certifications such as ISO, Fair trade, and UTZ.
Currency volatility (Naira depreciation).	Increases cost of imports, including machinery and other inputs.	Use forward contracts to hedge currency exposure and maintain foreign exchange reserves.
Cultural/operational differences.	Misalignment in management styles.	Establish a joint venture governance structure with clearly defined roles and responsibilities.

Sadeco Cocoa Processing Limited (SCPL)
Financial statements summary
Statement of financial position summary

	2023	2022
	₹	₹
Assets		
Non-current assets		
Property, plant and equipment	<u>549,161,545</u>	<u>571,452,635</u>
Total Non-current assets	549,161,545	571,452,635
Current assets		
Inventories	72,299,705	88,369,695
Trade and other receivables	15,694,405	24,765,295
Prepayments	2,793,810	2,642,620
Fixed deposit investments	13,620,025	13,539,205
Cash and cash equivalents	<u>3,337,305</u>	<u>4,052,290</u>
Total Current assets	<u>107,745,250</u>	<u>133,369,105</u>
Total assets	<u>656,906,795</u>	<u>704,821,740</u>
Equity and Liabilities		
Equity		
Share capital	130,358,150	130,358,150
Deposit for shares	435,000,000	435,000,000
Revaluation reserve	267,082,800	265,565,630
Fair value reserve	35,206,055	35,206,055
Retained earnings	<u>(816,901,875)</u>	<u>(755,159,330)</u>
Total equity	<u>50,745,130</u>	<u>110,970,505</u>
Liabilities		
Non-current liabilities		
Borrowings	8,312,040	9,926,500
Employee benefit obligations	15,798,870	14,358,250
Deferred tax liabilities	<u>87,367,505</u>	<u>89,499,590</u>
Total non-current liabilities	<u>111,478,415</u>	<u>113,784,340</u>
Current liabilities		
Bank overdraft	3,022,625	9,663,715
Trade and other payables	333,850,735	236,587,895
Borrowings	<u>157,809,890</u>	<u>233,815,285</u>
Total current liabilities	<u>494,683,250</u>	<u>480,066,895</u>
Total liabilities	<u>606,161,665</u>	<u>593,851,235</u>
Total equity and liabilities	<u>656,906,795</u>	<u>704,821,740</u>

Sadeco Cocoa Processing Company Limited (SCPL)

Income statement summary

	2023	2022
	₹	₹
Revenue	161,721,160	217,448,285
Cost of sales	<u>(185,235,905)</u>	<u>(236,819,840)</u>
Gross loss	(23,514,745)	(19,371,555)
Other income	10,148,530	7,514,425
Selling and distribution costs	(3,510,425)	(4,022,870)
General and administrative expenses	(19,007,670)	(22,848,410)
Impairment	<u>(2,479,285)</u>	<u>2,669,255</u>
Operating loss	(38,363,595)	(36,059,155)
Finance income	285,540	250,360
Finance costs	<u>(23,664,490)</u>	<u>(28,920,335)</u>
Loss before tax	(61,742,545)	(64,729,130)
Income tax	-	4,434,305
Loss for the year	<u>(61,742,545)</u>	<u>(60,294,825)</u>