

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA**PROFESSIONAL LEVEL EXAMINATION – MAY 2025****CASE STUDY****EXAMINATION INSTRUCTIONS****PLEASE READ THESE INSTRUCTIONS BEFORE THE COMMENCEMENT OF THE PAPER**

1. Check your pockets, purse, mathematical set, etc. to ensure that you do not have prohibited items such as telephone handset, electronic storage device, programmable devices, wristwatches or any form of written material on you in the examination hall. You will be stopped from continuing with the examination and liable to further disciplinary actions including cancellation of examination result, if caught.
2. Write your **EXAMINATION NUMBER** in the space provided above.
3. Do **NOT** write anything on your question paper **EXCEPT** your Examination number.
4. Do **NOT** write anything on your docket.
5. Read all instructions in the question paper carefully before answering the questions.
6. All solutions should be written in **BLUE** or **BLACK INK**. Any solution written in **PENCIL** or **any other COLOUR OF INK** will not be marked.
7. Check that you have collected the correct question paper for the examination you are writing.

THURSDAY, MAY 22, 2025**DO NOT TURN OVER UNTIL YOU ARE TOLD TO DO SO**

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA
PROFESSIONAL LEVEL EXAMINATION – MAY 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 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 may deem fit. This pre-seen part of the Case Study examination is also published on the Institute's website: www.ican.org/ican/students.

You **MUST NOT** bring this material with you to the Examination Hall. Upon receipt of this material, you are required 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 the relevant developments and analyse the financial results 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 answering all the questions 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 section, which includes 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 | 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 is 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 any of 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 of the above will diminish your chance of success in the examination.

Case Study: Defcon Manufacturing Limited (Defcon)

List of exhibits

- Exhibit 1:** About you (Matthew Idemudia)
- Exhibit 2:** The Nigerian economy
- Exhibit 3:** The Nigerian diaper and sanitary pad industry
- Exhibit 4:** Defcon Manufacturing Limited
- Exhibit 5:** Defcon's response to environmental and sustainability concerns

About you (Matthew Idemudia)

You are **Matthew Idemudia**, an accounting graduate, writing the Professional level of ICAN examination. You are employed as Finance and Business Analyst by Defcon Manufacturing Limited. You report to Tarfa Gambari, the company's Director of Finance.

Your responsibilities include:

- Preparing detailed financial analyses and reports on the performance of the company;
- Analysing company's financial statements to identify areas of weakness and proffering likely solutions to correct the anomalies;
- Assessing operational and strategic business proposals to see how each aligns with the company's strategic objectives and impact on business and financial risks;
- Assessing the company's financial and business forecast together with the assumptions upon which they are based to form judgements, conclusions and recommendations in form of report to the board;
- Analysing the company's internal and external business environments and advising the board on the company's strengths and weaknesses compared to the competitors, and opportunities and threats prevalent in the environment;
- Advising the board and management on sustainability issues and assisting in the preparation of the company's annual sustainability report to stakeholders; and
- Drafting reports for your boss, based on the operational and strategic business analyses you have carried out.

Carrying out these responsibilities effectively demands that you keep yourself abreast with the developments in the accounting and taxation space, and the business environment, both nationally and internationally.

The Nigerian economy

One key development since the 2023 national elections is the challenging economic situation in Nigeria. The challenges, in turn, have adversely affected the country's socio-economic landscape and macroeconomic performance. However, the new government has continued to implement various economic reforms, such as floatation of the Naira, removal of petroleum subsidy, etc, to address the socio-economic challenges, optimise the country's potential, and attain crucial developmental objectives. These reforms seem to have temporarily constrained the performance of the real sector, thus suppressing overall economic outcomes. Furthermore, the Russia-Ukraine crisis and the resulting disruptions in the global supply chain, alongside energy and food crises, accentuated economic vulnerability throughout the year. The hikes in the global policy rate in 2023 also had consequential impacts on investment and productivity in Nigeria - thus, impeding economic growth.

As a result of the above, Nigeria's economic growth remained fragile in 2023, marked by escalating inflationary pressures, exchange rate depreciation, and fiscal constraints. These factors hindered productivity, curtailed performance of the real sector, and diminished the positive impact of growth outcomes on the quality of life for Nigerians.

Though Nigeria has the potential to enhance local food and livestock production, the nation still relied heavily on imported agricultural goods to fulfill growing domestic demands, as a result of insecurity and terrorist activities that is impeding farming activities. This dependence not only strained available foreign exchange reserves but also contributed to an escalation of imported inflation due to the depreciation of the local currency. Imported food inflation has been stated to average 20.4 percent in 2023, up from 17.8 percent in 2022.

Also, as a result of the supply chain disruptions and impeded farming activities, food inflation has increased to 33.9 percent in 2023. The elimination of petrol subsidies also had direct effects on fuel and transportation costs, thus increasing both food and non-food prices, as evidenced by the upward trajectory of inflation indices.

In conjunction with global energy prices, the removal of petrol subsidies significantly increased production expenses for majority of Micro, Small, and Medium Enterprises (MSMEs) that heavily depend on petrol as a primary input. In prior periods, the expansion of the Central Bank of Nigeria's (CBN) Ways and Means mechanism contributed to inflation by enlarging the money supply, thereby intensifying pressure on the Naira's value and eroding the purchasing power of the populace.

Challenges in the economy

Unemployment: One of the most pressing concerns for Nigeria's economy is the high level of unemployment. The youth unemployment rate remains high, contributing to social unrest and instability. The government has made efforts to address this issue through various youth empowerment programmes and initiatives aimed at creating jobs.

Inflation: Inflation is another challenge for Nigeria's economy. Rising food stabilisation prices have put a strain on household budgets and contributed to social unrest in some parts of the country. The government has taken steps to address this issue by implementing monetary policies aimed at stabilising prices.

Exchange rate volatility: While inflation has been on the rise, eroding the purchasing power of Nigerians and making it difficult for businesses to plan and invest, the exchange rate has also been volatile, leading to uncertainty in the business environment. Addressing these issues will be crucial in restoring confidence in the economy.

Infrastructure: Infrastructure remains another key area of concern for Nigeria's economy. Decades of underinvestment have left the country with poor road networks, inadequate power supply, and limited access to clean water. This hampers economic growth and deters investment from both domestic and foreign sources.

Opportunities in the economy

Agriculture: The agricultural sector has shown resilience despite challenges such as climate change and insecurity in rural areas. There has been an increase in investment in agribusinesses and modern farming techniques which is expected to improve food security and boost economic growth.

Industrial development: Nigeria's tech industry continues to show great potential for driving economic growth. Startups are emerging across various sectors including fintech, e-commerce, healthtech and digital services that can drive innovation and improve efficiency, among others, which are attracting significant investment both locally and internationally.

Renewable Energy: With abundant sunlight and wind resources, investing in solar and wind energy can boost power generation and reduce dependency on fossil fuels.

Mining and Solid Minerals: Nigeria has untapped mineral resources. Developing the mining sector can contribute to economic diversification.

Business environment

There are many government policies that affect the manufacturing sector, including the diaper and sanitary pad industry. These policies include import tariffs, tax incentives, and regulations that impact production and distribution. In addition, Government regulations regarding environmental pollution, emissions and waste disposal are becoming stricter and there is growing emphasis on sustainable and eco-friendly products. Therefore, manufacturers are increasingly adopting environmentally friendly practices and materials. Manufacturers are also required to comply with other laws and regulations, such as labour laws, health and safety regulations and standards.

The political landscape in Nigeria has been relatively stable, with seamless transition from one civilian government to another. This relative stability, together with growth in population, leads to investor confidence in the economy and friendly business environment.

However, the business environment has been challenged by a number of factors such as:

- Erosion in consumer purchasing power which results in low demand for manufactured products.
- High exchange rate resulting in high cost of manufacturing input.
- Interest rate has gone up astronomically which has led to low investment in the manufacturing sector.
- Removal of petroleum products' subsidy leading to high inflation and further reduction in demand for products.
- The insecurity due to terrorists' activities and clashes between herders and farmers leading to drop in the production of food items and a further worsening of inflation.
- The high unemployment rate and erosion of purchasing power occasioned by high inflation being experienced in the country.
- Inadequate energy supplies and high cost of diesel to power generators for continuous production of goods, which has led to some companies winding down their operations in the country and moving to other countries.
- Deficit in infrastructure. Most of the roads are so bad that vehicles transporting goods from one location to another may spend days before arrival at destination. These, coupled with the risk of kidnapping by terrorists, has hampered business progress.

As a result of the preceding factors, manufacturers are finding it difficult to finance acquisition of modern technology to improve their manufacturing processes, like their counterparts in other climes. Therefore, innovation and sustainable production practices which can lead to more efficient production processes, new products, and higher-quality products continue to elude the sector.

The Nigerian diaper and sanitary pad industry

A diaper or nappy is a type of underwear that allows one to pass stool or urine in a discreet manner. When diapers become soiled, they require changing. Diapers are primarily worn by babies. However, they can also be used by adults with incontinence or in certain circumstances where access to a toilet is unavailable. These include the elderly, those with physical or mental disability, people with medical problems and people working in extreme conditions such as astronauts.

A diaper is made up of synthetic disposable materials or cloth whilst disposable diapers are made up of absorbent chemicals and are thrown away after use, washable diapers are made of several layers of fabrics such as hemp, cotton and bamboo, and are washable and reusable. As a result of advancement in manufacturing technologies and advocacy for green manufacturing, there has been an improvement in the design, biodegradability and safety of diapers, therefore, its use has gained immense acceptance across Nigeria.

The global diaper market has been estimated to reach US\$ 69.5 billion in 2020 and this has been projected to reach US\$ 114.3 billion by 2027, exhibiting a compound annual growth rate (CAGR) of eight point one percent (8.1%) between 2022-2027.

Women Sanitary napkins, also known as sanitary pads, are made of absorbent items and are worn by women primarily for absorbing menstrual blood. They comprise numerous layers of quilted cotton fabric or other super absorbent polymers and plastics. They are manufactured in various shapes and sizes, with different absorption capabilities. The global sanitary pad market was put at a value of US\$ 23.63 billion in 2020 and it has been projected to grow at a compound annual growth rate (CAGR) of four point seven percent (4.7%) between 2021 – 2026.

Therefore, with an estimated population of about two hundred and twenty million (220,000,000) people and an estimated national population growth rate of five-point seven percent (5.7%) per annum, Nigeria has a large, growing and sustainable market for sanitary pads, baby and adult diapers.

Production of sanitary pads and diapers in Nigeria is estimated to be less than twenty percent (20%) of the demand and the rest are being imported into the country. Currently, over ~~N4~~ billion worth of diapers were being imported annually into the country, which is detrimental to the economy. The intention of the government is to stop importation and see how available local resources could be used, especially as the country has some companies that are into petrochemicals that can provide the needed raw materials for the sector.

According to a one time Permanent Secretary of the Federal Ministry of Industry, Trade and Investment, the Diapers, Sanitary pads, Napkins and Wipes industry is a strategic tool for national development particularly in areas of job creation and economic growth. He further described the sector as a developing category with strong growth prospects considering the high fertility and birth rate of Nigerian women, estimated by the United Nations International Children Emergency Funds (UNICEF) to be 5.9 million babies annually.

The shortfall in supply is reversible since sanitary pads and diapers production is one of the most viable industries that can be established in Nigeria. And with government plan to make the production of sanitary pads and diapers a national developmental issue, there is opportunity for investment in the industry. This is because all the raw and packaging materials input can be sourced locally. Although the technology for the production of sanitary pads and diapers is imported, the production is not sophisticated. The technology can easily be transferred to experienced workforce in Nigeria.

Opportunities and challenges in the industry

The following are the opportunities and challenges that have been identified in the sanitary pad and diaper industry:

Opportunities:

These include:

High demand: With a growing population and increasing awareness of hygiene, the demand for sanitary pads and diapers is on the rise. The high birth rate and other uses contribute to the increasing need for diapers;

Local production potential: There is a significant supply gap, with a substantial shortfall between demand and current local production of sanitary pads and diapers annually. This gap presents a lucrative opportunity for local manufacturers to meet the demand and reduce dependency on imports;

Technological advancements: Improvements in manufacturing technologies have enhanced the design, biodegradability, and safety of these products, making them more appealing to consumers; and

Government support: The Nigerian government has shown interest in supporting local production to reduce import dependency and boost the economy.

Threats:

These include:

Economic Challenges: High inflation rates and the rising cost of living have made sanitary products less affordable for many Nigerians. This has led to the emergence of a "sachet economy" where products are sold in smaller, more affordable quantities;

Competition from imports: Despite the potential for local production, imported products still dominate the market. This can lead to price fluctuations and affect the profitability of local manufacturers;

Raw material sourcing: While many raw materials can be sourced locally, there are still challenges in ensuring consistent quality and supply, which can impact production; and

Health and hygiene concerns: The affordability issue has forced some women to resort to unsanitary alternatives like tissues and cloths, posing significant health risks.

Defcon Manufacturing Limited

Defcon Manufacturing Limited was incorporated in February 2005 as a manufacturer of diapers and sanitary pads, and it started operations in March 2005. The company has various product lines, Luxury diapers and sanitary pads, Super diapers and sanitary pads, Simple diapers and sanitary pads and recently Economy diapers and sanitary pads.

Defcon has its factories in three locations across the country, Ikeja, Port Harcourt and Kaduna. However, it has depots in each state capital in the country from where its distributors are serviced by the Depot Managers.

Production and marketing

The company imports about 70% of its raw materials from overseas while the balance 30% is sourced locally. Labour is sourced locally where the factories are situated. However, the company has a technical director at the head office in Ikeja, where he oversees the production and technical issues.

The marketing director oversees the sales and marketing activities of the company. Sales force and Depot Managers are controlled by the National Sales Manager, based in Ikeja. Sales promotional and advertisement activities are directed in the head office from the office of the marketing director. There are two Brand Managers, who manage all marketing activities of the two products, diaper and sanitary pads.

Competition in the industry

Competition is very high in the industry, with four major companies that controls 60% of the market share. These companies are Defcon Manufacturing Limited with 25% market share, Jameson Nigeria Limited with 15% market share, Denton Sanitary Products Nigeria Limited with 12% market share and Limson Products Nigeria Limited with 8% market share. Apart from these four companies, we have twenty other companies that control the balance 40% share of the market.

Management and Board

Board

The company is run by a board of six directors. These are:

Chief Adeolu Oluwasere	Chairman
Mrs Titi Obadele	Managing director
Mr. Andrew Young	Technical director
Mr. Tarfa Gambari	Finance director
Dr. Dorcas Adetoro	Marketing director
Dr. Timothy Chukwuemeka	Non-executive director

Management

The management team is made up of:

Mrs Titi Obadele	Managing director
Mr. Andrew Young	Technical director
Mr. Tarfa Gambari	Finance director
Dr. Dorcas Adetoro	Marketing director
Mr Abraham Ndufe	Human resources manager
Mr. Tolu Adekola	Supply chain manager

Defcon's response to environmental and sustainability concerns

The current global concern for environmental and sustainability issues in production has made the board to approve that management evolve strategies to embrace green production. Therefore, the management plans to introduce new products that will significantly reduce the adverse environmental impact of its products, while at the same time, provide effective and affordable products to its customers.

The following sustainable production methods for sanitary pads and diapers that focus on reducing adverse environmental impact while maintaining product effectiveness are being considered:

Biodegradable materials: The use of biodegradable and compostable materials such as banana and bamboo fibres to produce sanitary pads and diapers. These materials decompose naturally and reduce plastic waste.

Organic cotton: Using organic cotton, grown without synthetic pesticides and fertilisers, to help reduce adverse environmental impact.

Reusable pads: Reusable cloth pads made from absorbent cotton materials can be washed and reused multiple times to significantly reduce waste.

Design and durability: These pads are designed for durability and comfort, by incorporating multiple layers for better absorbency.

Eco-Friendly manufacturing processes: Such as:

Energy efficiency: Implementing energy-efficient manufacturing processes to help reduce the carbon footprint of production.

Water conservation: Introduce techniques to minimise water usage during production.

Sustainable packaging: Introduction of compostable materials for packaging to reduce plastic waste and support overall sustainability goals of the company.