

**THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA****PROFESSIONAL LEVEL EXAMINATION – MAY 2024****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 each section of 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 **RED INK** will not be marked.

**THURSDAY, MAY 16, 2024****DO NOT TURN OVER UNTIL YOU ARE TOLD TO DO SO**

# **THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA**

## **PROFESSIONAL LEVEL EXAMINATION – MAY 2024**

### **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 candidates familiarise themselves with the case scenario so as to undertake any research and analysis they think fit. This pre-seen part of the Case Study examination is also published on the Institute's website: [www.ican.org/students](http://www.ican.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 additional research and analysis about the industry and analyse the financials provided in preparation for the examination. Candidates should note that the use of pre-seen part of the Case Study will not significantly help them in their preparation for this examination. It is essential that they carry out sufficient analysis work on their own in order to have a good understanding of the pre-seen part of the case scenario.

At the start of the examination, candidates will receive the complete case scenario which will include both the pre-seen and the unseen which includes the requirements. You must use the answer booklet provided by The Institute of Chartered Accountants of Nigeria (ICAN) in the Examination Hall. Any solution presented with other booklet **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% are awarded for the executive summary and approximately 10% for the relevant discussion of ethical issues within your answer to the requirements. Although ethical issues do not form a specific requirement, as this has been deemed to have been tested in other subjects of the ICAN professional

examination, but 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.

Candidates should note that marks are not awarded for just simply restating facts from the case scenario, but marks are awarded for demonstrating professional skills and technical depth. Therefore, to succeed, candidates 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.

Candidate that omits any one of these will have a slim chance of success in the examination.

## **May 2024 Case Study: Spicely Confectioneries Limited**

### **List of exhibits**

- Exhibit 1:** About you (John Adesola) and your employer, Osayemeh, Adelowo, Chukwurah & Co
- Exhibit 2:** Spicely Confectioneries Limited: History, Business structure, strategies and model
- Exhibit 3:** The confectionery market
- Exhibit 4:** Spicely Confectioneries Limited: Summarised financial statements 2021 – 2022

**About you (John Adesola) and your employer, Osayemeh Adelowo Chukwurah & Co**

You are **John Adesola**, writing the Professional level of ICAN examination. You are employed as a Trainee in the firm of Osayemeh Adelowo Chukwurah & Co. (Chartered Accountants). You are reporting to Julius Idemudea, Partner in charge of the Hospitality group within the firm.

Your responsibilities include:

- Preparing detailed financial analyses and reports on the performance of the firm's hospitality clients;
- Analysing your clients' 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 client's objectives and its impact on its business and financial risks;
- Assessing the client's financial and business forecasts together with the assumptions upon which they are based to form judgements, conclusions and recommendations to the client;
- Advising your clients on their strategic tax planning strategies for optimal tax liabilities; and
- Drafting reports for your boss, based on the operational and strategic business analyses you have carried out.

These responsibilities demand that you keep yourself abreast with the developments in the accounting and taxation space, and the hospitality industry, both nationally and internationally, to be able to carry out the above tasks effectively.

### **Spicey Confectioneries Limited: History, Business structure, strategies and model**

Spicey Confectioneries Limited (SCL) was formed in 2010. It manufactures and sells top quality confectionery. For many years, Spicey, as it is widely known, has been recognised as a successful company and has become a household name, particularly in Abuja and Lagos. Its fame is built on the very high-quality confectionery products it sells through its own stores, strategically located in both cities. Some of these stores are operated from buildings owned by Spicey, while the others are operating on leased properties.

Spicey has its factory in Lagos, from where the business originally started. The products are distributed through a multi-channel network comprising of Spicey's own stores and 'online' business, franchises and retail partners. In addition, Spicey has now started to supply confectionery to large retail stores and supermarkets on contract basis. These stores sell Spicey's products and also 'own brand label' confectionery that Spicey manufactures for them.

Spicey's product range includes a wide variety of milk, white and plain chocolate products. Previously Spicey's main sales had been chocolate products but now the company has expanded into producing other forms of confectionery which do not contain chocolate in any form, for example cakes and other sweets (candies). Spicey's customers continue to have strong regard for the quality of its products.

Spicey's customers vary from individuals to corporate clients which purchase Spicey's products to present to their own clients as corporate gifts. Although individual customers buy from Spicey's stores, franchises or online, corporate clients purchase goods directly from Spicey on contract basis.

#### **Business Structure**

Spicey has a simple business structure. It has a head office (which includes its management services function) and two divisions: Customer Sales and Distributions and Manufacturing and Supplies. These divisions operate as follows:

#### **Customer Sales and Distribution (CSD)**

CSD sells and distributes Spicey's products through the following outlets:

- Spicey's own stores;
- Franchises; and
- Online sales.

## **Manufacturing and Supplies (MS)**

All purchasing of manufacturing supplies and the actual product manufacturing take place at the Manufacturing and Supplies Division. The division then supplies these products internally and externally as follows:

Internally to:

- CSD for its sales through its own stores; and

Externally to:

- Corporate clients
- External retail stores and supermarkets which sell Spicey's products under Spicey's brand names and also under the stores' own special brand names.

Both divisions are operated as investment centres with limited capital investment authority, for expenditure up to ₦10m per annum. Major capital investments, above ₦10m, have to be authorised by head office.

CSD does not allow any of its outlets to make any capital investment at all without its prior approval. Each of CSD's stores is regarded as a profit centre, including online sales which is a single profit centre in its own right. Brand development is carried out jointly by both divisions. Any brand development costs, such as promotion, above ₦1m must be approved at head office.

Spicey currently has 30 of its own stores and 20 franchises. It also has developed its own website. This has become very popular and has enabled Spicey's business to grow. In addition, as e-business has become more popular, especially from the time of Covid, Spicey has been able to develop its online sales business and has introduced 'click and collect' services using its stores and franchise stores as the collection points.

## **Business Growth Strategies**

Spicey's current strategies to continue to achieve development and growth of its business are predicated on two strategic objectives, which are to:

- Expand Spicey range of customers through the development of Spicey's markets and products through a wide variety of sales and distribution channels. The focus of this is on the delivery of products the customer demands, where they are required and when they are wanted; and
- Enhance the customer experience through strong and effective customer relationship management. The focus of this is on clear and consistent branding and marketing to encourage customer loyalty and retention all the year round.

## **Vision**

- Spicey's vision is stated on the company's website as follows: "to be a leading, innovative and customer responsive company that constantly strives to create value which is shared between the shareholders and other stakeholders."

## **Mission**

- Spicey's mission is to be the leading confectioneries manufacturer in the country with a continuous growth in market share by adding new products to its products portfolio regularly.

## **Culture**

- The company recruits people that are top rated in their various disciplines, that have something to offer the company and the company is willing to pay top of the range salaries to the right persons. The company maintains a culture of openness and freedom and allows any of its staff to come up with novel ideas that can be translated into value creation.

Technology is at the heart of the company's business process, and it constantly invests in new technology that is seen to further improve the company's value creation process. The company is technology driven and it has deployed technology in virtually all areas of the company's business process.

The company has a research laboratory where food scientists and technologists are constantly working together to create new products and improve existing products and processes. Scientific discoveries are constantly being evaluated in the company's laboratory with the sole aim of converting such discoveries into commercially viable products.

## **Business Model**

Spicey recognises that one of its critical success factors is that value created by the company is to be shared among its various stakeholders - shareholders, employees, customers, consumers and the communities. The company therefore incorporates responsibility and sustainability into all aspects of its business management, making long term investments that are aimed at building value over time.

## **Sustainability and Corporate Social Responsibility**

Spicey always strive to carry out its business operations in the most sustainable, environmentally friendly and in a fair manner with regard to all its stakeholders. It makes sure that each of its suppliers adheres to high ethical and sustainability practices with regard to sources of materials and treatment of employees.

Spicey sources cocoa, from the Southwestern part of Nigeria. Spicey has initiated schemes to encourage sustainable farming of cocoa and farmers are being trained in effective agricultural methods. The introduction of approved cocoa production certification programme has enabled farmers to achieve higher levels of income from increased production and to access additional training directed at improving their production yields.

Spicey ensures that each of its products' label contain only the ingredients used in their production. The packaging also shows nutritional content and gives advice on recommended volumes of consumption. Spicey's product packaging are normally recyclable and kept as minimal as possible to protect the environment.

Green energy source has been introduced in Spicey's factory which has reduced consumption of electricity and greenhouse emissions. Spicey also introduced annual independent health and safety audits in its factory and retail outlets. All factory staff are required to undertake food safety and health safety training in the workplace at the required industry standard level. Workplace benefits, such as pension, medical insurance, and staff discounts are offered to all Spicey's employees.



## **The Confectionery Market**

Confectionery refers to food items with a relatively high sugar and carbohydrate contents. Confectionery has a variety of flavourings, colourings, and other components that give them their distinct taste, texture, and appearance.

The global confectionery market has been put at \$210.3 billion in 2019 and is projected to increase to \$270.5 billion in 2027, which represents a compounded annual growth rate of 3.6%. Chocolate segment had the highest confectionery market share in 2019.

According to the confectionery market analysis, the market is segmented on the basis of product type, age group, price point and distribution channel, as follows:

- **Product type:** The market is categorised into chocolate confectionery, ice cream, preserved pastry goods and, cakes and sugar confectionery;
- **Age group:** The market is classified into children, adults, and geriatric;
- **Price point:** The market is distributed into economy, mid-range, and luxury; and
- **Distribution channel:** The market is divided into supermarket/hypermarket, convenience stores, pharmaceutical & drug stores, food services, duty-free outlets, e-commerce, etc.

On the basis of product type, the chocolate category was the dominant segment in 2019 with 35.2% market share. Consumers of all age groups consume chocolate confectionery to satisfy their taste buds. The growth in economic prosperity, especially in emerging countries has driven the demand for the chocolate segment. Furthermore, chocolate is the highest per capita (kg) consumed confectionery product across several countries.

However, it is projected that the medicated confectionery segment will grow at a faster rate during the forecast period, 2021 to 2027. The increase in prevalence of minor ailments and over-the-counter medications or dietary supplements requires active ingredients such as antacids, vitamins, and herbal extracts. These products will propel the growth of the medicated confectionery segment. Also, the rapid growth in geriatric population in the next 10 years is anticipated to be a driver of the market growth for the medicated confectionery segment.

The Nigerian confectionery market has been projected to grow at a compound annual growth rate (CAGR) of 9.8% over the analysis period of 2021 to 2027, in terms of revenue, by Strategy Helix, a data analytic company. The key factors responsible for this market growth are increasing availability of different varieties of candies and chocolates, rise in trend of gifting confectionery, and rising disposable income.

The Nigeria confectionery market is segmented on the basis of product and distribution channel, as follows:

**By Product:** It is categorised into chocolate confectionery, gum, and sugar confectionery; and

**By Distribution Channel:** The confectionery market is divided into hypermarkets & supermarkets, convenience stores, specialist retailers, online retailing, etc.

The constantly evolving consumer habits, tastes, and preferences have led to innovation in the confectionery market, which is the driver of its market growth. Manufacturers are increasing their product ranges by including functional ingredients, organic herbal fillings, tropical fruit, and nut-based & exotic flavours in product formulations to meet changing consumer demands. Furthermore, the trend of gifting confectionery products, such as cookies, chocolates, bakery items, and others, has also propelled market growth in recent years. Brands are constantly establishing unique engaging techniques to seek consumer attention as confectionery products are significantly purchased as a result of impulse buying. These factors have cumulatively driven the market for confectionery products. However, the volatile nature of raw material prices of sugar and cocoa can hamper the growth of the market.

COVID-19 and the subsequent lockdown in 2020 had severe impact on the confectionery market. This impact has been felt from two dimensions, as follows:

- Differential impact on raw material supply (agricultural produce, food ingredients, and intermediate food products), trade & logistics, demand-supply volatility, uncertain consumer demand, also affected the workforce at industrial level; and
- Sales decline as a result of reduced gifting and impulse buying among consumers across the globe.

**Spicey Confectioneries Limited**  
**Summarised Financial Statements 2021 – 2022**

**Income Statements**

<b>Year</b>	<b>2021</b>	<b>2022</b>
	<b>₦'000</b>	<b>₦'000</b>
Revenue	1,635.0	1,794.6
Cost of sales	(901.0)	(939.2)
Gross profit	734.0	855.4
Marketing & distribution expenses	(216.9)	(254.9)
Administrative expenses	(75.1)	(81.0)
Finance expenses	(47.5)	(44.3)
Profit before income tax	394.5	475.2
Income tax expenses	<u>(22.1)</u>	<u>(55.9)</u>
Profit after tax expenses	<b><u>372.4</u></b>	<b><u>419.3</u></b>

**Statements of Financial Position**

<b>Year</b>	<b>2021</b>	<b>2022</b>
	<b>₦'000</b>	<b>₦'000</b>
<b>Assets:</b>		
Property, plant and equipment	775.1	791.5
Current assets:		
Inventories	120.6	125.5
Trade receivables	212.3	235.5
Prepayments	10.5	15.3
Cash and cash equivalents	<u>30.5</u>	<u>110.9</u>
Total current assets	<u>373.9</u>	<u>487.2</u>
Total assets	<b><u>1,149.0</u></b>	<b><u>1,278.7</u></b>
<b>Equity:</b>		
Share capital	10.0	10.0
Retained earnings	<u>483.8</u>	<u>583.1</u>
Total equity	<b><u>493.8</u></b>	<b><u>593.1</u></b>
Liabilities:		
Long term loans	146.0	88.3
Employee benefit	58.3	75.8
Deferred tax liabilities	<u>50.6</u>	<u>50.6</u>
Total non-current liabilities	<b><u>254.9</u></b>	<b><u>214.7</u></b>

<b>Year</b>	<b>2021</b>	<b>2022</b>
	<b>₦'000</b>	<b>₦'000</b>
Bank overdraft	15.0	5.0
Current tax liabilities	35.8	60.4
Short term loans	150.0	100.00
Trade and other payables	189.0	289.3
Provisions	<u>10.5</u>	<u>16.2</u>
Total current liabilities	<u>400.3</u>	<u>470.9</u>
Total equity and liabilities	<b><u>1,149.0</u></b>	<b><u>1,278.7</u></b>

