

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA**PROFESSIONAL LEVEL EXAMINATION – NOVEMBER 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 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, NOVEMBER 21, 2024**DO NOT TURN OVER UNTIL YOU ARE TOLD TO DO SO**

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA
PROFESSIONAL LEVEL EXAMINATION – NOVEMBER 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 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/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 paper 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.

Travex Hotels Limited

List of exhibits:

1. About you (Dan Kabir) and your employer, Techno Consulting Services
2. The Nigerian Economy and the hospitality industry
3. Business environment and challenges facing the hospitality industry
4. Travex Hotels Limited: History, Board, management and competition
5. Travex Hotels Limited: 3-year summary financial statements
6. Hospitality Business: Sustainability and innovation

ABOUT YOU (DAN KABIR) AND YOUR EMPLOYER, TECHNO CONSULTING SERVICES

You are **Dan Kabir**, writing the Professional level of ICAN examination. You are employed as a Trainee Consultant by Techno Consulting Services and you report to Michael Chukwuma, 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 solutions to management;
- Assessing your clients' operational and strategic business proposals with the view to evaluating their alignment with the clients' objectives and the extent to which relevant business and financial risks have been considered;
- Assessing your client's financial and business forecasts together with the assumptions upon which they are based to suggest recommendations to the clients'; and
- Drafting reports for the Partner, based on the operational and strategic business analyses you have carried out.

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

Techno Consulting Services is a highly reputable consulting firm employing over 1,000 employees and specialising in high growth industries including the hospitality industry.

THE NIGERIAN ECONOMY AND THE HOSPITALITY INDUSTRY

Nigeria is one of the biggest market in Africa and has a population of over 200 million people with a youth population that provides Nigeria with an advantage over many countries. In addition, the country is endowed with excellent weather conditions, many tourists attractions and significant natural resources, including oil and gas.

The economy's heavy dependence on oil and gas has decreased in the last few years, for example, in the third quarter of 2022, activities in the oil and gas sector accounted for about 5.6% of Nigeria's gross domestic product (GDP), down from 7.5% recorded in the third quarter of 2021. However, oil and gas revenue remains a crucial source of government revenue, constituting 29% of total government revenues in the first half of 2022. Though crude oil and gas continues to account for the bulk of Nigeria's export earnings, efforts are in place to diversify the economy whilst ensuring the country's energy security.

The rate of growth and development has been hindered by a number of issues including poor implementation of government policies, the high cost of doing business, the poor state of essential infrastructure, insecurity, corruption, challenges with the judicial system, low levels of transparency and accountability.

On the implementation of government policies, until recently, the Central Bank of Nigeria (CBN) had imposed exchange controls on several product categories and intervened in the market to keep the official naira rate from depreciating. Though steps were taken to harmonise exchange rates in the past, this was not fully addressed until the resumption of the new administration.

This notwithstanding, one of the most daunting challenges for businesses entering the Nigerian market is the limited access to foreign exchange thus, reducing the ability to import necessary inputs and equipment and to service external debt. Foreign exchange is tightly managed by the Central Bank of Nigeria and Users trade in the alternative markets for their unmet needs.

Despite the challenges, Nigeria presents with significant opportunities for local and international entrepreneurs. The development of the digital economy, ushering the massive use of technology has continued to provide opportunities for the developing population and helping organisations to transform their processes, minimise costs and maximise stakeholders returns. For instance, by leveraging data, businesses can gain valuable insights into their inventory, receivable and cash flows, enabling them to make more informed operating, investing and financing decisions.

THE HOSPITALITY INDUSTRY IN NIGERIA

At a time, Nigeria had the fastest-growing hospitality market in Africa with a projected 12 percent compound annual increase from 2019 to 2023 according to an expert projection. In early 2020, however, the COVID-19 pandemic spread globally, and the tourism industry was one of the worst-hit. This slowed down the growth in the hospitality industry in Nigeria.

Tourism, a related industry contributes about 10 per cent to the global GDP. This was expected to rise in four years with significant upward movement in some African countries, including Nigeria. In Nigeria, the contribution of travel and tourism to her GDP was 5.1 per cent in 2019. However, in 2020 the upward trajectory slowed down due to the pandemic.

As the world continues to adapt to the changes brought about by Covid-19, the hospitality industry is making a steady, but slow return. Apart from the Covid-19, the green revolution or environmental sustainability is a development impacting the hospitality industry. According to a research by Jenny Southan, it has been projected that “as people think more carefully about the way they travel, they will seek out hotels and travel companies that are doing everything they can to minimise their impact on the planet. We can also expect accreditation to gain prominence, as consumers look for reassurance from legitimate “eco-tourism” certifications and will want to book trips that leave them feeling better than before, when they return home. Wellness tourism will be increasingly popular.”

Globally, there is an optimistic projection that the hospitality industry will make a remarkable return. However, only the prepared can make a quick return, and to do so requires an understanding of the uniquely changing needs of customers and clients. Nigeria needs to take a proactive approach in order to be at par with global best practices and not wait for others to take advantage of the relatively small market that is just making a rebound.

According to Deloitte, “the COVID-19 pandemic will eventually fade. The economy will recover, and the hospitality sector—restaurants, hotels, casinos, sports, etc.—will regain its footing and look forward with confidence to a successful, thriving future. However, now is the time for companies to act, adapt to the new normal, position themselves for environmentally friendly and sustainable business, and thrive in the years ahead.

BUSINESS ENVIRONMENT AND CHALLENGES FACING THE HOSPITALITY INDUSTRY

Nigeria is the most populous country in Africa, with a growing middle class and rising international trade and investment. The hospitality industry in Nigeria is on a growth trajectory and has shown significant growth over the years, driven by factors such as increasing business travel, tourism, and the growth of the Nigerian economy. However, Covid 19 pandemic put a temporary halt on the industry's growth as players in the industry grapple with the aftermath of the pandemic.

The business environment of the hospitality industry in Nigeria is characterised, supported or challenged by the following:

- a. **Tourism and business travel:** Nigeria is a diverse country with many rich cultural heritages, natural attractions, and historical sites. This has led to growth in domestic and international tourism, boosting the demand for hotels. Additionally, Nigeria is an economic hub in West Africa, attracting business travellers and corporate events.
- b. **Economic factors:** Nigeria's economy is one of the largest in Africa. Crude oil and gas exports, telecommunications, finance, agriculture and recently technological pursuits are significant contributors. Economic growth has a direct impact on the demand for hospitality services, as it leads to increased business activities and disposable income for leisure travel.
- c. **Infrastructure:** Adequate infrastructure, including well-maintained roads, airports, and communication networks, are crucial for the growth of the hotel industry. Improved infrastructure makes it easier for both domestic and international travellers to access various parts of the country. At the present in Nigeria, some of such infrastructures are in a poor state mainly due to poor maintenance culture. In addition, challenges presented by unreliable power supply and inadequate waste management systems have adversely impacted the operations of the hospitality industry.
- d. **Regulation and government support:** Government policies and regulations play a significant role in shaping the business environment. Supportive policies that promote tourism, investment and ease of doing business can positively impact the hotel sector. The Federal Government has put several policies in place as a form of incentives, including tax incentive, for the industry to thrive.
- e. **Security concerns:** Security has been a challenge in Nigeria due to factors such as terrorism, kidnapping, and civil unrest in certain regions. The perception of safety can affect both domestic and international travel decisions, potentially impacting the hotel sector.

- f. **Competition:** The hospitality industry in Nigeria is competitive, with both local and international chains vying for market share. Major international hotel brands often enter the market in collaboration with local partners. Yet, they still face stiff competition from smaller, owner-managed hotels and guest houses.
- g. **Technology and online booking:** The growth of online booking platforms has changed the way travellers search for and book hotels. Hotels need to have strong online presence and provide seamless booking experience to remain competitive.
- h. **Cultural diversity:** Nigeria's diverse culture and languages present challenges in catering to the preferences of various customer segments. Hotels that can accommodate a wide range of cultural preferences and dietary requirements may have a competitive edge.
- i. **Continuously changing consumer demands:** According to some CEOs of international hotel chains, “the hotel customer is more culturally oriented now which makes understanding the more difficult”. Regardless of the amount spent by the customers, they are more interested in the value obtained for the money spent. Luxury is a term which has many definitions now and changes around customer perception more than ever. Brand or a well-designed hotel is not enough anymore but the customers’ experience matters most.
- j. **Competition from hotels’ alternatives such as apartment buildings:** The hotel sector performed exceedingly well over the last few years until Covid-19 pandemic stunted the growth. Although the outlook appear brighter from 2022, the sector still faces serious challenges that could threaten its development. One of the biggest threats to hotels, which emerged at about 2017, is competition from apartment buildings. Boutique firms have also entered this business line, providing in some instances fully equipped accommodation for travellers who love to prepare their own meals, as an alternative to staying in the hotel.
- k. **Ineffective marketing due to technological shyness:** As technology continues to impact day-to-day human operations, hotels have been forced to re-evaluate their marketing efforts to capture the ever-growing online market. Unfortunately, although a lot of hotels have embraced the internet and all aspects of digital marketing, many are still relying on old marketing practices.
- l. **Difficulties with energy management:** A lot of hotels are going green and smoke-free. This is a great initiative, as the planet fights global warming and other climate-related issues. Moreover, it is also a smart move to get more profits and an edge over the competition.

Hotels must start investing in eco-friendly and renewable energy sources because customers are on the look out for green and sustainable hotels. People want to contribute positively to climate control initiatives and staying in eco-friendly and green hotels is one such initiative by a lot of frequent travellers. Establishments that refuse to take issues of sustainability seriously would be impacted negatively as their overall profit margin will likely suffer.

- m. **Poor customer satisfaction as delights become expectations:** With more technological advancements, the entry barriers are lowered, and new competitors and disruptors are appearing on the scene. Poor customer satisfaction has been one of the major hotel sector challenges in the past and continues to be so in 2022. This is set to intensify with growing competition and better customer management tools.
- n. **Shortage of trained and specialised personnel within the hotel sector :** The sector had suffered from this shortage but with greater automation, this is set to become more challenging. Hotels that do not prioritise employment of trained and specialised personnel are bound to face more serious challenges in their service delivery. Finding the right people may be more challenging for smaller hotels.
- o. **Supply chain management:** The role of supply chain management in the hotel sector is crucial to attaining sustained competitive advantage. A well-managed supply chain can be the key difference between a successful and an unsuccessful hotel operation. Multiple stakeholders are involved in the supply chain of the hotel sector's business and they face many operational risks, which includes risks of holding large inventories at high holding costs, risk of preserving perishable goods at high storage costs, etc.

Increasingly, the effective deployment of IT to inventory management has resulted in significant net benefits to the sector.

TRAVEX HOTELS LIMITED: HISTORY, BOARD, MANAGEMENT AND COMPETITION**History**

Travex Hotels was established in Abuja, Nigeria, as a five-star hotel, in year 2001 by a group of investors who specialise in the hospitality business. The management of the hotel was given to MTS, one of the top-rated international hotel chains. Travex, Lagos was constructed in Lagos in 2010 and started operations in 2012 in a high brow area of Lagos.

Travex Hotels has become the most patronised hotel in Abuja and Lagos for functions, such as conferences and international meetings and seminar. The hotel is a lodger's delight and has warmed itself to the hearts of tourists and travellers visiting either Abuja or Lagos. The hotel also boasts of high patronage from both the State and the Federal Government in Nigeria. Many professional bodies in Nigeria normally host their annual conferences in Travex Hotels. Therefore, the hotel has been improving its bottom-line on a yearly basis.

Board

Travex Hotels' board consists of eight executive and non-executive directors. The current board members are:

Mr. John Dagash - Chairman

Mr. Richard Roy - Managing Director/CEO

Mrs. Felicia Ademiluyi - Non-Executive Director

Mrs. Rebecca Pam - Non-Executive Director

Mrs. Joan Adebayo – Business Development/Innovation Director

Mr. Amos Sawyer - Non-Executive Director

Mr. Tafida Sabir - Non-Executive Director

Ms. Bolu Adelanwa - Independent Non-Executive Director

Management

The management committee of the hotel consists of the following:

Mr. Richard Roy - Managing Director/CEO

Mrs. Joan Adebayo – Business Development/Innovation Director

Mr. Richard Pen – General Manager

Mrs. Deborah Brown – Chief Financial Officer

Mrs. Julianah Foluso – Supply Chain Manager

Mrs. Christie Chukwurah – Human Resources Manager

Mr. George Akpan – Head Chef

Mr. Joseph Ibronke – Facility Manager

Competition

Currently, the hotel is facing stiff competition from new entrants into the industry with highly luxurious rooms and suites. These competitors having penetrated the core customer base of Travex Hotels constitute a source of significant worry to management and board.

If the management of Travex Hotels does not rethink the hotel's business model, the hotel may soon start to experience declining patronage, which will result in poor financial performance.

TRAVEX HOTELS LIMITED: 3-YEAR SUMMARY FINANCIAL STATEMENTS

TRAVEX HOTELS LIMITED
SUMMARY FINANCIAL STATEMENTS: 2020 – 2022

Income statement

	2022	2021	2020
	₦'000	₦'000	₦'000
Revenue	31,531.1	21,798.6	9,533.4
Cost of sales	(9,702.2)	(6,125.7)	(3,822.3)
Gross profit	<u>21,828.9</u>	<u>15,672.9</u>	<u>5,711.1</u>
Other operating income	2,536.3	1,486.7	1,086.4
Impairment (losses)/gains on financial assets	(64.3)	20.2	53.2
Operating expenses	<u>(14,468.9)</u>	<u>(11,345.0)</u>	<u>(10,302.9)</u>
Operating profit/(loss)	9,832.0	5,834.8	(3,452.2)
Finance costs	(4,132.7)	(4,072.5)	(5,306.3)
Finance income	8.7	4.3	6.2
Profit/ (loss)before tax	5,708.0	1,766.6	(8,752.3)
Income tax	<u>(1,909.1)</u>	<u>(545.3)</u>	<u>2,664.8</u>
Profit/ (loss) for the year	<u>3,798.9</u>	<u>1,221.3</u>	<u>(6,087.5)</u>

Statement of financial position

	₦ '000	₦ '000	2020
	2022	2021	₦'000
Assets			
Non-current assets			
Property, plant and equipment	107,971.3	103,979.9	105,707.1
Goodwill	1,974.8	1,974.8	1,974.8
Intangible assets	158.8	158.6	114.8
Investment in financial asset	300.1	132.5	132.7
	<u>110,405.0</u>	<u>106,245.8</u>	<u>107,929.4</u>
Current assets			
Inventories	616.6	619.5	584.5
Trade and other receivables	3,220.5	2,636.6	1,591.0
Prepayments	1,062.2	1,422.3	1,000.1
Cash and bank balances	<u>5,183.1</u>	<u>4,965.5</u>	<u>1,818.3</u>
	<u>10,082.4</u>	<u>9,643.9</u>	<u>4,993.9</u>
Total assets	<u>120,487.4</u>	<u>115,889.7</u>	<u>112,923.3</u>

Equity and Liabilities**Equity**

Share capital	5,121.3	5,121.3	5,121.3
Premium	12,548.9	12,548.9	12,548.9
Retained earnings	<u>45,207.0</u>	<u>44,577.8</u>	<u>43,433.9</u>
Equity attributable to Owners of the Company	<u>62,877.2</u>	<u>62,248.0</u>	<u>61,104.1</u>
Non-controlling interests	(87.5)	(27.8)	(1.1)
Total equity	<u>62,789.7</u>	<u>62,220.2</u>	<u>61,103.0</u>

Liabilities**Non-current liabilities**

Borrowings	16,113.2	16,449.0	13,152.3
Deferred income	1,544.3	2,005.9	4,466.1
Contract liabilities	2,139.6	2,333.4	2,445.2
Deposit for shares	2,410.0	2,410.0	2,410.0
Deferred Income	-	-	1,052.6
Defined benefit liability	161.7	-	-
Deferred tax liability	<u>6,023.5</u>	<u>4,841.4</u>	-
	<u>28,392.3</u>	<u>28,039.7</u>	<u>23,526.2</u>

Current liabilities

Trade and other payables	20,125.6	17,606.9	19,743.7
Current tax liabilities	594.5	166.5	-
Contract liabilities	258.3	152.8	171.0
Borrowings	7,846.4	7,252.9	7,820.5
Deferred income	447.6	450.7	252.8
Dividend payable	-	-	306.1
Defined benefit liability	33.0	-	-
	<u>29,305.4</u>	<u>25,629.8</u>	<u>28,294.1</u>
Total liabilities	<u>57,697.7</u>	<u>53,669.5</u>	<u>51,820.3</u>
Total equity and liabilities	<u>120,487.4</u>	<u>115,889.7</u>	<u>112,923.3</u>

HOSPITALITY BUSINESS: SUSTAINABILITY AND INNOVATION

Research show that two major drivers of competition and profitability in the hotel sector today are sustainable business practices and application of technology to innovation in business processes.

In fact, in today's global business environment, companies that fail to take sustainability initiatives seriously run the risk of going out of business because of rising consumer awareness. Corporate behaviour is shifting too as institutional investors increasingly favour sustainable business practices, and governments offer incentives and tax benefits for going green.

Historically, the hotel sector has had some negative impact on the environment in ways such as impact of water and energy consumption, and heavy use of materials that produce solid and hazardous wastes. Hotels consume a high level of energy for heating, ventilation and air cooling (HVAC) operations, lighting and other power needs.

Therefore, many hotels have taken sustainability issues very seriously and are now going green. Also, hotels are developing strategies to reduce greenhouse emission and waste. With development in technology, hotels are using the following innovative strategies in their sustainable business practices:

- a. **Automation for conservation of water and energy:** These days many hotels have automatic faucets installed in the public spaces and restrooms. These faucets are equipped with sensors that dispense water only in the presence of a user's hands.

This is one of the convenient methods to save water, because of regular inflow of guests. In fact, using these motion-sensing faucets at hotels can save water use drastically.

- b. **Magnetic keycard facilities:** These keycards act as connectors to complete the circuit and allow the flow of electricity. The moment these cards are taken off from their slots in the rooms, the circuit is broken resulting in power cut-off. It is one of the popular eco-friendly amenities used in hotels to save electricity.
- c. **Green energy:** Many hotels have invested in solar heaters, biofuels, CHP (Combined Heating and Power), wind farms, and geothermal energy. Solar power is one of the best ways to harness and store energy for use as an alternative source of electricity.

- d. **Implementation of the 3 R's (reduce, recycle and reuse):** One of the important ways to create an eco-friendly environment is by using the 3 R's – reduce, reuse and recycle.
- **Reduce** – This is the reduction of the amount of waste generated in hotels. It is better to avoid using materials that are unfriendly to the environment.
 - **Recycle** – This is not limited to plastic or glass. Various things such as fused bulbs, cans, cartons, and cartridges can be recycled. Waste treatment is another alternative for materials that cannot be recycled.
 - **Reuse** – Paper, toner cartridges, or linen (if the room has the same guests staying for a couple of days) can be reused.

Apart from these innovative ways being used as sustainable practices, developments in technology have further led to innovative ways of enhancing hotel operations. Innovation in the hotel industry is important because it has the capacity to transform it positively.

Two of these developments as adopted from research works are:

- a. **Chatbots – In-person customer service for hospitality industry using AI:** AI Robots adopted by some hotels can provide guests with information that they need when they interact with them.

These Robots are designed to learn and adapt to human beings, so the more it interacts with people; the more effective it will be in the future.

There are a lot more Robots operating in the hotel sector already. They add value to the industry by supporting human interaction, especially for services during odd times and services that require lifting of weights or automation.

Chatbots have been extremely useful when it comes to responding to customer complaints online, as well as chat services that deal with simple customer requests. Chatbots can engage customers at any point of the day and this kind of response time is invaluable to customers.

These would add immense value to customer support in the hotel sector which has quite a few routine queries. Indeed, AI has the potential to redefine the hotel business.

- b. **Keyless entries- Smartphone operated room:** With free companion apps in the market, it is now possible to control hotel room remotely through phone or tablet to turn on the TV, browse and order for food, and so on. It is one of the best hospitality technologies that have already been in operation in many hotels now.