

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA
SKILLS LEVEL EXAMINATION – PILOT QUESTIONS

FINANCIAL REPORTING

INSTRUCTION: YOU ARE REQUIRED TO ATTEMPT FIVE OUT OF SEVEN QUESTIONS IN THIS PAPER

SECTION A: COMPULSORY QUESTION (30 MARKS)

QUESTION 1

Elshadai Info Tech Ltd. is a Nigerian company that is engaged in the provision of internet services to individuals, corporate entities in Nigeria, and neighbouring West African countries.

The trial balance of the company for the year ended March 31, 2025, is as follows:

	Dr (N'm)	Cr (N'm)
Land and buildings at valuation	1,600	
Accum. depreciation- building - April 1, 2024		160
Plant and equip at cost	1,360	
Accum. depreciation – plant and equip – April 1, 2024		400
Intangible assets at cost	640	
Revenue		3,600
Cost of sales	1,280	
Administrative expenses	1,480	
Distribution costs	200	
Financial assets	512	
Inventory - March 31, 2025	336	
Trade receivables	400	
Cash and cash equivalents	480	
Trade payables		240
Ordinary shares of ₦1.00 each		1,600
Share premium account		480
Revaluation surplus		320

Retained earnings		1,088
Fair value reserve		240
Provision for restoration cost	_____	<u>160</u>
Total	<u>8,288</u>	<u>8,288</u>

Additional information:

- (i) The amounts for land and building represent the most recent valuations of ₦160 million for land and ₦1,440 million for buildings.

Administrative expenses include the following items in connection with the construction of a new building by the company for its own corporate headquarters in Abuja:

₦

- Construction materials 144 million
- Direct labour provided by the company 64 million
- Professional fees 8 million
- Management time and overhead apportionment 8 million

A revaluation took place on March 31, 2025, revealing a valuation of ₦200 million for land, and ₦1,680 million for building, including the new building in Abuja, referred to above.

Buildings are depreciated at 2% of cost or valuation with full year's charge in the year of acquisition and none in the year of disposal.

Plant and equipment are depreciated at 25% on reducing balance basis with full year's charge in the year of acquisition and none in the year of disposal.

All depreciation and amortisation are charged to cost of sales.

- (ii) Intangible assets represent the cost of internet software capitalised under IAS 38 – Intangible Assets. It has been decided to commence amortization of these assets in the current year on straight line basis over their economic useful life of 13 years. In addition, there was N88 million charged to administrative expenses in respect of a recently approved specialised software that will aid efficient penetration of the internet into neighbouring West African countries, which was acquired in 2024. The specialised software met the IAS 38 - Intangible Assets criteria for capitalisation and should be amortised as per the terms stated above.

- (iii) Revenue includes ~~N~~80 million received as the agreed price from the sale of dismantled internet mast classified as property and equipment. This mast cost ~~N~~240 million and had been depreciated by ~~N~~192 million up to April 1, 2024. No other entry was made in respect of this transaction except to record the amount of ~~N~~80 million in cash and revenue.
- (iv) Financial assets consist of equity investment in respect of which the company has elected to recognise gains and losses in fair value within other comprehensive income (OCI). Any such gain or losses, are taken to a separate component of equity. On March 31, 2025, the fair value of equity investment held was ~~N~~468 million.
- (v) A condition of the planning permission that was granted by the Abuja Town Planning Authority for the construction of the company's headquarters buildings was that the building be dismantled and the site restored at its end of the economic useful life. The estimated cost for this provision is carried at ~~N~~160 million and represents the carrying value at April 1, 2024. A discount rate of 5% was used in its initial measurement. The building has several years of economic life remaining.
- (vi) The directors of the company estimated that the income tax expense for the year will be ~~N~~60 million.

You are required to prepare:

- (a) Statement of profit or loss and other comprehensive income for the year ended March 31, 2025
(12 Marks)
 - (b) Statement of changes in equity for the year ended March 31, 2025
(5 Marks)
 - (c) Statement of financial position as at March 31, 2025
(13 Marks)
- (Total 30 Marks)**

SECTION B: YOU ARE REQUIRED TO ATTEMPT TWO OUT OF THE THREE QUESTIONS IN THIS SECTION (40 MARKS)

QUESTION 2

- a) The objectives of IAS 36 - Impairment of Assets, are to make sure that an entity's assets are carried at not more than their recoverable amount. The standard also defines when an asset is impaired, how to recognise an impairment loss, when an entity should reverse this loss, and what information that relates to impairment should be disclosed in the financial statements.

Required:

Discuss the indications of impairment of an asset.

- b) Japada Nigeria Ltd acquired a plant and equipment on January 1, 2022 for ₦180 million. The plant and equipment are depreciated on a straight- line basis over their useful life of three (3) years.

The recoverable amounts over the years are as follows:

Years	Recoverable amount ₦'000
December 31, 2022	240,000
December 31, 2023	40,000
December 31, 2024	Nil

Required:

Calculate the carrying amount of the plant and equipment that should be disclosed in the statement of financial position of the company for the years ended December 31, 2022 and 2023, using the following accounting policies:

- i) Cost model
 - ii) Revaluation model
- c) The following is extracted from the statement of financial position of Japada Nigeria Ltd at the reporting date of a cash generating unit (CGU).

	₦'000
Building	60,000
Intangible assets	24,000
Machine	18,000
Goodwill	20,000

As a result of economic recession in the country, the company carried out an impairment test on the cash generating units. The CGU now has a fair value of ₦78 million. The related disposal cost is ₦6 million. The estimated present value of the cash flow from continue use is ₦84 million. The building has a fair value less cost to sell of ₦54 million.

Required:

Calculate and allocate the impairment loss of the company.

QUESTION 3

As the Senior Accountant of Web Manufacturers Plc, a company quoted on the Nigeria Exchange Limited (NGX), your Chief Accountant has requested that you prepare the group's consolidated statement of cash flows, and the following information is provided:

Web Manufacturers Plc
Consolidated statement of profit or loss and other comprehensive income
For the year ended March 31

	₦'m	₦'m
	2025	2024
Revenue	73,640	64,800
Cost of sales	<u>(60,800)</u>	<u>(44,400)</u>
Gross profit	12,840	20,400
Operating costs	(15,000)	(14,400)
Gain on revaluation of financial assets	80	160
Finance costs	<u>(196)</u>	<u>(132)</u>
(Loss) / profit before tax	(2,276)	6,028
Income tax expense	<u>(320)</u>	<u>(720)</u>
(Loss) / profit after tax for the year	<u><u>(2,596)</u></u>	<u><u>5,308</u></u>

Web Manufacturers Plc
Consolidated statement of financial position
As at March 31

	₦'m	₦'m
Non- current assets:	2025	2024
Property, plant and equipment	9,440	9,600
Intangible assets	1,400	1,400
Goodwill	240	-
Financial assets	840	720
Total non- current assets	11,920	11,720
Current assets:		
Inventory	1,600	1,100

Trade receivables	1,840	1,360
Cash and cash equivalents	-	920
Total current assets	<u>3,440</u>	<u>3,380</u>
Total assets	<u>15,360</u>	<u>15,100</u>
Equity:		
Ordinary shares at N1.00 each	5,600	5,200
Share premium	2,000	1,400
Retained earnings	<u>2,016</u>	<u>4,820</u>
	9,616	11,420
Non – controlling interest	<u>200</u>	<u>-</u>
Total equity	9,816	11,420
Non-current liabilities:		
6% federal govt. development bond	2,720	2,200
Current liabilities:		
Trade payables	1,864	1,120
Bank overdraft	640	-
Current tax payable	320	360
Total current liabilities	<u>2,824</u>	<u>1,480</u>
Total equity and liabilities	<u>15,360</u>	<u>15,100</u>

Additional information:

- i) On April 1, 2024, Web Manufacturers Plc., bought 80% equity shares in another company, Internet Nigeria Plc. The cost of this equity is ₦800 million, satisfied by Web Manufacturers Plc by issuing ₦192 million ordinary shares valued at ₦2.50 and ₦320 million in cash.
- ii) The fair value of the net assets acquired on the acquisition date was ₦720 million, consisting of the following:

	₦'m
Property, plant and equipment	480
Intangible assets	120
Inventory	100
Cash and cash equivalents	80

Trade payables	<u>(60)</u>
Net assets	<u>720</u>

- iii) The fair value of the non - controlling interest at the acquisition date was ₦188 million. Web Manufacturers Plc, uses the full goodwill method in all acquisitions. The goodwill was tested for impairment at March 31, 2025, and any impairment loss was correctly accounted for through operating expenses.
- iv) There was no disposal of non-current assets during the period. Also, no intangible assets were acquired apart from those acquired through the acquisition of Internet Nigeria Plc. Depreciation of property, plant and equipment amounted to ₦828 million, which was charged to operating expenses. Amortisation of intangible assets was also charged to operating expenses.
- v) Included in the figures of trade payables as at March 31, 2025 is a provision for warranty claims amounting to ₦108 million (2024 : ₦56 million)
- vi) Dividend on ordinary shares was paid during the period by Web Manufacturers Plc to Internet Nigeria Plc.
- vii) There were non-cash adjustments to the 6% Federal government development bond.
- viii) Financial assets which had cost ₦240 million and had a carrying amount of ₦300 million on March 31, 2024 were sold during the year for ₦312 million.

Required:

- a) Prepare consolidated statement of cash flows for Web Manufacturers group, using indirect method in accordance with IAS 7 – Statement of Cash Flows. **(15 Marks)**
- b) As the Senior Accountant responsible for preparing the financial statements of your company, Web Manufacturers Plc., you received the following email from the Chief Accountant as mandated by the Finance Director:

“It is very important that the upcoming sets of financial results show a favourable financial performance and position. If the results are good, there will be big bonuses available to all staff, including you! I know that many of the numbers in the financial reports are based on estimates. When you are preparing the financial statements, I want you to choose estimates that will produce the maximum acceptable reported profit. I hope you will comply with my request.

As the Chief Accountant, I will be carrying out your annual staff appraisal shortly and this will certainly be a factor in the grading that I will give you”.

Required:

Identify **Four** (4) possible ethical issues / threats that you might face in this situation as Senior Accountant in charge of the preparation of the company’s financial statements and **explain** one major way to mitigate these threats. (5 Marks)

(Total 20 Marks)

QUESTION 4

A portfolio management company has identified two different companies to invest in. The company is, however, interested in a highly profitable and liquid company.

First company (Tantala Ltd)

**Extract of financial information of Tantala Ltd
For the year ended December 31**

	2024	2023
	N'000	N'000
Revenue	70,000	64,000
Gross profit	12,000	11,600
Operating expenses	(5,700)	(4,600)
Interest on loan notes	(1,000)	(1,000)
Income tax expense	(2,200)	(2,800)
Profit for the year	3,100	3,200
Equity capital plus reserve at year end	35,000	34,000
Loan notes issued throughout the period	12,500	12,500

Second company (Papaya Ltd)

Extract of financial information of Papaya Ltd For the year ended December 31,

	2024	2023
	N,000	N'000
Revenue	90,000	64,000
Profit for the year	3,100	3,200
Current assets (total)	11,200	8,800
Current liabilities (total)	10,200	5,800
Inventories	10,200	5,500
Receivables	400	200
Cash	-	3,100
Payables	7,000	3,000
Tax due	2,200	2,800
Bank overdraft	1,000	-

Additional information:

- i) Both companies operate in the retail sector of the economy.
- ii) Papaya Ltd opened the third store in 2024.
- iii) Tantala Ltd sold plant and equipment in 2024, at a loss of N600,000. The amount was included in the operating expenses of the year and no such transaction took place in 2023.
- iv) The portfolio management company uses the following ratios for the purposes of its analysis and interpretation:
 - gross profit margin;
 - net profit percentage;
 - current ratio;
 - return on capital employed (CE = Equity + Loan notes);
 - acid test ratio; and
 - return on equity.

Required:

- a) Analyse the profitability of Tantala Ltd and the liquidity of Papaya Ltd, using the relevant ratios based on the available information. (14 Marks)

- b) Explain **Five** (5) additional information that are not provided that could have further enhanced your analysis and interpretation. (6 Marks)

(Total 20 Marks)

SECTION C: YOU ARE REQUIRED TO ATTEMPT TWO OUT OF THE THREE QUESTIONS IN THIS SECTION (30 MARKS)

QUESTION 5

Following the adoption of International Financial Reporting Standards, IFRS S1 - Sustainability Disclosure Standards and IFRS S2 - Climate - related Disclosures, the Financial Reporting Council of Nigeria (FRC), established the Adoption Readiness Working Group (ARWG) in 2023. The initiatives were strategic as the FRC recognised the pressing need for a proactive approach to implement the standards in Nigeria.

Required:

- a) Identify **Five** (5) specific documents that reporting entities are required to submit to Financial Reporting Council of Nigeria (FRC) before publishing a sustainability report. (5 Marks)
- b) Identify **Five** (5) types of information that are normally included in sustainability reports. (5 Marks)
- c) Explain **Five** (5) benefits of sustainability reporting. (5 Marks)

(Total 15 Marks)

QUESTION 6

- a) The integration of artificial intelligence (AI) into the accounting profession involves leveraging technologies like machine learning and natural language processing to automate and improve various accounting functions. These include financial reporting, auditing and compliance, taxation, and data analysis.

Required:

- i) Discuss **Five** (5) specific uses of AI in financial reporting and accounting. (5 Marks)
- ii) Explain the benefits of Artificial Intelligence (AI) in financial reporting. (4 Marks)
- b) Explain **Three** (3) ways through which AI can support the shift to advisory services by professionals. (6 Marks)

(Total 15 Marks)

QUESTION 7

- a) A conceptual framework is a system of concepts and principles that underpins the preparation of financial statements. These concepts and principles should be consistent with one another. The latest conceptual framework was developed on chapter-by-chapter basis and is called conceptual framework for financial reporting.

Required:

- i) Discuss the characteristics of information which are faithfully represented in accordance with the concept of financial framework for financial reporting. (3 Marks)
 - ii) Explain the conditions that are necessary, if the going concern basis is to be used for the preparation of financial statements. (3 Marks)
 - iii) Explain the terms “performance” and “position” and **identify** which of the financial statements will assist the users in evaluating performance and position. (3 Marks)
- b) New-comer Nigeria Ltd has just commenced business as a supplier of compressed natural gas (CNG) and you have been appointed as the Chief Accountant of the company.

The management has requested you to give relevant professional advice on accounting policies that would enhance the standard of the company’s financial reports.

Required:

- i) Explain the term “accounting policies”. (1 Mark)
- ii) Explain the main factors that IAS 8 requires management to consider in selecting accounting policies in the absence of any IFRS standard or interpretation. (5 Marks)

(Total 15 Marks)

SUGGESTED SOLUTIONS

SECTION A

Solution 1

(a)

Elshadai Info Tech Ltd

**Statement of profit or loss and other comprehensive income
For the year ended March 31, 2025**

	N'm
Revenue (N 3,600 - N 80 w1)	3,520
Cost of sales (N 1,280 + N 32.8 w2 + N 228 + N 56 w3)	<u>(1,596.8)</u>
Gross profit	1,923.2
Distribution costs	(200)
Admin. expenses (N 1,480 - N 216 w2 - N 88 w3)	(1,176)
Finance costs (w5)	(8)
Gain on disposal of plant and equipment (w1)	<u>32</u>
Profit before tax	571.2
Income tax expense (w6)	<u>(60)</u>
Profit after tax	511.2
Other comprehensive income:	
(Items that cannot be reclassified to P or L)	
Gain on revaluation of land and buildings (w2)	256.8
Loss on revaluation of equity inv (w4)	(44)
Other comprehensive income for the year	<u>-</u>
Total comprehensive income for the year	<u><u>724</u></u>

(b)

Elshadai Info Tech Ltd
Statement of changes in equity
For the year ended March 31, 2025

	Share capital	Share premium	Revaluation surplus	Fair value reserve	Retained earnings	Total equity
	N'm	N'm	N'm	N'm	N'm	N'm
Opening balance	1,600	480	320	240	1,088	3,728
Profit/OCI	_____	_____	<u>256.8</u>	<u>(44)</u>	<u>511.2</u>	<u>724</u>
Closing balance	<u>1,600</u>	<u>480</u>	<u>576.8</u>	<u>196</u>	<u>1,599.2</u>	<u>4,452</u>

(c)

Elshadai Info Tech Ltd
Statement of financial position
As at March 31, 2025

	N'm
Non - current assets:	
Land and buildings (w2)	1,880
Plant and equipment (N 1,360 - N 240 w1- (N 400 - N 192 w1+ N 228 w2)	684
Intangible assets. (N 640 + N 88 w3 - N 56 w3)	672
Financial assets (N 512 - N 44 w4)	468
Current assets:	
Inventory	336
Trade receivables	400
Cash and cash equivalents	<u>480</u>
Total assets:	<u>4,920</u>
Equity and liabilities:	
Equity:	
Ordinary share capital	1,600
Share premium	480
Revaluation surplus	576.8
Fair value reserve	196
Retained earnings	<u>1,599.2</u>
Equity	4,452

Current liabilities:	
Trade payables	240
Provision for restoration cost (₦160 + ₦8)	168
Income tax expense payable	<u>60</u>
Total equity and liabilities	<u>4,920</u>

Working notes

W1:

(i) Revenue

	₦'m
Revenue per trial balance	3,600
Less: Sale proceeds of plant and equipment wrongly credited to revenue account	<u>(80)</u>
	<u>3,520</u>

(ii) Gain on disposal of plant and equipment

	₦'m
Cost of plant and equipment	240
Accumulated depreciation (none in year of sale)	<u>(192)</u>
Carrying amount at date of sale	48
Proceeds from sale	<u>80</u>
Gain from disposal	<u>32</u>

W2: Non- current assets

(i) New headquarters building in Abuja:

The additional cost on this should be capitalised to land and buildings. This will amount to ₦216 million as management, time, and apportioned overhead are not considered direct costs under IAS 16.

(ii) Depreciation of land and building

	₦'m
Building at valuation (per T/B less land) ₦1600 - ₦160	1,440
Cost of the new building in Abuja	<u>216</u>
Total costs	<u>1,656</u>

Therefore, depreciation (2% x ₦1,656)	33.12
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(iii) Revaluation of land and building

	₦'m	₦'m
	Land	Building
Land and building as at March 31, 2025 (per note)	200	1,680
Carrying amount after depreciation and new building (iv)	<u>(160)</u>	<u>(1,463.2)</u>
Revaluation gain per OCI	<u>40</u>	<u>216.8</u>

(iv) Carrying amount of land and building prior to revaluation

	₦'m
Previous revaluation (₦1,600 – ₦160)	1,440
Cost of new building in Abuja	216
Accumm dep to March 31, 2024	(160)
Deprectn for the year ended March 31, 2025	<u>(32.8)</u>
Carrying amount prior to valuation (iii)	<u>1,463.2</u>

(v) Depreciation of plant and equipment

	N'm
Plant and equipment at cost [T/B less plant disposal - (₦1,360 - ₦240)]	1,120
Accumulated depreciation to March 2024 less disposal (₦400 - ₦192)	<u>(208)</u>
Carrying amount at March 31, 2024	<u>912</u>
Depreciation for the year (25% x ₦912)	228

W3 Intangible assets

The N88 million charged to admin. expense in respect of specialised software, should be capitalised, if it meets the criteria under IAS 38. The amortisation on it should be ~~₦640~~ million + ~~₦88~~ million /13 years = ~~₦56~~ million

W4 Financial assets

Under IFRS 9, equity investment (financial assets) should be classified as fair value instruments and remeasured to fair value at each reporting date. Any resulting gains or losses, are taken to profit or loss (FVTPL), unless the entity makes irrevocable election to take them to OCI. This election has been made by Elshadai Info Tech Ltd., hence, the loss value of ~~N44~~ million (~~N512~~ million – ~~N468~~ million) should be accounted for in the OCI.

W5 Restoration provisions

The current liability needs to be updated to each reporting date to reflect the unwinding of the discount originally recognised in measuring the fair value of the provisions required.

Amount unwinding in year ended March 31, 2025 (~~N160~~ x 5%) = ~~N8~~ million

The cumulative provision for restoration costs is ~~N160~~ million + ~~N8~~ million = ~~N168~~ million

W6 Current tax expense

Dr Income tax expense ~~N60~~ million

Cr Income tax payable ~~N60~~ million

SECTION B**Solution 2**

- a) The indications of impairment could be as result of external and internal indicators highlighted below:

(i) External indicators

- The asset value has declined during the period significantly more than would have been expected as result of passage of time or normal use.
- Significant changes in technology, markets, economic factors or laws and regulations that have adverse effect on the company.
- An increase in interest rates, affecting the value of the assets in use.
- The carrying amount of the net assets of the entity is higher than its market capitalisation.

(ii) Internal indicators

- Obsolescence or physical damage of an asset.
- There is plan to discontinue or restructure the operations for which the assets is currently used.
- There is reduction in the assets remaining useful life.

- There is evidence that the entity's expected performance is worse than planned.

b) Using cost model (amount that will be disclosed in SFP as at December 31, 2022)

	₦'000
Cost as at January 1, 2022	180,000
Depreciation charged	(60,000)
Carrying amount as at December 31, 2022	120,000
Recoverable amount as at December 31, 2022	240,000
Impairment for the year 2022	Nil

Since the recoverable amount is higher than the carrying amount, it means that the asset is not impaired, hence it is the carrying amount of ₦120million that will be disclosed in the statement of financial position of the company (Japada Nig Ltd).

Amount to be disclosed on December 31, 2023, using cost model

	₦'000
Carrying amount as at January 1, 2023	120,000
Depreciation charged for the year	(60,000)
Carrying amount December 31, 2023	60,000
Recoverable amount December 31, 2023	40,000
Impairment for the year 2023	20,000

Since the carrying amount is higher than the recoverable amount, it implies that the asset is impaired to the tune of ₦20 million. As the company is using cost model accounting policy, it means that only ₦40 million will be disclosed as carrying amount in the statement of financial position for year 2023. While an impairment charge of ₦20 million will be debited into statement of profit or loss.

Using revaluation model

Amount that will be disclosed in the SFP as at December 31, 2022

	₦'000
Carrying amount as at December 31, 2022	120,000
Recoverable amount	240,000
Revaluation surplus in year 2022	120,000

However, the amount that will be disclosed as carrying amount of the asset in the statement of financial position (SFP) as at December 31, 2022 will be ₦240 million, not ₦120 million, hence there will be a revaluation surplus of ₦120 million in the statement of changes in equity.

Amount that will be disclosed in the SFP as at December 31, 2023

	₦'000
Carrying amount as at December 31, 2023	60,000
Recoverable amount December 31, 2023	40,000
Impairment loss	20,000

Since the company uses revaluation model, the impairment of ₦20 million will be written off against the brought forward revaluation surplus of year 2022 and this carrying amount of the assets will be disclosed as ₦20 million. The revaluation surplus will reduce by ₦20million to ₦100million (₦120m - ₦20m).

c) Calculation of impairment loss and its allocation

Assets	Carrying amount (CA)	Recoverable amount (RA)	Impairment loss (CA - RA)
	₦'000	₦'000	₦'000
Building	60,000	54,000	6,000
Intangible assets	24,000	17,200	6,800
Machine	18,000	12,800	5,200
Goodwill	<u>20,000</u>	<u>Nil</u>	<u>20,000</u>
Total	<u>122,000</u>	<u>84,000</u>	<u>38,000</u>

Working notes

W1 - Recoverable amount

Recoverable amount is the higher of the CGU's fair value less cost to sell and its value in use.

- Fair value less cost to sell (₦78m - ₦6m) = ₦72 million

Value in use (given) ₦84 million

Therefore recoverable amount is ₦84 million

W2 - Impairment

Carrying amount of CGU (₦60 m + ₦24 m + ₦18 m + ₦20 m) = ₦122m

Recoverable amount (₦84m)

Impairment is

~~N~~38m

W3 - Building

The building has fair value less cost to sell of ~~N~~ 54 million which its recoverable amount.

W4 - Goodwill this should be fully impaired. Therefore recoverable amount is nil.

W5 - Intangible assets

Recoverable amount is ~~N~~24 m/~~N~~122 - ~~N~~60 - ~~N~~20) = ~~N~~24m/~~N~~42m x (~~N~~84m - ~~N~~54m) = ~~N~~17.2m

W6 – Machine

Recoverable amount is ~~N~~18m/~~N~~42m x ~~N~~30m = ~~N~~12.8m

Solution 3

a)

Web Manufacturers Plc
Consolidated statement of cash flows
For the year ended March 31, 2025
(Using indirect method)

	N'm	N'm
Operating activities:		
Profit/(loss) before taxation		(2,276)
Adjustments:		
Gain on revaluation of financial assets	(80)	
Finance costs	196	
Goodwill impairment charge	28	
Depreciation charge on PPE	828	
Amortisation of intangible assets	120	
(Movement in inventories (N 1,600 - (N 1,100 + N 100))	(400)	
Movement in trade receivables (N 1840 - N 1360)	(480)	
Movement in trade payables (N 1864 - N 108) – (N 1,120 - N 56 + N 60)	632	
Movement in provision for warranty (N 108 - N 56)	<u>52</u>	
	896	
Finance costs	(196)	
Taxation paid	<u>(360)</u>	<u>340</u>

Net cash flow from operating activities		(1,936)
Investing activities:		
Cash paid to acquire subsidiary (Internet Nig Plc)	(240)	
Purchase of PPE	(188)	
Acquisition of financial assets	<u>(40)</u>	
Net cash flow from investing activities		(468)
Financing activities:		
Issue of 6% Federal Govt. Development Bond	520	
Proceeds from ord. shares issued (N208 + N312)	520	
Ordinary shares dividend paid	(188)	
Dividend paid to NCI	<u>(8)</u>	
Net cash flow from financing activities		<u>844</u>
Net cash and cash equivalents		(1,560)
Opening cash and cash equivalents		<u>920</u>
Closing cash and cash equivalents		<u><u>(640)</u></u>

Working notes:**W1 - Property, plant and equipment**

	N'm		N'm
Bal b/d	9,600	Depreciation	828
Acquisition from Internet Nig Plc.	480		
Bank (balancing figure)	<u>188</u>	Bal c/d	<u>9,440</u>
Total	<u>10,268</u>	Total	<u>10,268</u>

W2 – Intangible assets

	N'm		N'm
Bal b/d	1,400	Impairment charges	120
Acquired from Internet Nig Plc	<u>120</u>	Bal c/d	<u>1,400</u>
Total	<u>1,520</u>	Total	<u>1,520</u>

W3 – Goodwill

	N'm		N'm
Bal b/d	-	Impairment charge (bal. figure)	28
Recog.on acq of internet Nig plc. (w7)	<u>268</u>	Bal c/d	<u>240</u>
Total	<u>268</u>	Total	<u>268</u>

W4 - Financial assets

	N'm		N'm
Bal b/d	720		
Profit or loss	80		
Acquired for cash	<u>40</u>	Bal c/d	<u>840</u>
Total	<u>840</u>	Total	<u>840</u>

W5 - 6% Fed. Govt. Development Bond

	N'm		N'm
		Bal b/d	2,200
Bal c/d	<u>2,720</u>	Bank (bal. fig)	<u>520</u>
Total	<u>2,720</u>	Total	<u>2,720</u>

W6 - Taxation

	N'm		N'm
Bank (Bal. figure)	360	Bal b/d	360
Bal c/d	<u>320</u>	SOPL	<u>320</u>
Total	<u>680</u>	Total	<u>680</u>

W7 – Acquisition

	N'm	N'm
Cost of investment (80%)		
Shares issued (192 share cap, 288 share prem)		480
Bank (cash)		320
FV of NCI		<u>188</u>
Sub total		988
Less		
FV of net assets acquired		
PPE	480	
Intangible assets	120	
Inventory	100	
Bank	80	
Trade payables	<u>(60)</u>	
Sub total		<u>(720)</u>
Goodwill (w3)		<u>268</u>

b) Possible ethical issues and threats

- (i) **Integrity:** The Senior Accountant might be tempted to use inappropriate accounting estimates in the preparation of the financial statements in order to maximise profit for the company.
- (ii) **Objectivity:** The Senior Accountant has interest in the level of the reported profits and his annual assessment has been linked to compliance with the wishes of the Chief Accountant and Finance Director. He, therefore, faces both self interest threat and an intimidation threats in this circumstance.

- (iii) **Professional competence and due care:** It is not too clear whether the Senior Accountant has the required expertise to prepare the financial statements. The threat here could be reduced, if other senior members of staff, apart from the Chief Accountant, will also review his work. This could safeguard this threat.
- (iv) **Professional behaviour:** Producing financial statements that are lacking in objectivity would potentially bring discredit to the accountancy profession.

Major actions to mitigate the threats

The Senior Accountant should discuss the implications of the directive with the Chief Accountant with a view to advising the Finance Director to do the needful and not 'doctor' the financial statements.

The Senior Accountant should also solicit for the assistance of the Chief Internal Auditor and members of the audit committee.

Solution 4

a) Relevant ratio calculations for Tantala Ltd

Ratios	Formulae	2024	2023
Gross margin	GP / REV. x 100	$\frac{\text{N}12,000}{\text{N}70,000}$ = 17.1%	$\frac{\text{N}11,600}{\text{N}64,000}$ = 18.1%
Net profit percentage	PBIT / REV x100	$\frac{\text{N}3,100 + \text{N}2,200 + \text{N}1,000}{\text{N}70,000}$ = 9%	$\frac{\text{N}3,200 + \text{N}2,800 + \text{N}1,000}{\text{N}64,000}$ = 10.9%
Return on capital employed	PBIT / CE x100	$\frac{\text{N}3,100 + \text{N}2,200 + \text{N}1,000}{\text{N}35,000 + \text{N}12,500} \times 100$ = 13.3%	$\frac{\text{N}3,200 + \text{N}2,800 + \text{N}1,000}{\text{N}35,000 + \text{N}12,500} \times 100$ = 15.1%
Return on equity	PAT / Equity x 100	$\frac{\text{N}3,100}{\text{N}35,000} \times 100$ = 8.9%	$\frac{\text{N}3,200}{\text{N}34,000} \times 100$ = 9.4%

Analysis of profitability of Tantala Ltd.

- Overall, the profitability of Tantala Ltd. reduced in 2024, despite 9.4% increase in revenue from ~~N64~~ m to ~~N70~~ m in 2023 and 2024, respectively.

- Gross margin declined from 18.1% in 2023 to 17.1% in 2024, while gross profit increased by 3.4%. As gross profit is made up of revenue less cost of sales, this implies that sales price fell or cost of sales increased relative to that of 2023. It seems highly possible that the company engaged in price cutting strategies to increase sales. If so, they succeeded in increasing sales by 9.4% but it was not sufficient to improve their overall profitability.

This could still be a good strategy, if the increased activity level (higher sales) did not cause any additional or extra overhead to the company.

- The net profit percentage declined from 10.9% to 9% and actual expenses figure increased from ~~N4.6~~million to ~~N5.7~~million. This suggests that the extra sales activities may have cost ~~N1.1~~million in extra overhead. The ~~N400,000~~ extra gross profit does not compensate this. Therefore, the strategy appears to have failed.

However, we were informed that expenses figure in 2024 was increased by a loss on disposal of ~~N600,000~~. This distorts the comparison with 2023. If this is considered, the actual overhead would have been ~~N500,000~~ (~~N1.1m~~ – ~~N600,000~~), hence Tantala Ltd would have been able to break-even.

- ROCE also declined marginally from 15.1% to 13.3%. If the one-off loss on disposal was excluded, the return on capital employed for 2024, would have been 14.5% (~~N6,900~~ / ~~N47,500~~), hence, the decline would have reduced.
- ROE is an alternative but narrower measure of returns. It focusses on equity holders only and gives an after tax return on equity. The decline of 9.4% to 8.9%, is within normal business fluctuations and would not be considered as material.
- It is relevant to note that the cost of debt is about 8% (~~N1,000~~ / ~~N12,500~~). It is important that ROCE exceeds the cost of debt. However in the case of Tantala Ltd., the return on capital employed comfortably exceeds cost of debt.
- Although Tantala Ltd is a profitable company but the profit is on the decline over the period. The portfolio management company can invest in Tantala Ltd., if the company can control its overhead in other to improve its profitability.

Analysis of Liquidity of Papaya Ltd.
Relevant ratio calculations for Papaya Ltd.

Ratios	Formulae	2024	2023
Current ratio	CA / AL	$\text{N}11,200 / \text{N}10,200$ =1.1:1	$\text{N}8,800 / \text{N}5,800$ =1.52 :1
Acid test ratio	CA - INV / CL	$\text{N}11,200 - \text{N}10,200 /$ $\text{N}10,200$ = 0.098:1	$\text{N}8,800 - \text{N}5,500 / \text{N}$ $5,800$ = 0.57:1

Analysis of liquidity of Papaya Ltd.

- It is clear that both liquidity ratios have declined significantly year on year.
- As Papaya Ltd operates in retail sector and the trade receivables appear insignificant, it could imply that the company's sales are mostly on cash basis with little sales on credit.
- This could imply that the liquidity ratios could be maintained more tightly than the normal 2:1 and 1:1 for the acid test.
- However, the present 1.1:1 and 0.098:1 respectively are at crisis level and are indicative of severe liquidity problem for Papaya Ltd.
- In addition to the ratios, the actual cash position has deteriorated from positive ~~N~~3.1million to overdraft of ~~N~~1 million.
- We were informed that Papaya Ltd. opened its third retail outlet in 2024. This is likely to have caused the revenue increase of the company of about 41% (from ~~N~~64m to ~~N~~90m).
- However, profitability has actually declined by ~~N~~100,000 after tax. This indicates that there are problems turning extra revenue into profit which may be due to one-off costs. In opening a new store, further investigation might reveal this.
- The obvious symptom is the increase in inventory level from 2023 to 2024 which increased by about 85%. (~~N~~5.5m to ~~N~~10.2m). An increase of 85% of inventory over a revenue increase of just about 41%, indicates a problem which could further trigger illiquidity.
- Current liabilities of the company need to be paid and it seems unlikely that the inventory can be sold quickly enough to achieve this and it could further compound the liquidity position of Papaya Ltd.
- It seems that the short term liquidity position of the company is bad, hence it would appear that Papaya Ltd needs to raise some long-term finance through bank loan and equity to ameliorate this short term liquidity problem.

- From all indications above, it seems Papaya Ltd. is overtrading, that is, expanding more than what its financial capacity can cope with, which resulted into severe short-term liquidity.
- Therefore, the portfolio management company may not be willing to acquire this company except that it is ready to inject long-term capital to moderate the short-term liquidity problem that the company is currently battling with.

b) Additional information required for better analysis

- (i) Sales budget of Tantala Ltd. or the company's management accounts
- (ii) Breakdown of the overhead costs of Papaya Ltd. to identify the overhead cost that is related to opening a new store
- (iii) Statement of cash flow of Papaya Ltd. to really ascertain the cause of illiquidity of the company
- (iv) The industrial or sectorial ratios of the retail sector to be able to access the real performance of two companies, Tantala Ltd. and Papaya Ltd.
- (v) Details of main risk and uncertainties that could negatively affect both companies
- (vi) Information about key relationships with other entities and transactions with related parties
- (vii) Detailed financial reports of both companies which include all the financial statements
- (viii) Details of any significant factors or events that may impact on company's future performance and future cash flows

SECTION C

Solution 5

a) Specific documents that reporting entities are required to submit to Financial Reporting Council of Nigeria (FRC) before publishing a sustainability report

Phase 1 (Three months prior to the reporting date)

- (i) **Board resolution:** This is a formal approval to adopt the IFRS Sustainability Disclosure Standards.
- (ii) **Gap analysis report:** This is an evaluation of the entity's existing practices in relation to IFRS S1 and S2 requirements.
- (iii) **Implementation plan:** This is a comprehensive plan outlining steps to address identified gaps and ensure alignment with the standards.

Phase 2 (Three months following reporting date)

- (i) **Sustainability disclosure policies:** The evidence that the policies is aligned with IFRS standards and drive internal processes for sustainability reporting within the entity.
- (ii) **Transitional reliefs documentation:** This is the identification of applicable transitional reliefs.
- (iii) **Enterprise risk management (ERM) and sustainability framework:** This is two-fold existing approach to addressing enterprise risk and approach to managing environmental, social and governance (ESG) risks and opportunities.
- (iv) **Board approval of ERM and sustainability framework:** This includes documented evidence showing board approval of ERM and sustainability framework.
- (v) **Board approval of IFRS sustainability disclosure standards policies:** This includes any documented evidence showing board approval of sustainability policies.
- (vi) **Training evidence:** Records of sustainability/ESG – specific training for board members, management and reporting personnel by reputable training providers acceptable to FRC.
- (vii) **Registration with FRC:** Registration of the entity and professionals engaged in the reporting process.

Phase 3 (Six months following reporting dates)

- (i) Scenario analysis model: This is the description of methods used for scenario analysis as well as the result of the scenario analysis.
- (ii) Risk and opportunity identification
- (iii) Governance structure for the sustainability reporting of the entity
- (iv) Financial report updates
- (v) Impact assessment of the entity's business model and value chain
- (vi) Internal control framework to ensure reliability of the sustainability reporting

b) Types of information that are normally included in sustainability reporting

Sustainability reporting may encompass a broad spectrum of information related to a company's economic, social, environmental, and governance performance and impacts. This can include details on some or all of the following areas:

- (i) consumption of non- financial resources, such as, energy fossil, fuel, water, forestry products, etc;

- (ii) risks and opportunities associated, for example, with climate change, resource shortage, demand for new products, regulation related to sustainability agenda, and supply chain resilience;
- (iii) participation in work of local community groups and NGOs towards the outcomes that benefit the society;
- (iv) the policies, company arrangements and position taken on matters that relate to corporate sustainability;
- (v) innovations to produce goods and services that support the sustainability agenda;
- (vi) human right due diligence;
- (vii) corporate governance issues;
- (viii) human resources management;
- (ix) social issues; and
- (x) anti - corruption policies.

c) Benefits of sustainability reporting

Sustainability can produce benefits for the reporting organisation and others through a focus on long-term strategy, governance and planning, increased awareness of risks and opportunities and better benchmarking and transparency.

Specifically, sustainability reporting can produce internal and external benefits for a reporting company and for others, and these include:

- (i) increased awareness of risks and opportunities;
- (ii) appreciation of the links between financial and non-financial performance;
- (iii) improved long- term management strategy and business planning;
- (iv) support for governance and accountability on sustainability goals;
- (v) streamlining processes , reducing costs and improving efficiency;
- (vi) reducing risks of environmental , social and governance failures;
- (vii) comparing performance, internally and between companies and sectors;
- (viii) mitigating or reversing, negative environmental, social and governance impact;
- (ix) improving reputation and brand loyalty;
- (x) building relationship with stakeholders;
- (xi) enabling consumers of information to decide how to allocate their resources through investment, purchasing and policy decisions; and
- (xii) demonstrating how the company influences and is influenced by the expectation about sustainable development.

Solution 6

a) Specific uses of Artificial Intelligence (AI) in financial reporting and accounting

(i) Invoice processing and reconciliation

Invoice processing and reconciliation are essential components of accounting and finance functions. However, these tasks can be time consuming and prone to errors which can result in delayed payments and in accurate financial reporting.

AI can play a valuable role in accounting, for example, tools like Dext help minimise manual data entry by scanning documents in real time and automatically extracting relevant information. This automation not only streamlines accounting processes but also significantly reduces the risk of human error.

(ii) Predictive financial analysis

Having access to data is crucial for predicting financial outcome, and AI excels at analysing enormous quantity of financial data, by providing real-time insight into a business's financial health, for example, Futrli is an AI powered technology which is capable of carrying out detailed financial analysis.

(iii) Budgeting and forecasting

By using budgeting and forecasting software, an accounting firm can automate and streamline these processes resulting in significant time and costs savings.

With its ability to analyse financial data, AI can help business develop accurate and reliable forecast, which can be used to support strategic decision-making.

AI can also provide real-time insights into company's financial performance, enabling business to identify potential risks and opportunities.

(iv) Tax compliance and preparation

AI can analyse financial data to identify potential tax deductions and credits, helping firms save time and reduce their tax liabilities.

It can also detect errors and omissions in tax filings to ensure compliance with regulations and minimise tax savings.

(v) Audit support

AI-powered support tools can assist auditors and accountants in conducting audits of financial statements and records, ensuring accuracy and relevance. These tools also enhance document management by enabling quick access to necessary financial data and records. As a result, the audit process becomes more efficient, reducing the time and resources required to complete it.

b) Benefits of Artificial intelligence

(i) Increased efficiency and productivity

AI simplifies repetitive accounting tasks, freeing up time for professionals to focus on more strategic and value-added activities. This shift enhances productivity and efficiency, allowing accountants to concentrate on areas where their expertise is most impactful.

(ii) Improved customers experience

Using chat GPT to draft email, can save time. AI can be used for customers' support.

(iii) Enhanced data analysis and predictions

AI algorithms are capable of rapidly analysing financial data, making them powerful tools for identifying patterns and predicting trends. By examining transactions, cash flows, and budgets, AI helps individuals and businesses manage their financial data more efficiently and make informed decisions.

(iv) Costs savings

AI-driven process automation enables accounting firms to save time and reduce costs by handling routine tasks efficiently. This allows professionals to focus on strategic initiatives, boosting productivity and profitability while minimising operational expenses.

(v) Creation of new job opportunities

One of the most significant ways that AI is creating job opportunities is through the development and deployment of AI systems, cloud- base system or AI -powered tools.

c) Ways through which AI can support professionals to shift to advisory services

(i) Automating compliance tasks: AI reduces the burden of manual work related to tax preparation, transaction classification and reconciliations. This free up the accountants to focus on helping the clients with business growth, financial planning and risk management.

(ii) Offering data analysis and insights: AI tools can sift through large data sets and generate valuable insights, which accountants and other professionals can use to offer

clients detailed reports and forecasts. This allows the accountants and other professionals to provide forward-looking data driven advice that supports better business decision-making.

(iii) Enabling real -time financial monitoring:

AI systems can continuously monitor client data and instantly alert accountants and other professionals to anomalies or emerging opportunities. This real-time insight enables proactive engagement with clients, allowing professionals to offer timely, strategic advice rather than relying on reactive, post-event consultations.

(iv) Transforming tax research: AI-powered tax research solutions synthesize expertly written guidance and analysis, drawing from thousands of primary sources and expert commentary to deliver clear, everyday-language summaries - complete with citations. By transforming traditional processes and unlocking the power of data analytics and expert insights, AI empowers accountants and tax practitioners to evolve from compliance-focused roles into trusted business advisors.

Solution 7

a) i. Characteristics of information which are faithfully represented

For financial information to be useful, it must not only capture relevant economic phenomena but also faithfully represent the substance of what it claims to depict.

A perfectly faithful representation would have the following three (3) characteristics:

- **Complete** - The depiction includes all information necessary for a user to understand the phenomena being depicted, including all necessary descriptions and explanations.
- **Neutral** - The depiction is without bias in the selection or presentation of the financial information.
- **Free from error** - Faithful representation in financial reporting means that the information is complete, free from errors or omissions, and that the process used to generate it has been applied accurately and consistently. This ensures that the reported data truly reflects the economic phenomena it is intended to represent.

a) ii. **The conditions that are necessary, if the going concern basis is to be used for the preparation of financial statements**

Financial statements must be prepared on a going concern basis, unless management has intentions or circumstances that contradict this assumption. Specifically, the going concern basis should not be used if management:

- intends to liquidate the entity,
- plans to cease trading, or
- has no realistic alternative but to do so.

When preparing financial statements, management is required to assess the entity's ability to continue as a going concern. This assessment must consider all available information about the future, covering a period of at least twelve months from the reporting date.

Faithful application of the going concern principle ensures that financial statements reflect the true financial position and performance of the entity, supporting informed decision-making by stakeholders.

a) iii. **“Performance” and “Position”**

The financial performance of a company reflects the return it generates from the resources it controls. It is typically assessed through:

- profit and comprehensive income, which indicate the company's ability to generate earnings; and
- cash flows, which demonstrate how effectively the company converts income into liquidity.

Management is evaluated based on their ability to achieve optimal performance given the resources available. Their effectiveness is judged by how well they maximise returns and manage financial operations.

Key sources of performance information include:

- statement of profit or loss and other comprehensive income;
- statement of changes in equity; and
- statement of cash flows.

Position

The financial position of a company is assessed by examining:

- economic resources it controls (assets);

- capital structure, including the balance between debt financing and equity funding; and
- liquidity and solvency, which reflect the company's ability to meet short-term and long-term obligations.

The statement of financial position (also known as the balance sheet) is the primary source of information regarding a company's financial position. Additionally, the statement of cash flows provides insights into the company's cash movements over a period, further supporting the evaluation of liquidity.

b) i) Accounting policies refer to the specific principles, bases, conventions, rules, and practices that an entity applies in the preparation and presentation of its financial statements. These policies guide how transactions and events are recognized, measured, and disclosed, ensuring consistency and comparability across reporting periods.

bii) In the absence of an International Financial Reporting Standard (IFRS) that specifically applies to a transaction, event, or condition, management must exercise judgement in developing and applying accounting policies that result in financial information which are:

- relevant to the economic decision-making needs of users; and
- reliable, meaning it:
 - faithfully represents the financial position, performance, and cash flows of the entity;
 - reflects the economic substance of transactions;
 - is neutral (free from bias);
 - is prudent; and
 - is complete in all material respects.

Sources to consider when applying judgement

In making this judgement, management should refer to the following sources, in descending order of authority:

- requirements in IFRS that deal with similar or related issues;
- definitions, recognition criteria, and measurement concepts for assets, liabilities, income, and expenses as outlined in the conceptual framework; and
- recent pronouncements from other standard-setting bodies that use a similar conceptual framework, where applicable.