

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA**PROFESSIONAL LEVEL EXAMINATION – NOVEMBER 2021****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.
7. Your solutions **MUST BE** on the **CASE STUDY** answer booklet.

THURSDAY, NOVEMBER 18, 2021**DO NOT TURN OVER UNTIL YOU ARE TOLD TO DO SO**

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA

PROFESSIONAL LEVEL EXAMINATION – NOVEMBER 2021

CASE STUDY

Time Allowed: 4 hours (including reading time)

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

Pre-seen

This material is issued prior to the examination date to enable 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.icanig.org/student

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 paper provided by ICAN in the Examination Hall. Any solution presented with other papers **WILL NOT** be marked/assessed.

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.

November 2021 Case Study: Zed - Air Nigeria Limited

List of exhibits

- 1 About you (Joel Garba) and your employer, Babatunde, Farouk, Ibazebo & Co (Chartered Accountants and Tax Practitioners)
- 2 Zed – Air Nigeria Limited: History, operations, competitors, board and management
- 3 4 - year summarised financial statements: 2015 – 2018
- 4 Board paper No. 257

Exhibit 1

About you (Joel Garba) and your employer, Babatunde, Farouk, Ibazebo & Co. (Chartered Accountants and Tax Practitioners)

You are Joel Garba, writing the Professional level of ICAN examination. You are employed as a Trainee at Babatunde, Farouk, Ibazebo & Co (Chartered Accountants and Tax Practitioners). You are reporting to David Ibazebo, the partner in charge of business advisory services of the firm. Your responsibilities include:

- Preparing detailed financial analyses and reports as may be required by your firm's 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 your firm's clients' financial and business forecast together with the assumptions upon which they are based to form judgements and recommendations to their respective board; and
- Drafting reports for your partner's perusal and approval before sending it to your clients.

Your responsibilities demand that you keep yourself abreast with the business and economic environments, both nationally and internationally, so as to be able to carry out the above tasks effectively.

Exhibit 2

Zed – Air Nigeria Limited

History, operations, competitors, board and management

Zed – Air Nigeria Limited was established in 1995 when four friends who worked in different industries but are all graduates of chemical engineering came together to explore business opportunities in air – gases. One of them, Dotun Gbadebo, has worked as a production manager with one of the leading companies in the industry, Air Liquide Nigeria Plc., for several years. The others have the following work experience:

- Dr Theophilus Adie lectures at the department of chemical science in one of the Federal Government Universities for several years. He is currently a professor of chemical engineering;
- Alhaji Yahaya Galadima worked for several years in one of the oil explorations companies in Nigeria where he recently retired as a director; and
- Dan Chukwuma worked in one of the leading manufacturing companies in Nigeria as General manager - Factory operations.

The company's factory is located in Iganmu Industrial Estate in Apapa. The company's factory was commissioned by the Lagos state commissioner for Trade, Commerce and Industries in February 1996.

The company has since been one of the leading companies producing medical gases and has also ventured into the provision of gases for the food and pharmaceutical industries.

Business Focus

The company has segmented its business into three different business categories as follows:

Zed – Air healthcare products: Zed – Air provides effective support for hospital care throughout the country. The company's products offered to the hospitals are:

- Liquid nitrogen for conservation and dermatology;
- Mixture protoxide of nitrogen (N₂O) and oxygen (O₂) for pain relieve and sedative conscious;
- Protoxide of nitrogen (N₂O) for anesthesia;
- Nitrogen monoxide (NO) for acute respiratory distress and pulmonary hypertension;

- Oxygen (O₂), mixture of oxygen and helium (O₂/He) for hypoxia (lack of oxygen in the blood) asthma and carbon monoxide poisoning;
- Surgical argon for functionality of surgical equipment; and
- Carbon dioxide (CO₂) for expansion of abdominal walls.

Food and Beverage: Zed – Air offers the following products:

- Cryogenic fluids for transportation, for the maintenance of the cold chain from the manufacturer to consumer;
- Carbon dioxide for the manufacturing of carbonated drinks;
- Inerting/Deoxygenation for protecting food products, whether solid or liquid, so that they can retain all their properties;
- Multiples, injection of protective gases to increase life span of dairy, ultra – fresh and ice cream products;
- Carbon dioxide (CO₂) and liquid nitrogen (N₂) for cryogenic freezing of meat, sausages and sea foods for freezing and rapid cooling; and
- Oxygen for oxygenation of fish ponds and streams for quality breeding.

Pharmaceutical Industry: Zed - Air supplies gases to the pharmaceutical industry for inerting at various steps in the production and packaging processes and also quality analytical gases that include pure gases and mixtures for quality assurance.

Operations

The operations of the company involve the following activities:

- Air is collected directly from the atmosphere;
- The collected air is compressed using a compressor;
- Water is separated from the air collected and compressed;
- The resulting air is passed through evaporation, cooling and chilling;
- Water is separated from the air again;
- Carbon is filtered from the air;
- The air is now made to pass through the process of drying, using air driers;
- Dust is then separated from the air;
- Air is separated to give liquid oxygen and argon gas.
- The liquid oxygen is then pumped into oxygen cylinders

Competitors

The following are the major competitors in the industry:

- Air Liquide Nigeria Plc.;
- Air Separation Nigeria Limited;
- BOC Gases Plc.;
- Apex African Gas Nigeria Limited;
- Sona Industrial Gas Limited; and
- Sabbyn Industrial Gas Limited

Air Liquide Nigeria Plc. is the market leader followed by BOC Gases Plc. Others are operating at the same level with Zed–Air Nigeria Limited and each is struggling to move up as the third leading supplier of the various gases. However, each of these companies have their various areas of strength. Some concentrated on industrial gases while Zed–Air concentrates on healthcare, food and pharmaceutical industries.

Board and management

Board

The company is being run by a board of six members. The chairman of the board is Professor (Dr) Tunde Ejilola, a retired medical director of Lagos Teaching Hospital and a professor of surgery. He has several years of distinguished service to many of the teaching hospitals in Nigeria and has once served as a federal minister of health. He was invited to the company by the four promoters so as to take advantage of his wealth of experience. He holds 10% shares in the company. Other directors are:

- Dotun Gbadebo
- Dr Theophilus Adie
- Alhaji Yahaya Galadima
- Dan Chukwuma; and
- Dr. Julius Nduaka - Managing director/chief executive officer

Shareholding structure in the company is as follows:

- Prof. (Dr.) Tunde Ejilola - 10%
- Dotun Gbadebo - 20%
- Dr Theophilus Adie - 20%
- Alhaji Yahaya Galadima - 20%
- Dan Chukwuma - 20%; and
- Maria Idera - 10%

The authorised share capital of the company is 200,000,000 of 50 kobo each, out of which 180,000,000 have been issued.

Management

The management of the company comprises of the following:

- Dr. Julius Nduaka - Managing director/chief executive officer
- Debo Afolabi - Chief finance officer
- Emmanuel Irabor - Production controller
- Hajia Khadja Sambo - Marketing controller; and
- Johnson Kosofe - Human resources controller

Exhibit 3**Zed – Air Nigeria Limited Financial summary
Statement of profit or loss and other comprehensive income**

	2018	2017	2016	2015
	₦million	₦million	₦million	₦million
Revenue	860	876	941	776
Cost of sales	<u>(684)</u>	<u>(624)</u>	<u>(590)</u>	<u>(493)</u>
Gross profit	176	252	351	283
Other income	85	-	23	91
Operating expenses	(112)	(62)	(103)	(103)
Administrative expenses	<u>(362)</u>	<u>(415)</u>	<u>(289)</u>	<u>(181)</u>
Operating profit/(loss)	(213)	(225)	(18)	90
Finance costs	(35)	(30)	(37)	(39)
Net finance costs	<u>(35)</u>	<u>(30)</u>	<u>(37)</u>	<u>(39)</u>
Profit/(Loss) before taxation	(248)	(255)	(55)	51
Income tax (expense)/credit	<u>(6)</u>	<u>2</u>	<u>2</u>	<u>-</u>
Profit/(Loss) for the year	(254)	(253)	(53)	51
Other comprehensive income				
Remeasurement loss on defined benefit plan	-	(37)	(3)	(5)
Income tax effect		11	1	1
Other comprehensive loss for the period	<u>-</u>	<u>(26)</u>	<u>(2)</u>	<u>(4)</u>
Total comprehensive loss for the period	<u>(254)</u>	<u>(279)</u>	<u>(55)</u>	<u>47</u>

Statement of financial position

	2018 #million	2017 #million	2016 #million	2015 #million
Assets				
Non – current assets				
Property, plant and equipment	392	365	392	432
Intangible assets	-	1	1	3
Other assets	<u>235</u>	<u>205</u>	-	-
Total non – current assets	627	571	393	435
Current assets				
Inventories	237	296	212	248
Trade and other receivables	252	325	253	136
Other financial assets	-	-	52	11
Prepayment and other current assets	39	44	237	329
Cash and bank balances	<u>29</u>	<u>71</u>	<u>124</u>	<u>84</u>
Total current assets	<u>557</u>	<u>736</u>	<u>878</u>	<u>808</u>
Total assets	<u>1184</u>	<u>1307</u>	<u>1271</u>	<u>1243</u>
Equity and liabilities				
Equity				
Issued share capital	90	90	90	90
Share premium	2	2	2	2
Retained earnings	<u>(459)</u>	<u>(172)</u>	<u>107</u>	<u>207</u>
Total equity	(367)	(80)	199	299
Non – current liabilities				
Interest bearing loans and borrowings	-	-	43	80
Employees benefits	-	102	69	60
Deferred tax liabilities	-	-	<u>13</u>	<u>30</u>
Total non – current liabilities	-	102	125	170
Current liabilities				
Trade and other payables	1,253	1,095	834	601
Interest bearing loans and borrowings	184	186	109	149
Income tax payable	10	4	4	11
Other current liabilities	<u>104</u>	-	-	<u>13</u>
Total current liabilities	<u>1,551</u>	<u>1,285</u>	<u>947</u>	<u>774</u>
Total liabilities	<u>1551</u>	<u>1387</u>	<u>1072</u>	<u>944</u>
Total equity and liabilities	<u>1184</u>	<u>1307</u>	<u>1271</u>	<u>1243</u>

Zed – Air Nigeria Limited

Board paper

No. 257

Purchase of plant and machinery

Part of the strategies approved in the last board meeting to revamp the company, is the importation of a modern plant and machinery which will enable the company to compete effectively with new entrants into the market.

However, as a result of the company's current financial problem, the possibility of financing the importation through own funds or bank loan is not feasible. Therefore, the management is seeking the board's approval for the company to finance the purchase through a finance lease.

From our findings, the period of the lease will be five years, with annual repayment of five equal installments. The first instalment will become payable after the first year of draw down.

Julius Nduaka

Managing director