

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA**PROFESSIONAL LEVEL EXAMINATION – MAY 2022****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. Do **NOT** answer more than the number of questions required in each section, otherwise, you will be penalised.
7. All solutions should be written in **BLUE** or **BLACK INK**. Any solution written in **PENCIL** or **RED INK** will not be marked.

THURSDAY, MAY 12, 2022**DO NOT TURN OVER UNTIL YOU ARE TOLD TO DO SO**

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA
PROFESSIONAL LEVEL EXAMINATION – MAY 2022

CASE STUDY

Time Allowed: 4 hours (including reading time)

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

Pre-seen

This material is issued prior to the examination date to enable candidates familiarise themselves with the case scenario so as to undertake any research and analysis they think fit. This pre-seen part of the Case Study examination is also published on the Institute's website: www.ican.org/students.

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 analytical 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 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% |

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 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 conclusions upon which relevant recommendations are made.

Omission of any of these instructions will affect the candidate's performance in the examinations.

May 2022 Case Study: Best Price Fashions Limited (BP Fashions)

List of exhibits

- 1 About you (Tunde Taiwo) and your employer, Okelola, Idemudia, Seidu & Co, (Chartered Accountants)
- 2 Nigerian fashion industry
- 3 Best Price Fashions Limited (BP Fashions)
- 4 BP Fashion's management accounts – 2018 to 2020

Exhibit 1

About you (Tunde Taiwo) and your employer (Okelola, Idemudia, Seidu & Co)

You are Tunde Taiwo, writing the Professional level of ICAN examination. You are working in the Lagos office of Okelola, Idemudia, Seidu & Co (Chartered Accountants) which has its offices in all the state capitals of Nigeria. You are reporting to Dasuki Seidu, the partner in charge of the business advisory unit of the firm. Your responsibilities include:

- Preparing detailed financial analyses and reports on the performance of your business advisory 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 submitted by clients to see how each aligns with the client's objectives and its impact on its business and financial risks;
- Assessing clients' financial and business forecast together with the assumptions upon which they are based to form judgements and recommendations to your partner; and
- Drafting reports to be submitted to clients on the result of clients' financial, operational and strategic business analyses you have carried out.

Your responsibilities demand that you keep yourself abreast with your clients' industries and external (national and global) operating environments, so as to be able to carry out the above tasks effectively.

Nigerian fashion industry

The fashion industry in Nigeria plays an important cultural role and contributes significantly to the country's economy. Casual attire is commonly worn, but formal and traditional styles are also worn, depending on the occasion. Clothing incorporates a variety of colours, fabrics, and embellishments (often beads). Many of the component cultures of Nigeria wear styles that are unique to their tribal societies and customs. Nigeria is known not only for its fashionable textiles and garments, but also for its fashion designers who have increasingly gained international recognition.

The worldwide fashion industry has been estimated to be worth over \$3.5 trillion, with Africa's share estimated at less than 1% of the total. Euromonitor suggests that the fashion market in Africa is worth \$31 billion, with Nigeria accounting for 15% of the \$31 billion, that is \$4.7 billion.

Growth in the industry

Nigerian fashion industry has grown rapidly within a decade. Since 2010, statistics from the Nigerian Bureau of Statistics (NBS) indicated that the textile, apparel and footwear sector of the economy has averaged growth of 17% per annum. This rise has not only been as a result of an increase in demand, but also partly by unprecedented initiatives that continue to edge Nigeria into global fashion consciousness. This is being championed by events, such as "Lagos Fashion Week" through its annual run-way shows and incubator style techniques being used to grow brands.

With increasing population which is primarily a young population, Nigeria is home to Africa's fastest-growing fashion industry. The Nigerian fashion business is booming and it does not appear to be slowing down anytime soon. Rising internet broadband access, the ease with which young people can buy their favourite fashion styles online, etc., have been recognised as contributing to and will continue to contribute to the industry's growth.

Challenges of the fashion industry

Despite perceived growth in the industry, there have been many challenges which, if tackled properly, would result in much more contribution of the industry to the nation's gross domestic product (GDP). Each component of the value chain of the industry currently has significant faults. Cotton farming in Nigeria, for example, is at an all-time low, and despite rhetorics to the contrary, textile production in the country is still small.

Another challenge is that we are unable to create the basic fabrics and must therefore import them. In general, the raw materials required to manufacture textiles are imported into the country. Although the Nigerian cotton textile market was booming in the 1960s and 1970s, unfortunately, we were unable to match the demand for textile materials as our population continues to rise. Also, due to lack of infrastructure to support manufacturing industry, (such as power and good roads, increase in exchange rate, lack of investment in manufacturing and lack of government backing for the textile industry's growth) have led to the collapse of the industry. This has led to the need to import textiles and fabrics to feed the fashion industry.

Although, President Muhammadu Buhari signed Executive Order 003 of 2017, which made it mandatory for government ministries, departments and agencies (MDAs) to stop importing their uniforms from overseas, this has remained active only on paper. As at today, most MDAs of government still import their uniforms from abroad despite local capacity for such apparels.

In the same way, the procurement of school uniforms from abroad by many private schools and rising dependency on used clothing and apparels by many Nigerians continue to undermine the growth of the textile sector. For African prints like Ankara, operators noted that distributors have broken the value chain and now import directly from China with made-in-Nigeria labels.

Data from the National Bureau of Statistics showed that Nigeria's importation of textile materials had been on the rise, with the country importing ₦200.6 billion worth of goods as at Q3 of 2020, whereas, the country only exported a paltry value of ₦5.05 billion worth of goods during the same period.

Despite the government ban on importation of finished textiles to protect local manufacturers and designers, smuggled goods continue to make inroads into the country through Benin Republic, Chad and Niger borders, costing the economy at least \$4 billion yearly. **(Adapted from “why textile sector on brink despite interventions”, by Femí Adekoya and Saxone Akhaine, retrieved online on September 5, 2021).**

Best Price Fashions Limited (BP Fashions)**HISTORY**

Best Price Fashions (BPF) Limited was established in 2005 by four friends, who also constitute the board of the company. The first store was opened in Lagos in January, 2005 while another one was opened in Abuja in March 2005. BP Fashions specialises in men and women casual and corporate wears. In January 2010, a specialist men accessories store was opened by BP Fashions, catering for both cultural and corporate men's accessories in Lagos and Abuja. Later in the year, BP Fashions opened "Women Collections" in both Lagos and Abuja as well.

BP Fashions currently has 14 stores scattered all over Nigeria. Only Lagos and Abuja have separate stores for men accessories and women collections. In the other cities, men accessories and women collections are operated as departments in BP Fashions stores.

Directors

The directors of BP Fashions and their shareholdings are as follows:

| Name | Designation | Shareholding |
|---------------|--------------------------------|---------------------|
| Marian Dagogo | Managing Director | 25% |
| Mary Adesola | Concept/Design Director | 25% |
| Helen Thomas | Finance Director | 25% |
| Sola Martins | Inventory/Procurement Director | 25% |

Business model

- **People:** People are our greatest assets. We are transparent, authentic, open to new ideas and take responsibility. Therefore, our people are simply innovative.
- **Customers:** Customers are the life blood of our business. They deserve the best service and should enjoy the experience of being in our stores. So, we serve our customers as kings and queens.
- **Merchandise:** Product range should be fashionable, excellent in quality, aspirational, value for money and simply authentic.
- **Retail footprint:** We seek prestigious locations in the commercial hub of each city. Our reach extends beyond bricks and mortar as we engage our customers through social media. Our virtual showroom is second to none in the industry.

Stores

BP Fashions operates three types of stores as follows:

- Men and women clothing;
- Men accessories; and
- Women collections.

BP Fashions currently operates from 14 stores across the country. There are three stores each in Lagos and Abuja, as BP Fashions operates from different building for each type of stores in Lagos and Abuja. While the stores located in other cities have separate departments for men and women clothing, men accessories and women collections.

Strategy

- Customer experience: Our customers do window shop with our competitors and make their purchases from our store.
- Of course, we do not provide credit facility to customers because we are not in banking business, but simply a retailer.
- We carry out intense analysis of our customers' buying patterns and product sales data to identify "winners" and "losers" early and react early enough.
- Listening to customers and employees is our hobby as they provide the best feedback.
- We keep up our social media platforms and spurn traditional advertising.
- Our practice is visiting our competitors' stores at least, once a month.

Key risks

- Increasing competition from global fashion brands that have entered the country's market directly.
- Customer spending is linked to underlying economic conditions – economy in recession for some time now.
- Fashion industry is notoriously fickle, making forecasting trends and anticipating demand difficult, and any misjudgment could lead to short-term losses/declining profit.
- Increasing overhead costs due to high inflation, volatile fuel prices, rising electricity costs may impact operating margins, as all cost increases may not result in possible price increase.

Best Price Fashions Limited
Summarised financial information
Income statement

| | 2018 | 2019 | 2020 |
|-----------------------|----------------|----------------|-------------------|
| | Audited | Audited | Management |
| | ₹m | ₹m | ₹m |
| Revenue | 2,952 | 3,510 | 4,139 |
| Cost of sales | <u>(1,402)</u> | <u>(1,671)</u> | <u>(1,987)</u> |
| Gross profit | 1,550 | 1,839 | 2,152 |
| Other income | 15 | 21 | 25 |
| Operating costs: | | | |
| Employee costs | (390) | (460) | (538) |
| Occupancy costs | (262) | (312) | (373) |
| Other operating costs | <u>(278)</u> | <u>(326)</u> | <u>(389)</u> |
| EBITDA | <u>635</u> | <u>762</u> | <u>877</u> |

Summarised financial information
Statement of financial position

| | 2018 | 2019 | 2020 |
|-------------------------------------|---------------------|---------------------|---------------------|
| | Audited | Audited | Management |
| | ₹m | ₹m | ₹m |
| Property, plant and equipment | 375 | 470 | 470 |
| Deferred tax | <u>30</u> | <u>35</u> | <u>40</u> |
| Non-current assets | 405 | 505 | 510 |
| Inventories | 425 | 525 | 655 |
| Trade and other receivables | 125 | 150 | 175 |
| Cash and equivalents | <u>425</u> | <u>545</u> | <u>780</u> |
| Current assets | 975 | 1,220 | 1,610 |
| Total assets | <u>1,380</u> | <u>1,725</u> | <u>2,120</u> |
| Share capital and reserves | 885 | 1,135 | 1,430 |
| Long term loans | 125 | 125 | 125 |
| Employees' benefits | 20 | 35 | 50 |
| Deferred tax | 55 | 65 | 70 |
| Non-current liabilities | <u>200</u> | <u>225</u> | <u>245</u> |
| Trade and other payables | 270 | 335 | 410 |
| Tax payable | <u>25</u> | <u>30</u> | <u>35</u> |
| Current liabilities | 295 | 365 | 445 |
| Total equity and liabilities | <u>1,380</u> | <u>1,725</u> | <u>2,120</u> |

Note: Interest on the term loan is 21% per annum and companies income tax rate is 32%. You can assume that the tax written down value of the company's assets is equal to the carrying amount.