

Case Study: Pilot 1

DELWARE NIGERIA LIMITED: 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 analyses they think fit. This pre-seen part of the Case Study examination is published on the Institute's website: www.ican.org/students.

You **MUST NOT** bring this material to the Examination Hall. On downloading 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 analyses 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 that includes both the pre-seen and the unseen together with 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.

Assessment of the Case Study

The marks in the Case Study 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 may 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 analyses carried out; and
- ▶ Generate reasoned conclusions upon which relevant recommendations are made.

Candidates that omit any one of these will have a slim chance of success in the examination.

November 2019 Case Study: Delaware Exotic Wares Limited

List of exhibits

- 1 About you (John Eboka) and your employer (Delware Nigeria Limited)
- 2 Delware Nigeria Limited: history and overview
- 3 Delware Exotic Wares Limited (DEWL)
- 4 Management accounts – 2016 to 2017
- 5 Email from Spicey Restaurants
- 6 Delware Exotic Wares Limited: highlight of strategic financial objectives
- 7 Factory costs per pack
- 8 Delware Exotic Wares Limited: Board strategic review of business opportunities and risks
- 9 Article from magazine

About you (John Eboka) and your employer (Delware Nigeria Limited)

You are John Eboka, writing the Professional level of ICAN examination. You are working as a Strategic Financial Analyst at the corporate office of Delware Nigeria Limited which has five operating companies. You report to the Group Finance director, Jane Adeola, and your responsibilities include:

- Preparing detailed financial analysis and reports on the performance of each of the companies in the group;
- Assessing operational and strategic business proposals to see how each aligns with the group's objectives and its impact on the group's business and financial risks;
- Assessing the group's funding gaps and recommending appropriate sources of fund, taking into consideration the group's optimal financial structure;
- Evaluating investment proposals and reporting to the board on their acceptance or rejection based on the group's current financial strategic objectives, ethical and other commercial considerations.

Your responsibilities demand that you keep yourself current with both the group's internal and external operating environments so as to be able to contribute objectively to the group's strategic thrust.

Delware Nigeria Limited: history and overview

History

Delware Nigeria limited was founded 30 years ago by a man and his wife, Dele and Winifred Adeware, as a limited liability company specialising in the importation of household utensils into the country from the United Kingdom.

Dele Adeware had originally worked for United Household Products Nigeria Limited (UHPNL), a company specialising in the manufacture of household metal products, including metal tableware, as Marketing and Distribution Manager. Winifred had worked in the same company as production supervisor on the packing line. On one of his marketing tours around the country, Dele, as he is fondly called by friends and colleagues at work, discovered that the products being manufactured by his company have not met the needs of the middle-income group that is increasing in number in the country. So, he decided to exploit the possibility of importing household utensils from the UK during his next holiday visit to the country.

In 1988, during his visit to the UK, he was able to locate and visit Household Wares Limited (HWL) UK and discussed the possibility of being the company's agent in Nigeria. During this meeting, the company's catalogue and some sample products were given to Dele, to enable him explore the products' acceptance in Nigeria. After returning to Nigeria, Dele embarked on a marketing drive for these products using the samples he brought from the UK. Initially it was difficult to penetrate, but after a persistent marketing drive, the products were accepted, especially among the middle-income class.

As a result of this acceptance, Dele and his wife, Winifred, registered Delware Nigeria Limited (DNL) in March 1989. He ordered the first set of products from Household Wares Limited, United Kingdom and his wife resigned from UHPNL to take charge of their new company. As a seasoned marketer, Dele was giving technical back up to his wife in the marketing of their products. The company grew to become a multi-million naira company and Dele resigned from UHPNL as well and became the Managing Director of Delware Nigeria Limited.

DNL's products include tableware made of ceramic and specialised metal, and kitchenware made from specialised metal. Demand for these products continued to increase year by year, so in 2001, DNL in partnership with HWL of U K decided to set up a manufacturing plant in Nigeria with HWL acting as the technical partner. A new company, Delware Exotic Wares Limited (DEWL) was registered for this purpose, the factory was commissioned in January 2002 with HWL holding 40% of DEWL's share capital. Delware Nigeria Limited continued to act as a sole distributor to DEWL in Nigeria.

In 2010, Dele decided to venture into the manufacturing of plastic products in order to meet household plastic needs. In March, 2010, he set up another company, Delware Plastics Nigeria Limited, with his wife as a director, to manufacture household plastics products, ranging from plastic chairs to bowls of various sizes, cups and plates. This is to take advantage of the growing plastic industry in Nigeria. As a result of the success of Delware Plastics, Dele decided, in 2012, to set up an aluminium household products manufacturing company. So, in April, 2012, he registered a new company, Delware Aluminium Limited to produce household aluminium products, ranging from cooking utensils to aluminium roofing sheet.

As a result of the growth of his various companies, Dele, in 2015 decided to set up another company, Delware Rubber Products Nigeria Limited, specialising in the manufacture of household rubber products such as slippers, etc.

To ensure proper coordination of his various companies, in 2016, Dele adopted a holding structure by making Delware Nigeria Limited the holding company for all the other companies. Dele now becomes the Group Managing Director. He appointed a seasoned administrator, Alhaji Suberu Lamido as the Group Chairman.

DNL Board

The board of DNL are as follows:

- | | |
|------------------------|--------------------------|
| ▶ Alhaji Suberu Lamido | Chairman |
| ▶ Dele Akinware | Managing Director |
| ▶ Winifred Akinware | Executive director |
| ▶ Jane Adebola | Finance director |
| ▶ Jude Chukwuemeka | Non – Executive Director |

Apart from Dele Akinware and his wife, none of the directors has share in the company.

Delware Exotic Wares Limited (DEWL): Overview and operations

Overview

DEWL was incorporated as a partnership business between Delware Nigeria Limited (DNL) and Household Wares Limited (HWL) of United Kingdom in March, 2001. DNL holds 60 per cent share capital of the company while HWL holds 40 per cent.

The agreement between DNL and HWL provides that:

- ▶ HWL will be the technical partner;
- ▶ DNL will supply the Chairman of the company and two directors;
- ▶ HWL will, on its part, supply the Managing Director and the Technical Director;
- ▶ DNL will be the sole distributor to DEWL's retail customers while Hospitality customers will be serviced directly by DEWL;
- ▶ HWL will give DEWL all the required technical support and will not partner with any other company in Nigeria to set up a similar plant; and
- ▶ DNL will ensure that visa and residency permit is procured for all technical staff coming to work in DEWL from HWL.

Operations

DEWL has two major product lines, Ceramic products and Metallic products. The Ceramic line manufactures tableware such as plates, bowls, cups, mugs, flower vases, etc., while the Metallic line produces kitchenware such as cooking pots, frying pans, etc. About 70% of the production raw materials for these products are imported from the United Kingdom and China, while the remaining are sourced locally.

The company has two group of customers, the Hospitality and the Retail customers. The Hospitality customers comprise of hotels and restaurants. The Retail customers comprise of various households who buy from retailers spread across major towns in the country. Hospitality customers are serviced directly by DEWL while Delware Nigeria Limited acts as the sole distributor to DEWL and so, services all the retail customers from its own warehouse and depots located in major towns of the country.

Although DEWL has a very vibrant and resourceful marketing department, it also appointed Rossy Advertising Agency to coordinate its advertising and promotional activities.

Major Hospitality customers

Three major Hospitality customers have adopted DEWL as the main supplier of their tableware and or kitchenware requirements. These are:

- ▶ Sheravile Hotels;
- ▶ Spicey Restaurants; and
- ▶ Lilly Group of Hotels.

Sheravile and Lilly Group use DEWL's products both in their restaurants and kitchens while Spicey only uses DEWL's tableware, which is branded for the restaurant. Sheravile Hotels currently have 200 hotels across the major cities in the country while Lily Group has 157 hotels.

Each of the above customers usually intimate DEWL with its strategic plans as regards acquisition and building of more hotels or restaurants so that DEWL will factor these into its own production strategic plans.

Board and management

Delware Exotic Wares Limited's board comprise of the following:

- | | |
|---------------------|--------------------|
| ▶ Dele Akinware | Chairman |
| ▶ Joel Young | Managing Director |
| ▶ David Ansell | Technical Director |
| ▶ Winifred Akinware | Non-Executive |
| ▶ Tijani Yusuf | Non-Executive |

The current top management personnel in Delware Exotic Wares Limited are:

- | | |
|-------------------------|--------------------------------------|
| ▶ Joel Young | Managing Director |
| ▶ David Ansell | Technical Director |
| ▶ Lucy Ademola | Marketing Manager |
| ▶ JohnChukwudi | Finance Controller |
| ▶ Alhaji SanniDodondawa | Production controller |
| ▶ Tony Olaolu | Head of Personnel and Administration |

Exhibit 4

Delware Exotic Wares Limited: management accounts – 2017 to 2018

Income statement

Year ended 30 September	Notes	2018 N m	2017 N m
Revenue	1	2,490	1,968
Manufacturing costs		<u>(1,494)</u>	<u>(1,045)</u>
Gross profit		996	923
Distribution expenses		(186)	(154)
Selling expenses		(459)	(414)
Administrative expenses		<u>(174)</u>	<u>(166)</u>
Operating profit		177	189
Net finance expenses		<u>(3)</u>	<u>(6)</u>
Profit before tax expense		174	183
Tax expense		<u>(45)</u>	<u>(45)</u>
Profit for the year after taxation		<u>129</u>	<u>138</u>

Statement of financial position

Year ended 30 September		2018	2017
	Notes	Nm	Nm
Non-current assets			
Property, plant and equipment	6	1,047	786
		<u>1,047</u>	<u>786</u>
Current assets			
Inventories	7	306	270
Accounts receivables	8	162	153
Cash and cash equivalents		<u>3</u>	<u>-</u>
		<u>471</u>	<u>423</u>
Current liabilities			
Accounts payable	9	822	639
Bank overdraft		<u>-</u>	<u>3</u>
Total current liabilities		<u>822</u>	<u>642</u>
Net current assets		<u>(351)</u>	<u>219</u>
Net assets		<u>696</u>	<u>567</u>
Shareholders' equity			
Ordinary share capital		100	100
Retained earnings		<u>596</u>	<u>467</u>
Total shareholders' equity		<u>696</u>	<u>567</u>

Statement of cash flows

Year ended 30 September	2018	2017
	Nm	Nm
Profit before tax	174	183
Adjustments for:		
Depreciation	234	198
Net finance expenses	<u>3</u>	<u>6</u>
	411	387
Changes in inventories	(36)	(102)
Change in accounts receivable	(9)	(60)
Change in accounts payable	<u>183</u>	<u>243</u>
Cash generated from operations	549	468
Tax paid	(45)	(102)
Net finance expenses	<u>(3)</u>	<u>(6)</u>
Net cash from operating activities	<u>501</u>	<u>360</u>
Investing activities		
Purchases of non-current assets	(528)	(546)
Proceeds from disposal of non-current assets	<u>33</u>	<u>66</u>
Net cash used in investing activities	<u>(495)</u>	<u>(480)</u>
Net change in cash and cash equivalents	6	(120)
Cash and cash equivalents at start of year	<u>(3)</u>	<u>117</u>
Cash and cash equivalents at end of year	<u><u>3</u></u>	<u><u>(3)</u></u>

Notes to the management accounts

	2018	2017
	Nm	Nm
Note 1 Revenue		
Retails	785	616
Hospitality	<u>1,705</u>	<u>1,352</u>
	<u>2,490</u>	<u>1,968</u>
Note 2 Manufacturing costs		
Retails	514	404
Hospitality	980	641
	<u>1,494</u>	<u>1,045</u>
Note 3 Distribution costs		
Retails	37	32
Hospitality	<u>149</u>	<u>122</u>
	<u>186</u>	<u>154</u>
Note 4 Selling expenses		
Retails	85	71
Hospitality	<u>374</u>	<u>343</u>
	<u>459</u>	<u>414</u>
Note 5 Administration expenses		
Design of new products	29	24
Marketing and advertising	49	48
Salaries – admin. Staff	42	48
Office costs	35	31
Professional services	9	7

Others	10	8
	<u>174</u>	<u>166</u>

Note 6 Non – current assets

Property, plant and equipment

	Plant & Machinery	Equipment & Furniture	Vehicles	Total
	Nm	Nm	Nm	Nm
Cost				
At 1 October 2017	624	714	54	1,392
Additions	126	392	6	528
Disposals	<u>(36)</u>	<u>(195)</u>	<u>(6)</u>	<u>(237)</u>
At 30 September 2018	<u>714</u>	<u>915</u>	<u>54</u>	<u>1,683</u>

Depreciation

At 1 October 2017	324	267	11	404
On disposals	(24)	(177)	(2)	(137)
Charge for the year	<u>69</u>	<u>156</u>	<u>5</u>	<u>156</u>
At 30 September 3018	<u>369</u>	<u>246</u>	<u>14</u>	<u>424</u>

Carrying amount

At 30 September 2018	<u>345</u>	<u>669</u>	<u>33</u>	<u>1,087</u>
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Cost

At 1 October 2016	612	603	45	1,260
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Additions	234	201	21	546
Disposals	<u>(222)</u>	<u>(180)</u>	<u>(12)</u>	<u>(414)</u>
At 30 September 2017	<u>624</u>	<u>714</u>	<u>54</u>	<u>1,392</u>
Depreciation				
At 1 October 2016	441	300	15	756
On disposals	(180)	(162)	(6)	(348)
Charge for the year	<u>63</u>	<u>126</u>	<u>9</u>	<u>198</u>
At 30 September 2017	<u>324</u>	<u>264</u>	<u>18</u>	<u>606</u>
Carrying amount				
At 30 September 2017	<u>300</u>	<u>450</u>	<u>36</u>	<u>786</u>

Note 7 Inventories

	2018	2017
	Nm	Nm
Raw materials	48	33
Work in progress	6	3
Finished goods	<u>252</u>	<u>234</u>
Total	<u><u>306</u></u>	<u><u>270</u></u>
Note 8 Accounts receivable		
Trade receivables	105	99
Prepayments	39	36
Sundry	<u>18</u>	<u>18</u>
	<u><u>162</u></u>	<u><u>153</u></u>

Note 9 Accounts payable

Trade payables	660	495
Taxes and pension funds	120	108
Accruals	<u>42</u>	<u>39</u>
	<u>822</u>	<u>642</u>

Email from Spicey Restaurants.

Joel

I hope this meets you well. Once again, we at Spicey wants to express our satisfaction and appreciation for the continual cordial and mutually beneficial business relationship we are enjoying with DEWL. So far, your tableware has met our needs and we have been very satisfied with them.

To assist you in planning your production, we are obliged to intimate you with our strategic business acquisition and development for the next 5 years. In the next 5 years, we plan to increase the number of our restaurants across the country as follows:

- ▶ 2020 we plan to add 12 more restaurants in the FCT and Lagos
- ▶ 2021 we plan to add 5 more restaurants in Oyo and Osun states
- ▶ 2022 we plan to add 5 more restaurants in River state
- ▶ 2023 we plan to add 5 more restaurants in the Northern states
- ▶ 2024 we plan to add 5 more restaurants in the Eastern states

As you know, we currently have 105 restaurants across the country, therefore, in our strategic plan, we have also provided for a phased replacement of our restaurants tableware as follows:

- ▶ 2020 21 restaurants
- ▶ 2021 21 restaurants
- ▶ 2022 21 restaurants
- ▶ 2023 21 restaurants
- ▶ 2024 21 restaurants.

We hope this will assist you in your strategic production planning as we do not envisage any disappointment.

Debby

Exhibit 6

Delware Exotic Wares Limited: highlight of strategic financial projections

Financial objective	2019	2020	2021	2022	2023
	Nm	Nm	Nm	Nm	Nm
Revenue	3,150	3,465	3,810	4,190	4,610
Gross profit	1,260	1,386	1,524	1,676	1,844
Revenue – Hospitality	2,205	2,425	2,667	2,933	3,227
Revenue – Retail	945	1,040	1,143	1,257	1,383
Gross Profit – Hospitality	882	970	1,067	1,173	1,290
Gross Profit – Retail	378	416	457	503	553
Net operating profit	236	260	286	314	346

Delaware Exotic Wares Limited: Board strategic review of business opportunities and risks

The following information has been extracted from Board minutes (dated July 2018).

Opportunities

The Board considers the main potential opportunities or new developments which could positively affect the company to be:

- ▶ Development and manufacturing of a range of new products that will appeal to the upper class of the society;
- ▶ Development of new market across ECOWAS;
- ▶ Development of online presence to deploy a virtual showroom so as to attract more customers; and
- ▶ Development of new sources of raw materials so as to compete more effectively on pricing;

Risks

The Board considers the following to be the main risks which could materially affect the business:

- ▶ Profitability risk: Total revenue can be affected by economic factors influencing the overall budget of hospitality business and consumer spending on changing tableware and kitchenware. The company will continue to seek to maintain and increase its revenue through product development and market penetration. Costs will be carefully controlled through sound internal control and authorisation procedures, and regular management reporting;
- ▶ Macroeconomic risk: Changes in the operating environment constantly alter the macroeconomic variables that affect the company's operations. Therefore, the company maintains a close monitoring of the macroeconomic environment so as to react appropriately to changes in the macroeconomic variables that may affect the company's performance;
- ▶ Product risk: Defective and substandard materials could affect the quality of our products thus damaging our goodwill and reputation in the market as a manufacturer of quality tableware and kitchenware. Through the purchasing teams, regular contact is maintained with every active raw materials supplier to ensure continuity of quality. DEWL also has personnel with specialist expertise in ceramic materials who maintain the company's

high-quality standards through a programme of regular visits to suppliers and extensive product testing;

- ▶ Fraud risk: There are internal control procedures to ensure that detailed control is carried out in all areas of the business. The company's management reporting systems are designed, in part, to prevent potential frauds and on the other hand to detect and highlight irregularities at all stages of the cash cycle, during the process of disbursement of company funds and also as regards the safety and security of company assets;
- ▶ Risk of cheap competition: The copying of our products and the passing-off of fake items for genuine ceramic products. Given that DEWL's tableware and kitchenware are considered to be of high quality, they may be the subject of imitation by other unscrupulous manufacturers who may produce goods of inferior quality and pass these off as DEWL's products, thereby damaging our market. Therefore, we maintain close contact with our hospitality customers to ensure that they are aware of the differences between our products and others at all times, thus, they are able to detect fake ones;
- ▶ Data protection risk: the company maintains customer records in accordance with best IT security practice but it is aware of the risk of hacking and trespass by fraudsters. DEWL seeks to eliminate or minimise the risk by following best practice procedures for data security with extensive use of passwords and a comprehensive well-tested system of off-site back-up procedures and facilities; and
- ▶ Exchange rate volatility: the continual fluctuation of naira exchange rates with major currencies of the world will definitely impact on our input cost structure. Therefore, we regularly monitor the naira exchange rate's movement so as to take advantage of sudden appreciation in naira to reduce costs of imported raw materials.

Exhibit 8

Factory costs per pack

Delware Exotic Wares Limited uses a standard costing system which is normally reviewed to reflect current costs of production. Current standard cost card reveals the following:

Tableware – per pack:

	N
Materials	400
Labour	100
Variable overhead	50
Fixed overhead	<u>100</u>
	<u>650</u>

Kitchenware – per pack:

	N
Materials	320
Labour	80
Variable overhead	20
Fixed overhead	<u>60</u>
	<u>480</u>

Selling price per pack

We currently offer our tableware and kitchenware to our hospitality customers as follows:

Tableware	N 1,000 per pack
Kitchenware – Coated	N 750 per pack
Uncoated	N 700 per pack

(Hotels' digest: March 2018)

Dinner spoiled by low quality tableware in highbrow restaurants

Major hotels have been losing customers coming for dinner in their restaurants as a result of regular unusual breakages in dinner plates. Data, drawn from studies of 100 hotels across major towns of the country, found that about 25 percent of the time, guests at the restaurants of these hotels have to contend with faulty dinner plates which tend to mess up their enjoyment of time out for dinner. Substantial part of their time was wasted at the hotel as hotel staff had to come to their aid, to clean up broken plates. Unless these hotels do something on time to correct this phenomenon, most of their restaurants will be deserted within a short time. A stitch in time saves nine.

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November 2019 Case Study: Delware Nigeria Limited

List of exhibits

The following exhibits are newly provided and did not form part of the material provided as Pre-seen:

- 10 Email from Jane Adeola to John Eboka
- 11 Email from Joel Young to Jane Adeola.
- 12 Management accounts for the year ended 30 September 2019
- 13 Summary of events that affected Delware Exotic Wares Limited's performance in the year.
- 14 Background information for the two business proposals – Expansion of Hospitality business.
- 15 Sheravile Hotels business proposal
- 16 Spicey Restaurants' business proposal.

Delware Nigeria Limited: Case Study requirement

You are John Eboka, a final-year trainee ICAN Chartered Accountant working in the corporate group office of Delware Nigeria Limited (DNL) as a Strategic Financial Analyst. One of the companies in the group is Delware Exotic Wares Limited, a company engaged in the manufacture and sales of tableware and kitchenware in Nigeria. You report to the Group Finance Director, Jane Adeola.

Requirement

You are required to prepare a draft report for the DNL board, as set out in the email dated 6 November 2019 from Jane Adeola to you (**Exhibit 10**). Your report should comprise the following:

- ▶ An executive summary
- ▶ Responses to the two detailed requirements set out in Exhibit 10, including appropriate appendices.

State clearly any assumptions you have made. All workings should be attached to your answer.

The following time allocation is suggested:

- | | |
|--|---------|
| ▶ Reading and planning | 1 hour |
| ▶ Performing calculations and financial analysis | 1 hour |
| ▶ Drafting report | 2 hours |

Marks allocation

All of the marks in the Case Study are awarded for the demonstration of professional skills, allocated broadly as follows:

Applied to the four elements of your report (as described above)

- | | |
|--|------------|
| ▶ Assimilating and using information | 20% |
| ▶ Structuring problems and solutions | 20% |
| ▶ Applying judgement | 20% |
| ▶ Drawing conclusions and making recommendations | <u>20%</u> |
| | 80% |

Applied to your report as a whole

- | | |
|--|-------------|
| ▶ Demonstrating integrative and multidisciplinary skills | 10% |
| ▶ Presenting appropriate appendices | <u>10%</u> |
| | <u>100%</u> |

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. Ensure that you address the two requirements in your report as failure to address any requirement, including not submitting an executive summary will adversely affect your chance of success. In addition, as indicated above, all four skills areas will be assessed under each of the four elements of your report. Accordingly, not demonstrating your judgement or failing to include appropriate conclusions and/or recommendations in each section of your report will reduce your chance of success.

EMAIL

From: Jane Adeola
To: John Eboka
Subject: Delaware Exotic Wares Limited
Date: 6 November 2019

I attach herewith exhibits 11 to 16 in respect of Delaware Exotic Wares Limited's strategic and operational business proposals, and management accounts for the year ended 30 September 2019. You can find, in the group's strategic plan file, Delaware Exotic Wares Limited's summary financial plan for 2019 to 2023, showing key performance objectives approved by the group's board for the period.

Delaware Exotic Wares Limited is seeking the group's board approval for the two business proposals. As usual, we need to carry out a detailed analysis of the companies' financial statements for the past three years and report thereon to support our analysis and recommendations to the board on these proposals. We also need to determine how these proposals will assist Delaware Exotic to achieve the projected key performance objectives in its 2019 to 2023 financial plan.

You are to carry out a detailed analysis of the management accounts and prepare a report that will assist the board in its deliberation on the business proposals. You are also required to carry out an evaluation and appraisal of the business proposals and recommend whether they meet the key performance objectives. You will find an independent report on the Nigerian operating environment and Delaware Exotic Wares' industry in our Strategic plan's working papers file. Please go through these reports as they will assist you in your evaluation of the business proposals.

Please draft for my review, a report addressed to the board of Delaware Nigeria Limited. The report should comprise:

1. An evaluation of the performance of Delaware Exotic Wares Nigeria Limited as reflected in its management accounts for the year ended 30 September 2019 as presented in Exhibits 12 and 13. Your evaluation should comprise an analysis of the key changes in revenue, costs and overheads by comparison with the previous two years to 30 September 2018. You should also assess the impact of these changes on Delaware Exotic Wares Limited's operating profit; and
2. A critical evaluation and assessment of the two business proposals as contained in Exhibits 14 to 16. You are to calculate the projected profit cash flow for the first 2 years and discuss any broader commercial and ethical considerations as well as the risks that

may be associated with accepting these business proposals. You are also required to comment whether these proposals will help Delaware Exotic Wares Limited achieve the key financial projections in its financial plan for 2019 to 2023. Assume a revenue growth of 12% and 10% increase in expenses for each of the two years without the new business proposals.

I look forward to receiving your draft report.

Jane

EMAIL

From: Joel Young – Delaware Exotic Wares Limited
To: Jane Adeola – Group Corporate Office
Re: Delaware Exotic Wares Limited
Date: October 20, 2019

Please find attached Delaware Exotic Wares Limited's management accounts for the year ended 30 September 2019 together with relevant notes on the accounts. In case you will like to refer to our previous years' management accounts, I also attach management accounts for two previous years.

Also attached are details of two new business proposals, from Sheravile Hotels and Spicey Restaurant, we are considering presently. We have reviewed these proposals within the management of Delaware Exotic Wares Limited and we are of the opinion they are good business.

We are therefore, submitting these business proposals for your assessment and evaluation to see whether they meet the corporate strategic objectives of the group and that they are within the group's risks and ethical tolerance.

We look forward to your decisions on these proposals as we are planning to finalise the agreements with our customers as soon as possible, more so, as we are at the beginning of a new financial year. It will be good that we take advantage of these two businesses to help us achieve our key financial objectives for the period.

Joel Young

Income statement

Year ended 30 September	Notes	2019 N m
Revenue	1	2,832
Manufacturing costs		<u>(1,699)</u>
Gross profit		1,133
Distribution costs		(255)
Selling expenses		(533)
Administrative expenses		<u>(224)</u>
Operating profit		121
Net finance (expenses)/income		<u>(6)</u>
Profit before tax expenses		115
Tax expenses		<u>(30)</u>
Profit for the year after taxation		<u><u>85</u></u>

Statement of financial position

Year ended 30 September	Notes	2019 N m
Non-current assets		
Property, plant and equipment	6	<u>867</u> <u>867</u>
Current assets		
Inventories	7	351
Accounts receivables	8	174
Cash and cash equivalents		<u>214</u> <u>739</u>
Current liabilities		
Accounts payable	9	825
Bank overdraft		-
Total current liabilities		<u>825</u>
Net current assets		<u>(86)</u>
Net assets		<u><u>781</u></u>

Shareholders' equity	
Ordinary share capital	100
Retained earnings	<u>681</u>
Total shareholders' equity	<u>781</u>

Year ended 30 September 2019

~~N~~m

Statement of cash flows

Profit before tax	115
Adjustments for:	
Depreciation	243
Net finance expenses	<u>6</u>
	364
Changes in inventories	(45)
Change in accounts receivable	(12)
Change in accounts payable	<u>18</u>
Cash generated from operations	325
Tax paid	(45)
Net finance expenses	<u>(6)</u>
Net cash from operating activities	<u>274</u>
Investing activities	
Purchases of non-current assets	(96)
Proceeds from disposal of non-current assets	<u>33</u>
Net cash used in investing activities	(63)
Net change in cash and cash equivalents	211
Cash and cash equivalents at start of year	<u>3</u>
Cash and cash equivalents at end of year	<u>214</u>

Notes to the management accounts

2019

~~Nm~~

Note 1 Revenue

Retails

867

Hospitality

1,965

2,832

Note 2 Manufacturing costs

Retails

568

Hospitality

1,131

1,699

Note 3 Distribution costs

Retails

48

Hospitality

207

255

Note 4 Selling expenses

Retails

100

Hospitality

433

533

Note 5 Administration expenses

Design of new products

37

Marketing and advertising

59

Salaries – admin. Staff

55

Office costs

45

Professional services

15

Others

13

224

Note 6 Non – current assets

Property, plant and equipment

	Plant & Machinery Nm	Equipment & Furniture Nm	Vehicles Nm	Total Nm
Cost				
At 1 October 2018	714	915	54	1,683
Additions	6	87	3	96
Disposals	(6)	(63)	(9)	(78)
At 30 September 2019	<u>714</u>	<u>939</u>	<u>48</u>	<u>1,701</u>
Depreciation				
At 1 October 2018	369	246	21	636
On disposals	(3)	(36)	(6)	(45)
Charge for the year	<u>69</u>	<u>168</u>	<u>6</u>	<u>243</u>
At 30 September 2019	<u>435</u>	<u>378</u>	<u>21</u>	<u>834</u>
Carrying amount				
At 30 September 2019	<u>279</u>	<u>561</u>	<u>27</u>	<u>867</u>

	2019
Note 7 Inventories	Nm
Raw materials	54
Work in progress	6
Finished goods	<u>291</u>
Total	<u>351</u>

Note 8 Accounts receivable

Trade receivables	111
Prepayments	42
Sundry	<u>21</u>
	<u>174</u>

Note 9 Accounts payable

Trade payables	618
Taxes and pension funds	162
Accruals	<u>45</u>
	<u>825</u>

Summary of events that affected Delaware Exotic Wares Limited's performance in the year

Against a background of considerable uncertainty in the economy, we are generally pleased with this year's performance. However, the following events affected our operating performance during the year:

- ▶ Our suppliers passed some costs to us as a result of the continuing depreciation of the naira exchange rate vis-à-vis major currencies of the world;
- ▶ Two of our major customers made substantial orders during the year as a result of upsurge in their own businesses;
- ▶ Also, during the year, a new customer placed order worth ₦2.5m. We are also pleased with our retail customers' performance during the year;
- ▶ Our relationship with Rossy Agency was very similar to prior years; and
- ▶ **Kano Traders issue:** Earlier in the year, we were very pleased to receive a large volume order from Kano Traders Limited for one of our high margin Tableware packs, "Classic". Each Classic pack contains 4 dinning plates, 4 side plates, 4 soup plates and 4 tea cups. It was expected that Kano Traders would sell each pack at ₦1,500, so we supplied the packs at ₦1,000 per pack, based on our own costs of ₦600 per pack. The packs were delivered in pallet loads of 100 packs per delivery and 150 deliveries were made.

We subsequently received an email from Kano Traders, dated 3 April 2019, stating that the products delivered were not the specification they ordered. Our invoice is dated 2 April 2019 and we have not heard anything further from Kano Traders. Therefore, to be on the prudent side, we have no choice but to provide for the amount in our current financial statements. We have not yet adjusted our accounts, so please conduct the analysis discussed above before looking at the Kano Traders issue.

You may wish to show the effect of this separately in your analysis of our management accounts for the year.

Background information for the two business proposals – Expansion of Hospitality business

The management of Delaware Exotic Wares Limited is keen to deepen its relationships with its existing Hospitality customers and has decided to prioritise Sheravile Hotels and Spicey Restaurants. However, due to time constraints, we have decided that we can only concentrate our effort on one of these customers for enhanced marketing activities.

I have included some notes that could assist you, in addition to those ones you already have about our Sheravile and Spicey businesses. Going forward, you can assume that the gross profit margins would continue to be stable and in line with recent trends for both customers.

Delaware Exotic Wares' management would like you to consider the strategic benefits and risks of each of the alternatives and recommend the one to concentrate their efforts on, at least, for now. You may also wish to take into consideration any ethical issues you think may arise in respect of each business.

We at Delaware Exotic Wares wish to conclude on either of these businesses before the end of November, so I will like to have the group's directive on these businesses within this time constraint.

Joel Young

Sheravile Hotels' business proposal

Sheravile update e-mail sent by Daniel Chukwuma, Managing Director, Sheravile Hotels

Joel

We at Sheravile would like to thank you for all your support to our business over the past years. Over the years, our relationship has continued to blossom and we cannot wait to share with you our current strategic plan, though still very confidential and we are keeping it to our chests. We believe that fears in relation to the Nigerian economy is misplaced, as we are confident that the economy will bounce back with huge growth in demand for use of our hotels. We are targeting the government sector and the political class as our hotels are concentrated in the Federal Capital Territory and major state capitals. Our new Luxury Rooms loyalty scheme, will apply to travellers visiting the FCT and state capitals. We will introduce a special treat for all our guests as all rooms will now include full complimentary breakfast which we are tagging the "Sheravile treat".

It will interest you to note that we are continuing on our impressive growth and have added a fully operational 10 hotels to our portfolio since September, 2018. We believe these additions will further deepen our business relationship with Delaware.

Daniel

Sheravile Hotels' proposal notes provided by Delaware Exotic Wares management

We are of the opinion that sale of top of the range tableware would be a real opportunity at Sheravile restaurants.

We will inform Sheravile that available research shows that the vast majority of dinners at highbrow restaurants have experienced problems with tableware over the last 12 months, damaging the guests' enjoyment of the meal and resulting in loss of goodwill.

We have estimated that our proposal would generate an additional ₦500,000 revenue per hotel in the first year of the project and an additional ₦750,000 revenue per hotel in the second year. We have assumed that it would take a one-off investment of 400 hours of management time, with an opportunity cost of ₦1,500 per hour, to effectively deepen our relationship with Sheravile.

Spicey Restaurants' Business proposal

Spicey Restaurants email from Debby Sanusi, CEO, Spicey Restaurants

Joel,

Please refer to the points I raised in my earlier mail to you in respect of our business plan's projection for the next 5 years.

Having continued our previous strategic expansion, we are proud to let you know that we now have 110 operational restaurants in major cities in the country. We are happy with our branding arrangement with Delware so we expect this would continue in any future business relationship as we are presently considering using Delware kitchenware in all our restaurants, henceforth. Our planned tableware replacement is estimated at N250,000 per restaurant. Also, each of our new restaurant will need new set of tableware, our estimate for each restaurant is N500,000. Furthermore, our experience has shown that unplanned replacement due to accidental breakages is N50,000 per restaurant.

We have been very impressed with all Delware products to date, therefore, we are keen to offer Delware good terms for the sale of kitchenware, based on the same terms as tableware.

Debby

Spicey Restaurants' proposal notes provided by Delware Exotic Wares' management

We are going to offer Spicey our improved quality innovative KE10 non-stick pans. We know that Spicey will henceforth rely on our kitchenware, so, to prevent any unnecessary disruption to our supply, we will be offering Spicey the two variants, KE10 with special coating and the KE10 without the special coating, without differentiating this on the product literature we are sending to Spicey, as if they are the same.

If our proposal is successful, then we think that we can boost revenue from kitchenware by ~~N~~500,000 in the first year and N100,000 in subsequent years per Spicey restaurant. Our investment into the Spicey relationship would require a one-off investment of 400 hours of management time, with an opportunity cost of ~~N~~1,200 per hour.

Case Study: Pilot 2

Queens Restaurants Limited: 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 analyses 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 analyses 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.

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 is 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.

Candidates that omit any one of these will have a slim chance of success in the examination.

Case Study: Queens Restaurants Limited

List of exhibits

- 1 About you (Joel Arochukwu) and your employer, Okanlawon, Onyeama Ogana &Co, (Chartered Accountants)
- 2 History of catering industry in Nigeria
- 3 Queens Restaurant Limited: history, operations, board and management
- 4 Queens Restaurant's management accounts – 2016 to 2017
- 5 Queens Restaurant Limited: Cost/pricing structure
- 6 Press article

Exhibit 1

About you (Joel Arochukwu) and your employer (Okanlawon, Onyeama Ogana &Co)

You are Joel Arochukwu, writing the Professional level of ICAN examination. You are working in the Lagos office of Okanlawon, Onyeama Ogana &Co (chartered accountants) which has its offices in all the state capitals of the country. You are reporting to Joseph Ogana, 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 for analysis 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 operating environment so as to be able to carry out the above tasks effectively.

History of catering industry in Nigeria

The history of catering industry in Nigeria started with the Nigerian Railway Caterers, managed by Mr. Robert Foth who operated it as a catering service on the Nigerian Railway cabins and it consisted of restaurant and bar. This company was later taken over by the Nigerian Railway and registered as a limited liability company which was later sold to the Nigeria UAC and G B Olivant. The company's name was changed to Nigerian Hotel Limited in 1946.

In 1962, Mr. Roberts took over the management of the hotel and expanded its operations. The hotel, which started as a guest house grew to become Ikoyi Hotels, Lagos. By 1974, the hotel was managing the following hotels:

- i. Ikoyi Hotels, Lagos;
- ii. Airport Hotels, Lagos;
- iii. Bristol Hotels, Lagos;
- iv. Arewa Hotel, Kaduna;
- v. Sokoto Hotel, Sokoto;
- vi. Lake Chad Hotel, Maiduguri;
- vii. Hill Station Hotel, Jos;
- viii. Premier Hotel, Ibadan;
- ix. Lafia Hotel, Ibadan; and
- x. Metropolitan Hotel, Calabar.

The first private hotel in Nigeria was established by Nicholas at No 6, Broad Street, Lagos, known as, Olympic Hotel and the second one was Grand Hotel, Idumota, Lagos.

Since 1960s Nigeria has had one of the fastest population growth rates in the world. In 2010 almost half of all Nigerians live in cities - a number totalling 73 million. As more people choose to settle in Nigeria's crowded cities, life has become more demanding. With more women joining the work force, their traditional roles have changed. As a result, many urban people now opt to eat some of their meals outside the home. To meet the demand, many small restaurants known as bukkas have mushroomed all across Nigerian cities to serve this working population. These restaurants generally serve Nigerian traditional meals either in open-air areas or in low-cost small rudimentary dining buildings. Meals are relatively cheap and as a result they have gained a loyal following among the Nigerian urban masses.

More recently, modern Nigerian fast food restaurants have also sprung up to cater to a more up-market consumers with western tastes. Unlike bukkas, which tend to vary in quality and service, modern fast food restaurants place an emphasis on ambience,

hygiene and comfort. Care is taken with food handling and the dining environment is kept clean, air-conditioned and furnished with comfortable seating and premium television. These restaurants serve western snacks and fast foods and ice cream together with traditional Nigerian dishes.

Modern fast food restaurants have experienced rapid growth over the past decade of almost 30% year-on-year to reach a total revenue of around \$400 million from around 800 outlets in 2009. Expansion in telecommunications, banking, and retail trade has meant that many more Nigerians are joining the middle class with increased disposable income. In addition, modern fast food companies have gained increased access to capital through bank loans, private equity and stock market listings to roll out many more outlets around primary Nigerian cities such as Lagos, Abuja and Port Harcourt.

However, the industry faces many challenges including instability in power supply, insecurity, negative global publicity and the effects of the general issues facing the growth of tourism in Nigeria.

Restaurant chains have emerged as part of the changing face of Nigeria. While Nigeria has always had restaurants of all classes, the new entrant is middle income fast food chains. The likes of Mama Cass, Chicken Republic, T.F.C, Tantalizers and Mr. Biggs have taken up the race, building multicity chains of restaurants all over the country. These chains with an average rate of ₦1500 per plate, depending on the class of the restaurant and the location. Quality foods are served in clean dining and welcoming atmosphere. They have been highly successful and represent the highest change in the industry.

The low end still exists, known as “mama put”, these road side restaurants give the general public access to restaurant dining, their range is incredible and based on the individual setup ran by each proprietor. The price per plate can run from as low as ₦100 to ₦1500.

There exists a rising high end characterised by high rates and located mainly in the major cities like Lagos and Abuja. These “true” restaurants offer high end dinning with global palettes from Chinese to Japanese to Italian foods.

Another strong feature of the industry are hotel restaurants, they are a major attraction for hotels in Nigeria and correspond in quality with the hotels in which they are situated. They present a reasonable value proposition to travellers who are not always comfortable venturing outside of their hotels for various reasons.

Queens Restaurant Limited: History, operations board and management

History

Queens Restaurant Limited (QR) was established by Mrs. Helen Thomas. Mrs. Thomas was a trained nurse and has worked in the General Hospital, Lagos for several years. Mrs. Thomas is naturally talented with the art of cooking and hospitality. She enjoys cooking and catering for family and friends.

Therefore, in January 2009, she decided to pursue her natural bent, she resigned from the General Hospital and with the assistance of her husband, got a land at a very good location in the city where she built Queens Restaurants. Her husband, Dr. Thomas, being a very popular man in the society, ensured that the opening of the restaurant, in September 2009, was attended by who is who in Lagos. This opened the restaurant for patronage from the middle and high class of the city, which the restaurant has been enjoying since then.

Right from the inception, Mrs. Thomas left no one in doubt that Queens Restaurants is out to cater only for the highbrow of the society and not a restaurant for all comers. QR, as it is commonly advertised, is a classy restaurant and the environment shows this very clearly.

Operations

QR is equipped with modern catering equipment, starting from the kitchen to the dining area and bar. Giant freezers were installed around the kitchen area for preservation of food items including proteins – fish and meat. Sometimes, cooked or per boiled food are also stored in theses freezers.

Generally, meals are prepared to order, but some basic food items such as rice, beans, vegetables, fish and meat are cooked and preserved in the freezers to ensure they are made ready for customers immediately orders are placed. Local dishes such as pounded yam, garri, yam flour, etc. are generally prepared to order. Sometimes, some of these food items overstay in the freezer and the kitchen staff have had to add special seasoning flavour to preserve their taste, so that customers will not be aware of this.

Relationship with industry regulatory agencies

QR ensures it has a cordial relationship with officials of the regulatory agencies in the industry. Public relation expenses are used to take care of these officials from time to time. Therefore, QR does not need to border about troubles from these agencies for not complying with rules and regulations. This allows QR to flout some of these regulations, sometimes with impunity.

Board and management

QR is run by a board of four directors, Dr Thomas as the chairman, Mrs. Thomas as the managing director and two of their children as non-executive directors. Only Mrs. Thomas

works as an executive of QR and she is assisted by a General manager who is a seasoned caterer. The management team comprise:

Mrs Helen Thomas	Managing director
Mrs. Dupe Adeolu	General manager
Mr. Kareem Sanni	Accountant
Mary Chukwu	Purchasing manager

Exhibit 4**Queens Restaurant's management accounts – 2016 to 2017**

Queens Restaurants Limited
Statement of financial position
31 December

	Notes	2016 N'000	2017 N'000
Non-current assets	1	136,927	134,429
Current assets	2	4,125	5,516
Current liabilities	3	<u>(34,657)</u>	<u>(28,615)</u>
Total net assets		<u>106,395</u>	<u>111,330</u>
Financed by			
Term loan		9,014	7,464
Share capital		1,000	1,500
Revenue reserve		110,145	166,168
Directors current account		<u>(13,764)</u>	<u>(63,802)</u>
Shareholders fund		<u>97,381</u>	<u>103,886</u>
		<u>106,395</u>	<u>111,330</u>

Queens Restaurants Limited
Income statement
31 December

		2016 N'000	2017 N'000
Revenue	4	254,299	193,739
Less cost of sales	5	<u>94,667</u>	<u>60,566</u>
		159,632	133,173
Other income		<u>688</u>	<u>540</u>
Gross profit		160,320	<u>133,713</u>

Admin expenses:	57,048	41,786
Finance cost	1,185	891
Depreciation	<u>6,519</u>	<u>8,649</u>
Total expenses	64,752	51,326
Net profit before tax	95,566	82,387
Tax expense	<u>30,582</u>	<u>26,364</u>
Net profit after tax	<u>64,986</u>	<u>56,023</u>

Note 1: Non-current assets

Cost

	Land & building N'000	Plant & equipment N'000	Motor vehicle N'000	Furniture &fittings N'000	Total N'000
Cost at 1/1/2016	120,000	11,850	5,250	14,183	151,283
Additions	-	-	-	-	-
Cost at 31/12/2016	120,000	11,850	5,250	14,183	151,283

Depreciation

As at 1/12/2016	-	3,493	-	2,608	6,101
For the year	-	2,930	2,488	2,837	8,255
As at 31/12/2016	-	6,423	2,488	5,445	14,356

Carrying amount

31/12/2016	<u>120,000</u>	<u>5,427</u>	<u>2,762</u>	<u>8,738</u>	<u>136,927</u>
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Cost

	Land & building N'000	Plant & equipment N'000	Motor vehicle N'000	Furniture &fittings N'000	Total N'000
Cost at 1/1/2017	120,000	11,850	5,250	14,183	151,283
Additions	-	-	6,150	-	6,150
Cost at 31/12/2017	120,000	11,850	11,400	14,183	157,433
Depreciation					
As at 1/12/2017	-	6,423	2,488	5,445	14,356
For the year	-	2,962	2,850	2,837	8,649
As at 31/12/2017	-	9,385	5,337	8,282	23,004
Carrying amount					
31/12/2017	<u>120,000</u>	<u>2,465</u>	<u>6,063</u>	<u>5,901</u>	<u>134,429</u>

Note 2	2016 N'000	2017 N'000
Current assets		
Stock	4,876	4,775
Debtors & prepayment	-	251
Bank / Cash	-	490
	<u>4,876</u>	<u>5,516</u>
Note 3		
Current liabilities		
Trade creditors	2,786	1,460
Sundry creditors	<u>30,582</u>	<u>27,155</u>
	<u>34,657</u>	<u>28,615</u>
Share capital	1,000	1,500
Issued and fully paid		
Note 4		
Revenue		
Drinks	82,297	77,980
Food	<u>172,002</u>	<u>115,759</u>
	<u>254,299</u>	<u>193,739</u>
Note 5		
Cost of sales		
Drinks	24,277	20,821
Food	<u>70,390</u>	<u>39,745</u>
	<u>94,667</u>	<u>60,566</u>

Exhibit 5

Queens Restaurant Limited: Cost/pricing structure

The following cost/pricing structure will apply to every contract:

Estimated average cost/pricing per plate – any local dish

	N	
Food item	250.00	
Protein	<u>500.00</u>	
	750.00	
Profit	1,750.00	
Administrative charges	150.00	
Transportation cost	50.00	
Facility charges	200.00	
Service charges	<u>100.00</u>	
Price per plate	<u>3,000.00</u>	- per plate
Estimated average cost/pricing per plate - Continental		
Food item	500.00	
Protein	<u>500.00</u>	
	1,000.00	
Profit	2,500.00	
Administrative charges	150.00	
Transportation cost	50.00	
Facility charges	200.00	
Service charges	<u>100.00</u>	
	<u>4,000.00</u>	per plate
Pepper soup – fish	1,500.00	per plate

Pepper soup – goat meat	1,500.00 per plate
Pepper soup – chicken	2,000.00 per plate
Asun goat meat	1,500.00 per plate
Sandwich	2,500.00 per portion
Small chop	2,000.00 per plate

Estimated price for drinks

	N
Bottled water – small 75ml	150.00
big 1.5 litres	300.00
Any soft drink	300.00
Beer/stout – per glass	400.00
Brandy – lower end – per shot	500.00
- medium level – per shot	750.00
- high end – per shot	1,000.00
Champaign – per shot	1,500.00
Chapman – per glass	500.00

Note

1. This price structure could be varied for each contract service, depending on the terms of each contract. However, food and drinks served at the restaurant are at prices quoted per plate.
2. The labour cost per hour included in the above cost structure is ~~N~~200 and ~~N~~300 for staff and supervisor, respectively.
3. Administrative, facility and service charges are apportionment of the company's overheads as they are not specifically incurred per plate of food served.

The food industry in Nigeria and the need for quality control

Nigeria like many other developing countries faces the challenge of providing adequate food supply for its teeming population. Policies and programmes aimed at boosting agricultural and food production are being actively promoted. However, Nigeria needs to take appropriate and pragmatic steps to ensure food safety and quality for domestic consumption and export. An effective national food safety policy is needed to provide assurance that food supplied to consumers is nutritious, of good quality and wholesome. The Government of Nigeria launched the National Policy on Food Hygiene and Safety in 2000 as an integral part of the Nigerian National Health Policy. The overall goal of this policy is the attainment of high level of food hygiene and safety practices which will promote health, control food-borne diseases, minimise and finally eliminate the risk of diseases related to poor food hygiene and safety. The policy seeks to stimulate and promote legislations concerning food in areas of production, storage, handling, processing, preservation, trade, transportation and marketing. It also seeks to improve the quality of healthcare through ensuring that all food consumed in Nigeria, whether imported or locally produced are wholesome, nutritious, free from contaminants and accessible to the consumers at affordable price. Implementation of the policy is aimed at addressing the unsatisfactory level of food hygiene and safety practices which to a large extent is responsible for the prevalence of food-borne diseases in Nigeria.

Quality control is the ongoing effort to maintain the integrity of a process in order to maintain the reliability of achieving an outcome. In food processing, controllable factors that either positively or negatively influence the finished products are referred to as the quality control. To be able to achieve product of consistent and high quality, the use of good and sound raw materials is of optimum importance. Maintenance of quality also means there should be set standards which will serve as guideline in the assurance of consumer protection and safety as well as being related to improving future processing. Quality standards should ensure that food which is suitable for consumption is processed in a hygienic manner, is nutritious and safe.

In food processing, the general rule is that effective methods must be carefully applied to conserve the original qualities of the raw materials because processing cannot improve the raw materials. Some of the main objectives of quality control in the food industry are to assure that food laws are complied with in an effective manner, to protect consumers from dangers and ensure that they get the proper quality and weight as per payments.

Therefore, a preventive strategy based on thorough analysis of prevailing conditions which ensures that the objectives of the quality assurance programme are met is recommended for the food industry. Producers at all stages of production, processing and distribution must be responsible for safe food and should establish food safety assurance programmes while the government on the other hand, should play the primary role of providing leadership for the implementation of the food safety assurance system.

A total food chain approach to the production and delivery of safe food to consumers is a responsibility that encompasses all stakeholders throughout the food chain, including farmers and suppliers of farm produce, slaughterhouse and packinghouse operators, food manufacturers, transport operators, wholesale and retail traders, caterers and street vendors and the product laboratory certification and enforcement agencies.

Globalisation of food supplies has necessitated attention on how to strengthen measures taken to ensure quality and safety, especially of imported foods. Different countries have specific regulations, legislation, guidelines and Acts which are considered necessary to be complied with and implemented by food industries when they process their products. It is the responsibility of government to ensure that the established standards, legislation and enforcement programmes are kept by the food industry to control food quality and safety.

In Nigeria, the responsibilities for regulating and monitoring food safety standards and practices devolve on the following government organisations and agencies:

- ▶ National Agency for Food and Drug Administration and Control (NAFDAC)
- ▶ Federal Ministry of Health
- ▶ Standards Organisation of Nigeria (SON)
- ▶ National Codex Committee
- ▶ Federal Ministry of Agriculture
- ▶ States and Local Governments.

The National Agency for Food and Drug Administration and Control (NAFDAC) is the major agency responsible for regulating and controlling the manufacture, importation, exportation, advertisement, distribution, sale and use of food, drugs, cosmetics, medical devices, chemicals and pre-packaged water. However, in line with government policy on food hygiene and safety, responsible agencies are mandated to:

- ▶ Protect the public against injury to health through the consumption of unwholesome food.
- ▶ Restrain the sale of foods which are unhygienically prepared, adulterated, contaminated, spoilt or improperly labelled.
- ▶ Ensure proper inspection and registration of all food premises.
- ▶ Conduct public health surveillance of food premises, food handlers and equipment used for food processing.
- ▶ Educate the populace on sound hygiene and safety practices.
- ▶ Ensure inter-ministerial and multi-sectional collaborative activities.
- ▶ Collaborate with non-governmental organisations and ensure community participation.

Towards the achievement of the objectives of the policy, the collective activities of the responsible agencies are performed through regulations, regular inspection and surveillance activities, registration of premises and activities. Furthermore, company certification and award procedures for manufacturers who meet the requirements of the relevant standards are in place.

However, it is a common knowledge that some unscrupulous operators in the food chain usually connive with staff of these agencies to issue certification to some operators in the food chain, especially restaurants, without due regard to laid down procedures and quality standard because their palms have been greased.

Also, quality standards play critical role to facilitate goods and services exchanged across borders. In the importation of foods into Nigeria some major food safety and quality problems encountered are:

- ▶ Spoilage and nearness to expiry dates
- ▶ Poor handling and dehydration
- ▶ Substandard/fake products
- ▶ Non-indication of production dates
- ▶ Deceitful labelling
- ▶ Over pricing
- ▶ Instruction manuals in foreign languages

These food safety and quality problems encountered in the importation of foods can be eliminated if conscientious efforts are made by the regulatory bodies of the individual countries to keep to established international and local standards. If implemented, this will raise the quality, safety and reliability levels of food products and can definitely provide economic benefits.

UNSEEN

November 2019 Case Study: Queens Restaurants Limited (QR)

List of exhibits

The following exhibits are newly provided and did not form part of the material provided as Pre-seen:

- 7 Email from Joseph Ogana to Joel Arochukwu
- 8 Email from Helen Thomas to Joseph Ogana
- 9 Queens Restaurant Limited: management accounts for the year ended 31 December 2018
- 10 Proposed contract terms with QR – draft written commitments received from Thorpe Jones, Medical Director, Lagos Hospitals Limited (LH)
- 11 Introduction of QR's health bar

Queens Restaurants Nigeria Limited (QR): Case Study requirement

You are Joel Arochukwu, a final-year trainee ICAN Chartered Accountant working in the Lagos office of Okanlawon, Onyema Ogana & Co (chartered accountants). One of your clients is Queens Restaurant Limited, a company which runs a restaurant in Lagos, Nigeria. You report to Joseph Ogana, partner in charge of the business advisory unit of the firm.

Requirement

You are required to prepare a draft report for the QR board, as set out in the email dated 6 March 2019 from Joseph Ogana to you (**Exhibit 7**). Your report should comprise the following:

- ▶ An executive summary
- ▶ Responses to the two detailed requirements set out in Exhibit X, including appropriate appendices.

State clearly any assumptions you have made. All workings should be attached to your answer.

The following time allocation is suggested:

- | | |
|--|---------|
| ▶ Reading and planning | 1 hour |
| ▶ Performing calculations and financial analyses | 1 hour |
| ▶ Drafting report | 2 hours |

Marks allocation

All of the marks in the Case Study are awarded for demonstration of professional skills, allocated broadly as follows:

Applied to the four elements of your report (as described above)

- | | |
|--|------------|
| ▶ Assimilating and using information | 20% |
| ▶ Structuring problems and solutions | 20% |
| ▶ Applying judgement | 20% |
| ▶ Drawing conclusions and making recommendations | <u>20%</u> |
| | 80% |

Applied to your report as a whole

- | | |
|--|-------------|
| ▶ Demonstrating integrative and multidisciplinary skills | 10% |
| ▶ Presenting appropriate appendices | <u>10%</u> |
| | <u>100%</u> |

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.

Ensure that you address the two requirements in your report or failure to address any requirement including not submitting an executive summary, will adversely affect your chance of success. In addition, as indicated above, all four skills areas will be assessed under each of the four elements of your report. Accordingly, not demonstrating your judgement or failing to include appropriate conclusions and/or recommendations in each of your reports will reduce your chance of success.

EMAIL

From: Joseph Ogana
To: Joel Arochukwu
Subject: Queens Restaurant Nigeria Limited
Date: 6 March 2019

As usual, Queens Restaurants Limited (QR) has just completed another successful year of trading and has asked us to evaluate its performance in the past year and at the same time analyse the financial impact of its new business opportunities. QR has been approached by Lagos Hospitals Limited to provide catering services and has also identified a strategic new business. I am attaching exhibits 8 to 11 which include QR's management accounts for the year ended 31December 2018 and the two business proposals.

You are to carry out a detailed analysis of the management accounts and prepare a report for QR's board. You are also required to carry out an evaluation and appraisal of the business proposals and recommend appropriate course of action to be taken by QR.

Please draft for my review a report addressed to the board of QR. The report should comprise:

1. A review of QR's management accounts for the year ended 31December 2018 as presented in exhibit 9. Your review should comprise an analysis of the key changes in revenue, costs and overheads across its 2revenue streams by comparison with the previous two years. You should evaluate the impact of these changes on QR's operating profit. In addition, please comment on reasons for QR's poor cash/bank balance despite the huge profit during the year.
2. A financial assessment of the catering contract as contained in exhibit 10. You are also required to critically evaluate the proposed strategic business opportunity for QR and discuss any broader commercial and ethical considerations as well as the risks that may be associated with accepting/venturing into these business proposals.

I look forward to receiving your draft report.

EMAIL

From: Helen Thomas – Queens Restaurant Limited
To: Joseph Ogana –Okanlawon Onyeama, Ogana & Co
Subject: Queens Restaurant Limited
Date: 4 March 2019

Joseph,

As you know, we have just completed another successful year of trading and as usual, our board would like you to carry out a review of our performance during the year. Your review should comprise an analysis of key changes in revenue, costs and expenses, across the two revenue streams and comparison with the two previous years. The board would also like you to explain the reasons for little or no cash balance at the end of the year despite the huge profit.

We have just received an approach from Lagos Hospitals Limited (LH), to provide in-house catering services for all the patients and staff of its five hospital units within Lagos metropolis. It is great to receive this interest from a major new client, more so, as you are also aware, one of our most important existing contracts, with Dove group of schools, expires on 30 June 2019 and we do not know whether Dove would renew this contract or not. However, whichever way it goes, I think, with this new contract coming from LH, we would be fine. Therefore, our board would like you to evaluate this proposed contract and advise on its possible effect on QR's future revenue and highlight any ethical and business trust you would want our board to consider.

I also attach a new strategic business proposal, the introduction of health bar into our restaurant. I have given you some details about this proposal in the attachment, our board would like you to evaluate the financial implications of this proposal in term of profitability, breakeven in naira value and number of visitors per annum.

I have provided as much information as I can on LH (proposed contract terms) and you should still have some information on Dove as our client in your file. Our costing and payment terms for Dove is essentially the same with this proposed contract from LH. But you may need to take note of the following regarding the costing of the LH contract proposal:

- ▶ The actual costs of table water to QR are 75ml, ₦45 and 1.5 litres, ₦90 per bottle; and
- ▶ Management time estimated to be spent on LH contract per month is 400 hours and our management time charge out rate is N1,500 per hour.

Thanks for your continued efforts,
Helen

Exhibit 9

Queens Restaurant Limited: management accounts for the year ended 31 December 2018

Queens Restaurant Limited Statement of financial position 31 December

	Notes	2018 N'000
Non-current assets	1	126,696
Current assets	2	6,183
Current liabilities	3	<u>(23,957)</u>
Total net assets		<u><u>108,922</u></u>
Financed by		
Share capital		1,500
Revenue reserve		212,573
Directors current account		<u>(105,151)</u>
Shareholders fund		<u><u>108,922</u></u> <u><u>108,922</u></u>

Queens Restaurant Limited Income statement 31 December

		2018 N'000
Revenue	4	170,000
Less cost of sales	5	<u>49,854</u>
		120,146
Other income		<u>646</u>
Gross profit		<u><u>120,792</u></u>

Admin expenses: 44,295

Depreciation 8,255

Total expenses 52,550

Net profit before tax 68,242

Tax expense 21,837

Net Profit after tax 46,405

Note 1: Non-current assets

Cost

	Land & building N'000	Plant & equipment N'000	Motor vehicle N'000	Furniture &fittings N'000	Total N'000
Cost at 1/1/2018	120,000	11,850	11,400	14,183	157,433
Additions	-	-	-	523	523
Cost at 31/12/2018	120,000	11,850	11,400	14,706	157,956

Depreciation

As at 1/12/2018 - 9,386 5,337 8,281 23,004

For the year - 2,464 2,850 2,941 8,255

As at 31/12/2018 - 11,850 8,187 11,222 31,259

Carrying amount

31Dec2018 120,000 - 3,213 3,483 126,696

2018

Note 2 N'000

Current assets

Stock 4,386

Debtors &prepayment -

Bank / cash 1,797

6,183

Note 3

Current liabilities

Trade creditors 2,120

Sundry creditors 21,837

23,957

Share capital	1,500
Issued and fully paid	

Note 4

Revenue

Drinks	68,705
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Food	<u>101,295</u>
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	<u>170,000</u>
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Note 5

Cost of sales

Drinks	16,720
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Food	<u>33,134</u>
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	<u>49,854</u>
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Proposed contract terms with QR – draft written commitments received from Thorpe Jones, Medical Director, Lagos Hospitals Limited (LH)

- ▶ LH would agree to a 3-year rolling contract, renewable annually, for provision of catering services to the patients and staff in all LH five hospitals within Lagos metropolis.
- ▶ The contract will commence from 1 July 2019.
- ▶ LH will provide space and equipment for cooking and all other auxiliary equipment.
- ▶ Under the proposed contract, QR would be required to subject its staff, who are to work in the hospital restaurants, to annual medical checks, the cost of which would borne by QR.
- ▶ QR would be required to provide staff from 6 am to 11pm and at least 15 QR staff would need to be in each hospital at all times, this should include 2 supervisors. The staff are expected to work in two shifts per day, morning and afternoon.
- ▶ QR would be required to provide all food stuff and other ingredients.
- ▶ All invoicing would be done monthly and would be settled by LH within five working days.
- ▶ QR would maintain a record of food served in each hospital daily. This should be sent to LH accounts department on a weekly basis. Any bill not supported with a record of food served would not be paid.
- ▶ QR would be required to cook three menus, two local and one continental daily. Menu list for each day would be agreed with the Nursing director on a weekly basis.
- ▶ QR would provide breakfast, lunch and dinner for hospital patients and lunch only for hospital staff on a daily basis.
- ▶ LH would have to specify the type of seasonings for all meals to be served.
- ▶ QR would only be allowed to serve water with the food as no soft drink would be allowed in the hospital restaurants.
- ▶ LH would pay only 50% of SR's current price per plate, both for the local and continental menu. This price includes one 75ml bottle of water per meal.
- ▶ LH guarantees a minimum of 20 breakfasts, 50 lunches and 20 dinners per day in each hospital.
- ▶ LH will charge QR ₦5,000 per staff for annual medical check-up.

Introduction of QR's health bar

Mrs. Helen Thomas visited the United Kingdom during her holiday and was opportune to visit some health bars that are operated alongside with traditional catering restaurants. These bars were introduced in response to the society's growing awareness for healthy eating and drinking. These bars only serve varieties of herbal health drinks and spices. And they are enjoying increasing patronage as a result of continuing campaign for people to eat and drink organic foods to promote good health and fitness.

Fortunately, Mrs. Thomas was able to arrange a business meeting with the owner of one of these health bars, Mrs. Gladys Duncan. The meeting was very fruitful as Mrs. Thomas was able to secure an agreement for collaboration with Mrs. Duncan. Mrs. Thomas, on her part, agreed to adopt the model of Mrs. Duncan's health bar back home. While Mrs. Duncan agreed to assist Mrs. Thomas to set up a similar bar in QR.

Equipment are to be sourced from the UK with the assistance of Mrs. Duncan who will arrange to buy them and airfreight them to Nigeria. Both Mrs. Thomas and Mrs. Duncan visited the supplier of the equipment and agreed prices before Mrs. Thomas came back to Nigeria.

The total cost of the equipment was £10,000 and airfreight was estimated at 10% of cost of the equipment. Mrs. Duncan will charge a commission of 5% for her effort on the cost of the equipment. Mrs. Thomas has estimated the following additional cost to set up the health bar in QR:

	₦
Clearing of the equipment from the airport	50,000
Additional furniture for the bar	100,000
Preparation of location for the bar within QR	200,000

The bar will need 8 bar attendants who will be in two shifts, 4 attendants in the morning shift and 4 in the afternoon shift. The bar will operate from 7: 00 am to 10:00 pm in the night. The morning shift attendants will resume by 6:00 am and close by 2:00pm when the afternoon attendants will be resuming. Salary for each attendant is estimated at ~~₦~~60,000 per month. A supervisor will be employed for the bar and will be resuming from 8:00 am in the morning and close by 6:00 pm in the evening. The Manager on duty will cover up for the supervisor during the time she will not be on duty. The supervisor's salary is estimated at ~~₦~~120,000 per month. It is estimated that the manager's hour that will be spent on the health bar, during the time the supervisor is not on duty, will be 1,260 hours yearly and this will be charged to the bar at ~~₦~~400 per hour.

Customers' visit to the bar for the first 3 years has been estimated to be as follows:

First year:

Probability:	60%	30%	10%
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Visitors:	7,200	18,000	27,000
Second year:			
Probability:	60%	30%	10%
Visitors:	8,640	21,600	32,400
Third year:			
Probability:	60%	30%	10%
Visitors:	9,500	19,800	29,700

It has also been estimated that each visitor to the bar will spend, on average, ~~N~~1,000 and cost of drinks and spices served per visitor will be an average of ~~N~~350.

The exchange rate of naira to the pound sterling is put at ~~N~~550.

The equipment and the furniture will have a life span of 10 years while the bar hall will need to be refurbished after 5 years.

