



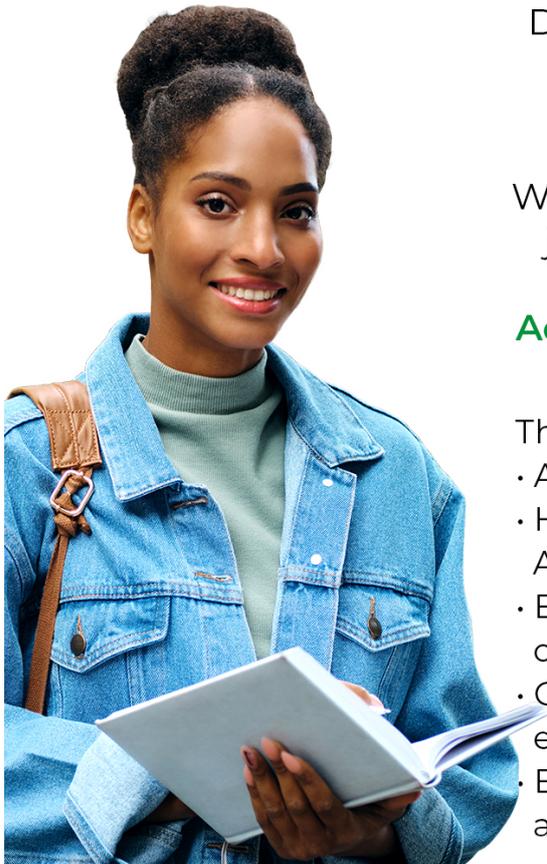
Bond Yield Analysis Including Foreign Bonds





THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA

(Established by Act of Parliament No. 15 of 1965)



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PART 3

Principles of Auditing, Cost Accounting, Management, Preparing Tax Computations & Returns.

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You can also get more details on the students page of the ICAN website: www.icanig.org



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ICAN Students' Journal

(ISSN: 1119-9636) is published quarterly by the Institute of Chartered Accountants of Nigeria. Plot 16, Professional Centre Layout, Idowu Taylor Street, Victoria Island, P.O. Box 1580, Lagos. Tel: 09053847510, 09053847511. E-mail: info.ican@ican.org.ng corporateaffairs@ican.org.ng; ICANWebsite:www.icanig.org

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Editor's Note

We welcome our readers, both students and non-students to the second quarter edition of your favourite ICAN Students Journal.

Our lead article in this edition is entitled "**Bond Yield Analysis – Including Foreign Bonds**". The author, Ade Omolehinwa explained to the students and non-student readers all what they need to know about Bonds and how it yields dividends for investors who ventured into Bond buying.

The author explained that when an investor buys a bond, he receives a return from that bond in the form of annual interest payments and if the bond is redeemable, he also receives the final redemption payment. He added that the total effective return is referred to as the yield.

The article teaches the students how the yield of a redeemable bond is also known as the yield to maturity (YTM) or redemption yield as well as being the effective return to the investor.

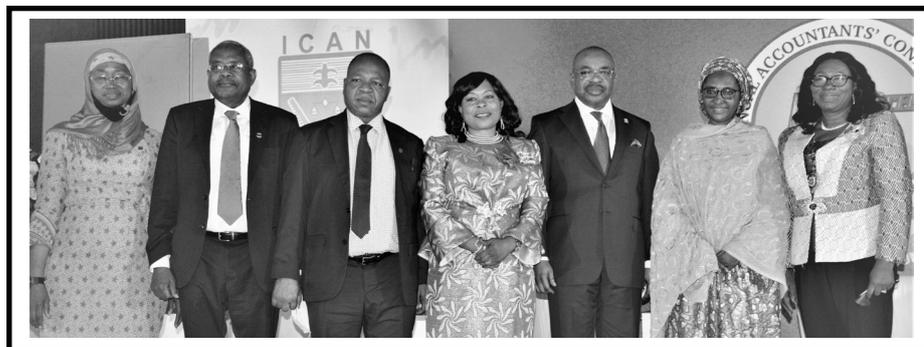
You will also read in this edition the news items chronicling the various events of the Institute within this quarter.

As usual, we publish some past questions and solutions to guide our students on how to tackle examination questions in future. The detailed reports of all these and other regular columns are contained in this edition.

Be health conscious as experts have warned that another deadly variant of Corona virus (Delta variant) has surfaced in the country. Keep yourself safe by observing the necessary precautions and health protocols.

Your comments and contributions are welcome. Please contact the Editor via: editor@ican.org.ng or aowolabi@ican.org.ng

50TH ANNUAL CONFERENCE: ICAN HARPS ON 4TH INDUSTRIAL REVOLUTION AS PANACEA FOR PANDEMIC



ICAN President and dignitaries at the Conference

The Institute at its 50th Annual Accountants' Conference has described the 4th industrial revolution as a boom for accounting profession and a panacea for pandemic ravaging the world.

The Conference which was held from April 5-9, 2021 at the International Conference Centre, Abuja and Sheraton Abuja Hotel had ***"The 4th Industrial Revolution: Boom for the Accounting Profession and Panacea for Pandemic"*** as its theme.

Declaring the Conference open, the Special Guest of Honour, His Excellency, President Muhammadu Buhari, who was represented by the Minister for Finance, Budget and National Planning, Hajia Zainab Shamsuna Ahmed eulogized ICAN for rendering excellent services to the nation from time to time, especially on financial and economic matters, adding that the federal government will continue to collaborate with professional bodies like ICAN to foster good financial and economic policies.

Welcoming participants, the 56th ICAN President, Dame Onome Joy Adewuyi disclosed that the Annual Conference has come a long way with a modest participation of about 200 delegates during its first edition in 1971.

"Over the years, it has continued to beam well-deserved searchlight on economic, financial, ethical and corporate reporting issues with direct bearing on the accounting profession, national and global economy'.

"We rose from each edition with profound policy recommendations and novel initiatives which have positively impacted human and technical capacity building, resource management and value creation in both the public and private sectors of the economy.

In his lead paper at the conference entitled ***"Digital Revolution: The Accountancy Profession and the Future of Work"*** the President of the International Federation of Accountants (IFAC), Mr. Allan Johnson posited that the world was already in the era of 4th industrial revolution driven by rapidly changing digital technologies which has continued to transform societies, economies, professions and organizations.

According to him, the outcome of the revolution has been an overall increase in the productivity of economies, improved wellbeing of the populace and greater opportunities for inclusion and diversity among other benefits.

"Following the continuous advancements in digital technologies, the gap between the digital, physical and biological spheres of life is closing at a fast pace and the involvement of machines and technology in the performance of everyday activities is on the increase," he explained. He declared that since the adoption of technology by Accountants, there has been an increase in the value added to economies and businesses as a result of leveraging technology at work and applying an appropriate level of

interpersonal skills on their engagements. Other papers delivered at the conference include: Redefining a New Model of Accountable Leadership in Nigeria in the 4th Industrial Revolution; Taxation in a Digital Economy: Prospects and Challenges; Entrepreneurship: The Bane for the Development of Emerging Economies Through Technological Advancements; The Internet of Things: The Role of Communications Companies among others.

Apart from paper presentations, workshops and plenary sessions, there was a gala nite on Thursday during which two musicians, King Sunny Ade and Olamide Badoo entertained the participants.

There was also an open raffle draw where a member of the Institute, Mr. Ganiyu Abidemi Olanrewaju (MB No: 034992) won a brand new car. Other prizes like LCD television, gas cookers, laptops, fridges, phones were also won during the Gala by members.

There were also sporting activities, excursions and exhibitions. Other programmes of the conference include District Societies competition where various District Societies won trophies for their performances.

Declaring the conference close, Lagos State Commissioner for Finance, Dr. Rabiu Onaolapo Olowo expressed appreciation to those who took time out to attend the conference. He commended the Institute for choosing a theme that was highly instructive on the various challenges facing the country as far as technological development is concerned. He advised the Institute to forward the conference communiqué to the appropriate government quarters.

The conference was attended by a total number of 5,002 delegates including resource persons and invited guests. Participants from various countries were represented at the conference including Benin Republic, Cameroon, Canada, Gambia, Ghana, Niger Republic, Kenya, Togo, United Kingdom, United States of America, Malaysia and Nigeria, the host country.

ICAN COMMISSIONS ONOME ADEWUYI ICAN CENTRE WARRI TO RAISE YOUNG CHARTERED ACCOUNTANTS .



Dame Onome Joy Adewuyi ICAN Centre Warr

The Institute has commissioned a new resource centre in Warri, Delta State christened Dame Onome Adewuyi – ICAN Resource Centre named after the counterpart fund donor and 56th President of the Institute, Dame Onome Joy Adewuyi.

The centre according to her during the commissioning on Thursday, May 20, 2021 was built to raise young Chartered Accountants that would have an enduring profession in Warri and environ. She noted that the building aside from meeting the infrastructure need of the Institute and her members in the area, would also be a rallying point for District Societies in the Region”.

Speaking further, she posited that the ICAN Resource Centre was a way of according the accounting profession its prime of place in Delta state and Warri community.

“This event today is my humble way of giving back to both the profession and my community. My undying hope is that Warri town and its environs would soon become a major supplier of Chartered Accountants to the Nigerian economy. And I particularly look forward to a time when we would have other indigenes of Delta State becoming ICAN Presidents”, she declared.

She declared that as a profession that acts in the public interest, ICAN’s mandate was to continue to produce future ready Chartered Accountants that would be able to discharge their responsibilities to the society and their clients.

ICAN ACCREDITS 142 TERTIARY INSTITUTIONS IN NIGERIA

The Institute has accredited over 90 universities, 52 polytechnics and several tuition centres across all the States of the Federation including the Federal Capital Territory (FCT) to assist in the training of would-be Chartered Accountants. The 56th President, Dame Onome Adewuyi disclosed this during the 2020 Accreditation ceremony held in Lagos on April 22.

She explained that the Institute accredits and recognizes tertiary institutions and tuition houses essentially to ensure that students receive the quality of accounting education that meets global best standards as spelt out by the

International Federation of Accountants (IFAC) which ICAN examinations are structured after.

Certificates of accreditation were awarded to a total of 63 tertiary Institutions and tuition centres, made up of 23 universities, 14 polytechnics and 26 Tuition Centres at the ceremony.

EFCC PARTNERS ICAN ON ANTI-MONEY LAUNDERING



The 56th President, Dame Onome Adewuyi presenting a token to the EFCC Director of SCUML Mr. Daniel Isei during the visit

The Economic and Financial Crimes Commission (EFCC) has indicated its readiness to collaborate with the Institute on its anti-money laundering policies.

This was disclosed in Lagos on Thursday, May 6, 2021 by the Director, Special Control Unit Against Money Laundering (SCUML) of EFCC, Mr. Daniel Isei during a courtesy visit to the Institute.

Speaking on his team's mission, Mr. Isei explained that having realized the crucial roles ICAN is playing in the financial sector, it became expedient for EFCC to partner with ICAN against money laundering in the country.

He said: "ICAN is a stakeholder, gate keeper and great player in the financial sector of the economy while EFCC is a government agency that fights corruption and graft, hence the need for EFCC to collaborate with ICAN to help prevent money laundering rather than looking for solutions after the deed has been done".

He stressed further that the EFCC leadership has given directive that all stakeholders in the nation's economy such as Accountants, Auditors, Lawyers and host of others should be contacted for collaboration to win the war against money laundering.

Responding, the 56th ICAN President, Dame Onome Adewuyi disclosed that the Institute has always been partnering with government agencies and institutions to contribute its quota to the financial well-being of the country, adding that EFCC could not be an exemption.

"I agree with you that ICAN must be part of that team to prevent money laundering. It is a good idea and we are support it. For the assignment to be successful, collaboration must take place. This will enhance the country's image and encourage foreign direct investment," she stated.

ICAN CHARGES MEMBERS IN ACADEMIA TO RE-LEARN TO EXPAND THE FRONTIERS OF KNOWLEDGE



ICAN President Dame Onome Joy Adewuyi presenting souvenir to the Vice Chancellor of University of Ilorin, Professor Sulyman Abdulkareem during ICAN's Academic Conference held at Unilorin

The 56th President of ICAN, Dame Onome Joy Adewuyi has appealed to members in academics to always learn and re-learn to expand the frontiers of knowledge in their chosen areas of specialization in the accounting profession.

Adewuyi stated this in her welcome speech at the 6th edition of the Annual International Academic Conference on Accounting and Finance of the Institute jointly organized with the University of Ilorin, Kwara State on Tuesday April 20, 2021.

According to her, "The illiterate of the 21st Century will not be those who cannot read and write, but those who cannot learn, un-learn and re-learn. This Conference is an avenue to learn, un-learn, and re-learn as we all strive as academics and practitioners to expand the frontiers of knowledge in our chosen areas of specialization in the accounting profession".

She explained further that the conference would provide a common platform to share knowledge and ideas on contemporary topics, build enduring network, explore new business, academic and research frontiers as well as establish necessary mentor-mentee relationship through Ph.D colloquium and workshops.

She noted that the conference would provide a platform to collectively look at, and constructively critique familiar issues that had been rigorously re-examined and probably explained by other academics and research analysts.

"The urgency of learning, un-learning and re-learning as academics becomes more imperative in this highly dynamic business and academic environment where today's knowledge becomes obsolete tomorrow. Undoubtedly, the speed and spate of knowledge creation and expansion have assumed an alarming dimension in the last few decades," she concluded.

ACCOUNTANTS SHOULD FOCUS ON BUILDING A RESILIENT ECONOMY – ICAN PRESIDENT

Accountants and other financial experts in Nigeria have been charged to focus on building a resilient economy that can withstand the hydra-headed challenges facing the country at the moment and beyond, especially, in the face of the shocks the global economy had to deal with in the wake of the COVID-19 pandemic.

The 56th President of the Institute, Dame Onome Adewuyi, gave this charge in Bonny Island, Rivers State during the inauguration ceremony of Bonny Kingdom and District Society of ICAN on Saturday, May 15, 2021.

“Though the challenges are many, this period affords Chartered Accountants the opportunity to prove their relevance in building a resilient economy for our country.” Adewuyi advised.

She urged members of ICAN to continue to entrench the principles of professionalism, ethical conduct and integrity in line with the ICAN motto: “Accuracy and Integrity”, asserting that ICAN maintains zero tolerance for any form of professional misconduct amongst its members. She noted that this was the basis for the legendary respect society confers on the profession and the Institute.

“As an Institute of international repute, we have zero tolerance for any form of professional misconduct amongst our members. This is the tradition that has singled us out and earned us great respect amongst other professional bodies in the country.”

While congratulating the Executive and members of the District, she advised them to ensure the sustenance of the enduring legacy of ICAN in their various spheres of influence.

BE ABREAST OF THE NEW NORMAL BROUGHT BY COVID-19 .

A past President of the Institute, Mallam Isma'ila Zakari has appealed to the newly inducted members of the Institute to keep themselves abreast of the new normal brought by the covid-19 pandemic.

Zakari stated this in his keynote address at the 67th induction ceremony for new members of the Institute in May, challenging them to embrace the various opportunities in technological and digital accountancy.

He said, “Digital transformation is not new, but the COVID-19 pandemic has accelerated the timeline and heightened the urgency of embracing digitization to support sustainable organizations and economies.”

Meanwhile, the 56th President of the Institute, Dame Onome Joy Adewuyi, has disclosed that as part of the institute's contributions to capacity building in the country, arrangements have reached advanced stage in securing the NUC's licence for the establishment of the ICAN University.

“The University would start with postgraduate courses in the social and management sciences such as accounting, economics, business administration and finance.”

Adewuyi also charged the new inductees to aspire for both professional and academic relevance in the market, encouraging them to take advantage of the opportunity offered by the institute to add to their academic qualifications by enrolling for post graduate studies at the proposed university

ICAN Launches e-learning Platform, Commits to Human Capital Development

The Institute has expressed its commitment to human capacity development in a fast changing business world.

The 56th ICAN President, Dame Onome Joy Adewuyi disclosed this on Monday, May 3, 2021 at the launching of the Institute's e-learning platform.

She said as a stakeholder in capacity development, the advent of COVID-19 had accelerated the need to make

knowledge transfer available in more flexible forms. According to her, the step was to ensure that members and others who would demand its cutting-edge trainings were given as much easy access as possible to learning platforms.

She concluded that “The launching of the e-learning platform would not only introduce further flexibility in our trainings but also encourage the expected desire for life-long learning by professionals”.

15 January, 2021

DEFERMENT OF THE COMMENCEMENT DATE FOR NEW PROFESSIONAL EXAMINATION SYLLABUS FROM MARCH 2021 TO NOVEMBER 2021

The 2020 revised syllabus for the Institute's Professional Examinations was due to take effect from March 2021 diet. Due to COVID-19 pandemic, the Institute experienced challenges in completing all the necessary arrangements for the commencement of the new syllabus as scheduled. The Council of the Institute at its meeting held on 14th January, 2021 took a decision to defer the commencement date of the new syllabus from March, 2021 to November, 2021. This is to ensure that the Institute's policy on producing quality accountants remains intact.

Therefore, the May diet 2021 professional examination will be based on the November 2019 syllabus while November 2021 diet examinations will be based on March 2021 syllabus.

We therefore enjoin all the students to utilize this opportunity to prepare adequately for the examinations.

Ahmed M. Kumshe (Prof), FCA
Registrar/Chief Executive

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15 January, 2021

NON-FINANCIAL STUDENT MEMBERS NOT ELIGIBLE TO REGISTER FOR EXAMINATION

This is to notify all students of the Institute (ATS and Professional) that the Council resolved that effective March, 2021 diet of ATSWA and May 2021 diet of Professional examinations, no student with outstanding subscriptions would be allowed to enter and sit for the Institute's examination.

Therefore, students are mandated to pay all their outstanding subscriptions and update their financial status before proceeding to register for the Institute's examinations.

This directive is for both ATSWA and Professional Students

Ahmed M. Kumshe (Prof), FCA
Registrar/Chief Executive

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15 January, 2021

SUSPENSION OF THREE (3) DIET PROFESSIONAL EXAMINATIONS DUE TO COVID-19 PANDEMIC

Due to the prevailing COVID-19 pandemic and the concerns about a second wave of the pandemic and increased infections, we wish to inform our students and all stakeholders that the Council of the Institute at its meeting held on 14th January, 2021 took a decision to suspend the 3-diet-a-year examination policy and revert to its old 2-diet-a-year policy effective May, 2021 until further notice.

The Institute will be conducting only two-diet professional examinations in 2021, one in May and another in November. This new policy will be in place until the situation returns to normalcy. Thus, the Institute's next professional examinations will hold in May 2021.

We therefore enjoin all the students to utilize this opportunity to prepare adequately for the coming May 2021 examination.

Ahmed M. Kumshe (Prof), FCA
Registrar/Chief Executive

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UPDATE ON NOVEMBER 2021 PROFESSIONAL EXAMINATION

Dear Student,

We are pleased to update you on the November 2021 Professional Examination as follows:

- The November 2021 Professional Examination will hold from Tuesday, November 16 to Thursday, November 18, 2021.
- Examination registration commenced on Tuesday, June 15, 2021. It closes on Tuesday, November 9, 2021. Please note that there will be no extension on the examination registration period.
- The November 2021 diet Professional examination will be based on the new ICAN syllabus launched in March 2021. Visit www.icanig.org/students for details of the syllabus.
- Students are advised not to bring to the examination venue any valuable personal belongings; the Institute will not be liable for any loss of personal items. Personal items are kept at owner's risk.
- Students are advised to read through the new ICAN examinations offences. The details are hosted on ICAN website www.icanig.org/students
- Ban on all types of wrist watches. Wrist watches are not allowed into the examination hall. The Institute will provide wall clocks in all the examination venues.
- Ban on mobile phones and written materials. Mobile phones and incriminating material are not allowed into the examination venues. Violators will be sanctioned in line with examination misconduct policy.
- Please note refunds or deferment of examination are not allowed.
- We wish you all round success as you prepare for the examination.

Ahmed M. Kumshe (Prof.) FCA
Registrar/Chief Executive

Bond Yield Analysis Including Foreign Bonds

By: Ade Omolehinwa M.Sc, CIAA, FCA



Bond Yield Analysis – Including Foreign Bonds

An investor who buys a bond receives a return from that bond in the form of annual interest (also called coupon) payments and, if the bond is redeemable, the final redemption payment. The total effective return is referred to as the yield. The yield of a redeemable bond is also known as the yield to maturity (YTM) or redemption yield. As well as being the effective return to the investor, the yield on a bond is important in many other calculations. For example, the cost of debt, which is used in calculating the weighted average cost of capital, can be derived by adjusting the yield for tax relief on debt interest. This post-tax cost of debt, derived from the yield, is also used as the discount rate when evaluating a lease-versus-buy decision.

Irredeemable bonds

Let's start with the simplest of all yield calculations.

Consider a company called Tayo, which has just issued some irredeemable 8% coupon-rate bonds at their par value of ₦1,000. It is clear that if an investor were to purchase one of these Tayo bonds, he would receive a return of $8\% \times ₦1,000 = ₦80$ every year into perpetuity. So his average annual return as a percentage of the current value of the bond ($₦1,000$) is $₦80 \div ₦1,000 = 8\%$.

In short, for an irredeemable bond, the percentage yield, = (annual interest received \div current bond price) \times 100

Owing to factors of supply and demand in the marketplace, bond prices fluctuate overtime so it could be that, say, one

year later Tayo's bonds are trading at ₦950. An investor purchasing a bond now has to pay ₦950 in order to receive the interest stream of $8\% \times ₦1,000 = ₦80$ every year into perpetuity. The interest is always calculated by applying the coupon rate to the bond's par value, irrespective of its current price. So the yield in this case is $(₦80 \div ₦950) = 8.42\%$.

It's notable that bond prices and bond yields are inversely related – i.e. the lower the price of a bond, the higher its yield will be. This is because the actual amount of interest (coupon amount) stays constant. So, if the bond's price falls, the interest represents a higher proportion of the price.

Redeemable bonds

The yield on a redeemable bond – i.e. one with a specified maturity or redemption date – is a more complex calculation, because the redemption amount and the remaining time before maturity will also influence the yield. To see why, consider the following example.

Assume that Tayo is about to issue more ₦1,000 bonds at par, this time with coupon rate of 5% and a redemption amount of ₦1,200 after four years. An investor buying one of these bonds for ₦1,000 will be entitled to ₦50 in interest each year and then ₦1,200 in four years' time. Using the logic from our previous calculations for irredeemable bonds – i.e. bonds with an indefinite life – it would be easy to assume that the yield on these new bonds is 5%. After all, an investor buying a bond for ₦1,000 on issue will receive interest of $5\% \times ₦1,000 = ₦50$ each year, making a return of 5% of the

current bond price. But the return is no longer received in perpetuity. In fact, in four years' time the investor will also receive a lump sum of ₦1,200, which is significantly greater than the original cost of the bond. If we are to calculate the yield properly, it is important to incorporate the impact of this premium on redemption.

In effect, the investor's yield is 5% return each year and then an extra 20% return in the fourth year. The yield calculation replaces this cumbersome statement with a single effective annual percentage figure, which incorporates both elements of the return. The yield to maturity (YTM) of a redeemable bond equals the internal rate of return (IRR) of the bond price, the annual interest received and the final redemption amount.

Using the figures from Tayo example, we need to calculate the IRR of:

- Year 0: current bond price paid: (₦1,000)
- Years 1 – 4: annual interest received: ₦50
- Year 4: redemption amount received: ₦1,200

The yield can now be calculated by discounting these amounts at any two discount rates and using interpolation as detailed in Table 1 below

Table 1: Calculation of YTM

Year	Cash flow ₦	PV at 9% ₦	PV at 10% ₦
0	(1,000)	(1,000)	(1,000)
1 – 4	50	161.986	158.493
4	1,200	850.110	819.616
NPV		12.096	(21.891)

$$YTM = IRR = 9 + \frac{12.096}{12.096 + 21.891} \times (10 - 9) = 9.36\%$$

As with irredeemable bonds, the price of redeemable bonds' can fluctuate over time. So, if one year later these Tayo bonds were priced at ₦900 in the market, the YTM of the bonds can be re-computed by interpolation, using Table 2:

Table 2: Calculation of YTM, one year after issue

Year	Cash flow ₦	PV at 14% ₦	PV at 16% ₦
0	(900)	(900)	(900)
1 – 3	50	116.082	112.294
3	1,200	<u>809.966</u>	<u>768.789</u>
NPV		<u>26.048</u>	<u>(18.917)</u>

$$YTM = IRR = 14 + \frac{26.048}{26.048 + 18.917} \times (16 - 14) = 15.16\%$$

Again we can see the inverse relationship between yield and bond price: because the bond price has fallen, the yield has increased.

Irredeemable foreign currency bonds

Yield calculations become more complicated when foreign currency loans are involved.

Let's now assume that Tayo is able to raise some F\$1,000 irredeemable bonds at par in a foreign country with currency F\$. The bonds carry annual interest of 8%. If the exchange rate between naira and F\$ is expected to stay constant, the yield calculation is the same as it was before, but a problem arises when the rate is expected to change. For example, if F\$ is expected to strengthen by 21/2% a year against naira, paying the interest in F\$ each year will in effect cost Tayo 21/2% more annually, on top of the 8% coupon rate payable. So the yield on its irredeemable F\$ bonds would be $(1.08 \times 1.025) - 1 = 10.7\%$ a year.

Note: If the yield on a foreign asset (or liability) is $y\%$ and the foreign currency appreciates against naira by $x\%$ during the investment period, then the equivalent naira return is $(1 + y)(1 + x) - 1$. Note further that in the formula, y can be negative (if the yield is a loss) and x can also be negative (if the foreign currency depreciates against naira).

Redeemable foreign currency bonds

Finally, let's calculate the YTM if Tayo issues some F\$1,000 8% coupon bonds at par, redeemable in four years at F\$1,200. Assume that F\$ is expected to strengthen by a 21/2% a year against naira and that the current (spot) exchange rate is ₦1 = F\$1.50. We know that the YTM is the IRR of the current bond price, the annual interest payments and the redemption amount.

The complication in this case is that the cash flows will first need to be converted into Tayo's home currency, naira, using exchange rates that are different each year (see the appendix on how the exchange rates for each of the years are derived).

Table 3 shows the calculations of the YTM.

Table 3

Year	CF F\$	Exchange rate	CF ₦	PV at 10% ₦	PV at 14% ₦
0	(1,000)	0.6667	(666.70)	(666.70)	(666.70)
1	50	0.6833	34.17	31.06	29.97
2	50	0.7004	35.02	28.94	26.95
3	50	0.7119	35.60	26.75	24.03
4	1,250*	0.7359	919.88	<u>628.29</u>	<u>544.64</u>
	NPV			<u>48.34</u>	<u>(41.11)</u>

(* 1,200 + 50 = 1,250)

$$YTM = IRR = 10 + \left(\frac{48.34}{48.34 + 41.11} \right) \times (14 - 10) = 12.16\%$$

Conclusion

I hope you now understand that the yield is not the same as the coupon rate on the bond. In fact, several other factors also affect the yield. They are as follows:

- The current market value of the bond.
- The capital payment on maturity
- The coupon rate
- The time to maturity, or whether the bond is irredeemable
- Whether the bond is denominated in the company's domestic currency or whether in a foreign currency.

The crucial move before calculating a yield is to identify first whether the bond is irredeemable or redeemable and then whether it is denominated in the home currency of the company concerned or a foreign currency.

For an irredeemable bond – i.e. one with no maturity date – the percentage yield can be calculated quickly as $(\text{annual interest} \div \text{bond price}) \times 100$. If the bond is denominated in a foreign currency, you need to adjust this formula by taking into account the expected annual strengthening or weakening of that currency against the company's domestic currency.

For a redeemable bond – i.e. one with a given maturity date – the yield is found by calculating the IRR of the current bond price, the annual interest payments and the redemption payment. If the bond is denominated in a foreign currency, make sure

that you convert the cash flows back into the firm's home currency, using the forecast exchange rates, before calculating IRR.

Appendix on exchange rate calculation

The spot exchange rate is given as ₦1 = F\$1.5

This is an indirect quote to naira i.e. F\$₦ = 1.50

We are told that F\$ is expected to strengthen by 2.5% a year against naira.

If you are not strong in the manipulation of exchange rate, my advice is that the exchange rate should be converted to direct quote for naira i.e.

$$F\$1 = ₦1/1.50 = ₦0.6667.$$

It is this figure (i.e. ₦0.6667) that increases by 2.50% per year (and not 1.5!).

The relevant exchange rates over the borrowing period are:

Year	0		0.6667
1	0.6667(1.025)	=	0.6833
2	0.6667(1.025) ²	=	0.7004
3	0.6667(1.025) ³	=	0.7119
4	0.6667(1.025) ⁴	=	0.7359

LIST OF RECOGNISED ICAN TUITION CENTRES

	RECOGNISED TUITION CENTRES	ADDRESSES	E-MAIL	TELEPHONE	VALID TILL
1	3A Professional Tutors Limited	3A Professional Tutors Limited,(Doseg Int'l College, 41B Akin Mateola Street,By GT Bank, Lilly Estate, Amuwo Odofin, Lagos	info@3AProfessionalTutors.com/ kunleecomat@gmail.com	07030003251, 08033757234	March , 2023
2	Able God Professionals College	47, Ikotun/Egan Road, Market B/stop, Igando, Lagos	agpcentres@yahoo.com	234-8035398818, 08033531527	March 1,2022
3	ABUAD Tuition Centre	Department of Accounting, ABUAD Ado -Ekiti			April. 2021
4	Accountancy Training Centre , Makurdi	Uni-Agric Road, Opposite First Gate, Makurdi, Benue State	gealfred@yahoo.com	07038068866, 08053559666,	2018
5	Accuracy Tutors, Aba	Immaculate Girls Secondary School, Umungasi, Aba, Abia State	jiomao@yahoo.co.uk	8068548135, 08053054434	Aug-21
6	Achievers' Tutor Nig. Ltd	Junior Secondary School Phase 3, Gwalalada, Abuja	akinsanwo@gmail.com	8133488948	April. 2020
7	Alternative School, Port Harcourt	Plaza 21, Alcon Road, By Welcome U Supermarket Woji. Port Harcourt. F	igalternativeschool@gmail.com	08176014423, 08176014424	October,2022
8	Assurance Success Point	22, Ijede Road, Itamaga, Ikorodu	successpointassociate@gmail.com	07034608759, 08077595821	May. 2022
9	Best Option Tuition Centre, Makurdi	9, kashim Ibrahim Road, Makurdi, Benue State	terencegoddy@yahoo.com	8034932068	2017
10	Best-Ranked Dynamic Professional Tutors	1, Institute of Continuing Education, off Wire Road, Benin City, Edo State	fisayoacca@gmail.com	234-7033322328	April. 2021
11	Brace Management Solution	Proactive Chamber, 131 Ofada road, Mowe, Ogun State	waleakanbi@yahoo.com, bmanagementsolution@yahoo.	8023509889, 08023509872	Apr-21
12	Brainy Professional Academy	2nd & 4th floor, ANCE Building, Magazine road, Jericho, Ibadan, Oyo State	taofik_adeagbo@gmail.com	907,022,347,108,034,000,000	March. 2022
13	Bratim Training Centre Limited	Ground Floor, National Library Building, Adjacent Reiz Continental Hotel, Central Area, Abuja	tejan@bratim.com	08059125288, 08030408384	2019
14	CIP Consulting Ltd	Solid Rock International, FHA, Lugbe, FCT, Abuja	cipconsulting@yahoo.com	234-9096762550	Jan. 2022
15	Crest Professional Tutors, Ijeshatedo, Lagos	Florida House, Plot 133 Apapa/Oshodi Expressway, beside GTBank, Agunlejika B/s Ijeshatedo	crestprofessionals@gmail.com crownacademynigeria@gmail.com	08056243941, 07025289695, 08033721559	2019
16	Crown Academy	14, Abdulsalam Street, Off old Akute Road, Obawole, Iju, Lagos State		8023181240	Sept.2021
17	Deo-Gratia Professional Tutors, Oshogbo	25, Oyedokun Street, Ago-Wanda, Oke -Onitea Road, Oshogbo, Osun State	deogratiasp.t.edu@gmail.com	08060053496	2019
18	Dynamic Stride Professional Ltd, Ibadan	28, Adebayo Street, Kongi layout, New Bodija, Ibadan	dynamicprofessionalTutors@gmail.com	08064904411, 08069198274, 08059134594	2020
19	Edge Educational Services & Logistics	47, Athur Eze Avenue (Emmaus House), Awka, Anambra State	edgelogistics15@gmail.com	8033036184	2018
20	Edo Wyse School of Professional	75/98, Arthur Eze Avenue, by Unizik Temp-Site Junction, Awka, Anambra state	edo-wyse@hotmail.com, fidelisabiah	07038584227, 08065303399	2018
21	Ehibram International Consultancy Ltd	172, Idimu Road, Abule-Odu Bus stop, Idimu , Lagos	ehibrameduconsult@gmail.com	8066759953	Dec. 2021
22	Equitorial Tutors limited	Iponri Grammar School, behind Lead Way Assurance, Iponri	sabamaudit@yahoo.com	8097118222	May. 2022
23	Excel Professional Centre	11, Queen Elizabeth Road, Mokola, Ibadan, Oyo State	excelprofessionalcentreeng@yahoo.com, moolaoluwa@yahoo.com	07081488611	2016
24	Excellent Associates Tutors	African Church Model College, College Road, Ifako-Ijaiye, Ogba Lagos	excellentassociates@yahoo.co.uk	08025112972 , 07060616956	2019
25	First access Associate Ltd	Gobi Plaza, 221/223 Idimu Road, Egbeda	firstaccessltd@gmail.com	8023032873	Mar-22
26	First Attempt Associates	15, Udotung Ubo Street, Off Aka road, Uyo Akwa-Ibom State	sunnymanekpo@yahoo.com	8023168512	Sept.2021
27	First Class Associate Tutors	Millbank Hall Secondary School, 26 LASU Isheri road, Agboroko, Bus Stop, Ojoo, Lagos	fcator@gmail.com	08028407323, 08131672267	Nov. 2020
28	Foresight Professional Institute	24 Road Opposite H Close, Festac Town, Lagos	foresight_professional@yahoo.com	08033034504, 08024145121	2019
29	Galaxy Professional Tutor & Consultant	L.E.A Primary School, by Mopol Junction, Opposite Diamond Bank Plc, Nyanya, Abuja	galaxytutors11@yahoo.com	08063513106, 08056922440	October,2022
30	GAMP Tuition house	Bamidele Ajala House, Plot 8-9, State Residential Estate, Ise road, Ikere Ekiti	registrar@gamptuitionhouse.com	8034093675	Apr-22
31	Hedge Professional Services Ltd	Suite 323 Lozumba Plaza, Opposite GSS Garki Area 10, Abuja FCT	hedgep323@gmail.com	08033081244, 08033812878	Aug.2021
32	Horizon Business School	13, Edele street, Owerri, Imo State	info@horizonbusinessschool.com	9024241669	April. 2021
33	ICAN Minna Tuition centre	Women Day College, Opposite Keystone Bank, Bosso Shiroro road, Minna	mohammedsoja@yahoo.co.uk	08099529225, 08036875196	March. 2022
34	Ideal Professional Tutors, Ago-Iwoye	Along OOU Mini campus road, Adjacent, Limba Fuel Station, Ago Iwoye	adesanwotobae@yahoo_emma adesanwo@gmail.com	08053846329, 08056182849, 081381059914	2019
35	Insight Professional Mgt & Consulting	St. Brigid's Convent School, Mokola, Ibadan, Beside St. Gabriel Catholic Church, Mokola	labzkuzle2@yahoo.com	0.07031054988	Oct. 2020
36	Integrity Professional Academy, Warri	253 Warri Sapele Road, Warri, Delta State	pintegrity@yahoo.com 08028808182	08060008880, 08028808182	2018
37	IQ Bryte, Ipaja Lagos	Towergate Private School, Falola Street, Off Church B/Stop Ipaja, Lagos	nicetybase@yahoo.com , iqbryteprofessionals@yahoo.co	08062933469, 08171890482	2019
38	Knight Business School, Oyingbo	80, Murtal Mohammed Way, Ebute-Metta	braingro@yahoo.com	08034034195, 08084369290	2018
39	Legacy Associate Limited	Olatunji HSE/Legacy HSE, 299/295, Ikorodu Rd, Idiroko B/stop, Maryland, Lagos	legacyassociates@ymail.com	07038917831, 08023226913	Jul-22
40	Legend Business School	105, Ogombo Road, Off Abraham Adesanya Estate Round about, Lekki-Ajah	bencisa@yahoo.com	234-8023200577	Jan. 2022
41	Lekki Professional & Associate Ltd	Tollywood Schools, Km 43 Lekki Epe Expressway Oko Ado By Splash	topefatai@gmail.com	08022222174, 08099445029	April, 2023
42	London College of Science &Tech. Ikeja	110b Oluwole Philips Avenue, off Obafemi Awolowo way, Ikeja	cashflowacademy2017@gmail.com	8188166766	2020

LIST OF RECONIZED ICAN TUITION CENTRES

43	Management Education & Training Ltd	43A Seriki Aro Street, Off Ajao Road, Off Adeniyi Jones, Ikeja	ican@meteducationng.com	08034855960, 08138562897, 08143219884	June.2020
44	Maximus Professionals	Palmville College, 41/411 Road, Gowon Estate, Opposite Ponle St.Ipaja, Egbeda	kingsleyodion@gmail.com	08121332706, 08137047329	2019
45	MSL, School of Accountancy & Mgt. Studies	L8, Ahmadu Bello Way, Katsina Round-about, same building with Studio 24, Kaduna, Kaduna State	mucomail@yahoo.com	08038492871	2018
46	Navigation Tutors	Saints Model Colle, Ogun State Housing Corporation, Ota , Ogun State	lipuoleddavid@yahoo.com	8032324206	Sept. 2021
47	Networth Professional Academy, V/I	Kings College Annex, Adeyemo Alakija Street, Victoria Island Lagos	networthacademy@gmail.com, info@networthacademy.co	07015688772, 08182429689	2019
48	Nomba Limited	28, Jemila Joy St. off Obafemi Awolowo Rd, Radio B/S, Ikorodu Video lectures-Odyssey Place, Plot 4 TF Kuboye Rd, Oniru Lekki	qwasiu009@gmail.com	81711396487	Aug.2021
49	Onitsha Business School, Onitsha	19A Lady Regina Nwankwu Avenue, GRA, Onitsha, Anambra State	info@onitshabusinessschool.com	08037060685, 08059271049	February, 2023
50	Opsy Consult Limited	Anthens College, 3rd Avenue, C Close , Opposite Immigration Office, Festac Town	opsyawa@yahoo.com	08023743124, 07030272744	Aug.2021
51	Password Professional Tutors, Akoka	Oluwole Pry School Complex, Beside Unilag Main gate, Akoka	pwplimited@yahoo.com	gsm 08097526579	2018
52	Pointon Academy	Govt. Secondary School, Phase 4, Kubwa, Abuja	pointonacademy@gmail.com	08033148445, 08039581008	Aug.2021
53	POSSE Associates Tutors, Enugu	WTC Primary School Compound, Off WTC B/Stop, Near University of Nigeria, Enugu Campus (UNEC	posseassociates@yahoo.com, sesan.sosanolu@yahoo.com	08038036940	2019
54	Potec Training Centre, Abuja	84, Gado NASCO Road, Phase 2, Site 1, Kubwa	osalorp@gmail.com	8060311442	Aug-21
55	Potec Training Centre, Port-Harcourt	1 Chinda Street, Off Stadium Road, Opposite BEKO Port-Harcourt	potectrainingcentre@yahoo.com	8033403848	2019
56	Precept with Passion Consulting	164, Iju Road, Opposite Fagba grammar school & 57, Isheri rd, County B/stop Ogba	consultingpwp@gmail.com	08053642805	2020
57	Professional Tutor for Success	PTS Building, Opposite NUJ Secretariat, Iwo/Ibadan Road, Dada Estate, Oshogbo, Osun State	ptsosogbo@gmail.com, ayoajayioje@yahoo.com	08023526689, 08038550380	2019
58	Protrac Associates Limited	68, TOS Benson (Beach) road, opposite Ikorodu library, Ebute, Ikorodu	agbaawo2014@gmail.com	8033050586	May. 2021
59	Real Professional Tutors	Wuse Zone 6, School Compound, behinde Oando filling Station, Abuja	realtutorstld@hotmail.com	0813611191, 036184645	2018
60	Risk Free Standards Associates Limited	5, Olusoji Idowu Street, Off Association Avenue, Ilupeju, Obanikoro B/ Stop, Lagos	riskfreestandards@yahoo.com, seyiolanrewaju@yahoo.co	08023050654, 08039475507, 013423986	July. 2020
61	Safe Associate Limited	31, Ore-Ofe Street, Gbaja, Off Barracks B/Stop, Onitolo, Opposite Laspotech Surulere Campus, Lagos	safeican@yahoo.com, oyemolu@yahoo.co.uk	08038103492, 08023210622, 07034030255	2017
62	Salvage Professional School, Ibadan	9, Kabiawu Street, Opp. Veterinary, Mokola Ibadan	salvageconsultants@yahoo.com	8057741108	2019
63	Speedysuccess Professional	391, Old Ojo Road , Rooftop Tanterlizer Building, Satellite Town, Lagos	speedysuccesspro@gmail.com	8148421111, 08029563287	Sept. 2019
64	Springboard Associate	6, Adeyemi Olusegun Street (Near Munirat Filling Station) off University road, Tanke, Ilorin	springboardassociates12@gmail.com	234-8147383987	Jan. 2022
65	SQUAD Associates	Excellent Foundation College, Beside Big Treat, Omole Bus Stop, Agidingbi, Lagos	sqdassociates@gmail.com	08038314631, 08028842327	July. 2020
66	Starry gold Academy	Suit D2 Alhaja Humani Shopping Mall, 82 Kudirat Abiola Way, Oregon , Lagos	starrygold3@yahoo.com	07038174484 , 08023428420 , 08123189141	2018
67	Students SWOT Associate, Enugu	Govt. Secondary school, opposite shoprite, Abakaliki rd, Enugu	nwabuzorlexy@yahoo.ca	8063582316	October.2022
68	Superiorpoints Associates Limited	148 Olojo Drive, FCMB Building, Opposite Ojo Local Govt Secretariat, Ojo	gomoregbee@yahoo.com	07064963490, 07044913730	2019
69	Sure Success Better Consult, Lokoja	Ule Close, GRA, Lokoja, Kogi State	suressuccess4real@gmail.com	08027870760, 08077175165, 08053956630	2019
70	Synergy Professionals, Iponri	2, Afric Road, Off Funsho Williams Avenue, Iponri, Surulere, Lagos State	synergyprofs@yahoo.com	7050571587, 08038426744	2018
71	Taraba Business School, Jalingo	Opposite Civil Service Commission, 183 Hammaruwa Way, Jalingo	gavinka2006@yahoo.com	Gsm 08060660861	2019
72	Technion Academy Limited, Sango Ota	71, Idiroko Road, Sango Ota, Dental Bus Stop, Oju-ore, Ogun State	adegbola_michael@yahoo.com	08036960102, 08177465141	2019
73	Tekoa Consult, Ijebu Ode	12 Omo owo Street, Along General Hospital, Ijebu - Ode	tekoconsult@gmail.com	8037272718	Sept. 2019
74	Timerte Tuition	4, Idi-Iroko Road, Leadwell Academy, beside Justrite Supermarket, Ota, Ogun State	timrite74@gmail.com	08033965019, 08028555956	May. 2022
75	Top Professional Solutions, Port Harcourt	5B, Omerelu Street, GRA Phase 1, Port Harcourt	toriyomi@tpsng.com	8022275354	2018
76	Topclass Tutors Limited	27, Moronfolu Street, Pako Bus Stop, Akoka, Lagos	tajudeenalabi6791@yahoo.com	08023003675	August 2022
77	Topnotch Learning Centre Ltd, Abuja	Suite 23, 2nd Floor, O'neal Centre, Plot 360 Obafemi Awolowo Way, Jabi, Abuja	info@topnotch.ng , www.topnotch.ng	08104012026 , 07059491175	2019
78	Toptalented Tutors, Lekki	SM Fasinro Memorial School, 12, Ayetoro Ajah Ilaje, Ajah, Lagos	chriscapital@yahoo.com	8037447917	July.2021
79	Trace Professional Associates Limited	Answar-ul-Islam Girls High School, Km 27, Lagos/Abeokuta Exp. Ahmadiyya B/S Ijaye Ojokoro	tracepass008@gmail.com, mayowale003@yahoo.com	08064302210, 08025870770, 08053949705	2019
80	Treasurerhall Training, Festac, Lagos	Waterfront Plaza, 1st Avenue, Near 1st Gate Festac Town, Lagos	info@treasurerhalltraining.com , chidiotumba@gmail.com	08035237320, 07089676799, 08182005099	2019
81	Triumph Dynamics Professional Limited	UMC Demonstration School, Molete, Ibadan, Oyo State	triumphglobal2000@yahoo.com	08034087611	2017
82	Unique Professional Tutors Limited	Govt Junior Secondary Sschool, Tudun Wada, Zone 4, Wuse, Abuja	uniquetutors@yahoo.com	7040500671	Nov. 2020
83	Wellspring Professional Solutions	Management Development Institute, Mary Slessor Avenue, Calabar	wellspringprofessional@gmail.com	234-90782442361	Mar-22
84	Wide-Range Professionals Ltd, Arepo Ogun	Flomic Private School, Plot 2210 Alao Arasi Street, Glory Land Estate, Arepo Ogun State	gbadeyanolushola@yahoo.com	8131140984, 08030454946	2019
85	WYSE Associates Limited	C/O Immaculate College Compound, Maryland, Lagos	wysestudents@yahoo.com, adeniji.adeniyi@gmail.com	08033078065, 08023168451	2019



THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA

(Established by Act of Parliament No 15 of 1965)

PROFESSIONAL EXAMINATIONS SYLLABUS

&

**REGULATIONS FOR THE TRAINING OF
CHARTERED ACCOUNTANTS IN NIGERIA**



EFFECTIVE MARCH 2021

Our goal is to ensure success in ICAN exams. We have, therefore, provided solutions to some past questions to guide candidates in future exams. Although these suggested solutions have been published under the Institute's name, they do not represent the views of the Council of the Institute. ICAN will, therefore, not enter into any correspondence about them.

NOVEMBER 2020 DIET SKILLS LEVEL EXAMINATIONS SECTION A: COMPULSORY QUESTION (40 MARKS)

INSTRUCTION: ANSWER FOUR OUT OF SIX QUESTIONS IN THIS PAPER

Statement of financial position as at December 31, 2018

a. The financial statements of Orobo, Lepa and Opeke as at December 31, 2018 are as follows:

	Orobo Plc	Lepa Limited	Opeke Limited
	N'000	N'000	N'000
Non-current assets:			
Freehold property	48,750	31,250	12,500
Plant and equipment	19,875	9,375	7,125
Investment	37,500	--	--
	<u>106,125</u>	<u>40,625</u>	<u>19,625</u>
Current assets			
Inventory	14,375	7,500	6,625
Trade receivables	8,250	7,250	9,250
Bank and cash	1,250	3,000	500
	<u>23,875</u>	<u>17,750</u>	<u>16,375</u>
Total assets	<u>130,000</u>	<u>58,375</u>	<u>36,000</u>
Equity and liabilities:			
Equity:			
Ordinary share capital – ₦1 each	50,000	25,000	18,750
Retained earnings	36,500	22,125	9,750
	<u>86,500</u>	<u>47,125</u>	<u>28,500</u>
Non-current liabilities			
12% loan notes	12,500	2,500	-
Current liabilities			
Trade payables	17,000	8,750	7,500
Bank overdraft	14,000	-	-
	<u>31,000</u>	<u>8,750</u>	<u>7,500</u>
Total equity and liabilities	<u>130,000</u>	<u>58,375</u>	<u>36,000</u>

Additional information:

(i) Orobo Plc acquired 15million ordinary shares in Lepa Limited in January 2013 for N25million when the retained earnings of Lepa Limited were N5million.

(ii) At the date of acquisition of Lepa Limited, the fair value of its freehold property was considered to be N10million greater than its value in Lepa Limited's statement of financial position. Lepa Limited had acquired the property in January 2013 and the building element (comprising of 50% of the total value) is depreciated on cost over 40 years.

(iii) Orobo Plc acquired 5.625million ordinary shares in Opeke Limited on January 1, 2017 for N12.5million when the retained earnings of Opeke Limited were N3.75 million.

(iv) Lepa Limited manufactures components used by both Orobo Plc and Opeke Limited. Transfers were made by Lepa Limited at cost plus 25%. Orobo Plc held N2.5million inventory of these components at December 31, 2018. In the same period Orobo plc sold goods to Opeke Limited of which Opeke Limited had N2million in inventory as at December 31, 2018. Orobo plc had marked these goods up by 25%.

(v) The goodwill of Lepa Limited is impaired and should be fully written off. An impairment loss of N2.3million is to be recognised on the investment in Opeke Limited.

(vi) Non-controlling interest is valued at full fair value, Lepa Limited shares were trading at N1.60 just prior to the acquisition by Orobo Plc.

Required:

a. Prepare the consolidated statement of financial position of Orobo group for the year ended December 31, 2018. **(25 Marks)**

b. Ikoko Plc started business 3 years ago following a research breakthrough that motivated large scale customers to order the company's new product. Extracts from the financial statements recently published are as follows:

Statement of profit or loss for the year ended December 31, 2014

	2014	2013
	N'm	N'm
Revenue	360	20
Cost of sales	(150)	(12)
Gross profit	210	8
Operating expenses	(50)	(3)
Operating profit	160	5
Interest expense	(10)	-
Tax expense	(60)	(2)
Profit for the year	<u>90</u>	<u>3</u>

Statement of financial position as at December 31, 2014

	2014	2013
	N'm	N'm
Non-current assets:		
Property, plant & equipment	80	20
Current assets:		
Inventory	200	40
Trade receivables	70	25
Bank	(50)	30
Total assets	<u>300</u>	<u>115</u>
Equity and liabilities		
Equity:		
Ordinary shares of ₦1 each	60	40
Current liabilities:		
Trade payables	190	60
Current tax	50	15
	<u>300</u>	<u>115</u>

Required:

- i. Discuss **THREE** signs which show that Ikoko Plc is suffering from overtrading during the year ended December 31, 2014 from the published financial statements. **(5 marks)**
- ii. Identify any **FIVE** possible causes of the problem from the published financial statements. **(5 marks)**
- iii. Recommend any **FIVE** possible solutions to the problem. **(5 marks)**
(Total 40 Marks)

SECTION B: YOU ARE REQUIRED TO ANSWER ANY THREE OUT OF FIVE QUESTIONS IN THIS SECTION (60 MARKS)

QUESTION 2

Non-accounting professionals usually wonder why an entity's general purpose financial reporting should be regulated without allowing users to be free from choice of presentations.

In order to give clarity on this subject to the non-accounting professionals in your workplace,

You are required to:

- a. Explain **FOUR** reasons why financial reporting should be regulated in Nigeria. **(4 Marks)**
- b. Identify and explain **TWO** sources of accounting regulations in Nigeria. **(3 Marks)**
- c. Highlight **THREE** objectives of the International Accounting Standard Boards (IASB). **(3 Marks)**
- d. Eko Transport Company (ETC) limited is preparing its financial statements for publication for the year ended August 31, 2019. The draft statement of changes in equity is presented as follows:

	Share Capital N' Million	Share Premium N' Million	Retained Earnings N' Million	Total N' N' Million
Balance: 31/8/2018	750	75	135	960
Profit for the year end	0	0	803	803
	750	75	938	1,763
Dividend paid	0	0	(150)	(150)
Balance: 31/8/2019	<u>750</u>	<u>75</u>	<u>788</u>	<u>1,613</u>
Retained earnings (August 31, 2017)			<u>(90)</u>	

Additional information:

- (1) On January 10, 2020, ETC Limited discovered that inventory was overstated by **N105,000,000** as at August 31, 2019 and by **N90,000,000** as at August 31, 2018.
- (2) There was transposition error in reporting dividend payments in the statement of changes in equity, the correct figure as at August 31, 2019 was **N105,000,000**.

(3) The company income tax rate is 30% in each year.

(4) On August 31, 2019; additional shares of 50,000,000 were issued at N1.25 kobo. The par value of ETC Limited share is N1.00 per share. This was inadvertently omitted in the record of ETC Limited.

You are required to prepare:

- i. Revised Comparative Income Statements after necessary adjustments for the years ended August 31, 2018 and 2019. **(3 Marks)**
- ii. Adjusted Statement of Changes in Equity as at August 31, 2019 **(5 Marks)**
- iii. The journal entries to correct the errors in (2) and (4) above **(2 Marks)**

(Total 20 Marks)

QUESTION 3

a. IAS 10 on events after reporting period has two main objectives:

- To specify when a company should adjust its financial statements for events that occur after the end of the reporting period; and
- To specify the disclosure that should be given about events that have occurred after the end of the operating period but before the financial statements were authorised for issue.

Required:

Discuss the following key concepts under IAS 10: i. Event after reporting period

- ii. Adjusting events
- iii. Non-adjusting events

(6 Marks)

b. The following events took place in Chakachaka Company Nig. Limited:

- (i) Shortly after the financial year ended on June 30, 2018 but before the financial statements were authorised for issue, Chakachaka Nigeria Limited's inventory was destroyed by a fire outbreak which resulted in a loss of **N200 million**.
- (ii) The company's financial year that ended June 30, 2018 shows an amount of N60million that is due from one of its debtors, Mr. Onigbese. Chakachaka Nigeria Limited provided for impairment at June 30, 2018

of N15million against the gross value of N60million due from Mr. Onigbese. On July 31, 2018 before the financial statements were authorised for issue, Mr. Onigbese was declared bankrupt and unable to pay the debt.

(iii) Chakachaka Nigeria Limited was sued on June 30, 2018 but the judgment was only handed down on July 21, 2018. The Company was found liable for damages and cost amounting to N31million were awarded against it. On July 22, 2018, Chakachaka Nigeria Limited filed a claim with its insurers and on July 29, 2018, it was notified that the insurer would only cover N26 million of the loss.

Required:

Prepare a brief memorandum advising the directors of Chakachaka Nigeria Limited. on the accounting treatment and/or disclosure required as a result of the events in (i) to (iii) after the reporting date. (14 Marks)

(Total 20 Marks)

QUESTION 4

Gbenga Nigeria Plc trial balance as at December 31, 2019 is shown below:

	N	N
Revenue		2,290,125
Administration expenses	237,150	
Selling and distribution expenses	175,200	
Legal and professional expenses	81,150	
Allowance for receivables		8,625
Inventories – finished goods – 31/12/18	276,750	
Work-in-progress – 31/12/18	49,125	
Inventories – raw materials at cost – 31/12/18	162,600	
Purchases – raw materials	1,125,900	
Carriage inwards – raw materials	15,750	
Manufacturing wages	375,000	
Manufacturing overheads	187,500	
Authorised and issued 900,000 ordinary share of 50 kobo each fully paid		450,000
150,000 8.4% cumulative preference shares of ₦1 each fully paid		150,000
Revaluation surplus		65,000
Share premium		150,000
General reserve		85,000
Retained earnings – 31/12/18		425,250
Patents and trademarks	323,250	
Motor vehicle at cost	112,500	
Freehold property at cost	375,000	
Leasehold property at cost	112,500	
Plant and equipment at cost	225,000	
Furniture and fittings at cost	75,000	
Amortisation of leasehold property – 31/12/18		22,500
Accumulated depreciation @ 31/12/2018:		
Plant and equipment		102,750
Furniture and fittings		23,625
Motor vehicles		37,500
10% loan notes		150,000
Trade payables		146,250
Trade receivables	266,445	
Bank overdraft		76,875
Cash	7,680	
	<u>4,183,500</u>	<u>4,183,500</u>

(i) A gain of N20,000 made on the revaluation of old freehold property during the year is yet to be accounted for.

(ii) Inventories at December 31, 2019 were:

	N
Raw materials	168,900
Finished goods	413,025
Work-in-progress	56,700

(iii) Legal and professional expenses include solicitor’s fees for purchase of new freehold land during the year of N7,500.

(iv) Provision is to be made for full year’s interest on the loan notes.

(v) The leasehold land and buildings are held on 50 years lease, with 40 years unexpired life left as at the end of December 31, 2018.

(vi) Depreciation for the year is to be charged as follows:

- Plant and equipment 8% on cost – charged to production
- Furniture and fittings 10% on cost – charged to administration
- Motor vehicles 20% on carrying amount – charged -25% to administration and 75% to selling and distribution.

(vii) Income tax on the profit for the year is estimated at N68,900 and is due for payment on February 28, 2020.

Required:

Prepare the statement of profit or loss and other comprehensive income for the year ended December 31, 2019.

SOLUTION 1

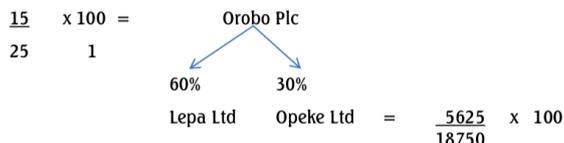
(a) OROBO GROUP PLC

Consolidated statement of financial position as at December 31,

Non-current assets	N'000
Free hold property (w2)	89,250
Plant and equipment (19,875 + 9,375)	29,250
Investment in associates (w3)	11,880
	<u>130,380</u>
Current assets:	
Inventory (w4)	21,375
Trade receivable (8,250 + 7,250)	15,500
Bank and cash (1,250 + 3,000)	4,250
	<u>41,125</u>
Total assets	<u>171,505</u>
Equity and liabilities:	N'000
Equity	
Ordinary share capital	50,000
Retained earnings (w5)	44,805
	94,805
Non-controlling interest (w6)	21,950
	<u>116,755</u>
Non-current liabilities	
12% loan notes (12,500 + 2,500)	15,000
Current liabilities	
Trade payables (17,000 + 8,750)	25,750
Bank overdraft	14,000
	<u>39,750</u>
	<u>171,505</u>

Working Notes:

(w1) Control



(w2) Freehold property:	N'000
Orobo Plc	48,750
Lepa Ltd	31,250
Fair value adjustment (w9)	10,000
Additional depreciation [10,000 x 50% ÷ 40] x 6 years (2013 – 2018)	<u>(750)</u>
	89,250

(w3) Investment in associates	N'000
Cost of investment	12,500
Share of post-acquisition profits (9,750 – 3,750) x 30%	1,800
Less: Unrealised Profits (UR) (w8)	(120)
Impairment	<u>(2,300)</u>
	11,880

(w4) Inventory	N'000
Orobo Plc	14,375
Lepa Ltd	7,500
UR profit (2,500 x 25/125) (w8)	<u>(500)</u>
	21,375

(w5) Retained earnings	OroboPlc	Lepa Ltd.	Opeke Ltd.
	N'000	N'000	N'000
Retained earnings per question	36,500	22,125	9,750
Adjustments:			
Unrealised profit (w3&w4)	(120)	(500)	--
Fair value adjustment (w2)	--	(750)	--
Impairment loss (w7)	--	<u>(1,000)</u>	--
		19,875	9,750
Less: Pre-acquisition reserve	--	<u>(5,000)</u>	<u>(3,750)</u>
	36,380	14,875	6,000
Post-acquisition profit:-			
Lepa Ltd. (14,875 x 60%)	8,925		
Opeke Ltd. (6,000 x 30%)	1,800		
Impairment loss Opeke Ltd	<u>(2,300)</u>		
	44,805		

(w6) Non-controlling interest (NCI)	N'000
NCI at acquisition (10,000 x N1.60) (w7)	16,000
Share of post-acquisition retained earnings (14,875 x 40%)	<u>5,950</u>
	21,950

(w7) Goodwill	N'000	N'000
Lepa Ltd		
Consideration transferred		25,000
Non-controlling interest (10,000 x N1.60)		<u>16,000</u>
Less:		41,000
Net asset acquired:		
Share capital	25,000	
Retained earnings (pre)	5,000	
Fair value adjustment	<u>10,000</u>	<u>(40,000)</u>
Goodwill at acquisition		1,000
Less: Impairment (full impairment)		<u>(1,000)</u>
		<u>Nil</u>

(w8) UR profit			
On Sale by Lepa Ltd to OroboPlc (Parent)	2,500 x 25		
	125	=	500
On sale by Orobo Plc to Opeke Ltd. (Associates)			
2,000 x 25/125 x 30%		=	<u>120</u>

(w9) Fair value adjustments	Difference at acquisition	Difference now
	N'000	N'000
Property	10,000	10,000
Additional depreciation (5,000 x 6/40)	-	<u>(750)</u>
	<u>10,000</u>	<u>9,250</u>

(b i) To fully identify the financial problems Ikoko Plc suffered, there is the need to match revenue with production cycles on the one hand and assess the cash on the other hand.

- There was an increase in revenue base from **N20m** to **N360m** in 2014, there was a revenue growth of N340m. This is a clear case of a large volume of business which requires large working capital to be able to meet orders which the company did not have.

- Ikoko Plc's working capital deteriorated deeply from N20m positive (N95m – N75m) in 2013 to N20m negative (N270m – N290m) in 2014, which is a symptom of inefficient working capital management.

- There was interest expense of N10m in 2014 as against zero expense in 2013 as a result of heavy borrowing. This impacted negatively on the company's net profit.

- The company has a positive bank balance of N30m in 2013 and has overdraft of N50m in 2014 which is an indication of illiquidity in the company's cash position.

- The company had delay in meeting obligations to suppliers and vendors as trade payables increased from N60m to N190m. Also the current tax liability increased from N15m to N50m.

(ii) Possible causes of over-trading

- Fall in liquidity ratios (current and acid test ratios)
- Rapid increase in revenue.
- Sharp increase in sales to non-current assets ratio.
- Increase in inventory in relation to revenue.
- Increase in the accounts payable period.
- Increase in short-term borrowing and/or a decline in cash balance.
- Increase in gearing.
- Decrease in the profit margin.
- Decline in current and acid test ratios.
- Increase in receivables in the current year relative to the preceding year.
- High incidence of taxation.

(iii) Possible remedies of over-trading

- Speed up collection from customers.
- Slow down payment to suppliers.
- Maintain lower inventory levels.
- Increase the capital through equity.
- Increase cash sales.
- Rectify mismatch between non-current and current assets.
- Increase bank funding.
- Reduce business funding.
- Raise long-term debt capital.
- Speed up work-in-progress into finished goods and sell to reduce the working capital needed.
- Acquire non current assets by lease or hire purchase

Marking Guide

	Marks	Marks
Consolidated statement of financial position:		
Title of financial statement		
Determination and presentation of non current assets	3/4	
Determinations of goodwill on consolidation	33/4	
Calculation of investment in associates	23/4	
Determination and presentation of current assets	21/2	
Determination of equity	31/2	
Calculation of non-controlling interest	53/4	
Determination of non-current liabilities	11/2	
Determination of current liabilities	3/4	
Workings for group structure and URP and fair value adjustments	11/2	
(bi) Signs of overtrading:		
Points on revenue expansion	21/2	25
Points on weak working capital	2	
Any other point on overtrading	2	
(bii) Possible cause of overtrading	1	5
Any five possible causes	5	5
(biii) Any five remedies	5	5
Total		40

Examiner’s Report

The question tests candidates’ knowledge of preparation of consolidated statement of financial position in part (a) while part (b) is on interpretation of financial statement with particular emphasis on over trading including possible causes and solutions to the problems

All the candidates attempted the question and their performance was average. The commonest pitfalls were the inability of the candidates to properly account for investments in associates and correctly calculate the fair value adjustments. Also, most candidates could be

justify why Ikoko Plc Company was suffering from over trading using the information provided in the company’s financial statement.

Candidates are advised to pay more attention to group accounts, as well as, interpretation of financial statements as these are important sections of syllabus at the skills level of the Institute’s examination

SOLUTION 2

(a) (i) The needs for regulatory framework:

- Regulations ensure that external users of financial statements are provided with information relevant for their decision making.
- They ensure that users get reliable information.
- Regulations ensure that entities adopt similar accounting treatments of similar items and account for similar transactions in the same way.
- They enable comparison of financial statements of different entities and comparison of entity’s performance of current year with those of previous years.
- Without regulations, management could deliberately engage accounting methods to prepare financial statements to mislead users.

(b) Accounting standards

Accounting standards are authoritative statements of how particular issues are reflected or reported in the financial statements, e.g. IFRS in Nigeria Company law The company law varies from one country to another. It typically sets out rules for determining profits available for distribution, issuing and redeeming share capital, the reserves that an entity must have and use to which they can be put. Listing rules for listed companies Listing rules set out the information which entities must supply when their shares are traded on a major stock market. They must comply with these rules to maintain their listing.

(c) Objectives of IASB is to:

- Develop, in the public interest, a set of high-quality global financial standards;
- Promote the use and application of those standards;
- Take account of the special needs of small and medium size entities and emerging economies; and
- Promote and facilitate the adoption of IFRS through convergence of national and international accounting standards. (d) (i) Revised comparative income statements

(d) (i) Revised comparative income statements

	2018 N'm	2019 N'm	
Retained/profit for the year (135 + 90)	<u>225</u>	<u>578</u>	(803-225)
Add/less:			
Overstatement of closing inventory	(90)	(15)	(105 – 90)
Tax effect at 30%	<u>27</u>	<u>4.5</u>	
	<u>(63)</u>	<u>(10.5)</u>	
Revised profit	<u>162</u>	<u>567.5</u>	

(ii) Adjusted statement of changes in equity for the year ended August 31, 2019

	Share Capital	Share Premium	Retained Earnings	Total
	N'million	N'million	N'million	N'million
Balance as at 31/08/2018	750	75	135	960
Adjustments	-	-	<u>(63)</u>	<u>(63)</u>
Restated balance	750	75	72	897
Profit for the year	-	-	567.5	567.5
Dividend paid	-	-	<u>(105)</u>	<u>(105)</u>
New shares issued	<u>50</u>	<u>12.5</u>	-	<u>62.5</u>
Balance as at 31/08/2019	<u>800</u>	<u>87.5</u>	<u>534.5</u>	<u>1,422</u>

(iii) Journal entries for correction of errors

	Dr. N'million	Cr. N'million
Suspense account	45	
Retained earnings account		45
Being transposition error of dividend paid now corrected		
Bank account	62.5	
Ordinary share capital account		50
Share premium account		12.5
Being proceeds from issue of shares completely omitted.		

(iii) Journal entries for correction of errors

	Dr. N'million	Cr. N'million
Suspense account	45	
Retained earnings account		45
Being transposition error of dividend paid now corrected		
Bank account	62.5	
Ordinary share capital account		50
Share premium account		12.5
Being proceeds from issue of shares completely omitted.		

Marking Guide

	Marks	Marks
a) Reasons for financial reporting regulation in Nigeria: Any four (4) correct points		4
b) Sources of accounting regulation in Nigeria: Identification of any 2 sources	2	
Explanation of the 2 sources	1	3
c) Objectives IASB: Any three (3) correct points		3
ii) Preparation of revised income statement Determination of retained profits	1	
Adjustment of over-statement of inventory/ tax effects	2	3
i) Correct title	1	
Correct posting in statement of changes in equity	3	
Correct balance as at August 31, 2019	1	5
ii) Journal entries to correct errors		2
Total		20

Examiner's Report

The question tests candidates' knowledge of regulatory framework on financial reporting as well as preparation of statement of changes in equity which, reflects prior year adjustments.

Majority of the candidates attempted the question and their performance was above average.

Some candidates could not correctly explain the sources of accounting regulations in Nigeria while others could not correctly reflect the effects of prior year adjustments, in a statement of changes in equity, and which led to loss of valuable marks.

Candidates are advised to pay more attention to all the sections of the syllabus for better performance in future examinations of the Institute.

SOLUTION 3

(a) **(i) Events after reporting period:** These are events favourable or unfavourable which occur between the end of the reporting date and the date the financial statements are authorised for issue.

(ii) **Adjusting event:**
An adjusting event is an event which provides further evidence of a condition existing at the reporting date. An entity shall adjust the amounts recognised in its financial statements for the period just ended to reflect adjusting event after the reporting period.

(iii) **Non –adjusting event**
- An entity shall not adjust the amount recognised in its financial

statement to reflect non-adjusting event after the reporting date. In this case, there was no condition existing at the reporting date, so no adjustment should be made.

- Disclosure should be made in note form in the financial statement for significant non-adjusting event after reporting date.
- If a non-adjusting event means the going concern concept no longer applies to the entity, then the event should be treated as an adjusting event i.e. the financial statement should not be prepared on going concern basis.

(b) To: Directors of Chakachaka Nig. Ltd.

From: Consultants

Subjects: Event after reporting period

The following accounting treatments and disclosures are recommended for the events highlighted:

(i) Inventory destroyed by fire outbreak

- This event is a „non-adjusting event“ as it is indicative of a condition (fire) that arose after the end of the reporting period.
- As this is a non-adjusting event, no adjustment will be made to the amount recognised in the financial statement of your company for the year ended June 30, 2018.

- However, if the loss of N200million is consequential enough that its non-disclosure would influence the economic decision of the users of the financial statements, disclosure of the nature of the event, the estimate of its financial effects or a statement if such an estimate cannot be made would be required.

(ii) Bankrupt Debtor – Mr. Onigbese

This is an adjusting event and Chakachaka Nig. Ltd. should impair the amount receivable (N60 million) from Mr. Onigbese as at June 30, 2018.

His bankruptcy after the end of the reporting period provides evidence of the fact that the amount receivable from the debtor was impaired at the end of the reporting period.

(iii) Judgement debt

- This is an „Adjusting event“ – This is because the liability existed at the reporting date, but confirmation of the amount was only received on July 21, 2018.
- The financial statement should be adjusted to reflect the information received subsequently. Accordingly, provisions should be made for the entire amount of the judgement debt.

- The filing of the insurance claim only took place following the reporting date; hence no account should be taken of this at June 30, 2018. As confirmation of the success of the claim was received prior to the signing off date this should be disclosed in the notes to the financial statements of Chakachaka Nig. Ltd.

Conclusion

You should not hesitate to contact me if you need further explanation. Thank you.

Consultant

Marking Guide

	Marks	Marks
(a) Discussion of key concepts:		
Explanation of events after reporting date	2	
Explanation of adjusting events	2	
Explanation of non-adjusting events	<u>2</u>	6
(b) Memorandum to Directors of Chakachaka Ltd		
Presentation in memo format paragraph	1/2	
Opening/Introduction	1/2	
Discussion on accounting treatment and disclosure in respect of the fire incident (3 points)	4 1/2	
Discussion on accounting treatment disclosure in respect of Bankrupt Debtor:		
Any two (2) points	3	
Discussion on accounting treatment and disclosure in respect of judgement debt		
Any three (3) points	4 1/2	
Conclusion of memo	1/2	
Closing/Name/Signature	1/2	<u>14</u>
Total		<u>20</u>

Workings Notes

	₦	₦
1. Cost of sales:		
Opening inventory:		
Raw materials	162,600	
Work-in-progress	49,125	
Finished goods	276,750	488,475
Purchases-raw materials		1,125,900
Carriage inwards		15,750
Less: Closing Inventory:		
Raw materials	168,900	
Work-in-progress	56,700	
Finished goods	413,025	(638,625)
Manufacturing wages		375,000
Manufacturing overhead		187,500
Depreciation-plant and equipment		<u>18,000</u>
		<u>1,572,000</u>
2. Administrative expenses		
As per trial balance		237,150
Depreciation:		
Leasehold (112,500 - 22,500) ÷ 40		2,250
Furniture and fittings (10% × 75,000)		7,500
Motor vehicle (112,500 - 37,500) × 20% × 25%		<u>3,750</u>
		<u>250,650</u>
3. Selling and distribution expenses		
As per trial balance		175,200
Depreciation-motor vehicle		<u>11,250</u>
		<u>186,450</u>
4. Legal and professional		
As per trial balance		81,150
Amount relating to acquiring land		<u>(7,500)</u>
		<u>73,650</u>
5. Finance cost		
Loan notes (10% × 150,000)		15,000
Cumulative preference shares		<u>12,600</u>
		<u>27,600</u>
6. Revaluation surplus		
As per trial balance		65,000
Gain on revaluation		<u>20,000</u>
		<u>85,000</u>

Examiner’s Report

The question tests candidates’ knowledge of IAS 10 – Events After Reporting Period, and the application of the provisions of the standard to practical situations.

Most of the candidates attempted the question and their performance was below average.

Majority of the candidates could not correctly define some of the basic terminologies in the standard, while others were unable to apply the provisions of the standards to the practical situations. Candidates are advised to pay more attention to all relevant international accounting standards at this level of the Institute’s examination for better performance in future.

SOLUTION 4

Gbenga Nigeria Plc
Statement of profit or loss and other comprehensive income for the year ended December 31, 2019

	₦
Revenue	2,290,125
Cost of sales (Wk 1)	<u>(1,572,000)</u>
Gross profit	718,125
Administrative expenses (Wk 2)	(250,650)
Selling and distribution expenses (Wk 3)	(186,450)
Legal and professional expenses (Wk 4)	<u>(73,650)</u>
Operating profit	207,375
Finance cost (Wk 5)	<u>(27,600)</u>
Profit before tax	179,775
Income tax expense	<u>(68,900)</u>
Profit for the year	110,875
Other comprehensive income	
Revaluation surplus (Wk 6)	<u>20,000</u>
Total Comprehensive income	<u>130,875</u>

Marking Guide

	Marks
Preparation of statement of profit or loss and other comprehensive income:	
Title of the statement	1/2
Determination of gross profit	8 1/2
Determination of profit before taxation	9
Determination of profit for the year	1
Determination of total comprehensive profit	1
Total	<u>20</u>

Examiner’s Report

The question tests candidates’ knowledge of preparation of statement of profit or loss and other comprehensive income.

Majority of the candidates attempted the question and their performance was good.

The commonest pitfall was that some candidates recognised revaluation surplus in the statement of profit or loss, instead of other comprehensive income.

Candidates are advised to pay attention to all sections of the syllabus for improved performance in future.



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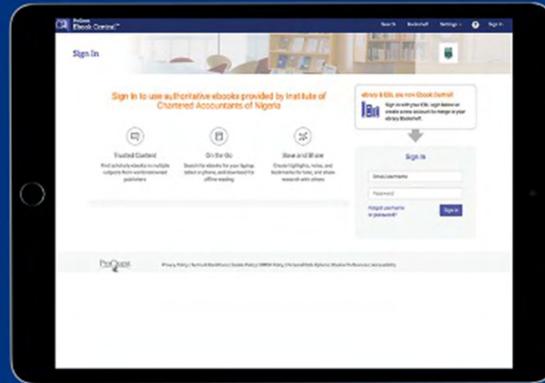
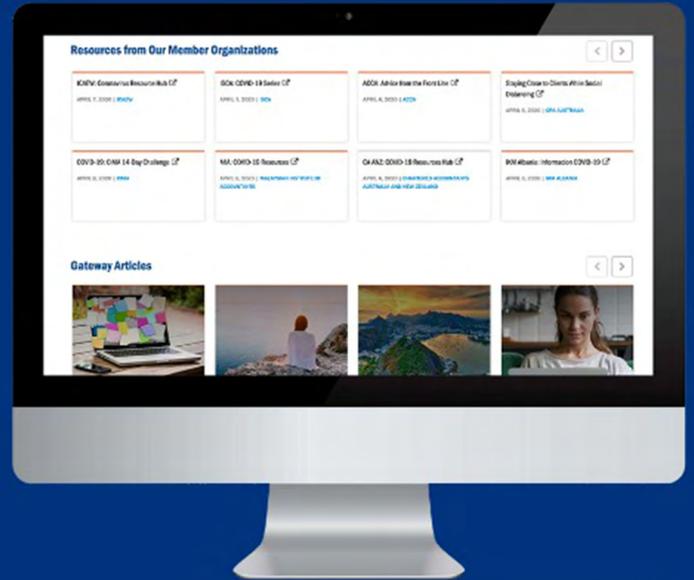
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