



TECHNICAL BULLETIN

Volume 3, Number 3 of 2020
Published: July 2020

Research & Technical Department of the Institute of Chartered Accountants of Nigeria

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EDITORIAL NOTE

Responsibility Accounting involves taking ownership, coordination and management of cost, revenue, profit and investment centres, to ensure and sustain the 'going concern' nature of an entity. It also entails the adoption and deployment of the necessary planning and control mechanisms that are required to keep the responsibility centres going. This edition of the Bulletin explored the different aspects of Responsibility Accounting with a view to provide the necessary toolkits for leaders to act as strategic managers and improve business performance.

The second article in this edition dwells on COVID-19 and Corporate Valuation. COVID-19 has impacted business valuation from a transaction perspective, regulatory perspective, and financial reporting perspective. Risks and assumptions considered in the valuation of a business should, therefore, be adjusted for the effects of COVID-19.

Responsibility Accounting and the burden of Leadership



INTRODUCTION

Accounting can be described as an act of stewardship, regardless of the context and setting of its application. It is expected to render in whole, the records of set goals, provide satisfactory reasons for an inability to achieve some of the set goals and proffer possible suggestions or recommendations on how to achieve them.

As an act of stewardship, the objectives that are expected to be met can be formal, informal, self-set, self-imposed, procedural, regulatory, among others. Once scaling is carried out and the minimum benchmark is not achieved, the accounting is classified as a "faulty accounting". In Accounting, everything is expected to be balanced and must be seen to be so appropriately and sufficiently. In the words of Diane Garnick (n.d.), "Accounting does not make corporate earnings or balance sheets more volatile. Accounting just increases the transparency of volatility in earnings".

As the "language of business", Accounting can be defined as the process of recording or documenting and reporting business and financial transactions. It involves storing, retrieving, sorting, analyzing and summarizing financial data, with the principal aim of presenting information to different users. This clearly shows that those who should qualify to be involved in rendering Accounting services must be equipped with the requisite and unique training to satisfy their Accounting service consumers.

ICAN Technical Bulletin is published by:
Research & Technical Department of
the Institute of Chartered Accountants
of Nigeria.

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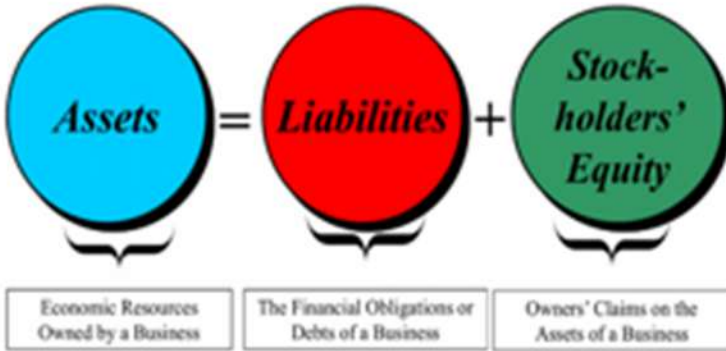
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As accounting service consumers are spread across the various sectors of the economy, accounting information, as the language of business, should be comprehensive and in line with applicable standards.



The Basic Accounting Equation



ATTRIBUTES

Some of the attributes that a leader is expected to have and practically demonstrate or manage include but are not limited to the following:

Knowledge

This is the understanding, consciousness, familiarity or awareness of something that can aid in empowering a leader to achieve the desired Accounting goals. It can be acquired through different means, sources and ways, such as education, practice, inquiries, perceptions, witnessing, testimonies, among others. Deficiency or limitation in knowledge will directly or indirectly affect the quality of “responsibility accounting” that a leader is expected to provide.



Responsibility Accounting involves taking ownership, coordination and management of cost, revenue, profit and investment centres, to ensure and sustain the ‘going concern’ nature of an entity. It also entails the adoption and deployment of the necessary planning and control mechanisms that are required to keep the responsibility centres going. Considering the importance of Accounting in the lives of families, nations and corporate entities, Responsibility Accounting must be handled by leaders who have the competence and capabilities to provide the needed deliverables. They must be equipped with and practically demonstrate undeniable attributes, which if not adequate, can become burdens that could lead to their failure as strategic leaders. According to John C. Maxwell, “leadership involves the heavy burden of responsibility, and the fear of getting it wrong can paralyze a leader”.

The burden heralds negative consequences that can affect the growth and development if not addressed. Leaders should explore all the professional, legitimate and legal ways of acquiring the requisite knowledge. According to Leonardo da Vinci, “The acquisition of knowledge is always of use to the intellect, because it may thus drive out useless things and retain the good. For nothing can be loved or hated unless it is first known”.

Skills

This is an expertise that can be learned or improved upon and is required by all leaders to perform efficiently and effectively. They can know or improve on their management, communication, listening, customer service, information technology, interpersonal and problem-solving skills. Lack of the right and adequate skills can limit the competence, confidence and charisma of a leader because according to Will Smith, "...no matter how talented you are, your talent will fail you if you are not skilled. Skill is achieved through practice. Work hard and dedicate yourself to being better every single day..." According to Strive Masiyiwa, "if you are working or you are running a business you have to set aside time and money to invest in your continued formal education and skills acquisition".



Attitude

This is usually presented by a person through action or inaction and goes a long way in demonstrating the person's mind, ideas, values and thoughts towards other people, a system, institution or an entity. An attitude can be perceived as positive or negative, depending on how it is presented. A leader's positive attitude can be deployed as a motivation tool to motivate employees and boost their confidence of employees because according to Neelu Praseetha, "character and attitude are most powerful signatures a person can have". A responsible and strategic leader must have the ability to present a positive and an inspiring attitude even when things are not going well because according to Albert Einstein, "weakness of attitude becomes weakness of character". A leader's bad attitude can negatively affect the growth and development of an entity, in line with the saying that, "A bad attitude is like a flat tyre. You cannot go anywhere until you change it."

Mindset

This can be described as a single or a collection of thoughts or assumptions by someone about others or activities. It could also be a view or philosophy that is fixed but may or may not necessarily be right. It can be developed within a short or long time, maybe positive or negative, constructive or destructive, helpful or harmful and progressive or retrogressive. Leaders should be flexible in their dealings with peers and subordinates because mindset can create biases which may be detrimental to the progress of an entity. While corporate philosophies should be upheld and pursued, leaders must be flexible in their analysis and fair in their judgement. They should have growth, rather than a fixated mindset because according to Steve Maraboli, "Once your mindset changes, everything on the outside will change along with it".



Ethics

This can be described as the moral codes or principles or philosophies that are usually set out to guide the way and manner in which activities are conducted. They exist in family, professional, social, cultural, political and general endeavours of humans. Though they may exhibit acts of protectionism in some instances, adherence to them, create the necessary sanity that will be required to achieve set objectives. General compliance with ethics lessens the burden of leaders while non-compliance begins the reverse. Regardless of principles, approaches and templates, moral compliance must first be adhered to before relevant adjustments or modifications are made. This is necessary because it guarantees the preservation of sanctity, in line with the quote of Bill Donahue that, "A leadership strategy without ethical clarity produces moral and economic bankruptcy".

The future cash flows form the bedrock of the discounted cash flow approach. The growth projections should be scrutinized, focusing on the sales volumes, price, margins, and working capital assumptions. From a VIU perspective, the cash flow projections should be based on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that exist over the asset's remaining useful life or the business. Greater weight is given to external evidence. [IAS 36.33(a)]

From an FVLCD perspective, the estimates and assumptions used are from the perspective of market participants. Cash flows used in determining FVLCD should be updated to reflect the assumptions that market participants would use based on market conditions and information available at the reporting date.

Also, the evaluation of the terminal growth rate is critical. The long-term implication of COVID-19 on the economy and the affected industry sector should be considered and adjusted to arrive at the terminal growth rate.

Matters such as the extent of business disruption due to the pandemic, recovery cycle, and mitigating factors should be considered in assessing the cashflow projections' reasonability.

Another fundamental pillar is the buildup of the discount rate. The risk arising as a result of COVID-19 must be carefully considered and addressed in arriving at a reasonable discount rate. For example, government yields that form the basis of the risk-free rate are on the decline. However, the decline does not necessarily translate to reducing other risk parameters considered in calculating the discount rate.

Conclusion

COVID-19 has changed the valuation landscape with new terms such as "COVID-19 discounts" entering the corporate lexicon. The impact of a pandemic on the whole array of valuation and business transactions is now our New Normal.