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**All Citizens Must
Be Brought Into
The Tax Net To
Guarantee More
Tax Inflow Into
Government Coffers**
- Okwuadigbo



Mazi Nnamdi A. Okwuadigbo BSc,FCA.
ICAN 55TH PRESIDENT

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

Founding Member, International Federation of Accountants (IFAC).



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Editor's Note

The mantle of leadership of the Institute changed hands on Monday, June 3, 2019 with the election of the 55th President, Mazi Nnamdi Anthony Okwuadigbo, JP, BSc, FCA and other officers to pilot its affairs for the next one year.

In his acceptance speech, Okwuadigbo revealed how he made up his mind to join the Biafra Army during the civil war. He actually went to war but returned to school after the war.

During his days at the prestigious University of Nigeria, Nsuka, Okwuadigbo developed the spirit of a Lion, pursuing his career vigorously and eventually came out with a Second Class Upper division in Accounting.

In his interview with the editorial team of this journal, the eloquent Okwuadigbo spoke on several issues affecting Nigeria as a country, especially on how government should increase budget performance for economic revival and benefit of Nigerians.

He also expressed satisfaction with the level of technological adoption in tax collection in the country, adding that revenue collection has significantly improved with the adoption of cutting-edge technology.

On ICAN's giant stride in the area of capital development, Okwuadigbo applauded the Institute for performing creditably well in building capacity for the accounting sector of the Nigerian economy.

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.

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

ICAN Elects New President, Other Officers

*The Institute of Chartered Accountants of Nigeria (ICAN) has elected new officers to run its affairs for the next one year. **Mazi Nnamdi Anthony Okwuadigbo, FCA** emerged as the 55th President. His investiture took place after an election on Monday, **June 3, 2019** at the Institute's Secretariat in Victoria Island, Lagos.*

*Also elected are: Vice President, **Mrs. Onome Joy Adewuyi, FCA** while **Mrs Comfort Olujumoke Eytayo, mni, FCA** and **Mallam Tijjani Musa Isa, FCA**, were elected 1st and 2nd Deputy Vice Presidents respectively. **Chief Oyemolu Olugbenga Akinsulire, FCA** became the Institute's Honorary Treasurer.*

THE PRESIDENT, **MAZI NNAMDI A. OKWUADIGBO** attended ZIK Institute of Commerce, Onitsha and the prestigious University of Nigeria Nsukka (UNN) where he graduated with a second class upper in Accounting in 1977.

He qualified as an Associate of the Institute of Chartered Accountants of Nigeria (ICAN) in 1981 and became a Fellow in 1987.

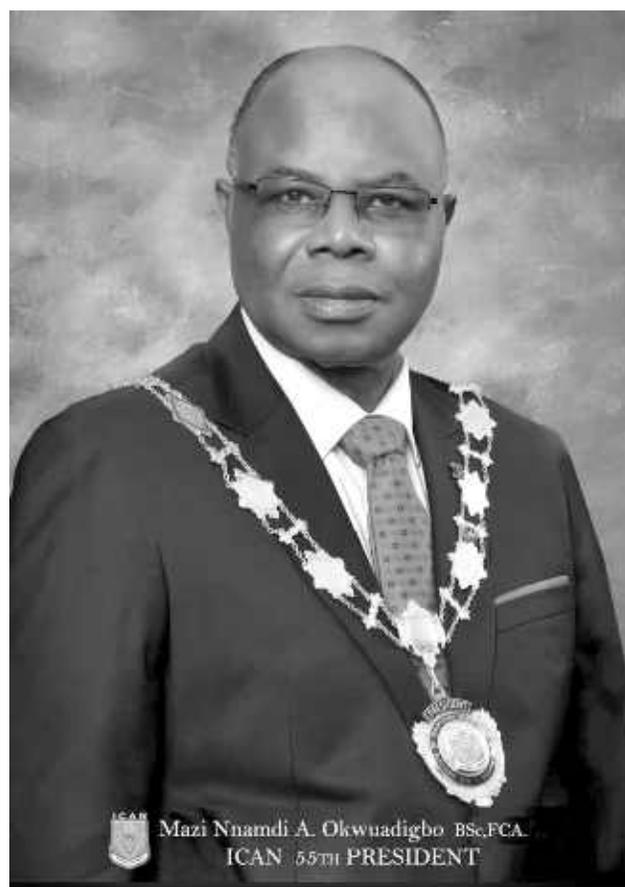
Okwuadigbo commenced his professional career at Coopers and Lybrand (Chartered Accountants now PriceWaterHouseCoopers), where he garnered requisite professional training between 1978 and 1981.

He was the Financial Controller/ Head of Administration of Gearhart Nigeria Limited (Oil Services Company now part of Halliburton) between 1982 and 1988. He was also at Barclays Bank of Nigeria Limited from 1972 to 1973. He has a proven track record of accomplishments in Administration, Finance and Accountancy.

He is currently the Managing Partner of Nnamdi Okwuaigbo & Co. (Chartered Accountants) from 1989.

Okwuadigbo has been a member of the Institute's Governing Council since 2007. He has served on many ICAN Committees either as Chairman, Vice Chairman or Member

He represented the Institute on the Small and Medium-sized Practices (SMP) Committee of the International Federation of Accountants (IFAC) New York, USA. He is a member of the Board of Federal Government Tax Appeal Tribunal for the South East Zone. He is also a member of the Audit Committee of



Guinness Nigeria Plc.

Okwuadigbo was a member of Council of the Nigeria Accounting Standards Board (NASB) now Financial Reporting Council of Nigeria (FRCN). He serves on the Board of the Corporate Affairs Commission (CAC).

Okwuadigbo is also a Fellow of the Chartered Institute of Taxation of Nigeria (CITN), the Nigerian Institute of Management (NIM) and Associate of Business Recovery and Insolvency Practitioners Association of Nigeria (BRIPAN).

At the District level, Mazi Okwuadigbo was Chairman of Port Harcourt & District Society from 1989- 1991. He has been Coordinator of Jos, Yenagoa, Aba, Ojo Badagry and Agbara district societies at different times.

Okwuadigbo was the President of Rotary Club of Trans- Amadi, Port Harcourt and holds the Paul Harris Fellow Award, Service Above Self Award and the Evergreen Rotarian Award of Rotary International. He was also a past Assistant Governor of Rotary International District 9140. He was the President of the University of Nigeria Alumni Association Port Harcourt Branch from 1993 to 1997.

He enjoys the game of Football and Table Tennis. He is a Justice of Peace.(JP)

THE VICE PRESIDENT, **MRS. ONOME JOY ADEWUYI** graduated with a second class honours (Upper Division) in Accounting from the University of Benin in 1982 and M.Sc degree in Banking & Finance from the University of Lagos in 1993. She is an alumnus of the Harvard Business School, Boston Massachusetts USA; the Wharton Business School of Pennsylvania, USA and the Kellogg Business School, Chicago USA. She is also an alumnus of the International Banking Summer School, USA and the Lagos Business School.

She began her career with Texaco Nigeria Plc. as the Treasury and Investment Accountant. She later joined the Nigerian Intercontinental Merchant Bank Limited where she started her banking career. She worked in Fidelity Bank Plc. for close to two decades where she rose to the position of the Executive Director, Risk Management. She has over 3 decades of experience in banking and financial management.

Mrs Adewuyi, in conjunction with Deloitte of South Africa, was responsible for the implementation of Fidelity Bank Plc. Enterprise Risk Management System in 2008. This culminated in the setup of distinct Credit Risk, Market Risk and Operational Risk Division of the Bank which is still in use at Fidelity Bank Plc. She is a faculty of the Financial Institution Training Centre and other private training institutions on Risk Management (Credit and Operational Risks).



Adewuyi

She is a Fellow of both the Institute of Chartered Accountants of Nigeria (ICAN) and the Chartered Institute of Bankers of Nigeria (CIBN).

She represents ICAN on the Governing Council of the Financial Reporting Council of Nigeria (FRCN). She was the Honorary Treasurer of ICAN for three times consecutively: 2011-2012; 2013-2014 and 2014-2015. She is the Technical Advisor to General (rtd) Sebastian Owuama, a Board member of the International Federation of Accountants. (IFAC).

She was a Chairperson of the Society for Women Accountants in Nigeria (SWAN), a member of the Institute of Directors and currently serves on the Boards of Law Union & Rock Insurance Plc. and Dominion Trust Limited as Non-Executive Director.

Mrs. Adewuyi is currently the Executive Director, Finance & Admin of Cynergy Platforms Limited. She has passion for charity works and development of the indigent girl child and she runs a scholarship scheme for Anglican priests and indigent children attending Nigerian universities. She is married and blessed with children.

THE 1ST DEPUTY VICE PRESIDENT, **MRS. COMFORT OLU. EYITAYO** is a member of the ICAN Governing Council since 2007. She has served on many ICAN Committees either as



Eyitayo

Chairman, Deputy Chairman or member at various times. As an Entrepreneur of repute, Eyitayo is the CEO of Eden Comfort Place, a high-profile hospitality business in Ikeja, Lagos.

Mrs. Eyitayo is a product of the prestigious University of London School of Economics where she obtained her Advance Diploma in Economics, from 1980 - 1981. She sat for her West Africa School Certificate at Lagos City College, Yaba, Lagos, in 1973

She also attended Hammersmith & West London College from 1978-1980 where she obtained her HND in Accounting. She was also at Sheffield City Polytechnic for her ACCA Level II, PAA Poly. Assc. in Accountancy (1982); London School of Accountancy (1983) and Students PYE (1987). Mrs. Eyitayo worked with KPMG Peat Marwick and KPMG MCLINTOCK - UK at different times. She was also with the United Bank for Africa Plc.

She is a member of the National Institute for Policy and Strategic Studies (NIPSS) Kuru, Jos having successfully attended the Senior Executive Course in 2009. Mrs. Eyitayo has attended numerous training courses both in Nigeria and overseas.

Apart from her professional career, Mrs. Eyitayo has served the public in many areas such as Member, National Governing Council of Allover Polytechnic; Financial Secretary, Shepherdhill Baptist Church, Obanikoro (2003-2010); Chairman, Finance Committee, Shepherdhill Baptist Church, Obanikoro

(2008 - 2013); National Treasurer of Alumni Association of the National Institute (2014 - 2017); General Secretary of Lagos Zone, Alumni Association of the National Institute (2010 - 2014) and many others. She is happily married and blessed with children.

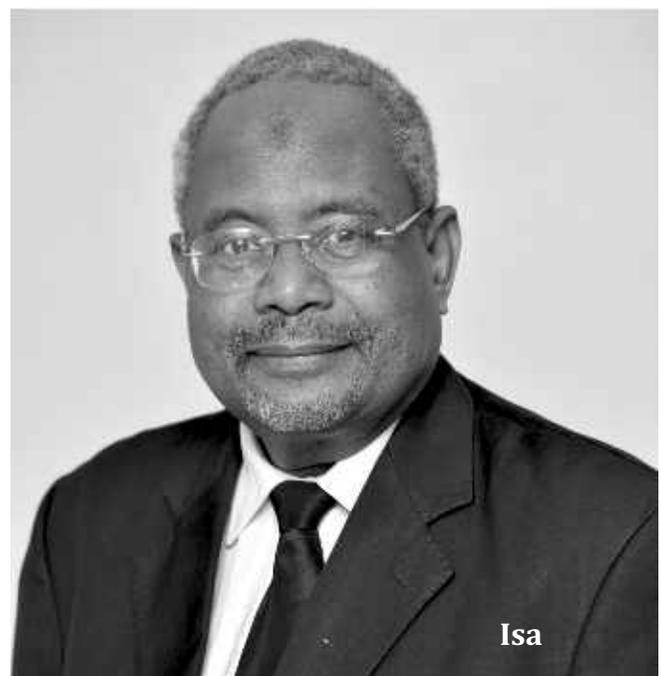
THE 2ND DEPUTY VICE PRESIDENT, MALLAM TIJJANI MUSA ISA holds a degree in Accounting from Ahmadu Bello University, Zaria in 1978. He qualified for ACCA in 1998 and became its fellow 2003. In 2008 he became a fellow of ICAN. He became a Member of the Institute of Directors (MIoD) in 2001.

He also attended Slough College of Higher Education, England from 1980-1981; London School of Accountancy, 1982-86 and Emile Woolf College of Accountancy, London, 1986.

He has attended numerous professional courses, seminars and conferences in and outside the country including the Columbia Business School, Executive Education Programme, in December, 2018

He joined ICAN Council in 2009 and served in different Committees as member and Chairman at different times.

Mallam Isa is engaged in public service as member, Governing Council, Federal University, Lafia; The Tertiary Education Trust Fund (TETFund), Board of Trustees, Representing North West Geopolitical Zone and; The Federal Tax Appeal Tribunal, Federal



Isa

Commissioner.

He has worked in several organizations including Obiora Monu & Company, Chartered Accountants; Bank of the North Limited as an Officer Trainee 1979/80; Muhtari Dangana & Co. as Senior Accountant 1, 1987/90; SCOA Nigeria Limited Plc as Head of Internal Audit, 1990/92; Kaduna Furniture and Carpets Company Limited (KFCC), 1995/96; Nigerian Unity Line Plc as AGM, Finance, 1996/98; Intercellular Nigeria Limited as AGM, 1998/2001; Sada, Idris & Co. (Chartered Accountants), Managing Partner, 2001; Tijjani Musa Isa & Co. (Chartered Accountants), Managing Partner, 2002 till date.

THE HONORARY TREASURER, CHIEF OYEMOLU OLUGBENGA AKINSULIRE graduated with a second class honours (Upper Division) in Accounting from Olabisi Onabanjo University (OOU) Ago-Iwoye after he earlier graduated from Yaba College of Technology where he obtained the Higher National Diploma in Accountancy and Finance in 1986.

Additionally, Chief Akinsulire holds an M.Sc degree in Accounting from the University of Lagos in 2012, as well as an MBA from Kensington University Glendale, California USA

- Oye is a
 - o Fellow of the Institute of Chartered Accountants of Nigeria (ICAN)
 - o Fellow of the Chartered Institute of Taxation of Nigeria (CITN) and
 - o Fellow of the Nigerian Institute of Management (NIM)

He had extensive banking experience at Union Bank of Nigeria Plc, Republic Bank Limited and First Bank of Nigeria Plc.

- In the service to the Institute, Chief Akinsulire had served the Institute in various capacities, some of which are as a:
 - o resource person in Strategic Financial Management for the Institute since 2000 till date
 - o member of the syllabus review committee for the Institute in 2000, 2004 and 2008
 - o co-author of the maiden edition of the Institute's maiden study pack on Strategic Financial Management



Akinsulire

- o Deputy Chairman, the Annual Accountants Conference Committee in 2014
- o Chairman, Mutual Cooperation Agreement with Tertiary Institutions (MCATI) as well as a member of various other committees.

He was the Financial Secretary of the Association of Professional Bodies of Nigeria (APBN) from 2014 to 2016 and later became the Treasurer of the same body from 2016 to 2018 where he was adjudged to have represented the Institute creditably with his performance.

At the home front, Chief Akinsulire is a former National Chairman - Ekimogun Day planning committee (1997 - 1999) and was honoured with the chieftaincy title of Ogbodu of Okesare in Ondo City (Ondo State) in 1999 by the Osemawe of Ondo kingdom after earlier being bestowed with the Liiken Yemoja chieftaincy title in 1998. Chief Oye is an untribalised Nigerian which saw him being honoured with the chieftaincy title (Pillar) in Umudike (Abia State) in December 2017.

He is an author of repute, who authored the textbook on Financial Management which is widely used by professional accountancy/banking as well as students of higher Institutions nationwide.

Presently, he is the Managing Consultant of Oye Akinsulire & Associates, a firm of Financial, Management and Tax Consultancy advisers and also doubles as the Managing Director of Safe Associates Limited (an accredited tuition centre by ICAN).

ICAN Celebrates Akintola Williams at 100, Awards Scholarships

THE doyen of accountancy profession in Nigeria, Mr. Akintola Williams has clocked a century on earth and to commemorate this, ICAN awarded scholarships to the best performing accountancy students in eight universities in the country.

The recipients of the award of N250,000 each include Oladele Toyosi Michael, University of Lagos (CGPA – 4.54); Akande Marvelous Feranmi, University of Abuja (CGPA - 4.83); Omotoso David Ayomide, Ahmadu Bello University (CGPA – 4.82); Isaac Mark, University of Maiduguri (CGPA – 4.06); Ogbodo Anthonia, University of Nigeria, Nsukka (CGPA – 3.75); Ichella Victory Chinyere, University of Port Harcourt (CGPA – 3.55); Uche Emmanuel Miti, University of Benin (CGPA – 4.52) and Dakwak Nerat Musa, University of Jos, (CGPA – 4.38).

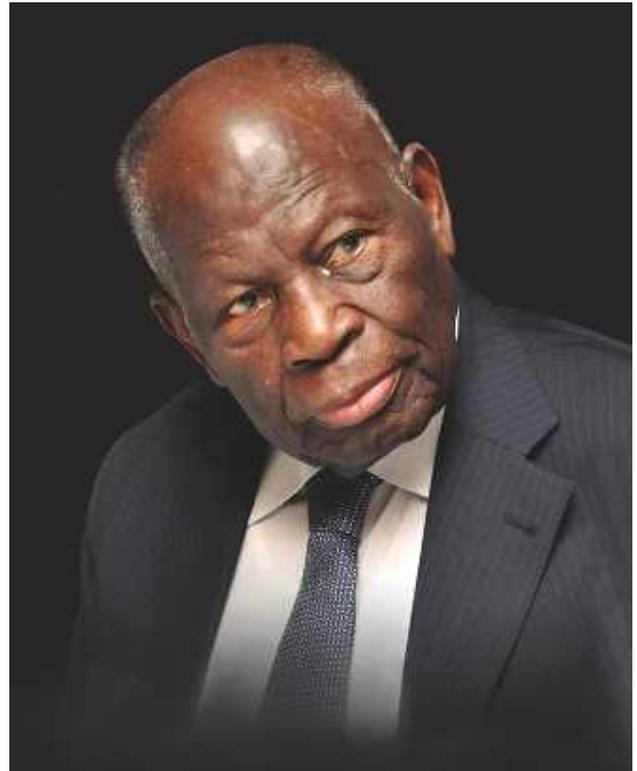
Delivering his speech at a special council session in his honour ICAN President Mazi Nnamdi Okwuadigbo, FCA, described Mr. Williams as a man of “unparalleled and visionary leadership qualities; a trailblazer of no mean repute; a role model; a Manager of men and resources and an organizer of unequalled status”.

He posited that Akintola Williams was divinely assigned to be an advocate of integrity and architect of accounting profession not only in Nigeria but also the entire African continent.

Reputed to be the first sub-Sahara African to become a chartered accountant after he passed the qualifying examination of the Institute of Chartered Accountants of England and Wales (ICAEW) in 1949, Williams played a leading role in the development of accountancy profession in the country by facilitating the establishment of the Association of Accountants in Nigeria, which metamorphosed into the Institute of Chartered Accountants of Nigeria (ICAN).

He went on to become a founding member of ICAN and was also involved in establishing the Nigerian Stock Exchange.

A seasoned administrator, Williams was an outstanding accountant, management consultant and serial entrepreneur in his active



working days.

After his early education in Nigeria, Williams obtained a Bachelor of Commerce Degree (majoring in Banking and Finance) from the University of London in 1946 before he qualified as a Chartered Accountant in England.

He worked with the Inland Revenue as an assessment officer from 1950 to 1952, when he left the civil service and founded Akintola Williams & Co., the first indigenous firm of chartered accountants in Africa (now Deloitte & Touche Nigeria).



One of the Scholarship Awardees, Oladele Toyosi Michael receiving his cheque from ICAN President.



All Citizens Must Be Brought Into The Tax Net To Guarantee More Tax Inflow Into Government Coffers - Okwuadigbo

The 55th President of the Institute of Chartered Accountants of Nigeria (ICAN), Mazi Nnamdi Anthony Okwuadigbo, Bsc, FCA, is not a novice but a big fish in the practice of accounting, having spent over 40 years to practice the profession he knows best. Early in life, he discovered what he wanted to do and pursued it vigorously till he became a Chartered Accountant.

In this interview with the Editorial team of The Nigerian Accountant led by the Editor, Bunmi Owolabi and Assistant Editor, Muyiwa Dare, the highly experienced professional disclosed his plans for the Institute in the next one year, how to improve the nation's economy and how to move accounting practice forward. Excerpts:

know that we have about thirty Council Committees saddled with Terms of Reference to achieving the objectives we have set out for this Presidential year.

ICAN as a body has supported the Federal government in the fight against corruption. Do you think the gains of the corruption fight have surpassed the shortcomings?

As I alluded earlier, ICAN has been at the forefront of supporting governments' anti-corruption crusade through our Whistle Blower's Fund and ICAN AI. Also, in 2017 ICAN keyed into the new standard of ethics for professional accountants issued by the International Ethics Standards Board for Accountants (IESBA). The standard sets out a first-of-its-kind framework to guide professional accountants in what actions to take in the public interest when they become aware of a potential illegal act, known as Non-Compliance with Laws And Regulations, or NOCLAR, committed by a client or employer. We continue to encourage all our members to abide by the spirit of this standard. We also have various disciplinary measures to deal decisively with any member found to be engaged in any form of professional or financial misconduct.

These are ICAN initiatives to support government at finding a permanent solution to the perennial problem of corruption in our polity. Over the years, governments at all levels have also made conscious efforts at frontally addressing the problems of corruption in the country. I wish to state that some progress has been made in the fight against corruption. For instance, in 2018 we witnessed some high profile convictions of past governors coupled with several other convictions by the Economic and Financial Crimes Commission.

However, the achievements must be deepened as they still represent a far cry from the El Dorado. Nigeria is rated by Transparency International (TI) as the 144 least corrupt nation out of 175 countries, according to the institution's 2018 Corruption Perceptions Index. This is not surprising as the country is still bedeviled with cases of money laundering, illicit financial outflows, budget padding, contracts inflation amongst several other financial misappropriations.

What do you think are the challenges facing the effectiveness of the TSA?

I need to stress that the Treasury Single Account (TSA) is a commendable policy aimed at promoting accountability of all governments' funds and to discourage multiplicity of governments' accounts

which usually aid corruption. In Nigeria, TSA was first mooted in 2004 but its full implementation started in September 2015. With the TSA, all revenues are mopped-up online, real time. At any point in time, usually at the end of the day, the government knows how much it has in its till.

As at August, 2018, it was estimated that total revenue collection into TSA was N11 trillion and that N42 billion had been saved monthly on Ways and Means charges, an overdraft by Central Bank extended to government to bridge temporary cash short falls.

Just like any other policy, a few challenges still trail the effective implementation of the TSA. Continuous education of the public is imperative and there is the need to bring on board all critical stakeholders in the implementation process. For the success achieved so far to be consolidated, there is the need to promote a deep sense of ownership by everyone/department in the TSA implementation value chain. It is also worth mentioning that the cost of implementation of the TSA would be drastically reduced if local capacity is built to manage the technologies deployed in its implementation. So far, we are made to understand that out of the four technologies deployed, only Remita is indigenous. The other three – RTGS, T24 and GIFMIS – are foreign with origins from Sweden, Switzerland and Estonia respectively. One can only imagine the pressure that would be mounted on our forex through these foreign products. While ICAN appreciates the need for the security of these platforms and the technical capacity their operations require, the earlier the country builds internal capacity in these areas the better for the preservation of our forex.

Apart from the government under-utilising some assets, are there some sources of public funds wastage that you have identified with the present government?

Just like ICAN in times past had raised awareness on the need for judicial use of the various governments' idle assets littering the country, there is also the need to identify other areas of wastage. One area that readily comes to mind is the unending call for government to reduce the cost of governance. Undoubtedly, it is time that we revisited the Oronsaye Commission's Report.

The buzzword now in bookkeeping is forensic auditing to detect fraud and account padding. Do you think this has helped and what more should be done to check fraud?

As the 55th President of The Institute of Chartered Accountants of Nigeria, what should members, government, and Nigerian professionals expect from your tenure?

In my acceptance speech on June 3, 2019 as the 55th President of ICAN, I enunciated our agenda for this administration. But before I give a brief on our plans, I wish to reiterate that this administration is consolidating on the legacies of the Institute's founding fathers and achievements of past administrations. As traditional of our Institute, we have over the years provided topnotch capacity building programmes for Chartered Accountants in the country. We have also produced Chartered Accountants who are occupying strategic positions in the country's economic value chain as Chief Finance Officers, seasoned administrators and trusted technocrats.

We are not resting on our oars. This administration has resolved that capacity building would continue to be a strategy in the scheme of events. Due to this commitment, we have tagged this Presidential year as *"Harnessing Internal Capacity" which translates to Empowering our Internal Skills, Building Stability and Sustainability*". We would democratize lifelong learning for our members through the development of our e-learning platform to make it more efficient. Indeed, no member would be disadvantaged in access to our various training programmes due to location and distance. The Curriculum for our trainings would continue to be revised to ensure it keeps pace with global trends. The world is now a global community, hence we would produce Chartered Accountants that would compete favourably well with their counterparts in other parts of the world.

I need to mention that we have equally revised the syllabus for our professional examinations. The new syllabus, which takes effect in November 2019 diet of the examinations, has been structured to address the newly emerging areas in the noble accounting profession. With this, our students are being prepared to face the highly rewarding, albeit challenging, profession.

Over the years, ICAN has supported various initiatives of governments across the three tiers of government. You would recall that in 2015, ICAN instituted a N50 million Whistleblowers' Fund to protect its members who report any form of financial misdemeanor in their various organisations. The Institute was highly elated when government promulgated the Whistleblowers Policy in 2017. Our

ICAN Accountability Index (ICAN AI) is another initiative of ICAN to support governments in their anti-corruption crusades. The Index promotes effective and efficient Public Finance Management in the country. We also contribute to various relevant bills from the National Assembly and we are in the vanguard of supporting governments to be wary of any tendencies that aim to cheapen professionalism in the country. The roles of professionals are very strategic in a nation's development that the Institute would not fold its arms and allow professionalism to be commercialised.

As I noted in my Acceptance Speech, in a concerted effort to sustain the gains of the Institute in supporting governments in their various laudable initiatives, we would maintain the existing cordial relationship between the government, media and the Institute as a strategy for bridging possible information gap. We would through the instrumentality of the Institute's relevant directorates raise the quality and regularity of our information outlets especially on critical national issues. We are deepening the Institute's advocacy roles in the economy to ensure that ICAN retains its status as the number one voice in accounting and other related matters in the country.

As the new ICAN president who has just a year to lead the Institute, how do you hope to achieve all the strategic programmes you have lined up within the period?

ICAN is an Institute with a history of over five decades, promoting professionalism and high ethical conduct. Since 1965, we have built strong institutional infrastructure aimed at addressing the different areas of our mandate. Our seamless transition process in the leadership structure equips any sitting President with adequate knowledge on the workings of the Institute.

For instance, I have been in the Council of the Institute for twelve years before I was elected as the 55th President. Over these years, I have worked in various Committees of the Institute garnering practical experiences on the areas of strengths of the Institute and the challenges we face. Hence, the agenda we have set for this Presidential year is an outcome of a painstaking analysis of the strengths, weakness, opportunities and threats facing us as an Institute.

In addition, the Institute's Committees system together with our well-staffed Secretariat gives us a special leverage to achieving the strategic programmes we have lined up. It may interest you to

There is no doubt Forensic Auditing is gaining wide acceptability across countries. This is in line with the global community's commitment to sanitize economies of the world from corruption. As a proactive Institute, ICAN in 2001 established six (6) Faculties and an additional one in 2015. These Faculties, one of which is Audit Investigations and Forensic Accounting, are specialized areas of accounting aimed at building the competencies of our members in these areas. Over the years, ICAN has produced several hundreds of Forensic Accountants who are contributing to the investigation value chain in the country.

No doubt, the creation of this Faculty by the Institute has contributed to the fight against corruption and other financial malpractices in the country. I must, however, add that for fraud and corruption to be adequately tackled, there must be a collaboration between all the stakeholders in the corruption-fighting spectrum. Corruption is a cankerworm in any polity and to fight it effectively



We are deepening the Institute's advocacy roles in the economy to ensure that ICAN retains its status as the number one voice in accounting and other related matters in the country.

would require putting all types of machinery in place in a strategic and collaborative manner.

International Financial Reporting Standards (IFRS) has become the global standard. What is ICAN doing to aid understanding of the IFRS 9 with respect to profit and loss provisions? What is ICAN doing to enforce compliance to the Standards by its members?

To ensure that our members remain attune to the IFRS, we organise trainings on various aspects of the Standards. The curriculum for our MCPE is structured to adequately fill the knowledge gap in the understanding of the IFRS 9. Equally, we have a Faculty that runs certification programme on the Standards. As a result, we have members of the Institute who are duly certified as experts on IFRS.

To ensure compliance to the Standards by our members, we create regular awareness on the need for members to join the global business community through adherence to the principles of the Standards. We also have various disciplinary channels to discipline members who fail to comply with the Standards and this also serves as deterrent to others.

Adherence to corporate governance is being emphasised by international accountancy bodies like; Pan Africa Federation of Accountants (PAFA), Association of Accountancy bodies in West Africa (ABWA) and International Federation of Accountants (IFAC). How have you repositioned the practice in line with operational transparency?

I am happy that you raised this issue. As you are aware, when the Financial Reporting Council of Nigeria (FRC) released the draft 2018 Nigerian Code of Corporate Governance, we submitted our recommendations as an Institute after organising a Stakeholders Forum that critically reviewed the exposed draft. This is one of the ways we are repositioning the practice of accounting for operational transparency.

We engage regularly with regulators and players in the country's business space on the need to promote good Corporate Governance as a sine-qua-non to attracting the much needed Foreign Direct Investments (FDIs) into the country.

The Institute's Whistleblower's Fund of N50 million set up in 2015 is another initiative of ICAN to

promote operational transparency. The Fund is used to protect ICAN members who report any form of financial or operational misdemeanor in both the public and private sectors of the economy.

Do you think it's lawful/right for Federal Inland Revenue Service (FIRS) to direct banks to deduct corporate taxes from companies' accounts with them?

The Federal Inland Revenue Service (FIRS), being an agency of government established by law, is expected to act within the purview of the law establishing it. I believe FIRS would not act against the statutory provisions for tax collections. Hence, if the Service eventually directs banks to deduct corporate taxes from companies' accounts with them, this should suggest that the Service has the statutory right to give this order. If IFRS is however acting outside its statutory mandate, then there are channels of reporting such to appropriate government arms for the necessary redress.

In the alternative, how can governments at all levels boost their tax collection drive rather than subject firms to multiple taxes?

My submission is that there is the need to develop a strategic approach at ensuring that all citizens are brought to the tax net. This would guarantee more tax inflow into governments' coffers. Governments at all levels should also develop incentives that would encourage tax collection by tax administrators. These may include setting ambitious targets for tax administrators in relevant agencies and rewarding identified staff for an excellent performance. Regular training on tax collection should be organized for the administrators.

What roles can accountants play in revenue generation and tax management in the country?

Chartered Accountants are key players in revenue generation and tax management in the country. Over the years, our members have been involved in tax practices. To further deepen Chartered Accountants' contributions to the country's tax system, ICAN's Council in 2018 approved the Implementation of Taxation Strategy by the Taxation Faculty Board of the Institute. The thrusts of the ICAN Tax Strategy Document are to influence the tax system positively in all key areas of tax policy, legislation, administration and adjudication; make ICAN a reference point and a voice for tax and fiscal policy matters in Nigeria and internationally; set standards and guidelines for tax practice in collaboration with

other relevant bodies; enhance members' value proposition through quality training, skills development programmes, recognition and practice protection and; promote transparency and accountability in the tax system for the overall good of society.

What is your opinion on the efforts by Federal Inland Revenue Service (FIRS) at making defaulter billionaires pay their taxes?

This will aid income redistribution. While we advocate, as an Institute, that the tax net should be spread across all economic cadres, the success achieved by FIRS in 2018 would be strengthened if efforts at ensuring tax compliance by defaulting billionaires are sustained. Let me quickly add that efforts by FIRS at making defaulter billionaires pay their taxes should be strategic as these billionaires also have the political and economic powers to sabotage the Service's attempts at ensuring their compliance. Hence, success in this regard by the FIRS would require innovative tax collection, incentives for tax payment and moral persuasion, if necessary.

What is your general assessment of the tax system in the country?

Let me first express my satisfaction with the level of technological adoption in tax collection in the country. Revenue collection in any economy would no doubt significantly improve with the adoption of cutting-edge technologies. Some of the technologies currently being deployed by FIRS include e-payment channel which affords tax payers to fulfill their tax obligation in any part of the world at the click of a button and obtain their receipts on the spot. Others are e-Registration, e-Filing, -Stamp Duty and e-Tax Clearance Certificate.

It should not therefore come as a surprise to us when the Service set a new record in 2018 by collecting a total of N5.320 trillion. This is an indication that with proper management and commitment to its resolve at building a new tax regime for the country, FIRS would not only achieve its N8 million target for 2019 but even surpass it.

Talking about the growth of Small and Medium Scale Enterprises (SMEs) in Nigeria, what support can ICAN give in terms of bookkeeping to boost that sector?

The SMEs are the backbone of an economy and a large number of our members who belong to the Small and Medium-Sized practices are providing vital services



to the sector. We organise sessions to educate operators of SMEs on the need to keep accounting records. The syllabi of the Accounting Technicians Scheme as well as the foundation levels of the Institute's examinations are all designed to promote bookkeeping.

The country's budget system has been rated poor by experts and other economic watchers. What advice would you give government at ensuring an efficient budgeting framework in the country?

It is worrisome that the country is still in the throes of poor budget process. its budgeting process right. Budget, being the bedrock for all financial planning in a fiscal year, is not only critical for government activities but helps in decision making and projections for investment purposes by players in the private sector. Hence, the experience in the last of couple of years where budgets were not signed until mid year tells a lot of discouraging stories about the country's economic performance. For instance, the 2019 Appropriation Bill was signed by the President in May. This implies no serious financial transactions took place by the various Ministries, Departments and Agencies (MDAs) of government until June. Technically, one can say the economy was at a halt for the first five months of the year since the inability of players in the private sector to know government's direction would also constitute a drag in their investment drive. This leaves much to be desired.

As we all know, the weak budgeting infrastructure in

the country is not due to lack of capacity or experienced professionals. Essentially, undue political interference is a major challenge that has bedeviled the country's achievement of an efficient and effective budget system. A country's budget is such a sensitive financial instrument that should not be turned into a pawn in the chess of politics.

There is also the need to critically look into most of the assumptions underlying our budget preparations. Such assumptions should not be based on a parochial interest of any sitting government but rather on a holistic analysis of the country's economic dynamics. A situation where a larger percentage of the budget, sometimes about 70%, is servicing recurrent expenditure does not also portray a country poised at deepening investments in capital expenditure that spur growth and development.

As part of our advocacy mandate at ICAN, we regularly organize budget symposia as a way of

Just like any other policy, a few challenges still trail the effective implementation of the TSA. Continuous education of the public is imperative and there is the need to bring on board all critical stakeholders in the implementation process.

assisting government in developing budgets that would address the peculiarities of our economy. Such symposia are also intended to educate the public on the need to hold government responsible on public finance management in the country.

EFCC has raised alarm over fake dollars in circulation in the country, what is the implication of this to the economy?

I wish to restate that the alarm was raised by EFCC prior to the election. It may not be unconnected with the desperation of some politicians to win at the polls by all means. While I hope relevant stakeholders must have done their bit at ensuring that the notice given by EFCC was looked into, such happenings no doubt portray the country in a bad light among the comity of nations. Its implications on the economy

may also be difficult to quantify as it would definitely impact negatively on investors' perception, worsen inflation and business losses, especially when business owners unknowingly transact with such fake currency and are eventually discovered.

Last year ICAN made some recommendations to the Financial Reporting Council of Nigeria (FRC) on the 2018 Nigerian Code of Corporate Governance has any of the recommendations been implemented?

I am happy that you raised the issue of our contributions as an Institute to the 2018 Nigerian Code of Corporate Governance. I must commend the Financial Reporting Council of Nigeria (FRC) for engaging a broad spectrum of stakeholders in the development of the new Code. Of course we raised a number of issues and made recommendations to FRC. Some of our recommendations were incorporated in the new Code and we would further engage with FRC at ensuring that the country constantly update the Code to keep pace with emerging trends. This is with

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the sole objective of creating an enabling corporate environment to attract the much-needed Foreign Direct Investment (FDI) into the country.

And if not, what do you think are the reasons for the non implementation of your recommendations?

As you are aware, when a document is exposed to the public for comments and recommendations, the organization releasing the document has the



prerogative to accept or decline suggestions from the different segments of the public. We are not privy to the reasons why some of the Institute's recommendations were not taken on board in the new Code. Having said this and as I mentioned earlier, I can assure you that we would continue to engage FRC and other key stakeholders at ensuring that this new Code serves as the basis for building a virile Corporate Governance regime in the country.

What is your take on the signing in to law of the Executive Order 007 by President Buhari?

Obviously, it is a welcome development. Road infrastructure is one critical enabler of growth in any economy. Hence, the Executive Order 007 which aims at improving roads infrastructure across the country is long overdue. You will recall that the African Development Bank showed interest at supporting the country in bridging its infrastructural gap which was estimated to cost about \$3 million in the next 26 years. This new Executive Order provides an innovative approach to funding road infrastructure which would be ill-advised to depend solely on government to implement. While we have toed this path before, I hope the present administration and other stakeholders would give this new Executive Order all the seriousness that it deserves.

What benefits can you say are inherent in the signed order?

The benefits are almost unquantifiable. An efficient road system promotes growth and development by

providing ease of access between the urban and rural centres and facilitates movement of goods, especially agricultural products, from areas of production to where they are consumed or used as raw materials. This becomes most critical as the other means of transportation are not well developed to move these produce. Also, good road systems aid the inflow of Foreign Direct Investments (FDIs) in the country through the creation of an enabling business environment. There would also be a significant reduction in road accidents and improvement in the general well being of the citizens.

What is your take on Naira stability?

The CBN has done a good job keeping the naira stable, but the apex bank is paying a high price. The cost for Nigeria has come in the form of pressure on the foreign reserves. To reduce this pressure, government should vigorously commit to improving local content and invest in infrastructural development that would spur local production and improve the potentials for export.

In over five decades ICAN has engaged in the training of human capital. Are you satisfied with what you have seen, if not what are the strategies you hope to adopt as the Institute's President to improve?

Without being presumptuous, ICAN has performed creditably well in building capacity for the accounting sector of the Nigerian economy. Our members are occupying very strategic positions in both the public and private sectors of the economy as trusted advisers and administrators. It is also important to place on record that from the 250 members that started the Institute in 1965, ICAN has produced over 48,000 Chartered Accountants, 24,000 Accounting Technicians and over 250,000 students.

Our members have been equipped with skills in the different areas of accounting such as Audit, Investigations and Forensic Accounting; Taxation and Fiscal Policy Management; Consultancy and Information Technology; Insolvency and Corporate Re-engineering; Public Finance Management; Corporate Finance Management and Financial Reporting.

In fact, let me add that our capacity building initiatives extend beyond the shores of the country as we have and currently mentoring other Professional Accounting Organizations (PAOs) in Africa. These include The Gambia Institute of Chartered Accountants, the Institute of Chartered Accountants of Ghana, The Liberian Institute of Certified Public

Accountant (LICPA) among others.

As a founding member of the International Federation of Accountants (IFAC), ICAN continues to play its leadership role in the Pan African Federation of Accountants (PAFA) and the Association of Accounting Bodies in West Africa (ABWA).

As the largest room in the world is the room for improvement, this Presidential Year would not just sustain the lofty capacity building initiatives of past administrations but we would develop more innovative strategies to democratize skills development programmes for our members. Hence, in this Presidential Year, capacity building would continue to be a strategy in the scheme of events.

In your view, what will you say about the performance of government in the last 365 days and what will ICAN expect the government to do to revive the economy?

The government has done well in recording a budget performance of 67 percent. Furthermore, the government's approach on infrastructure was a logical one as it simply prioritized the completion of critical on-going projects over the introduction of new ones. As an Institute, we will expect the government to increase the budget performance to at least 75 per cent for economic revival and overall good of Nigerians.

Some members of the Institute still seek to get certifications from foreign accounting bodies such as the Association of Chartered Certified Accountants in the United Kingdom, especially when they seek to work abroad. Does it mean ICAN's certificate is inferior to its foreign counterparts?

As you know, Nigerians have tastes for foreign products. In other circumstances, the prospects of relocation serve as the impetus for the desire to acquire foreign certificates. These have nothing to do with comparisons between ICAN certificate and that of other accounting professional bodies globally. This desire for foreign certificates is not only peculiar to ICAN certification. Indeed, our syllabus aligns with the requirements of the International Educational Standards & Guidelines issued by International Accounting Education Standards Board (IAESB). However, our syllabus also aligns with the peculiarities of the Nigerian business environment.

As at today, ICAN is one of the largest Professional Accounting Organizations in Africa. To evidence the quality of the ICAN certificate, the Institute has



entered into a Reciprocity Agreements with ICAG, ICAEW and CIMA. With these arrangements, ICAN members would enjoy generous exemptions from these Institute's examinations should they desire to become members of the Institutes. The same thing applies to members of these Institutes who desire to become ICAN members. This is another testimonial to the quality of our certificate. It is also not gainsaying the fact that the Institute's certificate is the toast of all employers both in the public and private sectors of the economy.

In addition, ICAN is a founding member of the International Federation of Accountants (IFAC), the body that regulates accountancy profession in over 130 countries of the world. Our standards and practices are benchmarked on IFAC standards and guidelines, therefore comparable with those of our peers anywhere in the world. Presently, we conduct examinations in UK and Cameroon and have district societies in Canada, USA, Malaysia, UK and Cameroon. It is a global world of competition but we are up to the task.

Nigeria has over the years had problems with budget design and implementation. What do you think is the way forward?

It is worrisome that the country is still in the throes of poor budget process. Budget, being the bedrock for all financial planning in a fiscal year, is not only critical for government activities but helps in decision making and projections for investment purposes by players in the private sector. Hence, the experience in

the last of couple of years where budgets were not signed until mid year tells a lot of discouraging stories about the country's economic performance. For instance, the 2019 Appropriation Bill was signed by the President in May. This implies no serious financial transactions took place by the various Ministries, Departments and Agencies (MDAs) of government until June. Technically, one can say the economy was at a halt for the first five months of the year since the inability of players in the private sector to know government's direction would also constitute a drag in their investment drive. This leaves much to be desired.

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assisting government in developing budgets that would address the peculiarities of our economy. Such symposia are also intended to educate the public on the need to hold government responsible on public finance management in the country.

What is ICAN as an Institute doing to resolve the challenges pose by other professional bodies seeking to compete with you on the training of accounting professionals?

ICAN brand stands tall among other professional accounting bodies in the country. The market has a way of differentiating products, and left to ICAN, we do not nurse any fear as to the quality of our various certification programmes. As far as the Institute is concerned, it is not a challenge to us.

As I earlier noted, however, the need to uphold professionalism and good ethical conduct in the profession compels us to support governments and create the necessary awareness on the need to be wary of any tendencies that aim to cheapen professionalism in the country. The roles of professionals are very strategic in a nation's development that the Institute would not fold its arms and allow professionalism to be commercialized. It is therefore not about ICAN but about professionalism in the country and the danger of allowing various professions to be populated with charlatans.

How do you address the issue of professional misconduct among your members?

There are laid down processes for dealing with professional misconduct in our enabling law. Once a complaint is received against the behaviour of any member, the Accountants' Investigating Panel swings into action to authenticate the details of the alleged infraction. Once a prima facie case is established, the matter is referred to the Accountants' Disciplinary Tribunal for adjudication. If such a member is found guilty, sanctions would be applied as provided in the Act.

When you look at economic indices like high unemployment rate, rise in food prices, among others. What advice do you have for the present Federal government to address these issues?

While some progress has been made in the country in terms of moderating inflation and restoring stability in the country's foreign exchange, there are however a lot of grounds to cover. A dispassionate look at the various economic indices in the country suggests that

there is the need for deliberate and purposive resolves to address the economic challenges. Several rating agencies have scored the country low on major parameters required to provide the enabling environment that would stimulate inclusive growth and development in the country.

Take the unemployment rate, for instance, which stood at about 23 percent according to the latest report of the National Bureau of Statistics (NBS). This figure excludes the underemployment rate of about 16 percent. As an Institute, this is a time bomb. To urgently remedy this ugly situation, entrepreneurship development initiatives should be religiously implemented for the country's teeming youth population. Any initiative on entrepreneurship development without creating the enabling business environment would only amount to motion without movement. Hence, the infrastructural base of the country should be revamped. A Public-Partnership Arrangements might be the low hanging fruits the country can exploit.

Tagging Nigeria as the poverty capital of the world should keep all stakeholders awake. The different poverty alleviation programmes would require proper monitoring and evaluation to ensure the country is value from these initiatives. The educational system of the country should be refocused to make Nigerian graduates problem solvers and job seekers.

The security challenge in the country has also reached a highly worrisome dimension that to call for a state of emergency in the security framework of the country would not be out of place. No meaningful growth can be achieved in an environment of intense ethnic and tribal tensions. The poor security in the country also

After your tenure as president of ICAN, what legacy would you like to be remembered for?

At the end of this tenure, we would have deepened the achievements of past leaderships of the Institute and bequeath an ICAN that would be more nationally relevant and internationally recognized. This administration would build a strong capacity-building framework that would enable our members compete favourably across the globe. ICAN would also be a regular voice on topical social and economic issues.

Our goal is to ensure success in ICAN exams. We have, therefore, suggested solutions to some professional level examination 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.

PROFESSIONAL LEVEL EXAMINATION – MAY 2019 CORPORATE REPORTING

QUESTION 1

Ariba Bank Plc. (the Bank) is a Tier 1 Bank in Nigeria with branch network across all the six geo-political zones of the country. Its credit portfolio is spread among many industries with a special focus on the oil and gas industry and real estate. One of its major customers with a very good credit standing is Dunga Property Development Company (DPDC).

The management of DPDC recently approved a plan to build four shopping malls in major cities across the country. A special purpose entity was registered as a limited liability company, Dunga Malls Limited (DML), dedicated to the development and management of the malls. The project will be solely financed by a loan to be obtained from Ariba Bank. There will be no equity contribution from DPDC other than the minimum required by law to establish a company.

Ariba Bank has approved a loan of N80 billion at a fixed interest rate of 15% per annum payable annually in arrears. The loan has a maturity of 10 years with a moratorium of 3 years. There was no transaction cost and therefore the contractual rate is the same as the effective rate. The loan was granted directly to DML on 1 January, 2018.

The Financial Controller of Ariba Bank Plc. is concerned about the accounting treatment of the loan as IFRS 9 Financial Instrument was adopted by the bank during the year. He noted that majority of the bank loans are classified at amortised cost in the statement of financial position but the loans must pass certain tests before such classification.

The Chief Risk Officer noted in his memo that the arrangement is substantially the same as the other borrowing arrangements of the bank except that a borrowing entity would normally have equity or other assets that could be called upon by the bank in a case of default other than the asset being financed.

Required:

- Discuss how financial assets are classified in accordance with the requirements of IFRS 9. (8 Marks)
- Advise the Bank on how the loan granted to DML should be classified in the statement of financial position. (6 Marks)
- Discuss, with supporting calculations, how the loan will be accounted for in the financial statement of the bank for the year ended 31 December, 2018
(6 Marks) (Total 20 Marks)

QUESTION 2

The Central Bank of Kangora (CBK) operates a post-employment benefit plan whereby employees are entitled to

an amount upon completion of employment. Each employee is paid an amount equal to 150% of the annual pay at the time of retirement multiplied by the number of years in service. The plan is not funded.

CBK uses a professional actuary to determine its liability under the plan at the end of every reporting period. The report of the actuary shows that the plan obligation was N620 million and N906 million as at 1 January, 2018 and 31 December, 2018 respectively. The current and past service cost for the year was N108 million. The discount rates were 8% and 12% as at 1 January, 2018 and 31 December, 2018 respectively.

CBK paid a total benefit of N48 million during the year.

The financial controller is struggling to complete the reconciliation and accounting entries for the plan. He is particularly confused about the concept of re-measurement and its accounting treatment.

Required:

- Differentiate between a defined contribution plan and a defined benefit plan and advise CBK on how its post-employment plan should be classified. (5 Marks)
- Complete the reconciliation and show the journal entries required to record the transactions for the year ended 31 December, 2018. (10 Marks)
- Discuss the components of re-measurement gain or loss and state the accounting treatment of a re-measurement gain or loss arising on a defined benefit plan. (5 Marks)
(Total 20 Marks)

QUESTION 3

a. LPG Plc. is a publicly traded entity on the Nigerian Stock Exchange involved in the production of and trading in natural gas in Nigeria. LPG Plc. jointly owns a gas storage facility with another entity, Tan Oil Nigeria Limited. Both parties extract gas from onshore gas fields in the Niger Delta, which they own and operate independently from each other. LPG owns 55% of the gas storage facility and Tan Oil Nigeria owns 45%. Services and costs are shared between them according to their percentage holding, however, decisions regarding the storage facility require unanimous agreement of the parties. The gas storage facility is pressurised so that the gas is pushed out when extracted. When the gas pressure is reduced to a certain level, the remaining gas is irrecoverable and remains in the gas storage facility until it is decommissioned. The Nigeria law requires the decommissioning of the storage facility at the end of its useful life. LPG Plc. wishes to know how to treat the agreement with Tan Oil Nigeria Limited including any obligation or possible obligation arising on the gas storage facility.

NB Ignore accounting for the irrecoverable gas.

b. LPG purchased a major gas plant on 1 January, 2018 and the Directors estimated that a major overhaul is required every two years. The costs of the overhaul are approximately N25 million which comprises N15 million for parts and equipment and N10 million for labour. The Directors proposed to accrue the cost of the overhaul over the two years of operations up to that date and create a provision for the expenditure.

Required:

Discuss, with reference to International Financial Reporting Standards (IFRS), how LPG Plc should account for the agreement in (a) above (11 marks) and the transactions in (b) for its year ended 31 August, 2018. (4 marks)

(Total 15 Marks)

Solution 1

Ariba Bank

(a) According to IFRS 9, on initial recognition, the classification of a financial asset depends on whether it is a debt instrument or an equity instrument. A debt instrument will normally be classified at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). An equity instrument cannot be classified at amortised cost.

Classification of a debt instrument will depend on whether the debt instrument passes the cash flow test (normally referred to as the solely payment of principal and interest (SPPI) test) and the business model test.

A debt instrument is generally measured at amortised cost if both of the following conditions are met:

- (i) The asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows (business model test)
- (ii) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding (contractual cash flows characteristics test)

A debt instrument is normally measured at FVOCI if both of the following conditions are met:

- (i) The asset is held within a business model in which assets are managed to achieve a particular objective by both collecting contractual cash flows and selling financial assets
- (ii) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding (contractual cash flows characteristics test)

The requirements above are applied to an entire financial asset, even if it contains an embedded derivative.

A debt instrument that is not measured at amortised cost or at FVOCI must be measured at FVTPL.

(b) The objective of a bank would normally be to collect

contractual cash flow, therefore it could be assumed that the business model objective for amortised cost has been met. However, it is important to consider whether the contractual terms give rise to cash flows that are SPPI.

SPPI implies that the Bank will be compensated for time value of money and the credit risk it is exposed to. Compensation for liquidity risk could also be considered for the purpose of SPPI but not the exposure to the risk of the underlying asset.

In the lending to DML, it could be argued that Ariba Bank is exposed to the risk of the underlying asset and facing a risk similar to that of an equity owner since the projects undertaken by DML are solely financed by the loan and there is no equity.

However, Ariba Bank could gain comfort on the basis that the loan was guaranteed by DPDC with a very good credit standing.

Based on the above, the loan will pass the business model test and SPPI test for classification as a debt instrument at amortised and should be classified as such.

(c) Debt instruments classified at amortised cost are initially measured at fair value including transaction cost. In this case, the fair value of the loan granted will be the total face value of N80 Billion less the transaction of N2 Billion deducted at source i.e. N78 Billion. It should be noted that the N2 Billion is not recognised immediately in profit or loss, rather it is recognised over the life of the loan as part of the effective interest.

Subsequently, it is measured at amortised cost. The amortised cost of a financial instrument is defined as the amount at which it was measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the 'effective interest method' of any difference between that initial amount and the maturity amount, and minus any write-down.

The carrying amount of the loan at year end will be as follows:

	N 'million
Fair value at 1 January 2018 (80,000 - 2,000)	78,000
Finance income @ EIR of 16% (78,000 x 16%)	12,480
Interest received (80,000 x 15%)	<u>(12,000)</u>
Amortised cost at 31 December 2018	<u>78,480</u>

Finance income of N12.48 Billion will be recognised as revenue while the carrying amount at year end in the statement of financial position will be N78.48 Billion. It should be noted that an impairment loss based on expected credit loss will be recognised on the asset.

EXAMINER'S REPORT

The question tests classification of financial assets in accordance with the requirements of IFRS 9 and the required tests before such classification.

About 70% of the candidates attempted the question and the performance was below average.

The commonest pitfall was the inability of the candidates to differentiate classification under IFRS 39 from the

classification under IFRS 9.

Candidates are advised to review and learn new international financial reporting standards (IFRSs), their implications and challenges for better performance in future examinations.

Solution 2

(a) Differences between Defined Contribution Plan and Defined Benefit Plan

Defined Contribution Plan

This is a benefit plan where the entity (employer) and employee both pay a fixed contribution into a separate Entity and the employer has no legal or constructive obligation to pay further contribution if the fund does not hold sufficient assets to pay all employee benefits relating to their service. The risk and rewards have been transferred to the employee

Defined Benefit Plan

This is a plan where an entity (employer) guarantees a particular level of pension benefit to its employees upon retirement, employees will receive annual payment from the fund based on their number of year of service and their final salary.

The entity has obligation to pay extra funds into the pension plan to meet this promised level of pension. The risk is with the employer.

Based on the foregoing, CBK post-employment plan might appear to be a defined benefit plan and should be classified as such. This is evident because CBK's employees are said to be entitled to "an amount equal to 150% of the annual pay at the time of their retirement multiplied by the numbers of years in service".

(b) Reconciliation

Present Value of Pension Obligation

	N 'million
Opening Balance @ 1/1/2018	620
Interest cost @ 8% (620 X0.08)	49.6
Current & Past Service Cost	108
Benefit Paid	(48)
Re-measurement loss	176.4 Balancing figure
Closing balance @ 31/12/2018	906

Journal entries:

- (i) Interest cost
 - Dr. Profit or loss N49.6
 - Cr. Plan obligation N49.6
 To recognise the interest cost on defined benefit plan obligation
- (ii) Current and past service cost
 - Dr. Profit or loss N108
 - Cr. Plan obligation N108
 To recognise the service cost on defined benefit plan obligation
- (iii) Benefits paid
 - Dr. Plan obligation N48
 - Cr. Bank N48
 To recognise the amount of benefit paid to past employees

(iv) Re-measurement

Dr. Other comprehensive income	N176.4
Cr. Plan obligation	N176.4

To recognise the loss arising from the re-measurement of plan obligation

Charged to Profit or Loss	N 'million
Interest Cost	49.6
Current & Past Service Cost	<u>108</u>
	<u>157.6</u>

Other Comprehensive Income

	N 'million
Re-measurement loss	<u>176.4</u>

Statement of Financial Position

	N 'million
Increase in Liabilities	
Liability at beginning	620
Liability at end	<u>(906)</u>
	<u>286</u>

(c) Re-measurement gain or loss and the accounting treatment.
Re-measurements gain or loss occurs under defined benefit Plan

It is the difference between the amount calculated by the actuary as at the current year end and the components that feature in the computation of pension obligation as stated below:

- The net interest component
- The service cost component
- Any gain or loss on settlement
- Contributions into the plan
- Benefits paid

After the components above are computed, the net pension deficit could differ from the amount calculated by the actuary as at the current year end. This is for several reasons that include the following:

- The actuary's calculation of the value of the plan obligation and assets is based on assumptions, such as life expectancy and final salaries, inflation, implicit rate of interest. All these would have changed year-on-year basis.
- An adjustment, known as the re-measurement component;± must therefore be posted. This is charged or credited to other comprehensive income for the year and identified as an item that will not be reclassified to profit or loss in future periods.

EXAMINER'S REPORT

The question tests the classification of post - employment plan under defined contribution plan and defined benefit plan. It also tests accounting treatment of re-measurement gain or loss and how the components are classified.

More than 80% of the candidates attempted the question and the performance was above average.

The commonest pitfall was that some of the candidates that

attempted the question displayed lack of clear understanding of the difference between defined contribution plan and defined benefit plan as stated in the accounting standards.

Candidates are advised to have deep knowledge of the different aspect of the syllabus in order to perform better.

Solution 3

(a) The classification of a joint arrangement as a joint operation or a joint venture depends upon the rights and obligations of the parties to the arrangement (IFRS 11 Joint Arrangements).

- A joint arrangement occurs where two or more parties have joint control.
- The parties to the joint arrangement contractually agree that sharing of control exists only when decisions about the relevant activities require the unanimous consent of the parties sharing the control.
- The structure and form of the arrangement determines the nature of the relationship.
- Irrespective of the purpose, structure or form of the arrangement, the classification of joint arrangements under IFRS 11 – Joint Arrangements depends upon the parties' rights and obligations arising from the arrangement.
- A joint arrangement which is not structured through a separate vehicle is a joint operation. In such cases, the contractual arrangement establishes the parties' rights and obligations.
- A joint operator accounts for the assets, liabilities, revenues and expenses relating to its involvement in a joint operation in accordance with the relevant IFRSs.
- Based on the above, the arrangement between LPG Plc and Tan Oil Nigeria Ltd qualifies as a joint operation because:
 - o there is no separate vehicle involved;
 - o they have agreed to share services and costs;
 - o decisions regarding the platform required unanimous agreement of the parties.
- The joint venture here relates to ownership of storage facility that would be used for more than one accounting year.
- IAS 16 states that property, plant and equipment are tangible items which:
 - are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and
 - are expected to be used for more than one accounting period.

Consequently, LPG Plc should recognise its share of the asset as property, plant and equipment.

Under IAS 16 property, plant and equipment (PPE), the cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling, removal of the item and restoration of the site on which it is located.

IAS 37 Provisions, Contingent Liabilities and Contingent Assets contains requirements on how to measure decommissioning, restoration and similar liabilities.

Where the effect of the time value of money is material, the amount of a provision should be the present value of the expenditures expected to be required to settle the obligation.

The costs incurred by an entity in respect of obligations for dismantling, removing and restoring the site on which an item of property, plant and equipment is located are recognised and measured in accordance with IAS 16 and IAS 37. LPG Plc should recognise 55% of the cost of decommissioning the underground storage facility.

However, because LPG Plc. is a joint operator, there is also a contingent liability for 45% of the decommissioning costs.

The possible obligation for the remainder of the costs of decommissioning depends on the occurrence of some uncertain future event, such as if Tan Oil Nig Ltd goes into liquidation and cannot fund the decommissioning costs.

Therefore, LPG Plc should also disclose a contingent liability relating to the Tan Oil Nigeria Ltd's share of the obligation to the extent that it is contingently liable for Tan Oil Nigeria Ltd's share.

(b) It is not acceptable to accrue the costs of the overhaul.

IAS 37 requires a provision to be recognised if the following conditions are met

- Contractual or legal obligations exist as a result of past event
- If it is probable that there will be an outflow of economic benefits
- If it can be measured reliably

The entity does not have a constructive obligation to undertake the overhaul. Under IFRS, The major overhaul component of N15m will then be depreciated on a straight-line basis over its useful life (i.e. over the period to the next overhaul) and any remaining carrying amount will be derecognised when the next overhaul is performed.

Costs of the day-to-day servicing of the asset (i.e. routine maintenance labour cost of N10m) are expensed as incurred.

Therefore, the cost of the overhaul should have been identified as a separate component of the gas storage at initial recognition and depreciated over a period of two years. This will result in the same amount of expense being recognised in profit or loss over the same period as the proposal to create a provision in the financials of LPG.

EXAMINER'S REPORT

The question tests application of international financial reporting standards (IFRSs) on joint arrangements; property, plant and equipment and provisions, contingent liabilities and contingent assets to given scenarios.

About 80% of the candidates attempted the question and performance was slightly above average.

The commonest pitfall was lack of deep knowledge and application of the applicable IFRSs to practical situations.

Candidates are advised to understand the provisions of IFRSs and their applications to issues in real life situations at this level of the Institute examination for better performance.



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