

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA**PROFESSIONAL LEVEL EXAMINATION - NOVEMBER 2020****CASE STUDY****EXAMINATION INSTRUCTIONS****PLEASE READ THESE INSTRUCTIONS BEFORE COMMENCEMENT OF PAPER**

1. Before commencement of the paper, check your pockets, purse, mathematical set, etc. to ensure that you do not have prohibited items such as telephone handset, electronic storage device or any form of written material on you in the examination hall. Otherwise, you will be stopped from continuing with the examination and liable to further disciplinary actions including cancellation of examination result.
2. Write your **EXAMINATION NUMBER** in the space provided above.
3. Do **NOT** write anything on your question paper **EXCEPT** your examination number only.
4. Do **NOT** write anything on your docket.
5. Read all instructions in each section of the question paper carefully before answering the questions.
6. Do **NOT** answer more than the number of questions required in each section. Otherwise, you will be penalised.
7. All solutions should be written in **BLUE** or **BLACK** ink. Any solution written in pencil will not be marked.
8. All solutions **MUST BE** on the **CASE STUDY** answer booklet.

THURSDAY, DECEMBER 10, 2020**DO NOT TURN OVER UNTIL YOU ARE TOLD TO DO SO**

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA

PROFESSIONAL LEVEL EXAMINATION – NOVEMBER 2020

CASE STUDY

Time Allowed: 4 hours (including reading time)

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

Pre-seen

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

You **MUST NOT** bring this material with you to the Examination Hall. On receipt of the material, you are to spend the few days to the examination date to familiarise yourself with the information provided, carry out additional research and analysis about the industry and analyse the financials provided in preparation for the examination. Candidates should note that the use of pre-seen part of the Case Study will not significantly help them in their preparation for this examination. It is essential that they carry out sufficient analysis work on their own in order to have a good understanding of the pre-seen part of the case scenario.

At the start of the examination, candidates will receive the complete case scenario which will include both the pre-seen and the unseen which includes the requirements. You must use the answer paper provided by the Institute in the Examination Hall. Any solution presented with other papers **WILL NOT** be marked.

Assessment of the Case Study

The marks in the Case Study examination are awarded for professional skills and are approximately allocated as follows:

- | | |
|--|-----|
| ▶ Assimilating and using information | 20% |
| ▶ Structuring problems and solutions | 20% |
| ▶ Applying judgement | 20% |
| ▶ Drawing conclusions and making recommendations | 20% |

- ▶ Demonstrating integrative and multidisciplinary skills 10%
- ▶ Presenting appropriate appendices 10%

Of the total marks available, 20% are awarded for the executive summary and approximately 10% for the relevant discussion of ethical issues within your answer to the requirements. Although ethical issues do not form a specific requirement, as this has been deemed to have been tested in other subjects of the ICAN professional examination, but will be tested within a requirement which may include the following areas:

- ▶ Lack of professional independence or objectivity;
- ▶ Conflicts of interest among stakeholders;
- ▶ Doubtful accounting and or creative accounting practice;
- ▶ Unethical business/commercial practice; and
- ▶ Inappropriate pressure to achieve a reported result.

Candidates should note that marks are not awarded for just simply restating facts from the case scenario but marks are awarded for demonstrating professional skills and technical depth. Therefore, to succeed, candidates are required to:

- ▶ Show sufficient evidence of knowledge of the case scenario;
- ▶ Be able to carry out appropriate analysis of the issues involved and suggest feasible solutions to the problems identified;
- ▶ Demonstrate ability to make informed judgement on the basis of analysis carried out; and
- ▶ Generate reasoned conclusions upon which relevant recommendations are made.

Candidate that omits any one of these will have a slim chance of success in the examination.

November 2020 Case Study: Dotmak Nigeria Limited

List of exhibits

- 1 About you (Ibrahim Danladi) and your employer, Dotmak Nigeria Limited
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- 3 Dotmak Nigeria Limited: history, operations, competitors board and management
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- 7 Press article

Exhibit 1

About you (Ibrahim Danladi) and your employer (Dotmak Nigeria Limited)

You are Ibrahim Danladi, writing the Professional level of ICAN examination. You are working as a management accountant at the corporate office of Dotmak Nigeria Limited which manufactures and distributes high quality shoes and personal accessories. You report to the finance controller, Joseph Apororo and your responsibilities include:

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

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

Repositioning Tito shoes in Nigeria

To reposition Tito shoes in Nigeria, we have decided to partner with Tito international to build over \$1m shoe plant in Abuja. This shoe plant would provide jobs for more than 128 Nigerians. The plant which would be situated at the Idu Industrial Layout in Nigeria's capital, would be fully manned by Nigerians, and would be making the full range of Tito shoes. At the moment, we are sensitising the market for Tito shoes in Nigeria by establishing a retail shop in Abuja that sells the full range of Tito shoes and accessories. The response of the customers has given us more motivation to go into the production of Tito shoes in Nigeria. Everybody working in the retail store is a Nigerian. At the moment, we have six people undergoing training as supervisors at the Tito factory. The Tito retail outlet is situated at the Silver Entertainment Centre, Central Business District, Abuja. We believe that the return of Tito would improve the country's economy. To have the confidence to partner with us and come back is a good sign also for the country. Government is also trying to attract foreign investment; whether direct or indirect. Nigerians can expect what they have always known about Tito. First of all, its quality and affordability. At present, there are plans to expand to other states in the country by opening a retail shop in each state capital. We are also not losing our tradition. We are bringing the old with the new and we are infusing both to satisfy our customers.

Exhibit 3

Dotmak Nigeria Limited: history, operations, competitors, board and management

History

Dotmak Nigeria Limited (DNL) was established by Mr. Jude Duru. Mr. Duru trained as a mechanical engineer and has worked for several years in Tito factory based in Canada. Mr. Duru returned to Nigeria in January 2014 to establish a shoe factory. In June 2014, Mr Duru established Dotmak Nigeria Limited to manufacture both men, women and children shoes. Since inception, DNL has grown rapidly and made an incursion into the production of military and para-military forces' shoes and accessories. Dotmak shoe is renowned for its comfort, quality and durability, which has made it a household shoe in Nigeria.

Since its incorporation in 2014, Dotmak Nigeria Limited, with its slogan, 'Keep Africa Walking', is aimed at ensuring that it produced made-in-Nigeria shoes that can compete in the global market at an affordable price. Producing quality foot wears for oil companies, factories, military and paramilitary organisations, is the company's own way of contributing its quota to the development of the economy and boosting the efficiency and overall productivity of these entities.

The factory, built to the best international standard, has produced boots for the Nigerian Army, Nigerian Police, 'Back to School' shoes for numerous nursery, primary, and secondary schools. The company also produces industrial safety shoes for construction and oil and gas companies; and combat/jungle boots & service shoes for the military and paramilitary institutions.

Operations

DNL has its factory in Lagos and it is equipped with modern machines and equipment, for shoe production. Dotmak also has well-trained specialists in making handcraft shoes and shoe designers. The factory has capacity to produce 1,000 shoes in a day and working for 260 days in a year.

Staff of Dotmak are not allowed to join the labour union and have been made to sign an agreement that they will not form any union. Conditions of service are not very attractive, but because of the unemployment situation in the country, workers are made to work twelve hours per day without adequate overtime payment. Provision for annual leave is a week for all categories of staff.

All the raw materials of the company are sourced locally and this has made the company's shoes truly Nigerian. Apart from occasional shortages, all the materials are available all the year round.

The company sells mostly to its distributors but also maintains a demonstration show rooms in Lagos, Abuja and Port Harcourt, where its shoes are displayed and sold to customers. However, all contract customers, such as, schools, the armed forces and para-military agents, are allowed to deal directly with the company.

One of the problems faced by the company in its factory is power shortage and the company has to depend on alternative electricity at a very high cost. Therefore, the company has made an unwritten agreement with the officials of the power distribution company in the area to provide uninterrupted 8-hour supply of power to the company on a daily basis for a monthly payment to these officials. The company does not have to ask for receipt for this payment.

Board and management

DNL is run by a board of four directors, with Mr. Jude Duru as the chairman/chief executive, Mrs. Josephine Duru and two independent non-executive directors. Only Mr. Duru works as an executive of DNL and he is assisted by a General manager who is a seasoned cobbler. The management team comprises:

Mr. Jude Duru	Chairman/chief executive
Mr. Taiwo Opeolu	General manager
Mr. Joseph Apororo	Finance Controller
Saní Tijani	Factory manager
Mrs Mary Arochukwu	Administration/purchasing manager

The challenges and opportunities of the shoe industry in Nigeria

The leather industry was a major contributor to the Nigerian economy in the past, however, due to neglect and unfavourable economic climate and little or no encouragement from the government, in the area of policy formulation, the industry suffered a decline.

Challenges of the leather industry

Most of the challenges faced by the industry are:

Importation of cheap shoes into the country: With mass-produced shoes flooding the Nigerian market from all over the world in recent time, there is a need for government to arrest the trend through a deliberate action that would help reposition the leather industry. Whereas, if the industry is repositioned, capital flight associated with the importation of foot wears from countries like Taiwan, South Korea, China, Vietnam, India and Indonesia would become a thing of the past.

Changing Consumer Preferences: The 21st-century consumers are more educated and knowledgeable and as a consequence, they become more demanding and inquisitive in their search of information of the product. This presents a serious challenge to shoemakers, as they have to follow and quickly adapt to consumer preferences, which are of course, fundamental in purchasing decisions.

It is not only about adapting to new fashion trends but considering the whole new set of desires and beliefs. For instance, many consumers search for transparency and security. They want to ensure that the footwear they buy is safe and that it was made according to existing regulations. For these consumers, it is important that products are made from good quality materials, feel comfortable and won't bring any hazard to their health. Some consumers also show concern for where and how their products are made. Therefore, footwear companies must then re-think and adapt their products to best-fit consumer's desires.

Poor power supply: Poor power supply reduces productivity considerably and is mentally draining. Using alternatives throws production costs off the charts.

Inconsistent local raw materials: Then there is the problem of unavailable raw materials. The quality of materials from local suppliers is inconsistent. Materials and tools can be good one month, and be absolutely terrible the next. This makes planning production schedule extremely frustrating. Accessories which are the main material in shoe design range could disappear from the market for months, resurfacing later after hope has been lost and design discarded.

Going further down the long list of problems shared by my community of designers, lack of equipment is repeated a lot. Very creative concepts get trashed because it is impossible to use the available equipment to execute it properly. Some designers of high-heeled or non-regular shoes resort to outsourcing their production to companies in Turkey, Lisbon, Italy or China. This water down the 'Proudly Nigerian' mantra that got them started in the first place. One would attempt to purchase these machines, but again, there are no skilled operators and that is the next huge problem:

Funding: The cost of importing machinery and equipment, and running the factory is enormous and bank loans are difficult and expensive to source.

Opportunities

Rapid Pace of Urbanisation: Urbanisation is a global phenomenon and one of the main drivers of increasing demand for consumer goods, especially footwear. According to Professor Alberto Castro, from the Catholic University of Portugal on the study - Footwear Consumer 2030, it's expected that global urbanisation will rise from 51.1% to 60% by 2030. And this is a phenomenon occurring on a much larger scale in developing countries, when compared to developed ones. Therefore, demand for shoes and other related products will continue to increase in the majority of international markets and most especially in developing countries.

E-Commerce: E-Commerce has become a premier platform for shoes. Its strength over traditional brick and mortar is that it can offer selection, convenience and value. These three elements are prime factors for the footwear industry. Where the restraints of a physical store limit the amount of styles and sizes available at any given time, e-commerce can virtually make any and every shoe available, often at a better price, without the hassle of shopping in person. In 2012, online shoe sales globally increased to over \$7.8 billion, according to Daily Deal Media. As more companies embrace this technology, the opportunity for more revenue is there.

Exhibit 5

Dotmak Nigeria Limited management accounts – 2016 to 2018

**Dotmak Nigeria Ltd
Management accounts
Notes**

**Income statement for the
year ended 30 September**

	Notes	2018 #000	2017 #000	2016 #000
Revenue	1	731,860	622,380	507,800
Factory costs	2	<u>(288,840)</u>	<u>(245,580)</u>	<u>(196,320)</u>
Gross profit		443,020	376,800	311,480
Distribution costs	3	(52,780)	(43,060)	(33,940)
Selling expenses	4	(263,400)	(223,700)	(183,600)
Administrative expenses	5	<u>(103,280)</u>	<u>(85,080)</u>	<u>(68,180)</u>
Operating profit		23,560	24,960	25,760
Net finance (expense)/income		<u>(340)</u>	<u>(780)</u>	<u>1,380</u>
Profit before taxation		23,220	24,180	27,140
Taxation		<u>(5,800)</u>	<u>(6,040)</u>	<u>(6,780)</u>
Profit for the year after taxation		<u>17,420</u>	<u>18,140</u>	<u>20,360</u>

**Statement of financial position
as at 30 September**

		2018 #000	2017 #000	2016 #000
Non-current assets				
Tangible assets	6	139,820	104,820	67,220
Current assets				
Inventories	7	40,780	36,260	29,420
Accounts receivable	8	21,840	20,300	16,240
Cash and cash equivalents		<u>240</u>	<u>-</u>	<u>14,600</u>
		<u>62,860</u>	<u>56,560</u>	<u>60,260</u>
Total assets		<u>202,680</u>	<u>161,380</u>	<u>127,480</u>
Shareholders' equity				
Ordinary share capital		2,000	2,000	2,000
Retained earnings		91,000	73,580	55,440
Total shareholders' equity		93,000	75,580	57,440

Current liabilities

Accounts payable	9	109,680	85,520	70,040
Bank overdraft		-	280	-
Total current liabilities		<u>109,680</u>	<u>85,800</u>	<u>70,040</u>
Total equity and liabilities		<u>202,680</u>	<u>161,380</u>	<u>127,480</u>

Statement of cash flows for the year ended 30 September

	2018	2017	2016
	₦000	₦000	₦000
Profit before tax	23,220	24,180	27,140
<i>Adjustments for:</i>			
Depreciation & loss on disposals	34,560	33,520	19,880
Net finance expense	340	780	(1,380)
	58,120	58,480	45,640
Changes in inventories	(4,520)	(6,840)	(2,680)
Changes in accounts receivable	(1,540)	(4,060)	(4,040)
Changes in accounts payable	24,400	16,220	7,680
Cash generated from operations	76,460	63,800	46,600
Taxation paid	(6,040)	(6,780)	(6,340)
Net finance expense paid	(340)	(780)	1,380
Net cash from operating activities	70,080	56,240	41,640
Investing activities			
Purchase of non-current assets	(70,680)	(72,820)	(30,260)
Proceeds from disposal of non-current assets	1,120	1,700	1,040
Net cash used in investing activities	(69,560)	(71,120)	(29,220)
Net change in cash and cash equivalents	520	(14,880)	12,420
Cash and cash equivalents at start of year	(280)	14,600	2,180
Cash and cash equivalents at end of year	<u>240</u>	<u>(280)</u>	<u>14,600</u>

Notes to the management accounts

Note 1 Revenue

	2018	2017	2016
	₦000	₦000	₦000
Men's shoes	230,840	195,060	172,960
Women's and children's shoes	<u>501,020</u>	<u>427,320</u>	<u>334,840</u>
	<u>731,860</u>	<u>622,380</u>	<u>507,800</u>

Note 2 Factory costs

Factory wages	102,420	85,720	67,820
Materials	163,560	135,720	108,440
Manufacturing overheads	<u>22,860</u>	<u>24,140</u>	<u>20,060</u>
	<u>288,840</u>	<u>245,580</u>	<u>196,320</u>

Note 3 Distribution costs

Delivery vehicle running costs (fuel, etc.)	7,220	6,060	5,560
Distribution overheads and salaries	10,300	8,580	5,960
Courier and related delivery services	<u>35,260</u>	<u>28,420</u>	<u>22,420</u>
	<u>52,780</u>	<u>43,060</u>	<u>33,940</u>

Note 4 Selling expenses

Retail outlets

Retail outlet costs	115,480	98,500	83,160
Refurbish, depreciation & loss on disposals	13,420	12,040	10,100
Retail outlet wages	<u>85,720</u>	<u>74,840</u>	<u>65,880</u>
	<u>214,620</u>	<u>185,380</u>	<u>159,140</u>

Web and IT

Web costs	29,780	24,060	14,880
Computer & IT running costs	9,520	7,220	6,920
IT depreciation & loss on disposals	<u>9,480</u>	<u>7,040</u>	<u>2,660</u>
	<u>48,780</u>	<u>38,320</u>	<u>24,460</u>

Total selling expenses

263,400 **223,700** **183,600**

Note 5 Administration expenses

Design office and prototype costs	17,380	12,440	9,960
Marketing, advertising and catalogue	29,040	25,120	17,860
Administration staff salaries	25,560	22,960	19,780
Office costs including training	20,160	16,680	14,420
Legal and professional costs	5,160	3,520	2,720
Other costs	<u>5,980</u>	<u>4,360</u>	<u>3,440</u>
	<u>103,280</u>	<u>85,080</u>	<u>68,180</u>

Note 6 Non-current assets
Tangible assets

	Plant & Machinery	IT Equipment & fittings	Outlet Refurb.	Vehicles	Total
	₦000	₦000	₦000	₦000	₦000
Cost					
At 1 October 2015	79,040	21,480	46,160	4,440	151,120
Additions	5,840	3,700	17,120	3,600	30,260
Disposals	<u>(2,960)</u>	<u>(700)</u>	<u>(7,240)</u>	<u>(2,240)</u>	(13,140)
At 30 September 2016	<u>81,920</u>	<u>24,480</u>	<u>56,040</u>	<u>5,800</u>	<u>168,240</u>
Depreciation					
At 1 October 2015	55,720	11,940	23,340	2,240	93,240
On disposals	(2,140)	(460)	(7,240)	(1,240)	(11,080)
Charge for the year	5,380	2,500	10,100	880	18,860
At 30 September 2016	<u>58,960</u>	<u>13,980</u>	<u>26,200</u>	<u>1,880</u>	<u>101,020</u>
Carrying amount at 30 September 2016	<u>22,960</u>	<u>10,500</u>	<u>29,840</u>	<u>3,920</u>	<u>67,220</u>
Cost					
At 1 October 2016	81,920	24,480	56,040	5,800	168,240
Additions	30,960	16,820	21,920	3,120	72,820
Disposals	<u>(29,720)</u>	<u>(10,700)</u>	<u>(13,440)</u>	<u>(1,640)</u>	(55,500)
At 30 September 2017	<u>83,160</u>	<u>30,600</u>	<u>64,520</u>	<u>7,280</u>	<u>185,560</u>
Depreciation					
At 1 October 2016	58,960	13,980	26,200	1,880	101,020
On disposals	(24,140)	(8,160)	(13,440)	(920)	(46,660)
Charge for the year	8,340	4,760	12,040	1,240	26,380
At 30 September 2017	<u>43,160</u>	<u>10,580</u>	<u>24,800</u>	<u>2,200</u>	<u>80,740</u>
Carrying amount at 30 September 2017	<u>40,000</u>	<u>20,020</u>	<u>39,720</u>	<u>5,080</u>	<u>104,820</u>
Cost					
At 1 October 2017	83,160	30,600	64,520	7,280	185,560
Additions	16,920	26,440	26,640	680	70,680
Disposals	<u>(4,720)</u>	<u>(9,340)</u>	<u>(16,720)</u>	<u>(880)</u>	(31,660)
At 30 September 2018	<u>95,360</u>	<u>47,700</u>	<u>74,440</u>	<u>7,080</u>	<u>224,580</u>
Depreciation					
At 1 October 2017	43,160	10,580	24,800	2,200	80,740
On disposals	(3,360)	(6,760)	(16,720)	(480)	(27,320)
Charge for the year	9,440	7,440	13,420	1,040	31,340

At 30 September 2018	<u>49,240</u>	<u>11,260</u>	<u>21,500</u>	<u>2,760</u>	<u>84,760</u>
Carrying amount					
At 30 September 2018	<u>46,120</u>	<u>36,440</u>	<u>52,940</u>	<u>4,320</u>	<u>139,820</u>
Notes to the management accounts					

Note 7 Inventories

	2018	2017	2016
	₦000	₦000	₦000
Raw materials	6,300	4,440	2,140
Work in progress	660	560	320
Finished goods	<u>33,820</u>	<u>31,260</u>	<u>26,960</u>
	<u>40,780</u>	<u>36,260</u>	<u>29,420</u>

Note 8 Accounts receivable

Trade receivables	14,080	13,040	10,060
Prepayments	5,340	4,980	4,160
Sundry receivables	<u>2,420</u>	<u>2,280</u>	<u>2,020</u>
	<u>21,840</u>	<u>20,300</u>	<u>16,240</u>

Note 9 Accounts payable

Trade payables	88,300	65,900	51,120
Taxes and social charges	16,040	14,640	14,260
Accruals	<u>5,340</u>	<u>4,980</u>	<u>4,660</u>
	<u>109,680</u>	<u>85,520</u>	<u>70,040</u>

Exhibit 6

Dotmak Nigeria Limited: Cost/pricing structure

Factory costs per pair of shoes

Note: figures shown are for the year ended 30 September 2019 (approximately 240,000 pairs)

Approximate labour costs per pair of shoes produced and sold in 2019

	Adult ₦	Children ₦
Basic wage employee cost	486.00	69.43
Average wage employee cost	1,687.50	241.07
Skilled wage employee cost	1,399.50	199.93
Management and on-costs	<u>1,332.00</u>	<u>190.28</u>
	4,905.00	700.71

Approximate materials costs per pair of shoes produced

	₦	₦
Leather for uppers	4,680.00	668.57
Soles	2,025.00	289.28
Insoles/"socks"	585.00	83.57
Laces, fastenings etc	405.00	57.86
Packaging	<u>135.00</u>	<u>19.29</u>
	7,830.00	1,118.57

Approximate factory overheads per pair of shoes produced

	₦	₦
Rent and rates	220.50	31.50
Power and services charges	153.00	21.86
Depreciation, repairs and maintenance charges	<u>720.00</u>	<u>102.86</u>
	1,093.50	156.22
Average total factory costs per pair of shoes in the year	<u>13,828.50</u>	<u>1,975.50</u>

For most calculation purposes, DNL uses ₦13,850.00 for adults and ₦2,000 as the rounded figure. The cost for a pair of leather slippers is 75% of the cost for a pair of shoe.

It is the practice of Dotmark Nigeria Limited to add 30% mark up for all shoes made.

Press article



Títo Nígería To Invest ₦350m On Leather Plant In FCT

April 3, 2019

Títo Nígería Limited said that it would invest about one million dollars, (₦360 million) in the building of its new leather factory in the Federal Capital Territory (FCT). Speaking during the formal opening of retail outlet in Abuja at the weekend, the spokesperson of the company, Tobe Eze, explained that the new factory, which would be located in Idu Industrial Area, would be ready in June. Eze added that when completed, the factory would offer employment opportunity to many unemployed youths in the FCT.

He maintained that the factory, when completed would be manned by Nigerians, while efforts would also be made to extend the company's operations to other parts of the country. The spokesperson stated that Títo Nígería Limited is now in the country to continue to offer Nigerians affordable and durable leather and shoe products, which the company is noted for. He continued: "We are also putting in place measures to ensure that the business is sustained. Nigerians should expect a new trend of shoes, which is what Títo is known for. This is because today's youths want to wear new trends of shoes."