



INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA

ICAN PROFESSIONAL – CORPORATE REPORTING

END OF DIET MOCK EXAMINATION QUESTION SOLUTION FOR NOVEMBER, 2025 DIET

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SOLUTION 1:

Paisley:

Consolidated statement of financial position as at 31 March 20X9

	₦m
Assets	
Tangible non-current assets (W4)	1,745
Intangible non-current assets – goodwill 45 – 15 (W3)	30
Investment in associate (W5)	95
Current assets (531 + 190 - 250)	<u>471</u>
	<u>2,341</u>
Equity and liabilities	
Share capital of ₦1	800
Share premium	150
Revaluation reserve	90
Retained earnings (W7)	<u>173</u>
	<u>1,213</u>



Non-controlling interest (W8)	99
	1,312
Non-current liabilities (640 + 30)	670
Current liabilities (214 + 130)	344
Pension liability (W6)	15
	2,341

Workings

(W1) Tartan retained profits

	Nm
Fair value of net assets at 1 April 20X8	460
Fair value adjustment for land	(25)
Carrying value of net assets	435
Share capital plus share premium	(260)
Therefore retained earnings at 1 April 20X8	175



	Nm	
Carrying value of net assets at 1 April 20X6	325	
Share capital plus share premium	(260)	
Therefore retained earnings at 1 April 20X6	65	
(W) Gain or loss on acquiring control of Tartan		
1 April 20X8	Nm	Nm
Fair value of initial investment in Tartan at 1 April 20X8		150
Initial cost of investment	120	
Share of retained earnings 1 April 20X6 – 1 April 20X8	33	
(30% $\times$ (175 – 65) –see W1)		
Carrying value of investment in associate		153
Loss recognised on gaining control of Tartan		(3)

This loss has not yet been recognised in the individual financial statements of Paisley; it must therefore be included in the calculation of group reserves (see Working 8).



(W3) Goodwill in Tartan at acquisition

	₦m
Fair value of initial investment at acquisition	150
Cost of additional shares	<u>260</u>
Total cost	410
Fair value of net assets acquired (80% ⌘ 460)	<u>368</u>
Goodwill at acquisition attributable to Paisley	42
Goodwill attributable to NCI	<u>3</u>
Total goodwill at acquisition date	<u>45</u>

Goodwill in statement of financial position: There has been impairment of ₦15 million in goodwill. This is apportioned between the interests of the equity owners of Paisley and NCI in the ratio 80:20.

Impairment of goodwill attributable to parent = ₦15m ⌘ 80% = ₦12 million
Impairment of goodwill attributable to NCI = ₦15m ⌘ 20% = ₦3 million.

(W4) Tangible non-current assets

	₦m
Paisley	1,280
Tartan	440
Fair value adjustment	<u>25</u>

(W5) Investment in associate – Check 1,745

Nm

Cost 60

Group share of post-acquisition profit

$(324 - (200 - 16)) \times 25\%$ 35

95

Or **Nm**

Share of net assets $(25\% \times 324)$ 81

Fair value adjustment $(25\% \times 16)$ 4

Goodwill $[60 - (200 \times 25\%)]$ 10

95

(W6) Pension

Nm

Scheme assets

Cash 250

Expected return 26



Actuarial gain (bal fig)	26
Fair value of scheme assets	<u>302</u>
Scheme liabilities	
Current service cost	276
Interest cost	<u>41</u>
	<u>317</u>
Present value of obligation	
Pension scheme liability (317 – 302)	15
Expense in profit or loss	
Current service cost	276
Interest cost	41
	<u>(26)</u>
Expected return	
Expense in profit or loss	<u>291</u>

(W7) Consolidated retained earnings

	₦m
Paisley (given)	390
Tartan post-acquisition retained earnings	
(210 – 175 (W1)) × 80%	28



Loss on acquiring control (W2)	(3)
Goodwill impairment attributable to parent (W3)	(12)
Share of post-acquisition profits of associate (W5)	35
Pension cost (W7)	(291)
Actuarial gain (W7)	<u>26</u>
	<u>173</u>

W8) Non-controlling interest in Tartan

	Nm
Book value ($20\% \times 470$)	94
Fair value adjustment ($20\% \times 25$)	5
Goodwill ($3 - \text{impairment } 3$) (W3)	<u>0</u>
	<u>99</u>

(b) Reasons for the widespread adoption of IFRS

The reason for the widespread adoption of IFRS across the world is that it brings many advantages.

Investors and analysts of financial statements can make better comparisons between the financial position, financial performance and financial prospects of entities in different countries. This is very important, in view of the rapid growth in international investment by institutional investors.

For international groups, harmonisation simplifies the preparation of group accounts. If all entities in the group share the same accounting framework, there should be no need to make adjustments for consolidation purposes.

If all entities are using the same framework for financial reporting, management should find it easier



to monitor performance within their group.

Global harmonisation of accounting framework may encourage growth in cross- border trading, because entities will find it easier to assess the financial position of customers and suppliers in other countries.

Access to international finance should be easier, because banks and investors in the international financial markets will find it easier to understand the financial information presented to them by entities wishing to raise finance.

Harmonisation could also lead to a reduction in cost of capital as a result of the previous two points.

(c) Three factors

According to the guidance set out in IFRS 10, an investor controls an investee, if and only if, it has all of the following:

- power over the investee;
- exposure, or rights, to variable returns from its involvement with the investee; and
- ability to use its power over the investee to affect the amount of its returns

SOLUTION 2:

1 Investment in 7% treasury stock 20Y0

Financial assets are classified based on an assessment of the business model followed for holding the financial asset and the cash flow characteristics of the asset.

This assessment is not on an asset by asset basis. Thus, an entity might hold different portfolios for different purposes resulting in the entity using more than one business model in turn resulting in financial assets being measured using different methods.

Cash flow characteristics of the asset

The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Business model

This is unclear. It could be argued that the asset the asset is held within a business model whose objective is achieved by both holding and collecting contractual cash flows and selling the financial assets. On the other hand, it could also be argued that the asset is held for trading.

If held to collect contractual cash flows and sell

The investment should be classified as at fair value (with gains and losses recognised in other comprehensive income).

At initial recognition it will be measured at fair value which is the consideration given of ₦208,200.

Finance income would be recognised in the statement of profit or loss at 6.3% $\square$

$208,200 \times \frac{4}{12} = \text{₦}4,372.$



The financial asset will then have a carrying amount of ₦212,572 (208,200 + 4,372) prior to remeasuring to the fair value. The market value of the stocks at the reporting date is ₦196,140 and the revaluation loss of ₦16,432 will be recognised in other comprehensive income.

If held for trading

The investment should be classified as at fair value (with gains and losses recognised in profit or loss).

At initial recognition it will be measured at fair value which is the consideration given of ₦208,200.

There is no interest received up to year end (first payment will be received on 31 October 20Y0)

The market value of the stocks at the reporting date is ₦196,140 and the revaluation loss of ₦12,060 will be recognised in profit or loss.

Alternative:

Waters Plc could choose to recognise finance income of ₦4,372 and the revaluation loss of ₦16,432 in the statement of profit or loss.

Notice that the overall profit impact is the same in each case as $*4,372 + (16,432) = 12,060$.

2 Futures Prif contract

The derivative will be classified as at fair value through profit or loss.

Initial transaction costs cannot be included as part of the carrying amount and therefore the fee of ₦750 will be immediately charged to profit or loss.

At the reporting date the contract is valued at the fair value of PR1.99/₦1 so the loss is ₦1,269 to be included in profit or loss and as a liability on the statement of financial position

3 Investment in Gilmour plc



This would normally be classified as at fair value (with gains and losses recognised in profit or loss).

On initial recognition it would be valued at fair value which would be the cost of ₦1,212,500. The directly attributable transaction costs (₦35,000) would be expensed to profit or loss.

At the reporting date the shares will be valued at fair value (₦5.20 per share) ignoring selling costs = ₦1,300,000.

The revaluation gain of ₦87,500 will be recognised in profit or loss.

Alternative:

Waters Plc could have made an irrevocable election at initial recognition to recognise gains and losses in other comprehensive income. If this election had been made the shares would have been measured on initial recognition at the cost of ₦1,212,500 plus directly attributable transaction costs ₦35,000 = ₦1,247,500.

At the reporting date the shares would then have been be valued at fair value with the revaluation gain of ₦52,500 recognised in other comprehensive income.

4 Amount receivable from Mason

On recording the sale, the revenue needs to be discounted at the imputed rate of interest of 11%. Revenue recognised on 1 July is therefore ₦450,450 ($500,000 \times 1.11$).

The receivable on the statement of financial position will include the accrued interest element of ₦24,775 ($₦450,450 \times 0.11 \times 6/12$) and so will be ₦475,225 ($₦450,450 + ₦24,775$) in total. The accrued interest of ₦24,775 will be recognised as finance income.

The receivable would not be adjusted for any change in interest rates.

5 Investment in 8.5% treasury stock 20Y1

This would be classified as to be subsequently measured at amortised cost. On initial recognition,



it will be recorded at fair value, the cost of ₦107,100.

Finance income will be credited to profit or loss using the gross redemption yield of 5.9%.

Interest recognised in profit or loss will be ₦4,213 ($\text{₦107,100} \times 5.9\% \times 8/12$).

The investment in the statement of financial position at 31 December 20X9 will be at ₦107,100 plus ₦4,213 = ₦111,313. (No interest will have been received to date as it is paid annually in arrears).

The market value is not reflected in the statement of financial position at 31 December 20X9 but it would be disclosed in accordance with IFRS 7.

6 Investment in loan notes

The investment has been classified as held for trading so it is accounted for as a financial asset at fair value through profit or loss.

On acquisition it will be recorded at its cost of ₦25,000.

At the reporting date the notes will be revalued to their fair value of ₦25,500 with the ₦500 uplift being recognised in profit or loss

7 Selling shares short

On initial recognition, the journal would be:

			₦	₦
Dr	Cash (10,000 $\times$ ₦3.60)	36,000		
Cr	Financial liability		36,000	



At the reporting date the financial liability must be revalued to its fair value of ₦33,000:

		₦	₦
Dr	Financial liability	3,000	
Cr	Statement of profit or loss		3,000

SOLUTION 3:

- (a) Most businesses have generally ignored environmental issues in the past. However, the use and **misuse** of **natural resources** all lead to environmental costs generated by businesses, both large and small.

There are very few rules, legal or otherwise, to ensure that companies disclose and report environmental matters. Any disclosures tend to be voluntary, unless environmental matters happen to fall under standard accounting principles. Environmental matters may be reported in the accounts of companies in the following areas.

IFRS and environmental reporting

There are no required disclosures under IFRS. However, if environmental matters fall within the scope of specific accounting principles they must be dealt with under the relevant standard. In particular comparisons cross national borders, and was one of the main reasons why International Financial Reporting Standards were developed.

IAS 1 (revised) *Presentation of financial statements* requires disclosure of facts material to a proper understanding of financial statements.

IAS 37 *Provisions, contingent liabilities and contingent assets* requires provisions for environmental damage to be recognised.

Voluntary disclosure: sustainability

Most environmental disclosure is voluntary, although lists of Companies in particular are under a great deal of pressure to make such disclosures. There have been a number of initiatives in the past but the most important of these is the **Global Reporting Initiative (GRI)**.



The GRI is an international not-for-profit organization, with many stakeholders. Its aim is to develop **Sustainability Reporting Guidelines** for voluntary use. These guidelines cover a number of areas (economic, environmental and social). The GRI specify key performance indicators for areas including energy; water; biodiversity; emissions; energy and waste; products and services; compliance, transport.

(b) Comments on 'environmental events'

- (a) Provisions for environmental liabilities should be recognised where there is a **legal or constructive obligation** to rectify environmental damage or perform restorative work. The mere existence of the restorative work does not give rise to an obligation and there is no legal obligation. However, it could be argued that there is a constructive obligation arising from the company's approach in previous years, which may have given rise to an **expectation** that the work would be carried out. If this is the case, a provision of ₦150m would be required in the financial statements. In addition, this provision and specific examples of restoration of land could be included in the environmental report.
- (b) These statistics are good news and need to be covered in the environmental report. However, the emphasis should be on **accurate factual reporting** rather than boasting. It might be useful to provide target levels for comparison, or an industry average if available. The emissions statistics should be split into three categories:

- Acidity to air and water
- Hazardous substances
- Harmful emissions to water



As regards the aquatic emissions, the ₦70m planned expenditure on **research** should **be mentioned in the environmental report**. It shows a commitment to benefiting the environment. However,

IAS 37 would not permit a provision to be made for this

amount, since an obligation does not exist and the **expenditure is avoidable**. Nor does it qualify as development expenditure under IAS 38.

- (c) The environmental report should mention the steps the company is taking to minimise the harmful impact on the environment in the way it sites and constructs its gas installations. The report should also explain the policy of dismantling the installations rather than sinking them at the end of their useful life.

(c) Sustainability Accounting Standards Board (SASB)

SASB is an independent non-profit organisation. SASB publishes sustainability accounting standards which provide disclosure guidance on sustainability for mandatory filings to the U.S. Securities and Exchange Commission (SEC).

SASB produces standards for different industries. Each standard is comprised of:

- disclosure guidance; and
- accounting standards on sustainability topics for use by U.S. and foreign public companies in their annual filings with the U.S. Securities and Exchange Commission (SEC).

The disclosure guidance identifies sustainability topics at an industry level, which may be



material to a company within that industry,
depending on that company's specific operating context.

SASB's accounting standards provide companies with standardised activity metrics to account for performance on industry-level sustainability topics. The aim is to help ensure that disclosure is standardized and therefore useful, relevant, comparable and auditable.

Solution 4:

i) Statement of profit or loss after adjustment for capitalisation of leases

	\$m
Profit on ordinary activities before taxation	88
Add back lease rentals	40
Less depreciation	(28)
Profit before taxation	100
Taxation (30 + (30% of 40–28))	(33·6)
	66·4

Statement of financial position after adjustment for capitalisation of leases

	\$m
Non-current assets (200 + 404 + 32 – 28)	608
Net current assets	131·4
	739·4
Share capital	200
Accumulated profits	128·4



Non-current liabilities	—	328·4 411
		<u>739·4</u>

Workings

Present value of lease commitments

	Land and Buildings \$m	Motor Vehicles \$m	Total \$m
31 December 20Y0	26·67	8·57	35·24
31 December 20Y1	22·68	7·26	29·94
31 December 20Y2	17·27	6·05	23·32
Thereafter	306·96		306·96
	<u>—</u>	<u>—</u>	<u>—</u>
	373·58	21·88	395·46
plus rentals			
31 December 20X9	30	10	40
	<u>—</u>	<u>—</u>	<u>—</u>
	403·58	31·88	435·46
	<u>—</u>	<u>—</u>	<u>—</u>
Capitalise at	404	32	436
	<u>—</u>	<u>—</u>	<u>—</u>
Depreciation 5%/25%	20	2·8	28·2
	<u>—</u>	<u>—</u>	<u>—</u>

NON- CURRENT LIABILITY



\$m

Balance in statement of financial position	50
<i>add</i> PV of lease rentals	436
<i>less</i> rental paid 31 December 20X9	(40)
<i>less</i> lease PV to NCA	(35)

411

Net current assets

Balance per statement of financial position	170	
<i>less</i> lease current liability	(35)	
taxation increase	(3·6)	
		131·4

Statement of profit or loss

Balance per statement of financial position	120	
<i>add</i> increase in statement of profit or loss (66·4 – 58)	8·4	
		128·4

Ratios

	Before capitalisation	After capitalisation
Net profit margin		
(Profit before	(88/580) $\approx$	(100/580) $\approx$ 100



	100	
tax/Revenue) $\div$ 100	= 15.2%	= 17.2%
Return on capital employed		
(Profit before tax/Share capital + reserves + long term liabilities) $\div$ 100	$(88/370) \div 100$ = 23.8%	$(100/739.4) \div 100$ = 13.5%
Gearing		
(Long term liabilities /Share capital + reserves) $\div$ 100	$(50/320) \div 100$ = 16%	$(411/328.4) \div 100$ = 125%

Discussion

The capitalisation of the leases has a major impact on the critical performance measures. The net profit margin has increased from 15.2% to 17.2% which is almost certainly a significant increase. This increase represents the increase in the profit arising from the replacement of the lease charges with depreciation on the capitalised leased assets.

The impact on Return on Capital Employed (ROCE) is quite dramatic. The ROCE falls from 23.8% to 13.5% due to the capitalisation of the leases. However, the most striking impact is on the gearing ratio, which increases from 16% to 125%. The company would be concerned at the absolute changes in the ratios but most performance assessments are based on comparisons with other 'similar' companies or industry averages.



SOLUTION 5:

(1) Foreign subsidiary, Cloud

Since the cost of the investment in Cloud (when Cloud was formed) was equal to the fair value of its net assets, there is no goodwill.

The disposal of the subsidiary Cloud should be accounted for as follows:

			31 October 20X8 Million dinars	31 October 20X9 Million dinars
Share capital		200	200	
Retained earnings		80	120	
Net assets		280	320	
		—	—	
On translation:		Nm	Nm	
Net assets	(280/1.4)	200	(320/1.3)	246
		—	—	
Share capital	(200/1.1)	182	(200/1.1)	182
Retained earnings	(80/1.2)	67	(80/1.2)	67



			Plus (40/1.5)	27
Exchange reserve			Brought forward	(49)
Balancing	(49)	Balancing	19	
		figure:		
Total equity		200		246

Sekibo Plc 's accounts: Gain or loss on disposal

		Nm
Sale proceeds	(390 million/1.3)	300
Cost of investment	(see above)	182
Gain on disposal		<u>118</u>

Group accounts: Gain or loss on disposal

		Nm
Sale proceeds	(390 million/1.3)	300
Net assets de-recognised	(see above)	(246)
Exchange loss	(see above: 49 – 19)	<u>(30)</u>
Gain on disposal		<u>24</u>

IAS21 states the cumulative exchange losses, in this example ~~₦~~30 million, should be recognised in profit or loss for the year ended 31 October 20X9. This is because on disposal of a foreign operation, the cumulative amount of the exchange differences that have been recognised in other comprehensive income and accumulated in a separate equity reserve should be re-classified from equity to profit or loss as a reclassification adjustment. The gain on sale is therefore reduced from ~~₦~~54 million to ~~₦~~24 million. The gain on sale in the group accounts is



effectively the gain on the sale in the parent company's financial statements (₦118 million) less the cumulative profits already taken to the group's profit or loss of ₦94 million (₦67 million plus ₦27 million, see above).

(2) Inventory, sale of goods and investment property

The inventory and trade payable would be recorded initially at ₦10 million (= 16 million dinars ÷ 1.6). At the year end on 31 October 20X9, the amount payable is still outstanding. It should be re-translated at the closing rate of 1.3, i.e. ₦12.3 million. This creates an exchange loss of ₦2.3 million which should be recognised in profit or loss.

Unless it has been impaired, the inventory (a non-monetary asset) should be recorded at ₦5 million at the year end.

The sale of goods should be recorded at ₦5 million (= 8 million dinars/1.6) million as sales revenue and as a trade receivable. Payment in dinars was received on 31 October 20X9 and the actual dollar value of the dinars received was ₦6.2 million (= 8 million dinars/1.3). This creates a gain on exchange of ₦1.2 million which should be recognised in profit or loss.

The investment property should be recognised on 1 November 20X8 at

₦40 million (= 56 million dinars/1.4). At the year end on 31 October 20X9 the property should be recognised at its fair value of ₦36.9 million (= 48 million dinars/1.3). The fall in fair value should be recognised in profit and loss as a loss on investment property. The property is a non-monetary asset and when a gain or loss on a non-monetary item is recognised in profit or loss, the element of the gain or loss relating to exchange rates is also recognised in profit or loss.