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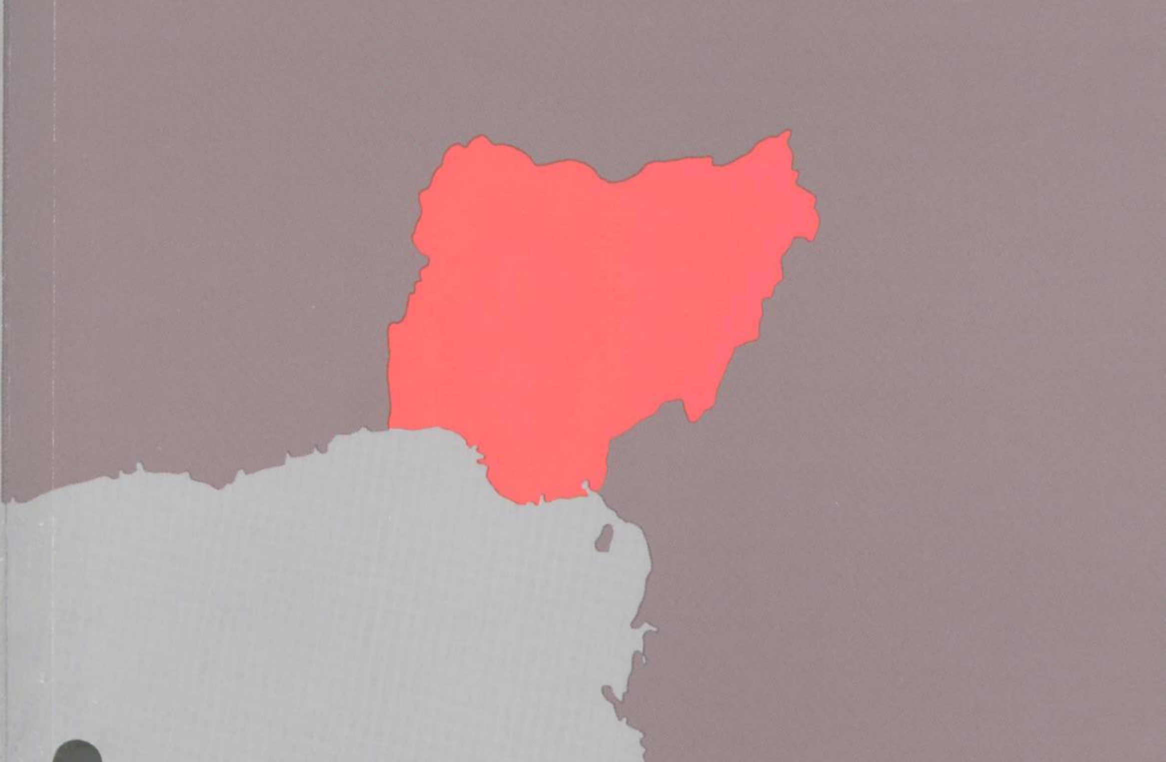
Steven F. Moliterno

The Accounting Profession in Nigeria

PROFESSIONAL ACCOUNTING IN FOREIGN COUNTRIES SERIES



AICPA

American Institute of Certified Public Accountants

The Accounting Profession in Nigeria
PROFESSIONAL ACCOUNTING IN FOREIGN COUNTRIES SERIES
AICPA

NOTICE TO READERS

The Professional Accounting in Foreign Countries series is designed to be educational and used as reference material for the members of the Institute and others interested in the subject. It is not intended to establish standards.

International Booklets Task Force (1991–1992)

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The Accounting Profession in Nigeria

PROFESSIONAL ACCOUNTING IN FOREIGN COUNTRIES SERIES

Prepared by

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Preface

This booklet is one of a series on professional accounting in foreign countries. The material is current as of January 1992. Changes after this date in the standards of either the United States or Nigeria may alter the comparisons and references detailed in this publication.

Included are descriptions of the accounting profession, auditing standards, and accounting principles in Nigeria. The booklet also presents brief descriptions of the various forms of business organizations, taxes, and requirements for stock exchange listings and securities offerings. Checklists comparing Nigerian auditing standards and accounting principles with those generally accepted in the United States are appendixes to the text.

This booklet is not intended to be a comprehensive discussion of auditing standards and accounting principles in Nigeria but is designed instead to focus primarily on differences from those of the United States.

John F. Hudson
Vice President—Technical
Standards and Services

Contents

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The Accounting Profession

REQUIREMENTS FOR ENTRY INTO THE PROFESSION

Domestic Functions and Licensing Requirements

1. The title *accountant* is not regulated. Anyone may use it, but only licensed members of the Institute of Chartered Accountants of Nigeria (the Institute) can practice as *chartered accountants* under the Institute Act of 1965. The Institute can be reached at the following address:

The Institute of Chartered Accountants of Nigeria
Idowu Taylor Street
Victoria Island
P.O. Box 1580
Lagos

2. In Nigeria the Institute is the only recognized professional body. Its members are described as chartered accountants and can use the designation of associate (ACA) or fellow (FCA) of the Institute. A member of the professional bodies listed in paragraph 6 is also eligible for direct admission to membership of the Institute as a chartered accountant. However, persons who passed the examinations of such bodies after 1980 have to pass the Nigerian Law and Taxation examinations of the Institute before they can be admitted.

3. In addition, there are other members of the Institute referred to as *registered accountants.* These are members who, immediately before September 1, 1965 (the effective date of the Institute of

Chartered Accountants of Nigeria Act), had more than five years experience as inspectors or auditors and have shown that they are persons who could be registered as members of the Institute. Membership to the category of registered accountants is closed in that no one who did not meet the requirements of membership as of September 1, 1965, can subsequently qualify for membership. As of December 31, 1988, there were only twenty-seven registered accountants.

4. Each company incorporated under the provisions of the Companies and Allied Matters Decree (CAMD) of 1990 is required to appoint an auditor who must be a member of an accounting body established by an act or decree. As mentioned in paragraph 2, the Institute is at present the only recognized body, and only a member holding a practicing certificate can be appointed auditor. To qualify for a practicing certificate, the chartered accountant must have at least thirty months of continuous full-time approved practice experience under the supervision of a licensed member of the Institute or hold a practicing certificate of any of the associations recognized by the Institute as listed in paragraph 6.

5. In Nigeria a chartered accountant may also act as liquidator, receiver, or trustee of a company in bankruptcy. He or she may also act as company secretary, registrar, and share valuer.

Foreign Reciprocity

6. Under the Institute Act of 1965, members of the following approved professional bodies are eligible for direct membership to the Institute:

- American Institute of Certified Public Accountants
- Canadian Institute of Chartered Accountants
- The Chartered Association of Certified Accountants
- The Chartered Institute of Public Finance and Accounting
- The Institute of Chartered Accountants—England and Wales
- The Institute of Chartered Accountants—Ireland
- The Institute of Chartered Accountants—Scotland
- The Chartered Institute of Management Accountants

ROLES AND RESPONSIBILITIES OF STANDARD-SETTING BODIES

Professional Standards Promulgated by Each Body

7. The Institute is responsible for setting professional standards and is responsible for the determination and publication of auditing standards and guidelines. Auditing standards prescribe the basic principles and practices that members of the Institute are expected to follow in conducting an audit. Auditing guidelines provide information on—

a. Procedures for applying the auditing standards.

b. The application of the auditing standards to specific items appearing in financial statements.

c. Current audit techniques.

d. Auditing problems relating to particular commercial or legal circumstances or to specific industries.

8. The Nigerian Accounting Standards Board (NASB) is the body responsible for setting Statements of Accounting Standards (SASs). The NASB consists of representatives of the Institute, the Accounting Teachers Association, the Nigerian Chambers of Commerce, and other regulatory bodies such as the Central Bank of Nigeria, the Nigerian Stock Exchange, the Securities and Exchange Commission, and the Institute of Bankers. The SASs define standard practice on particular aspects of accounting.

9. Before auditing and accounting standards and guidelines are issued, they are usually preceded by exposure drafts, and members of the public are invited to comment on the contents of such drafts.

10. The Institute is a member of the International Federation of Accountants (IFAC) and of the International Accounting Standards Committee (IASC) and consequently supports the objectives of these bodies. The Institute publishes all international accounting standards and attempts to ensure they are complied with in all material respects by published financial statements as long as the

international standards are not in conflict with local laws and SASs.[1] The Institute also tries to persuade the government, the authorities controlling the securities market, and the business and industrial community that published financial statements should comply with international accounting standards in all material respects. Auditors should satisfy themselves that financial statements comply with international accounting standards. The Institute has also agreed to incorporate the principles of the International Auditing Standards issued by IFAC into its own auditing standards and guidelines.

Ethics Requirements

11. The Institute has adopted statements of professional ethics similar to those of the Institute of Chartered Accountants—England and Wales. The statements cover a wide range of matters, including the following: independence, publicity, advertising, obtaining professional work, changes in a professional appointment, fees, and clients' monies. The Institute limits the size and style of the newspaper advertisements of its members; it specifically prohibits members from advertising for work and from obtaining or seeking professional work by direct mail.

12. In the statements and accompanying guidelines, particular emphasis is placed on the requirements that a member of the Institute have integrity, be objective and competent, follow technical and professional standards, act with courtesy and consideration, follow the ethical guidance, and generally maintain the good reputation of the profession and the Institute.

PROFESSIONAL PUBLIC ACCOUNTING ORGANIZATION

13. As previously mentioned, the only professional public accounting organization in Nigeria is the Institute of Chartered Accountants of Nigeria.

[1]A summary of the International Accounting Standards is contained in chapter 10 of the *1992 AICPA Vest-Pocket Accounting & Auditing Reference.* The standards are reprinted in the book *International Accounting and Auditing Standards,* published by the AICPA.

Requirements for Membership

14. To qualify as a chartered accountant, a person should be of good character, have passed the prescribed examination conducted by the Institute, and have completed a period of practical training.

Rights of Membership

15. Only members of the Institute holding a practicing certificate can undertake audits of the financial statements of companies incorporated under the CAMD and charge fees for audit services. Membership in the Institute is almost always the minimum qualification necessary for employment in financial positions in commerce and industry.

Number of Members

16. The Institute has approximately 5,000 members, of whom about 1,800 are holders of practicing certificates. In addition, there are about 450 registered firms of chartered accountants. To obtain a practicing certificate, a member must be employed for at least thirty continuous months in a responsible accounting position with a qualified accounting firm.

CPE Requirements

17. The Institute—through its Education Committee, district societies, and Director of Education and Training—is committed to giving guidance to its members regarding the form of continuing professional education (CPE), as well as providing structured CPE through seminars and lectures. Although the Institute has not made CPE compulsory, members are encouraged to keep abreast of developments in the profession and to maintain a certain level of technical knowledge.

2

Auditing Requirements

STATUTORY AUDITING AND REPORTING REQUIREMENTS

Purpose of the Statutory Audit

18. Auditors have a statutory responsibility to report whether, in their opinion, the financial statements give a true and fair view of the state of the company's affairs and of the profit or loss and whether such statements comply with the CAMD (or other relevant legislation). There is also a professional responsibility to report if the financial statements do not comply in any material respect with the Statements of Accounting Standards issued by the Nigerian Accounting Standards Board and International Accounting Standards issued by the International Accounting Standards Committee, except when, in the opinion of the auditor, such noncompliance is justified.

Entities That Are Required to Be Audited

19. The CAMD requires that every company incorporated under it must appoint an auditor whose report shall be attached to the financial statements.

Appointment and Qualifications of Auditors

20. Every company is required to appoint an auditor at each annual general meeting to hold office from the conclusion of that meeting until the conclusion of the next annual general meeting.

21. When no auditor is appointed or reappointed at the annual general meeting of a company, the directors may appoint a person

to fill the vacancy. The company must notify the Corporate Affairs Commission within one week of such an appointment.

22. Special notice must be given for a resolution at a general meeting concerning the removal of an auditor or the appointment of an auditor other than the current auditor. On receipt of such notice, the company must notify the auditor proposed to be removed and, where applicable, notify the person proposed to be appointed auditor.

23. The auditor who has been proposed to be removed may present a written representation to be circulated to members who received notice of the general meeting and of the resolution. The auditor is also entitled to attend and speak at the general meeting.

Auditing and Reporting Responsibilities

24. It is the auditor's responsibility to report whether the financial statements presented by the company's management are properly prepared in accordance with the CAMD, and whether the statements present a true and fair view of the state of the affairs of the company, its profit or loss, and changes in financial position. The auditor of a public company is also expected to report to an audit committee which shall be established by the public company. In practice, the auditor meets with the committee to discuss the audit plan, internal control, and other matters arising from the audit. If the entity reported on is a bank, insurance company, etc., the auditor's opinion will also make reference to relevant legislation and, where applicable, industry guidelines issued by the Institute.

25. The responsibility of maintaining proper books and records and preparing proper financial statements rests with management.

26. The auditor also has a professional responsibility to note in the report all significant departures from accepted accounting practices in preparing the financial statements unless the auditor concurs with such departures. If the auditor considers that the departure is not justified and that the true and fair view shown by the financial statements is therefore impaired, the auditor, in addition to referring to the notes and disclosing the necessary information in the report, should express a qualified opinion and, unless it is impracticable, quantify the financial effect of the departure.

27. Under the CAMD, the audit report should contain the auditor's opinion on whether—

- Proper books of account have been kept.
- The financial statements are in agreement with the books.
- The auditor has obtained all the necessary information and explanations.
- The financial statements comply with legal provisions.

28. The financial statements are usually accompanied by a directors' report, which is required under the CAMD, and may include a chairman's statement and other supplementary information. To indicate reporting responsibility, the auditor usually identifies in his or her report the page numbers of the financial information on which he or she is reporting. However, the auditor is obliged under the CAMD to consider whether the information given in the directors' report is consistent with the financial statements and, if it is not, to state that fact in the audit report.

Filing of Reports

29. For all companies, the audit report and the certified financial statements are required to be filed with the Corporate Affairs Commission. Members of the general public may inspect such financial statements upon payment of a fee. Public companies quoted on the Nigerian Stock Exchange are required to file additional information with the stock exchange.

30. The auditor's report and the financial statements are also required to be submitted to the Inland Revenue Department to support the tax returns filed by a company.

SUMMARY OF SIGNIFICANT AUDITING STANDARDS AND COMPARISON WITH U.S. GENERALLY ACCEPTED AUDITING STANDARDS (GAAS)

Standards Issued

31. The Institute has recently created the Auditing Standards Committee to issue auditing standards and guidelines. The auditing

standards prescribe basic principles and practices that members are expected to follow in the conduct of an audit. The auditing guidelines also give guidance on the procedures and techniques to be applied during the audit.

32. The committee has issued two guidelines as of December 31, 1991: AG 1, *Engagement Letters*, and AG 2, *Prospectus and the Reporting Accountant*. The Institute has adopted most of the standards and guidelines issued by IFAC pending the release of other Nigerian standards and guidelines.

33. At present, there is no local standard or guideline on audit sampling. The auditor may apply either statistical or nonstatistical methods in accordance with IFAC guidelines.

34. There is currently no local standard or guideline requiring an auditor to search for errors or irregularities that would have a material effect on the financial statements. However, the auditor should recognize the possibility of material irregularities that, unless adequately disclosed, could distort the financial statements. Therefore, the auditor should plan the audit so that he or she has a reasonable expectation of detecting material errors or irregularities.

35. There is also no local standard or guideline requiring the auditor to perform procedures to identify and disclose related party transactions and to determine the impact on the financial statements of an illegal act; however, the provisions of International Accounting Standard (IAS) No. 24, *Related Party Disclosures*, have been adopted.

36. The principal auditor in Nigeria is fully responsible for his or her opinion on the group accounts or consolidated financial statements and thus need not refer in his or her report to the fact that the financial statements of some subsidiaries or associated companies have been audited by other auditors. Because the shareholders of the holding company are entitled to know that the financial statements of some companies in the group have been audited by other auditors and to know the materiality of those companies to the group, this information is usually footnote-disclosed.

37. There is no requirement for the auditor's report to state whether the financial statements are presented in accordance with generally accepted accounting principles. However, when expressing

a true and fair opinion, the auditor should be satisfied that all relevant statements of standard accounting practice have been complied with, except in situations in which, for justifiable reasons, they should not be applied.

38. There is also no requirement for an auditor's report to express an opinion on consistency; however, this fundamental concept is assumed unless the contrary is stated.

39. When there is a scope limitation, International Auditing Guideline 13 (as revised), *The Auditor's Report on Financial Statements,* states that either an "except for" or a disclaimer opinion should be issued.

General Standards

40. In its guidance on professional ethics, the Institute includes information regarding independence that is similar to the guidance in the ethics standard of the United Kingdom. The auditing guideline on quality control advocates adequate training and competence.

41. In Nigeria an auditor can provide other types of services apart from an audit. For example, an auditor can assist in the preparation of the accounting records of an audit client. When this occurs, particular care must be taken to ensure that the client accepts full responsibility for such records and that audit objectivity is not impaired.

42. Although the Institute has not issued an auditing guideline on due care on the performance of work, it has always emphasized the importance of this concept.

Standards of Fieldwork

43. The Institute has adopted IFAC's auditing standard guidelines concerning many areas covered by the U.S. Standards of Fieldwork, such as—

- *Planning, controlling, and recording.* The auditor should adequately plan, control, and record his or her work.
- *Accounting system.* The auditor should ascertain the entity's system of recording and processing transactions as well as assess the

system's adequacy as a basis for the preparation of financial statements.

- *Internal control.* If the auditor wishes to place reliance on any internal controls, he or she should ascertain and evaluate those controls and perform compliance tests on their operation.
- *Audit evidence.* The auditor should obtain relevant and reliable audit evidence that is sufficient to enable him or her to draw reasonable conclusions from it.
- *Review of financial statements.* The auditor should analyze the financial statements as necessary, in conjunction with the conclusions drawn from the other audit evidence obtained, to give him or her a reasonable basis for an opinion on the financial statements.

Standards of Reporting

44. In Nigeria the auditor is not required to make reference in the audit report to the consistency of the application of, and conformity with, the statements of standard accounting practice. If noncompliance with a Nigerian SAS or an IAS results in impairment of a true and fair position of the financial statements, the auditor should consider expressing a qualified opinion. The auditor should ensure disclosures of significant departures and, to the extent that he or she explicitly or implicitly concurs with the departures, be prepared to justify them.

45. IFAC's guidelines on the auditor's report on financial statements have been adopted to give guidance on how to apply the standard on reporting and how to prepare a qualified report if necessary. (An illustrative auditor's report is included in appendix C.)

Qualifications in Audit Reports

46. IFAC's auditing guidelines on forms of qualifications in auditors' reports outline the circumstances under which a qualified report is to be issued and explain the form of qualification required.

47. If a qualified opinion is issued because of disagreement, an "except for" opinion will be required for a material but not fundamental item. If the impact of the disagreement on the finan-

cial statements is so great as to render them totally misleading, an adverse opinion should be issued.

48. Neither IAS No. 10, *Contingencies and Events Occurring After the Balance Sheet Date,* nor local regulations require that the date on which the financial statements are approved by the board of directors be disclosed in financial statements.

3 Accounting Principles and Practices

SOURCES OF ACCOUNTING PRINCIPLES

49. Accounting principles are set forth in Statements of Accounting Standards issued by the NASB (see Appendix B for the list of SASs). The CAMD sets out the minimum statutory disclosure requirements for financial statements.

FORM AND CONTENT OF FINANCIAL STATEMENTS

Presentation of Statements

50. Every calendar year, the directors of a company are required by the CAMD to submit a directors report and audited financial statements to the members (shareholders) for their approval at the annual general meeting. The directors are also required to file these documents, together with the annual return and a certified balance sheet and profit-and-loss account, with the Corporate Affairs Commission. The annual return should contain information regarding a company's registered office, its members and debenture holders, its shares and debentures outstanding, indebtedness, and its past and current members and directors. The filing should be made within forty-two days after the annual general meeting for the year. Private companies are not exempted from such filing.

51. The directors' report attached to the financial statements must be approved by the board of directors and signed for on behalf

of the board either by the chairman of the meeting at which the financial statements are approved or by the secretary of the company. The directors' report must include the following information:

- The principal activities of the company and of its subsidiaries in the course of the financial year, as well as any significant changes in those activities in that year
- The amount of dividend recommended and the amount of funds transferred to reserves for specific purposes
- A list of the company's directors
- The share holdings, debenture holdings, or both, of directors in the company

52. The Second Schedule of the CAMD states the items that should be disclosed separately by a limited company in its balance sheet and profit-and-loss account. The Second Schedule requires separate disclosure of fixed assets, current assets, current liabilities, and share capital. The net current assets/current liabilities are shown to disclose the working capital of the company. Current assets are generally defined as those that are expected to be realized within twelve months of the balance sheet date, and current liabilities are those that are expected to fall due within the same period.

53. SAS 2, *Information to Be Disclosed in Financial Statements,* also requires that a statement of changes in financial position, both for the period under review and for the corresponding previous period, be included in the audited financial statements for all companies.

Types of Statements Prepared

54. All public companies incorporated under the CAMD must prepare their financial statements in compliance with the provisions of the decree. The financial statements should contain a statement of accounting policies, a balance sheet, a profit-and-loss account, notes on the accounts, the auditor's report, the directors' report, a statement of changes in financial position, a five-year financial summary, and, in the case of a holding company, the group financial statements.

55. The financial statements of a private company need not include a statement of the accounting policies, a statement of changes in financial position, and a five-year financial summary.

56. A company that has subsidiaries is required by the CAMD to present group accounts at the general meeting. The CAMD requires that the balance sheet of the parent company be presented with the group accounts. A separate profit-and-loss account of the parent company is not required, provided the financial statements disclose how much of the consolidated profit or loss for the financial year is attributable to the parent company.

57. A company may elect not to present consolidated financial statements if the company is itself a wholly owned subsidiary of another company that presents consolidated financial statements.

58. When a subsidiary has not been included in the consolidated financial statements, the following details need to be disclosed:

- The reasons for exclusion
- The net aggregate income attributable to the holding company of subsidiaries included and not included in its financial statements
- Any qualification in audit reports on the financial statements of the subsidiaries

59. The CAMD permits omission of a subsidiary from group accounts if the directors make one of the following conclusions:

a. It is impracticable or would be of no real value to the company's members, or the amounts involved are immaterial.

b. It would involve expense or delay out of proportion to the value to the members.

c. The result would be misleading or harmful to the business of the company or any of its subsidiaries.

d. The business of the holding company and that of the subsidiary are so different that they cannot be reasonably treated as a single undertaking.

60. For any subsidiaries omitted from consolidated financial statements, the following must be disclosed: (*a*) the shares in and amounts due to and from such subsidiaries and (*b*) the number, description, and amount of shares and debentures in the company held by subsidiary companies or their nominees.

61. Apart from the foregoing disclosure requirements, when a subsidiary is excluded from consolidation on the grounds of dissimilar activities, the group accounts should include separate

financial statements that contain (*a*) details of the holding company's interest, (*b*) particulars of intragroup balances, and (*c*) the nature of transactions with the rest of the group.

62. When a subsidiary is excluded from consolidation on the grounds of lack of effective control, it is recorded in the consolidated financial statements under the equity method of accounting.

SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES AND COMPARISON WITH U.S. GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP)

63. The fundamental accounting concepts in Nigeria are going concern, accrual, consistency, and prudence. Significant Nigerian accounting principles are discussed in the following paragraphs. (The list of SASs issued by the NASB appears in appendix B.)

64. There is no specific pronouncement regarding the recording of assets and liabilities on the historical cost basis. However, this basis is predominant practice in Nigeria.

Alternative Accounting Methods

65. In Nigeria there are alternative accounting methods that permit inventories, investments, tangible fixed assets, and intangible fixed assets (other than goodwill) to be stated at values other than cost as follows:

- *Market value.* Tangible fixed assets may be revalued and stated at the latest valuation. Short-term investments are stated at market value if the market value is lower than cost.
- *Equity method.* For the investing group, investments in associated companies must be valued under the equity method, whereby the amount of the investing group's interests in associated companies includes (*a*) the cost of the investment less any amounts written off and (*b*) the investing group's share of the post-acquisition retained profits and reserves of associated companies.

66. Where assets are revalued in the financial statements, depreciation should be based on the revalued amount. At the time of a revaluation, the general practice is to eliminate the existing accumulated depreciation against the book cost and to substitute the

revalued amount for the net book amount. Any deficit or surplus arising on a revaluation must be handled through the asset revaluation account. In the case of assets revalued during the financial year, the bases of valuation used must be disclosed in the financial statements.

67. Inventory and work in progress should be stated at the lower of cost or net realizable value. Cost is the expenditure incurred during the normal course of business in bringing the product or service to its present location and condition. The last-in, first-out (LIFO) method of valuing inventories is not recommended by the NASB.

68. The valuation of long-term contract work in progress includes cost plus any attributable profit, less any foreseeable losses and progress payments received and receivable. If the outcome of the contract cannot be estimated, the completed contract method is used. Under this method, revenue is only recognized when the contract is completed. All costs are accumulated until completion.

Fixed Assets

69. All fixed assets with a limited useful economic life are required to be depreciated over their useful life. The depreciation should be allocated to the profit-and-loss account on a systematic basis for each accounting period during the useful life of the asset. The useful lives of major depreciable assets should be reviewed periodically and depreciation rates for current and future accounting periods adjusted if current expectations are significantly different from previous estimates.

70. In Nigeria, land cannot be owned under current law. Instead, title to land is granted based on long-term leases. There is a policy that allows leased land with remaining terms in excess of fifty years not to be depreciated. Leased land with terms under fifty years must be amortized.

Related Party Transactions

71. Although there is no local accounting standard on the treatment of related party transactions, the provisions of IAS No. 24, *Related Party Disclosures*, are normally adopted. Furthermore, although the CAMD does not define *related parties*, it recognizes and distinguishes between holding, subsidiary, and associated companies. The

decree requires such subsidiaries and associated companies to be identified and year-end balances between them to be disclosed. The decree also identifies directors and nondirector officers and prescribes disclosure of certain transactions with them. The decree specifically requires the disclosure of directors' remunerations and loans to officers.

Goodwill

72. Although there is no local accounting or auditing standard or guideline on goodwill, the profession recognizes various methods for treating goodwill. Goodwill may be recorded as a permanent intangible asset, unless there is a permanent impairment in value. It may also be written off over a defined period or at the time of acquisition either to a reserve or to a profit-and-loss account.

Segment Reporting

73. In Nigeria there is no statutory requirement to disclose information in the financial statements for each industry segment beyond the requirements of IAS No. 14, *Reporting Financial Information by Segment.*

Effects of Inflation

74. There is no statutory requirement at present to disclose the effects of inflation on the financial statements or to present the financial statements under any current cost accounting method. The provisions of IAS No. 15, *Information Reflecting the Effects of Changing Prices*, are not popular. Compliance therefore is optional rather than mandatory.

Receivables

75. Although there is no statement of standard accounting practice regarding the provisions for doubtful receivables, it is general practice to make adequate provisions for all doubtful items in accordance with the concept of prudence. However, SAS 10, *Accounting by Banks and Non-Bank Financial Institutions*, does provide a standard regarding the allowance for loan losses for these organizations. This standard follows previously issued guidance of the Central Bank of Nigeria for all licensed banks.

Liabilities

76. Provision is made for all known liabilities. Revenue and income are not anticipated but are only recognized when realized (in the form of either cash or other assets, the ultimate cash realization of which can be assessed with reasonable certainty).

Accounting for Leases

77. There is no local standard on leases and hire purchase contracts. The provisions of IAS No. 17, *Accounting for Leases,* are normally adopted.

Research and Development Costs

78. There is no local standard concerning accounting for research and development costs. The various treatments in practice depend on the nature of the research and development undertaken and the provisions of IAS No. 9, *Accounting for Research and Development Activities.*

Pension Costs

79. There is no local accounting standard on pension costs, but for companies that have established pension plans, appropriate pension costs are provided for in the financial statements, in accordance with IAS No. 19, *Accounting for Retirement Benefits in the Financial Statements.* There is no statutory requirement to make relevant disclosures.

Deferred Taxes

80. There is yet no local standard dealing with matters concerning deferred taxes. However, the provisions of IAS No. 12, *Accounting for Taxes on Income,* are used.

Foreign Currency Translation

81. The NASB has issued SAS 7, *Foreign Currency Transactions,* which discusses the method of translating an entity's foreign operations. The requirements of SAS 7 are similar to those of IAS No. 21, *Accounting for the Effects of Changes in Foreign Exchange Rates.*

82. For individual companies, transactions denominated in a foreign currency should be translated into the reporting currency at the rates applicable on the transaction date. At the balance sheet date, monetary assets and liabilities denominated in a foreign currency should generally be translated using the closing rates. Except as discussed in paragraph 83, no subsequent translation should normally be made once nonmonetary assets have been translated and recorded. Exchange differences arising from the translation are recorded in the profit-and-loss account.

83. When a company has foreign currency borrowings or forward contracts to finance, or provide a hedge against, its foreign currency assets, the foreign currency assets should be denominated in the appropriate foreign currencies and the carrying amounts translated at the end of each accounting period at closing rates for inclusion in the company's financial statements. Any exchange differences arising should be taken to reserves, and the exchange gains or losses arising from the borrowings or the forward contracts should then be offset as a reserve movement, against those exchange differences. The following conditions must apply:

a. In any accounting period, exchange gains or losses arising from the borrowing or the forward contracts should be offset only to the extent of exchange differences arising from the foreign currency assets.

b. The foreign currency borrowings or the forward contracts are designated and effective as a hedge against the foreign currency assets.

84. When preparing group financial statements, the closing rate/net investment method of translating the financial statements is used in translating foreign currency financial statements. Under this method, the balance sheet amounts of a foreign enterprise should be translated into the investing company's reporting currency using the closing rate of exchange. Any exchange difference between the investing company's net investment in the foreign enterprise, translated at the rates at the beginning and end of the year, is transferred to shareholders equity (that is, movement in reserves.)

85. The profit-and-loss account of a foreign enterprise for rate/net investment method should be translated either at the closing rate or at an average rate for the period. Any exchange difference should be recorded as a movement in reserves.

86. In cases in which the trade of the foreign enterprises is more dependent on the economic circumstances of the investing company's reporting currency than on its own reporting currency, the temporal method should be used. The temporal method of translation requires the translation of all assets, liabilities, revenue, and expenses at the exchange rate at the date on which the amount is recorded in the financial statements. At the balance sheet date, monetary assets and liabilities are retranslated at the closing rate and any resulting exchange difference is taken to the profit-and-loss account.

87. The following disclosures are required for foreign currency translations:

- The methods used in the translation of the financial statements of foreign enterprises and the treatment of exchange differences
- The net amount of exchange gains and losses on foreign currency borrowing, identifying separately those offset in reserves and those incorporated in the profit-and-loss account
- The net amount of exchange gains or losses on forward contracts, together with any associated discount or premium on these contracts offset in reserves
- The net amount in reserves arising from exchange differences

Accounts for Contracts

88. Profit recognition regarding work in progress is restricted on long-term contracts, under both IAS No. 11 and SAS 5, both entitled *Accounting for Construction Contracts*. This differs from U.S. practice, in which the percentage-of-completion method is used on construction work in progress except for short-term contracts. The IASC is, however, proposing an amendment to IAS No. 11 so that only the percentage-of-completion method of accounting will be recognized for long-term contracts, as is the practice in the United States.

4

Business Environment

FORMS OF BUSINESS ORGANIZATION

89. The forms of business organization in Nigeria include the limited liability company, unlimited liability company, partnership, and sole proprietor.

Entities With Corporate Attributes

90. A company may be registered as—

- A company limited by shares for which the liability of a member to contribute is limited to the amount of the unpaid capital on his or her shares in the company.
- A company limited by guarantee for which the liability of a member is limited to the amount the member has undertaken to contribute in the event the company ceases operations.
- An unlimited company in which the liability of a member is unlimited.

91. Limited companies limited by shares are divided into public and private companies. A private company, by its articles, restricts the right of transfer of its shares, limits the number of its members to fifty, and prohibits any invitation to the public to subscribe for any shares or debentures in the company. A public company is not necessarily a listed company, but a listed company will always be a public company.

92. A limited company must hold an annual general shareholders meeting once a year, no later than fifteen months after the previous meeting.

93. An extraordinary general meeting may be convened by the directors or if a written request is made by shareholders holding at least 10 percent of the voting shares at the date of the request.

94. Certain matters (such as change in authorized capital, a change in the company's name, or alterations to the memorandum of articles of association) can only be effected with the approval of the members.

95. Although the liability of a member of a limited company is limited, a director will be penalized for failure to carry out his or her obligations as stated in the CAMD, such as keeping proper books and records, making proper presentation of audited financial statements to the members in the general meeting, and filing the annual return with the Companies Registrar. A director of an insolvent company faces unlimited liability when a company has carried on a fraudulent business activity with the knowledge of this director.

96. The CAMD requires a company to set up a share premium account (for shares issued at a premium) and a capital redemption reserve (for shares redeemed). These reserves are not available for distribution as cash dividends. A revaluation reserve will be established whenever there is a surplus on revaluation of fixed assets. This is also not available for distribution.

Branches of a Foreign Company

97. No company may carry on business in Nigeria unless it is incorporated in Nigeria under the CAMD, except when it is granted prior specific exemption as follows.

98. The Federal Executive Council is empowered to grant exemption from requirements of local incorporation to certain categories of foreign companies. The categories include—

- Foreign companies invited by, or with the approval of, the federal government to execute specific projects.
- Foreign companies that are in Nigeria for the execution of specific loan projects on behalf of the government of international organizations.
- Engineering consultants and technical experts engaged solely in export activities.

99. Such exceptions are granted for either limited periods of time or for the duration of specific projects. The present policy of the government is to restrict the grant of exemption to six months, during which time the applicant is expected to incorporate locally.

Partnership Entities

100. For partnerships other than limited partnerships, each partner is liable jointly and severally with the other partners for all debts and obligations of the firm incurred while he or she is a partner.

101. In the case of a limited partnership, the number of partners shall not exceed twenty and must consist of one or more general partners who shall be liable for all debts and obligations of the firm, and one or more limited partners whose liabilities are limited to the amount of contribution they have made. A limited partner shall not take part in the management of partnership business; otherwise, he or she shall be liable for all debts and obligations of the firm incurred while he or she takes part in the management as a general partner.

Other Forms of Business Organization—Sole Proprietor

102. A sole proprietor is an individual engaged in a business or profession on his or her own. A sole proprietor must be registered with the business registration office of the Federal Ministry of Commerce if business activity is carried out in a name other than that of the proprietor. The financial statements of a sole proprietor need not be audited or publicly disclosed. There is also no requirement to keep books of accounts.

REQUIREMENTS FOR PUBLIC SALES OF SECURITIES AND REQUIREMENTS FOR LISTING SECURITIES ON STOCK EXCHANGES

Registration Requirements for Public Sale

103. An offer to sell new securities must be accompanied by a prospectus complying with Schedule Fifteen of the CAMD. The

prospectus must be filed with the Corporate Affairs Commission. A prospectus must be accompanied by the following reports:

a. A report by the auditors of the company with respect to the profits and losses of the last five years, the assets and liabilities contained in the latest financial statements of the company, and the dividends paid by the company for each class of shares in the company for the last five years.

b. If the proceeds of the issue of securities are to be applied directly or indirectly to the purchase of any business, a report by the accountants (who shall be named in the prospectus) must be provided regarding—
   - The profits or losses of the business for the last five years.
   - The assets and liabilities of the business.

c. If any or all of the proceeds of the shares or debentures issue are to be applied directly or indirectly in the acquisition of an entity, an accountant's report for the entity's last five years is required.

Requirements for Listed Companies

104. Listed companies have to comply with the Securities (Stock Exchange Listing) Rules and the rules governing the official listing of securities set by the Nigerian Stock Exchange. The Securities Rules fall into two main sections: (*a*) the application for listing and (*b*) the prescribed undertaking.

105. There are also a number of supplementary and transitional provisions that give the Securities and Exchange Commission the power to direct the Stock Exchange to suspend deadlines in securities and otherwise ensure the maintenance of an orderly market.

106. The rules set by the Stock Exchange include those governing admission of securities for listing, the application requirements, the listing agreement, and the necessary content of certain reports in a prospectus.

107. There are currently two types of markets in the Nigerian Stock Market: the first tier and the second tier. The first-tier market is for fully listed securities, and it is much larger than the second tier, which is the market for smaller companies. The second tier is equivalent to the unlisted securities market in the United Kingdom. The listing requirements and rules of operations of the first- and second-tier markets are different.

Requirements for Listing Securities on the Stock Exchange

Preparation and Filing of Listing Applications

108. An application made by a company to the Stock Exchange for the listing of any securities issued or to be issued by that company shall comply with the rules and requirements of the Stock Exchange and any applicable legal provision. The application shall contain information that, according to the particular nature of the company and the securities for which application is being made, is necessary to enable an investor to make an informed assessment of the company.

109. A copy of the application for listing shall be submitted to the Securities and Exchange Commission and to the Stock Exchange. The Stock Exchange also specifies certain documents that must be submitted to its listing department whenever an application is made.

110. Once a company is listed, it must send to the Stock Exchange, the Securities and Exchange Commission, every member of the company, and every securities holder (except bearer securities)—

- A copy of the company's financial statements, together with the directors report and auditor's report, not less than twenty-one days before the company's annual general meeting.
- An interim report (unaudited) of the first six months of each financial year, not later than six months from the date of the notice of the previous annual general meeting. The interim report should also appear in the newspapers. A copy of the report should be sent to the Securities and Exchange Commission and the Stock Exchange with details of the names and dates of the newspapers that contained the reports.

Apart from the company's financial statements and the interim report, a listed company must submit details of notifiable transactions to the Securities and Exchange Commission, the Stock Exchange, and every member of the company.

Impact on Accounting Requirements

111. The Securities Rules and the rules governing the official listing of securities set out the information that should be disclosed in the interim reports and the financial statements included in the prospectus.

SELECTED ECONOMIC DATA

112. Key demographic and social factors, based on 1991 Nigerian census data (unless otherwise indicated), follow:

Area (in millions of square kilometers)	0.924
Population (in millions)	88.5
Annual population increase (since 1981)	3.2%
Birth rate (per population of 1,000)	19
Death rate (per population of 1,000)	17
Life expectancy (in years of age):	
male (as of 1987)	51
female (as of 1987)	55
Percentage of the work force in:	
agriculture	50%
industry	10%
other (primary service sector)	40%
Unemployment rate	4.1%
Gross domestic product (in billions of Nigerian naira [₦])	81.8
Inflation rate	5.2%

113. Nigerian primary export and import products as of 1989 are as follows:

	Exports (U.S. $ Millions)	*Imports (U.S. $ Millions)*
Mineral fuels	5,177	7
Food	42	57
Petroleum materials	30	69
Chemicals	9	192
Manufactured goods	6	178
Machinery and transport equipment	2	336
Other	15	42
	5,281	881

TAXES

Principal Types

114. In Nigeria there are several forms of taxation which may be divided into two broad groups: direct and indirect taxes.

115. Direct taxes are essentially taxes on income and capital gains. This group includes the following taxes:

- Personal income tax
- Companies income tax
- Petroleum profits tax
- Capital gains tax
- Capital transfer tax

116. Indirect taxes are essentially taxes on expenditures, with the result that the burden can easily be shifted from producers and retailers to consumers. In this group are the following:

- Stamp duties
- Custom duties
- Excise duties
- Sales tax

In addition, all state governments have the authority to impose levies on their residents.

117. The income tax is levied under the Income Tax Management Act of 1961 (the Principal Act), with several amendments. There are other tax statutes, such as the Companies Income Tax Act (1979), Petroleum Profits Tax Act (1959), the Capital Gains Tax Act (1967), the Capital Transfer Tax Act (1979), and the Customs and Excise Management Tax Act (1958).

118. The following are certain fundamental principles common to all taxes. Each of the taxes is assessed separately.

- Except for personal income tax, taxes are levied at fixed standard rates, which the federal government may periodically revise. Personal income taxes are assessed at progressive-scale rates ranging from 10 percent to 45 percent.

- The extent of exposure to tax is not governed by residency status except for individuals. The extent of liability under each of the taxes for individuals is limited to income that accrues in, is derived from, is brought into, or is received in Nigeria.
- There is no provision in the Principal Tax Act that renders taxable any items of income not specifically detailed in the act.
- There are withholding taxes on dividends, royalties, interest, rent, and management fees whether paid to a resident or a nonresident. There are instances in which an assessment on a nonresident may be made on or through an agent in Nigeria who is entitled to withhold tax from payments due to the nonresident.

Personal Income Tax

119. The various assessable incomes of an individual from all sources are aggregated annually and, after deducting certain allowances, are taxed at progressive rates of 10 percent to 45 percent. Thus, the income of an individual during the tax year from employment is aggregated with the taxable profits of any trade or business carried on by him or her, including dividends and interest received.

120. The income allowances are as follows:

Source	*Allowance*
Earned income	₦3,000 plus 15 percent of earned income
Children	₦500 per unmarried child under age 16, subject to a limit of four children
Dependent relatives	₦600
Life insurance for self, spouse, or both	Premium paid subject to a limit of ₦5,000 or 10 percent of total income or 10 percent of the face value of the policy.

The foregoing allowances are contained in the 1992 budget proposal issued by the federal government. A formal decree has not yet been promulgated to mandate these proposals.

121. Expenses incurred by individuals within or outside Nigeria in earning management fees are not deductible in ascertaining an individual's income for tax purposes. Management fees paid

by individuals under any agreement entered into after April 1, 1979, are also not deductible in ascertaining the individual's income for tax purposes.

Companies Income Tax

122. Companies and other corporate bodies are liable for income tax on assessable profits from a trade profession or business carried on in Nigeria. Companies are taxed at the current rate of 35 percent, while the partners in a partnership are assessed individually on their share of partnership profit under the personal income tax law of the state in which they are residents. Companies whose sales are not more than ₦500,000 are taxed at 20 percent under the small business relief program.

123. As stated in the Principal Act, all expenses wholly, exclusively, necessarily, and reasonably incurred in the production of income are deductible in arriving at taxable income. The list of expressly allowable expenses includes interest on borrowed money, rents, repairs, specific bad debts and stock losses, payments to approved pension plans, and donations to approved institutions or associations. In addition to the general principle of not allowing capital expenditure and profit appropriations for tax purposes, expenses incurred for and on behalf of any company as "head office expenses" are expressly not allowed and the expenses of property-holding companies that are not directly attributable to the maintenance of their properties are also not allowable.

124. If a company incurs a loss or if the profits result in a tax payable that is less than the minimum tax, the company will be liable for the minimum tax. Companies excluded from the minimum tax are (*a*) those involved in agricultural trade or business, (*b*) those with at least 25 percent in foreign capital, and (*c*) those in business for less than four years.

125. The profits of a Nigerian company are deemed to accrue in Nigeria whether or not they have been brought into or received in Nigeria. The profits of a company other than a Nigerian company are deemed to be derived in Nigeria to the extent to which any such profits are not attributable to any part of the company located outside Nigeria. Dividends, rents, interest, and royalties brought into Nigeria through government-approved channels by a Nigerian company are tax-exempt.

126. In addition to the withholding tax, a company paying dividends, both interim and final, is obliged to pay tax at the standard rate (now 35 percent) on the gross amounts of dividends. This tax paid is regarded as a deposit against the tax due from the company on the profits out of which the dividend is paid, and the company is entitled to deduct from any tax payable any such "provisional tax" already paid. (When the profits out of which the dividend is paid are not subject to income tax, the tax on dividends will not be refundable.)

127. The principle of franked investment income was introduced whereby a company receiving dividends from another Nigerian company is not subject to further tax. The dividend is to be treated as a franked investment income that is not taxable in the hands of the recipient.

Petroleum Profit Tax

128. The taxation of companies engaged in prospecting for or extracting and transporting petroleum oil or natural gas is governed by the Petroleum Profits Tax Act and its various amendments. Only companies incorporated in Nigeria may participate in petroleum operations, and refinery operations are not regarded as petroleum operations for tax purposes.

129. The assessable income of a petroleum company consists of the sale of oil and allied substances extracted by the company, plus the value of the oil and allied substances extracted for use in the company's own refinery, plus any other income of the company incidental to its petroleum operations. A petroleum company becomes liable for tax when it begins to produce oil in commercial quantities.

130. The current tax rate is 85 percent on crude oil exported and 65.75 percent on domestic sales. However, after taxes are imposed at 85 percent on the chargeable profits, deductions are allowed for royalties other than those paid on oil exported from Nigeria, as well as for liabilities incurred by the company to the federal government for customs and excise duties on plants and other equipment used for petroleum operations. Should the deductions exceed the chargeable tax for a period, no tax is payable and the excess is carried forward for use in subsequent periods.

131. The petroleum profit tax payable for an accounting period is due in installments as follows:

- The first monthly installment is an amount equal to one-twelfth of the tax payable and is due no later than the third month of the accounting period; further monthly installments are due no later than the last day of each subsequent month of the accounting period.
- A final settlement of the balance payable is due within twenty-one days from the date a notice of assessment is served.

Depreciation or Capital Allowances

132. Depreciation allowances, commonly referred to as "capital allowances," represent the statutory means of allowing for depletion of capital expenditures and, in effect, replace the depreciation charge in the financial statements, which is not normally allowed for tax purposes. Depreciation allowances are granted for all qualifying capital expenditures incurred provided the asset was in use on the last day of the basis period of the accounting period.

133. Depreciation allowances usually consist of two rates, the initial allowance and an annual allowance, both of which are based on the cost of the asset. The following are the current rates:

	Initial (%)	*Annual (%)*
Industrial building	15	10
Nonindustrial building	5	10
Plant and machinery	20	10
Motor vehicles	25	20
Furniture and fittings	15	10
Mining	20	10
Plantation equipment	20	33.33
Research and development	25	12.5
Ranching and plantation	30	15
Housing estate	20	25
Agricultural plant	25	10
Manufacturing plant	25	10

An investment allowance of 10 percent is granted on all qualifying expenditures on plant and machinery incurred by companies. The allowance is in addition to the normal allowance. Further, beginning on January 1, 1988, companies can deduct an additional initial allowance of 5 percent for new qualifying capital expenditures on fixed assets.

134. The amount of capital allowance that an enterprise may claim in any tax year is limited to 66⅔ percent of assessable income except for manufacturing companies. For petroleum-prospecting companies, capital allowances are restricted so that in any accounting period, the tax chargeable on a company is not less than 15 percent of the tax that would have been chargeable had no capital allowance been claimed by the company. Capital allowances that are not used as a result of the restriction are available for carrying forward to be used against future profits.

Carryforward of Losses and Capital Allowances

135. Although trading losses that are not currently deductible can be carried forward to be used against future profits for a maximum period of four years, capital allowances can be carried forward indefinitely. It is thus the practice that all available losses that are carried forward are first used before capital allowances.

Balancing Allowances and Charges

136. When an asset on which capital allowances have been granted is disposed of, an allowance equal to the excess of the income tax value of the asset over the sales proceeds is granted as a balancing allowance. The allowance is deductible from taxable income for the year of assessment in which the allowance is granted.

137. A balancing charge is imposed if the sales proceeds are more than the income tax value of the asset on which capital allowances have been granted. The charge is, however, limited to the sum of capital allowances previously granted on the asset concerned and is usually added to the taxable income for the year in which it is imposed.

Terminal Relief

138. Capital allowances arising in the tax year in which trade or business is permanently discontinued may be used against the profits of the five years immediately preceding the year of cessation.

Capital Gains Tax

139. The capital gains tax was introduced in Nigeria with the enactment of the Capital Gains Tax Act of 1967. The tax rate is 20 percent on gains and affects companies as well as individuals and other noncorporate bodies.

140. All assets are subject to tax regardless of whether such assets are located in Nigeria. However, when an asset situated outside Nigeria is disposed of by a non-Nigerian company or by a person who was not resident in Nigeria for more than 182 days during the year of assessment, the tax will be imposed only on the part of the gains that has been brought into or received in Nigeria. However, when the proceeds from the disposal of a chargeable asset situated outside Nigeria cannot be remitted to Nigeria because of an exchange control restriction, capital gains tax will be deferred until the gains can be remitted to Nigeria.

Capital Transfer Tax

141. The Capital Transfer Tax Act of 1979 imposes a tax on all capital assets transferred by one individual to another whether during the lifetime of the transferor or at death. The first ₦100,000 of such transfers will be tax-free, and the rates are graduated on the excess above ₦100,000.

Indirect Taxes

142. *Stamp Duties.* Most legal documents require stamping by an impressed stamp. The rates of duty per document run to a maximum of almost ₦2000. No stamp duty is payable on the transfer of stocks and shares. The commissioner for stamp duties is required to verify a capital gains tax clearance certificate before accepting for stamping any documents for the sale of a company's asset.

143. *Customs Duties.* Customs duties are levied on most imported goods including food. Export duties on produce were abolished as an inducement to farmers.

144. *Excise Duties.* Most goods manufactured in Nigeria are subject to excise duties.

145. *Sales Tax.* The Sales Tax Decree of 1986 imposed a sales tax on certain goods and services. Sales tax must be collected by a

manufacturer, importer, or supplier from the distributor, agent, or consumer within thirty days after the sale. Any tax so collected shall be paid to the tax authorities within thirty days of the due date. There are severe penalties for failure to pay the taxes.

Tax Returns

146. Each taxable person must submit a return of income and claim the allowances to which he or she is entitled for each tax year when required to do so by the state or federal tax authorities. The tax authority can, by a notice published in the *Government Gazette* and other newspapers, require all persons liable for income tax to submit returns to the tax authority within a specified period of time.

147. However, every company is obliged to file returns, including its audited accounts, no later than six months after the end of its accounting year (or within eighteen months of the date of its incorporation, in the case of a newly incorporated company). Since January 1989, the tax authority has been empowered to impose a penalty of ₦5000 for late filings of returns.

148. Apart from the duty to submit income tax returns, all taxpayers are obligated to disclose their sources of taxable income for each year of assessment.

149. Tax authorities may call for further returns and may require the production of books of accounts and other documents.

Tax Clearance Certificates

150. To ensure a high degree of income tax compliance, tax authorities are obliged to issue tax clearance certificates to taxpayers within a reasonable time as evidence that the taxpayer has fully paid all chargeable income tax for the last three years. The certificate is required by law to be presented by the taxpayer in dealing with any government ministry, department or agency regarding certain transactions specified by law. Some of the transactions include applications for motor vehicle registration, government industrial loans, licenses for firearms, certificates of occupancy for land, exchange control permission, trade licenses to remit funds abroad, award of government contracts, Nigerian passports, registration of limited liability companies or business names, allocation of market space or government land, and approval of building plans.

APPENDIX A

Outstanding Auditing Pronouncements

The outstanding auditing pronouncements as of January 1992 are as follows:

AG 1 *Engagement Letters*
AG 2 *Prospectus and the Reporting Accountant*

Note: When there are no local standards, the provisions of the International Federation of Accountants are followed in Nigeria.

APPENDIX B

Outstanding Accounting Pronouncements

The outstanding accounting pronouncements of the Nigerian Accounting Standards Board as of January 1992 are as follows:

SAS 1	*Disclosure of Accounting Policies*
SAS 2	*Information to be Disclosed in Financial Statements*
SAS 3	*Accounting for Property, Plant, and Equipment*
SAS 4	*Stocks*
SAS 5	*Accounting for Construction Contracts*
SAS 6	*Extraordinary Items and Prior Year Adjustments*
SAS 7	*Foreign Currency Transactions*
SAS 8	*Employees' Retirement Benefits*
SAS 9	*Accounting for Depreciation*
SAS 10	*Accounting by Banks and Non-Bank Financial Institutions*
SAS 11	*Accounting for Leases*

Note: When there are no local standards, the provisions of the International Accounting Standards are followed in Nigeria.

APPENDIX C

Illustrative Auditor's Report and Financial Statements

The following financial statements are intended for illustrative purposes only. The statements presented are not intended to include all information that Nigerian law requires.

REPORT OF THE AUDITOR TO THE MEMBERS

We have audited the financial statements set out on pages ____ to ____ in accordance with Auditing Standards. The financial statements are in agreement with the books, which in our opinion have been properly kept. We obtained the information and explanations we required. Proper returns have been received from the branches not visited by us.

In our opinion, the financial statements give a true and fair view of the state of affairs of the company at June 30, 19X1, and its profit and source and application of funds for the year then ended and have been properly prepared in accordance with the Companies and Allied Matters Decree, 1990.

As stated in note ____ to the financial statements and to the best of our knowledge and belief, the company adhered to the provisions of the Productivity, Prices and Incomes Board's guidelines for the fiscal year ended June 30, 19X1.

Lagos, Nigeria	[*Name of Accounting Firm*]
[*date*]	Chartered Accountants

ABC INDUSTRIES INC.
BALANCE SHEETS
At June 30, 19X1
(expressed in millions of Nigerian naira)

		The Company		*The Group*	
	Notes	*19X1*	*19X0*	*19X1*	*19X0*
Assets Employed:					
Fixed assets	2	–	–	3,293	2,942
Interest in subsidiary companies	3	1,891	1,897	–	–
Interest in associated companies	4	196	209	397	421
Loans and investments	5	12	3	26	27
Net current assets/liabilities	6	(259)	(248)	868	981
		1,840	1,861	4,584	4,371
Financed by:					
Share capital	7	572	432	572	432
Reserves	8	1,077	1,152	2,411	2,211
Shareholders' funds		1,649	1,584	2,983	2,643
Minority interests	9	–	–	553	624
Deferred liabilities	10	191	277	1,048	1,104
		1,840	1,861	4,584	4,371

Approved by the Board of Directors on September 26, 19X1.

[*Name*] Director
[*Name*] Director

ABC INDUSTRIES INC.
CONSOLIDATED PROFIT-AND-LOSS ACCOUNT
For the year ended June 30, 19X1
(expressed in thousands of Nigerian naira—except per share amounts)

	Notes	*19X1*	*19X0*
Turnover	13	1,611,525	746,701
Operating profit	14	495,242	265,964
Share of profits less losses of associated companies		26,965	21,752
Taxation	15*a*	(69,920)	(16,008)
Profit after taxation		452,287	271,708
Minority interests		(124,899)	(46,090)
Net profit attributable to shareholders		327,388	225,618
Retained profits at July 1, 19X0, as previously stated		90,308	76,858
Prior-year adjustments	11	133,933	94,085
As stated		224,241	170,943
		551,629	396,561
Transfer to general reserves		300,000	60,000
Dividends	12	171,630	112,320
Retained profits carried forward	8	79,999	224,241
Earnings per share (kobo)		59.7	41.8

Note: The calculation of earnings per share is based on earnings of ₦327,388,000 (19X0—₦225,618,000) and the weighted average of 548,025,000 shares in issue (19X0—540,000,000 shares) during the year.

The earnings-per-share figure for 19X0 has been restated to reflect the capitalization issue referred to in note 7.

100 kobo = 1 naira.

ABC INDUSTRIES INC.
CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
For the year ended June 30, 19X1
(expressed in thousands of Nigerian naira)

	19X1	*19X0*
Source of Funds:		
Group profit before taxation less minority interests	397,308	241,626
Adjustments for items not involving the movement of funds:		
Minority interest in the retained profits of the year	124,899	46,090
Depreciation	759	748
Profit retained in associated companies	(22,738)	(18,151)
Profit on disposal of fixed assets	(642)	(2,965)
Profit on disposal of unlisted investments	—	(1,071)
Profit on disposal of listed investments	—	(208)
Loss on disposal of associated companies	19,519	—
Provision write-back on unlisted investments	—	(30,411)
Provision write-back on listed investments	3,815	(7,627)
Provision write-back on development properties	(32,000)	—
Provision write-back on completed properties for resale	(3,061)	—
Provision write-back on associated companies	(7,074)	(10,785)
Total generated from operations	480,785	217,246
Funds from other sources:		
Shares issued	179,760	—
Investment by minority shareholders	—	488,477
Proceeds from disposal of fixed assets	1,300	15,662
Proceeds from disposal of unlisted investments	—	1,411
Proceeds from disposal of listed investments	—	550
Proceeds from disposal of associated companies	3,170	—
Decrease in interest in associated companies	25,790	683,165
Decrease in unlisted investments	—	16,926
Decrease in installment loans	10,707	5,698
	701,512	1,429,135

	19X1	19X0
Application of Funds:		
Dividends paid to shareholders	130,650	69,120
Dividends paid to minority shareholders	9,695	5,651
Tax paid	21,799	25,483
Addition to fixed assets	408,628	54,692
Decrease in investment by minority shareholders	167,242	—
Decrease in deferred liabilities	56,542	734,524
Increase in unlisted investments	1,134	—
Increase in interest in associated companies	—	1,211
Changes in composition of the group	—	773,341
	795,690	1,664,022
	(94,178)	(234,887)
Representing—		
Increase (decrease) in working capital:		
Development properties and stocks	(75,134)	(493,331)
Debtors, deposits, and prepayments	187,217	(69,553)
Creditors	(110,161)	103,963
Movement in net liquid funds:		
Cash and bank balances	10,118	552
Bank loans and overdrafts	38,782	219,161
Short-term loans	(145,000)	4,500
Short-term listed investments	—	(179)
	(94,178)	(234,887)

Note:

Summary of the effect of companies becoming subsidiaries:		
Development properties	—	2,146,052
Debtors and prepayments	—	17
Cash	—	2
Bank overdrafts	—	(2,535)
Creditors and accruals	—	(76,986)
Deferred liabilities	—	(1,429,969)
Net tangible assets acquired	—	636,581
Increase in minority interest	—	(8)
Increase in associated companies	—	136,768
Changes in composition of the group	—	773,341

NOTES TO THE FINANCIAL STATEMENTS

1. Principal Accounting Policies

a. Basis of Consolidation

The consolidated financial statements incorporate the audited financial statements of the company and all its subsidiary companies made up to June 30, 19X1, and include the Group's share of the results for the year and retained post-acquisition profits and reserves of associated companies. The results of subsidiary companies acquired or disposed of during the year are dealt with in the consolidated profit-and-loss account from the effective dates of acquisition or to the effective dates of disposal, respectively. Goodwill arising on consolidation represents the excess of the consideration paid over the net tangible assets of the companies acquired at the date of acquisition and is deducted from reserves.

All material intercompany transactions, including intercompany sales of properties, have been eliminated in consolidation.

b. Associated Companies

Associated companies are companies, other than subsidiaries, in which the group's interest is held for long-term purposes and is substantial. Differences between valuation and carrying value are credited or charged to capital reserves.

c. Investment Properties

1. Land and buildings held for rental purposes are included as fixed assets.
2. Investment properties owned by the Group are stated at cost throughout the course of development until the completed developments achieve a mature state of income generation. Thereafter, they are valued on rotation at intervals of not more than three years by independent firms of professional valuers. In the intervening periods, valuations of these properties are undertaken by the Directors. Differences between valuation and carrying value are credited or charged to capital reserves.
3. Profits on the sale of investment properties in the ordinary course of business are included in the operation profits of the group.

d. Development Properties

1. Properties developed or under construction, and properties acquired for future development projects with the intention of resale, are classified under current assets at the lower of cost or market value.
2. When properties are developed for resale, income is recognized either when the sale agreement is entered into or when the occupation permit is issued, whichever is later.
3. Deposits and installments received on properties sold prior to their completion are carried under current liabilities.

e. Listed Investments

Listed investments included under current assets are stated at the lower of cost or market value.

f. Translation of Foreign Currencies

Foreign currency balances at year-end are translated in naira at the market rate of exchange prevailing at the balance sheet date. Foreign currency transactions during the year are translated into naira at the rates of exchange prevailing at the transaction date. Differences on foreign currency translation are recorded in the profit-and-loss account.

g. Depreciation

1. No amortization is provided for investment properties. Had depreciation been provided on investment properties, the additional charge would have been ₦21,548,000 (19X0—₦21,696,000).
2. Depreciation on other fixed assets has been provided on cost on a straight-line basis over the estimated useful lives of the assets.

h. Changes in Accounting Policies

The accounting policy regarding depreciation of investment properties adopted in (*g*) above is in accordance with Statement of Accounting Standards No. 9, issued by the Nigerian Accounting Standards Board.

2. Fixed Assets—The Group (expressed in thousands of Nigerian naira)

	Office and Commercial	*Hotel and Residential*	*Industrial*	*Land and Building Under Construction*	*Equipment, Furniture, and Motor Vehicles*	*Total*
Cost or Valuation:						
At July 1, 19X0	2,242,997	512,352	185,000	–	5,370	2,945,719
Additions:						
Land and building	5,044	5,841	–	393,324	–	404,209
Furniture and fixtures	1,735	1,608	–	–	1,076	4,419
Transfer from completed property for resale	2,239	–	–	–	–	2,239
Disposals	–	(654)	–	–	(41)	(695)
Transfer to development property	–	(98,000)	–	–	–	(98,000)
Revaluation surplus	27,449	7,803	4,000	–	–	39,252
At June 30, 19X1	2,279,464	428,950	189,000	393,324	6,405	3,297,143
Accumulated Depreciation:						
At July 1, 19X0	–	–	–	–	4,118	4,118
Charge for the year written back on disposal	–	–	–	–	(37)	(37)
At June 30, 19X1	–	–	–	–	4,081	4,081
Net Book Value:						
At June 30, 19X1	2,279,464	428,950	189,000	393,324	2,324	3,293,062
At June 30, 19X0	2,242,997	512,352	185,000	–	2,011	2,942,360
Representing—						
19X1 Professional valuation	140,000	400,000	–	–	–	540,000
19X1 Directors' valuation	2,139,464	28,950	189,000	–	–	2,357,414
Cost less provision	–	–	–	393,324	2,324	395,648
At June 30, 19X1	2,279,464	428,950	189,000	393,324	2,324	3,293,062

3. Interest in Subsidiary Companies (expressed in thousands of Nigerian naira)

	The Company	
Unlisted shares	19X1	19X0
At cost	62,941	62,940
At directors' valuation	66,984	66,984
	129,925	129,924
Amount due by subsidiary companies less provision	2,431,019	2,613,648
Amount due to subsidiary companies	(669,585)	(846,534)
	1,891,359	1,897,038

4. Interest in Associated Companies (expressed in thousands of Nigerian naira)

	The Company		The Group	
	19X1	19X0	19X1	19X0
Unlisted investments at cost	12,611	12,630	57,565	63,973
Convertible loan stock less provision	–	7,908	–	7,908
Amount due by associated companies	221,753	279,740	323,456	394,485
Share of undistributed post-acquisition reserves	–	–	71,708	47,432
Less: provision	(36,366)	(88,118)	(33,618)	(79,586)
	197,998	212,160	419,111	434,212
Less: amount due to associated companies	(1,804)	(3,577)	(22,100)	(13,383)
	196,194	208,583	397,011	420,829

5. Loans and Investments (expressed in thousands of Nigerian naira)

	The Company		*The Group*	
	19X1	*19X0*	*19X1*	*19X0*
Unlisted investments at cost	1,787	1,788	7,335	7,335
Advances	37,820	4,162	48,513	14,484
	39,607	5,950	55,848	21,819
Provision for diminution in value	(27,522)	(2,523)	(38,172)	(13,172)
	12,085	3,427	17,676	8,647
Installment loans	–	–	7,791	18,498
	12,085	3,427	25,467	27,145

6. Net Current Assets (Liabilities) (expressed in thousands of Nigerian naira)

	The Company		*The Group*	
	19X1	*19X0*	*19X1*	*19X0*
Current Assets:				
Projects under development for sale	–	–	1,759,612	1,760,481
Completed properties for sale	–	–	39,928	38,359
Stocks	–	–	865	691
Listed investments in Hong Kong at market value	–	–	14,315	18,130
Debtors, deposits, and prepayments	51	1,235	205,458	18,241
Cash and bank balances	289	157	12,200	2,082
	340	1,392	2,032,378	1,837,984
Current Liabilities:				
Bank loans and overdrafts:				
Secured	90,000	96,824	227,065	267,620
Unsecured	30,000	20,000	40,111	38,338
Short-term loans	–	55,000	200,000	55,000
Deposits received	–	–	308,575	233,808
Creditors and accrued expenses	25,012	4,360	206,122	169,522
Taxation (Note 15*b*)	36	–	67,816	19,695
Proposed dividend	114,420	73,440	114,420	73,440
	259,468	249,624	1,164,109	857,423
	(259,128)	(248,232)	868,269	980,561

7. Share Capital (expressed in thousands of Nigerian naira)

	The Company	
	19X1	*19X0*
Authorized: 800,000,000 (19X0—600,000,000) ordinary shares of ₦1 each	800,000	600,000
Issued and fully paid: 572,100,000 (19X0—432,000,000) ordinary shares of ₦1 each	572,100	432,000

On November 14, 19X0, the issued share capital of the company was increased to ₦540,000,000 by applying ₦108,000,000 from the general reserves of the company in paying in full for 108,000,000 shares of ₦1.00 each on the basis of one bonus share for four shares held on October 31, 19X0.

In addition, 32,100,000 shares of ₦1.00 each were issued at a premium of ₦4.60 each on March 26, 19X1, in part consideration for the acquisition of land.

8. Reserves (expressed in thousands of Nigerian naira)

Capital Reserves:

	The Company		*The Group*	
	19X1	*19X0*	*19X1*	*19X0*
On consolidation	—	—	2,407	2,407
On asset revaluation	—	—	1,612,938	1,607,899
On acquisition of loan to a subsidiary	72,686	72,685	—	—
Others	—	—	55	55
Share premium	147,660	—	147,660	—
Share of post-acquisition capital reserves of associated companies	—	—	19,851	19,851
	220,346	72,685	1,782,911	1,630,212
Capital reserves at July 1	591,723	531,723	356,302	504,014
Goodwill written off	—	—	—	(207,712)
Capitalization on bonus issue	(108,000)	—	(108,000)	—
Transfer from profit-and-loss account	300,000	60,000	300,000	60,000
At June 30	783,723	591,723	548,302	356,302
Retained profits	73,155	487,529	79,999	224,241
	1,077,224	1,151,937	2,411,212	2,210,755

(Continued on next page.)

Statement of Retained Profits:

	The Group	
	19X1	19X0
Group companies	31,386	198,367
Associated companies	48,613	25,874
	79,999	224,241

Movements in Reserves:

	The Company	The Group
Capital Reserves		
at July 1, 19X0:		
As previously reported	72,685	1,724,797
Prior-year adjustments (Note 11)	–	(94,585)
As restated	72,685	1,630,212
Revaluation of investment properties:		
Surplus	–	39,252
Released on asset transferred to development properties	–	(54,814)
Decrease in minority interests' share	–	20,601
Premium on issue of ordinary shares	147,660	147,660
On acquisition of loan to a subsidiary	1	–
At June 30, 19X1	220,346	1,782,911
General Reserves		
at July 1, 19X0:	591,723	356,302
Capitalization on bonus account	(108,000)	(108,000)
Transfer from profit-and-loss account	300,000	300,000
At June 30, 19X1	783,723	548,302

9. Minority Interest (expressed in thousands of Nigerian naira)

	The Group	
	19X1	19X0
Share of equity in subsidiary companies	225,144	134,340
Advance by minority shareholders to projects under development	327,653	489,558
	552,797	623,898

10. Deferred Liabilities (expressed in thousands of Nigerian naira)

	The Company		The Group	
	19X1	19X0	19X1	19X0
Bank loans—secured	170,000	210,000	582,982	619,099
Other long-term loans—secured	—	35,000	50,500	209,191
Other creditors	21,186	31,779	238,312	36,314
	191,186	276,779	871,794	864,604
Secured bank loans for MIR Island: Line projects guaranteed by minority shareholders	—	—	175,906	239,638
	191,186	276,779	1,047,700	1,104,242

Liabilities payable within one year are included under current liabilities. The remaining balances of the Group are repayable within periods as follows:

	19X1		19X0	
	Bank Borrowings	Other Borrowings	Bank Borrowings	Other Borrowings
(i) Of more than one year, but not exceeding two years	758,888	51,501	79,040	230,901
(ii) Of more than two years, but not exceeding five years	—	237,001	719,488	51,502
(iii) Of more than five years	—	310	—	23,311
	758,888	288,812	798,528	305,714

11. Prior-Year Adjustments (expressed in thousands of Nigerian naira)

	The Group	
	19X1	19X0
Retained Profits:		
Adjustment of share of Associated Companies' post-acquisition profits	34,623	16,472
Adjustment of provision for depreciation previously provided for investment properties	99,310	77,613
	133,933	94,085

(Continued on next page.)

	The Group	
	19X1	*19X0*
Capital Reserves:		
Adjustment of share of Associated Companies' post-acquisition reserves	19,851	19,851
Adjustment of asset revaluation surplus for the change of accounting policy regarding investment properties	(114,436)	–
	(94,585)	19,851

12. Dividends (expressed in thousands of Nigerian naira)

	The Group	
	19X1	*19X0*
Interim dividend paid of 10 kobo per share (19X0 – 9 kobo on 432,000,000 shares)	57,210	38,880
Proposed final dividend of 20 kobo per share (19X0 – 17 kobo on 432,000,000 shares)	114,420	73,440
	171,630	112,320

13. Turnover (expressed in thousands of Nigerian naira)

An analysis of the Group's turnover and contribution to gross profit from the principal activities is as follows:

	19X1		*19X0*	
	Turnover	*Contribution to Gross Profit*	*Turnover*	*Contribution to Gross Profit*
Property development	1,220,977	302,053	419,914	153,094
Rental	277,441	239,269	249,227	218,899
Hotel	36,438	15,956	33,171	13,618
Other	76,669	23,440	44,389	27,055
	1,611,525	580,718	746,701	412,666

14. Operating Profit (expressed in thousands of Nigerian naira)

	The Group	
	19X1	19X0
Operating profit has been arrived at after charging—		
Interest on bank loans and overdrafts	52,172	110,657
Interest on other loans repayable within five years	94,634	48,249
	146,806	158,908
Less: interest capitalized as cost of property development	66,742	26,703
	80,064	132,205
Depreciation	759	747
Auditors' remuneration:		
Current year	1,293	1,206
Underproduction in previous year	582	200
Loss on sale of associated companies	19,519	—
Operating profit has been arrived at after crediting—		
Net rental revenue	239,269	218,899
Profit on sale of listed investments	—	208
Profit on sale of unlisted investments	—	1,071
Dividends from listed investments	869	977
Dividends from unlisted investments	2,408	4,040

15. Taxation (expressed in thousands of Nigerian naira)

a. Taxation in the profit-and-loss account represents:

	The Group	
	19X1	19X0
Estimated liability at 18.5% on the assessable profits for the year	67,471	18,671
Overprovision for previous years	(240)	(5,053)
Share of liability of associated companies	2,689	2;390
	69,920	16,008

(Continued on next page.)

b. The liability to taxation represents:

	The Company		The Group	
	19X1	19X0	19X1	19X0
Estimated liability to profits for the year	36	–	67,471	18,671
Add: Balance of profits tax provision relating to previous years	–	–	345	1,024
	36	–	67,816	19,695

16. Directors' Remuneration (expressed in thousands of Nigerian naira)

Directors' remuneration disclosed in accordance with the provision of section 161 of the Companies Ordinance is as follows:

	19X1	19X0
Fees	79	68
Other compensation	1,859	1,686
	1,938	1,754

17. Contingent Liabilities (expressed in thousands of Nigerian naira)

Contingent liabilities at June 30, 19X1, that were not provided for in the accounts of the Company were as follows:

	The Company	
	19X1	19X0
Guarantees given to banks and financial institutions for credit facilities made available to:		
Associated companies	80,707	108,261
Subsidiary companies	638,337	738,953

18. Capital Commitments (expressed in thousands of Nigerian naira)

	The Company		The Group	
	19X1	19X0	19X1	19X0
Contracted but not provided for	–	–	3,342	–
Authorized but not contracted for	–	–	74,457	–
	–	–	77,799	–

19. Comparative Figures

Certain comparative figures have been reclassified to conform to the current year's presentation.

APPENDIX D

Checklist for Comparison of Generally Accepted Auditing Standards (GAAS) in the United States With Auditing Standards in Nigeria

General Information	Answer	Comments
1. Is a primary purpose of an audit—		
a. To attest to information used by investors, creditors, etc.?	Yes	
b. To satisfy statutory requirements (for example, the Companies Act)?	Yes	
c. For tax purposes?	Yes	
2. A. The United States has ten generally accepted auditing standards including general standards, standards of field-work, and standards of reporting. Those standards and their interpretations constitute U.S. generally accepted auditing standards, which have been	No	2A. The Nigerian Institute of Chartered Accountants has formed the Auditing Standards Committee to issue auditing standards and guidelines that prescribe the basic principles and practices that members are expected to follow in the conduct of an audit. The Institute has

Notes:

Checklist was completed from the perspective of performing a local audit, *not* a referral audit.
AU numbers refer to sections in the *Codification of Statements on Auditing Standards*, unless otherwise noted.
This checklist does not include the latest GAAS pronouncements issued in the United States.

General Information	Answer	Comments
published in *Codification of Statements on Auditing Standards.* Do generally accepted auditing standards exist in Nigeria?		adopted most of the standards and guidelines issued by the International Federation of Accountants (IFAC). Auditing guidelines will also be issued to give guidance on— • The application of the auditing standards to specific items appearing in the financial statements of entities. • Techniques currently being used in auditing. • Audit problems relating to particular commercial or legal circumstances or to specific industries.
B. If so, are they published?		
C. If auditing standards exist in Nigeria, are they similar to U.S. standards?		
3. Who is responsible for promulgating auditing standards (for example, the profession, a governmental body, etc.)?	The profession	

U.S. Generally Accepted Auditing Standards	Required by Government or Professional Pronouncements	Predominant Practice	Minority Practice	Not Done	Comments
4. Do auditors confirm receivables? (AU 331)	Yes	✓			
5. Do auditors observe inventory counts? (AU 331)	Yes	✓			

6. Do auditors receive written representations from management? (AU 333)	Yes	✓	
7. Do auditors receive written representations from management's legal counsel? (AU 337)	No	✓	
8. A. Do auditors prepare and maintain working papers? (AU 339)	Yes	✓	
B. If so, do they include a written audit program outlining procedures to be performed? (AU 339)	Yes	✓	
9. Do auditors study existing internal controls as a basis for reliance thereon in determining the nature, extent, and timing of audit tests to be performed? (AU 319)	Yes	✓	
10. A. Do auditors communicate material weaknesses in internal accounting control to senior management or the client's board of directors? (AU 325)	Yes	✓	
B. If so, is the communication documented? (AU 325)	Yes	✓	
11. In obtaining evidential matter, does the auditor apply either statistical or nonstatistical procedures? (AU 350)	Yes	✓	11. The auditors may apply statistical or nonstatistical sampling methods.
12. Is the auditor responsible for planning the examination to search for errors or irregularities that would have a material effect on the financial statements? (AU 316)	Yes	✓	12. The auditor's duties do not require specifically to search for errors or irregularities unless this is required by the specific terms of the engagement. However, the auditor should

U.S. Generally Accepted Auditing Standards	Required by Government or Professional Pronouncements	Predominant Practice	Minority Practice	Not Done	Comments
					recognize the possibility of material irregularities that, unless adequately disclosed, could distort the financial statements. The auditor should, therefore, plan the audit so that he or she has a reasonable expectation of detecting material misstatements in the financial statements resulting from irregularities or fraud.
13. A. Does the auditor perform procedures to identify related party transactions and their effect on the financial statements? (AU 334)	Yes	✓			13A. See paragraph 71 of text.
B. If so, list the procedures.					13B. Procedures employed: • Obtaining management representations concerning the names of all related parties, including details of the affiliation of directors and officers with other entities • Scrutinizing the register of members to identify substantial shareholders to ensure that they have not used nominees to hold the shares • Reviewing minutes of board meetings and general meetings, with particular reference to

				any declaration of interest by a director. • Reviewing the previous year's audit file and discussing the situation with the auditors of other group companies or with predecessor auditors.
14. Does the auditor consider the adequacy of cut-off procedures to ensure that movements into and out of inventories are properly identified in the accounting records? (AU 331)	Yes	✓		
15. A. Are specific auditing procedures applied to transactions occurring after the balance sheet date? (AU 560)	Yes	✓		15A,B. The auditors will review transactions after the balance sheet date and scrutinize books and records written up after the balance sheet date to ensure that proper disclosure or adjustment has been made in the financial statements where applicable for all post-balance-sheet-date events.
B. Are other auditing procedures applied to ascertain the occurrence of subsequent events that require adjustment to or disclosure in the financial statements? (AU 560)	Yes	✓		
16. The concept of "joint auditors" in certain countries (e.g., the United Kingdom, Canada, and Australia) is that two auditors or audit firms jointly audit the financial statements of a company and issue a single report signed by the two firms. This practice is not generally followed in the United States. Does the concept of "joint auditors" exist in Nigeria?	Yes		✓	16. The concept of "joint auditors" exists in Nigeria, but it is not common practice.

U.S. Generally Accepted Auditing Standards	Required by Government or Professional Pronouncements	Predominant Practice	Minority Practice	Not Done	Comments
17. When a principal auditor is reporting on financial statements that include one or more subsidiaries, divisions, branches, or investees: (AU 543)					
A. Must the principal auditor assume responsibility for the work of the other auditor as it relates to the principal auditor's opinions?	Yes	✓			17A. To ensure that the other auditors have carried out a proper audit, the principal auditor will send out a questionnaire to the other auditor or may examine his or her audit working papers.
B. May the principal auditor decide not to assume that responsibility by making reference to the other auditor and indicating the division of responsibility?	No			✓	17B. Even though some auditors do mention in the audit report that the audits of some subsidiaries/associated companies are conducted by other auditors, the principal auditor will give his or her opinion on the financial position of the group, and thus assume responsibility for the work of the other auditors.
18. A. Is there a standard form of auditor's report? (AU 508)	Yes	✓			
B. List the circumstances that require a departure from the standard report and indicate the type of report required. (AU 508)					18B. See paragraphs 46 and 47 of text.
19. A. Does the auditor's report require an explanatory	No	✓			19A,B. The auditor is not required to express an opinion

paragraph for a change in accounting principles or in the method of their application? (AU 508)				on the the consistency of application of accounting principles. However, any change in significant accounting principles and its effect on the financial statements are required to be disclosed in the notes to the financial statements.
B. If not, does it imply that either consistency exists or the financial statements disclose the inconsistency?	See Comment	✓		
20. A. Is the auditor's report dated as of the last day of fieldwork? (AU 530)	No		✓	20A,B. The date of the audit report will normally be as near as possible to the date of actual signing and should be as close as possible to the date of approval of the financial statements by the directors. The auditor can never date the report earlier than the date on which the financial statements are approved by the directors.
B. If not, what date is used?	See Comment	✓		
21. To express an opinion, must the auditors be independent? For the purpose of this checklist, independence is defined as being free of financial interest in the client. (Code of Professional Conduct, Rule 101 and its interpretations)	Yes. Professional ethics guidelines	✓		21. Professional independence is a fundamental concept.
22. Please describe any standards for Nigeria for which there are no corresponding U.S. standards.				22. None

APPENDIX E

Checklist for Comparison of Generally Accepted Accounting Principles (GAAP) in the United States With Accounting Principles in Nigeria

General Information	Answer	Comments
1. Are there generally accepted accounting principles in Nigeria? If so, are they codified?	Yes	1. There are generally accepted accounting principles in Nigeria, and they are codified in Statements of Accounting Standards (SASs)
2. Who is responsible for promulgating accounting principles (for example, the profession, a governmental body, etc.)?	Nigerian Accounting Standards Board	

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncements	Predominant Practice	Minority Practice	Not Done	Comments
3. Are assets and liabilities recorded on the historical-cost basis?	Yes. CAMD and SASs 1 and 3	✓			
4. Are interest costs, incurred while activities that are necessary to get	Yes. IAS 23		✓		

an asset ready for its intended use are in progress, capitalized as part of the historical cost of an asset? (I67)			
5. A. Is a general revaluation (either upward or downward) of assets permitted? (D40)	Yes. SAS 3 and IAS 16	✓	
B. If so, define the basis.	See Comment		5B. The revaluation is normally based on a valuation conducted by a professional valuer. SAS 3 states that deficits or surpluses on revaluation should be treated as changes in a separate revaluation reserve. A deficit arising on revaluation of individual assets (to the extent not covered by a reserve arising on a previous revaluation of the same assets) should be charged to the profit-and-loss account.
6. Are nonmonetary transactions that culminate an earnings process accounted for on the basis of the fair-market value of the assets involved when that value is determined within reasonable limits? (N35)	No	✓	

Notes:

References in the U.S. Generally Accepted Accounting Principles column are to sections in the *FASB Current Text*, unless otherwise noted.
This checklist does not include the latest GAAP pronouncements issued in the United States.
SAS = Statement of Accounting Standards issued by the Nigerian Accounting Standards Board.
IAS = International Accounting Standards issued by the International Accounting Standards Committee.

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncements	Predominant Practice	Minority Practice	Not Done	Comments
7. Is revenue recognized when it is earned and its realization is reasonably assured (rather than when money is received)? (Statement of Financial Accounting Concepts No. 5)	Yes. SAS 1	✓			
8. Are costs recorded when incurred rather than when money is paid? (Statement of Financial Accounting Concepts No. 5)	Yes. SAS 1	✓			8. The accrual concept is regarded as one of the fundamental accounting concepts.
9. A. Are consolidated financial statements required when one company has control over another company? (C51)	Yes. CAMD and IAS 27	✓			
B. Is control usually indicated by ownership of over 50 percent of the outstanding voting shares? If not, how is control indicated?	Yes. CAMD and IAS 27	✓			
10. A. Are there instances when an entity would not be consolidated even though control is present? (C51)	Yes. CAMD and IAS 27		✓		
B. If so, list them.					10B. • When the activities of a subsidiary are dissimilar in relation to those of other companies within the group. • When the subsidiary operates under severe restrictions that

				significantly impair control by the holding company over the subsidiaries' assets and operations for the foreseeable future. • When control is intended to be temporary. • Elective if the controlling company itself is 100 percent owned by another company. When a subsidiary is excluded from consolidation due to dissimilarity in the nature of its business, the group accounts should include separate financial statements for that subsidiary. When a subsidiary is excluded on the basis of temporary control or severe restrictions that impair control, the investment in the subsidiary is presented in the balance sheet at lower of cost or market.
11. If consolidation is not otherwise appropriate, is the equity method used for unconsolidated subsidiaries, corporate joint ventures, and other investees, if the investments give the investor the ability to exercise significant influence over the investees' operating and financial policies? (I82)	Yes. IAS 27		✓	11. When a subsidiary is excluded from consolidation due to a lack of effective control, it is recommended that it be accounted for in the consolidated financial statements under the equity method of accounting.
12. Are there two methods of accounting for business combinations: the pooling-of-interests method and the purchase method? (B50)	Yes. IAS 22	✓		

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncements	Predominant Practice	Minority Practice	Not Done	Comments
13. Is the method used to account for a business combination disclosed? (B50)	Yes. IAS 22	✓			
14. A. Do criteria exist for treatment of business combinations as a pooling of interest? (B50)	Yes. IAS 22		✓		
B. If so, list the criteria.					14B. A business combination would be treated as a pooling if there is continued participation by the management of the combining businesses in the management of the combined business.
15. A. Is goodwill arising from a business combination accounted for as an asset? (I60)	Yes. IAS 22	✓			15A,B. There are various treatments of goodwill:
B. If so, is it amortized as a charge to income over the period estimated to be benefited?	Yes	✓			• Treat it as a permanent intangible asset except when there is a permanent impairment in the value. • Record it as an asset and amortize over a defined period. • Write it off at the time of acquisition either to reserves or to the profit-and-loss account as an extraordinary item.
16. Are the following disclosures made for related-party transactions: (R36)					
a. The nature of the relationship?	Yes	✓			16*a–d.* See paragraph 71 of text.

b. A description of the transactions for the periods presented?	No	✓	
c. The amounts of the transactions for the periods presented?	No	✓	
d. The amounts due to or from related parties at the balance sheet date?	Yes	✓	
17. Is an estimated loss from a loss contingency accrued only if it is probable that an asset has been impaired or a liability incurred and the amount of loss can be reasonably estimated? (C59)	Yes. IAS 10	✓	17. Provision is made for all known liabilities whether the amount is known or can be estimated.
18. If a loss contingency is not accrued because both conditions for accrual listed in question 17 are not met, is disclosure of the contingency required when there is at least a reasonable possibility that a loss may have been incurred? (C59)	Yes. IAS 10	✓	
19. Are guarantees of the indebtedness of others or other loss contingencies disclosed in financial statements even though the possibility of loss may be remote? (In the United States, guarantees are usually disclosed as loss contingencies even if the possibility of loss is remote.) (C59)	Yes	✓	
20. Are the following items disclosed in an enterprise's financial statements for each industry segment: (S20)			
a. Sales to outsiders and intersegment sales?	Yes	✓	
b. Operating profit or loss?	No	✓	

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncements	Predominant Practice	Minority Practice	Not Done	Comments
c. Identifiable assets and related depreciation, depletion, and amortization expense?	No	✓			
d. Capital expenditures?	No	✓			
e. Equity in net income and net assets of unconsolidated subsidiaries and other investees?	No	✓			
f. Effect of a change in accounting principle?	Yes	✓			
21. A. Are there any requirements or recommendations to disclose the effects of inflation? (C28)	No		✓		
B. If so, list the disclosures required.					
22. Are assets segregated into current and noncurrent classifications with a total for current assets presented? (B05)	Yes. CAMD and IAS 13	✓			
23. A. Are noncurrent assets those not expected to be realized within one year or the current operating cycle? (B05)	Yes	✓			23A. Though not statutorily defined, noncurrent assets are generally defined as those not expected to be realized within one year or the current operating cycle.
B. If not, how are noncurrent assets defined?					
24. A. Is an allowance established for uncollectible receivables? (C59)	Yes	✓			24A. In generally accepted accounting practice, an allowance is established for

				receivables when collection is deemed doubtful.
B. If so, what is the basis (e.g., percentage of sales, aging of receivables, etc.) for calculating the allowance?				24B. The allowance is determined by each company based on its own policy regarding uncollectible receivables.
25. Are receivables and payables not arising in the normal course of business or subject to normal trade terms, recorded at an amount that takes imputed interest into account? (I69)	No		✓	
26. A. Is inventory stated at the lower of cost or market (or net realizable value)? (I78)	Yes. SAS 4	✓		
B. If not, how is inventory stated?				
C. Is the basis disclosed?	Yes. SAS 4	✓		
27. Does cost for inventory include: (I78)				
a. Materials?	Yes. SAS 4	✓		
b. Direct labor?	Yes. SAS 4	✓		
c. Factory overhead?	Yes. SAS 4	✓		
d. If the answer to *c* is yes, is an allocable share of all factory overhead included?	Yes. SAS 4	✓		
28. A. Are the following cost methods permitted for reporting purposes: (I78)				
a. First-in, first-out (FIFO)?	Yes. SAS 4	✓		
b. Last-in, first-out (LIFO)?	No. SAS 4		✓	
c. Average cost?	Yes	✓		
B. Are the same methods permitted for tax purposes?	Yes	✓		

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncements	Predominant Practice	Minority Practice	Not Done	Comments
29. Is the inventory costing method used disclosed? (I78)	Yes. SAS 4	✓			
30. A. Are fixed assets depreciated over their estimated useful lives by systematic charges to income? (D40)	Yes. SAS 3	✓			
B. If so, is an accumulated depreciation account used?	Yes. CAMD and SAS 3	✓			
31. Are disclosures made of— (D40)					
a. Depreciation expenses for the period?	Yes. CAMD, IAS 4, and SAS 3	✓			31*a–d.* The general practice is to disclose this information in the notes to the financial statements.
b. Balances of major classes of depreciable assets?	Yes. CAMD, IAS 4, and SAS 3	✓			
c. The methods used to compute depreciation for the major asset classes?	Yes. CAMD, IAS 4 and SAS 3	✓			
d. Accumulated depreciation, either by major class of assets or in total?	Yes. CAMD, IAS 4, and SAS 3	✓			
32. A. Do criteria exist for classifying leases as operating leases? (L10)	Yes. IAS 17	✓			32A,B. The Standard gives the definition of an operating lease as a lease other than a finance lease, and a finance lease is one that transfers substantially all the risks and rewards of ownership of an asset to the lessee. See paragraph 77 of the text.
B. If so, list the criteria and disclosure requirements.					
33. A. Do criteria exist for classifying leases as other than operating leases for the lessor and lessee? (L10)	Yes. IAS 17	✓			33A,B. See comments to question 32.

B. If so, list the criteria, type of lease, and disclosure requirements.			
34. Are liabilities segregated into current and noncurrent classifications with a total for current liabilities presented? (B05)	Yes. CAMD and IAS 13	✓	34. The general practice is to segregate liabilities into current and noncurrent classifications. See paragraph 52 of text.
35. A. Are noncurrent liabilities those whose liquidation is not expected to require the use of current assets or the creation of current liabilities? (B05)	No	✓	35A,B. Though not defined, noncurrent liabilities are generally regarded as those not falling due within twelve months from the balance sheet date.
B. If not, how are noncurrent liabilities defined?			
36. For notes payable, is disclosure made of— (C32)			
a. Interest rates?	No	✓	
b. Maturities?	No	✓	
c. Assets pledged as collateral?	Yes. CAMD	✓	
d. Covenants to reduce debt?	No	✓	
e. Minimum working capital requirements?	No	✓	
f. Dividend restrictions?	No	✓	
37. A. For long-term, construction-type contracts, are the percentage-of-completion and completed contract methods used? (Co4)	Yes. IAS 11 and SAS 5	✓	37A,B. SAS 5 states the use of the percentage-of-completion method is required unless the outcome is uncertain and it is therefore prudent not to recognize income. Losses are always recognized immediately.
B. If so, what are the criteria for determining the method to be used?			
38. A. Are research costs charged to expense when incurred? (R50)	Yes. IAS 9	✓	

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncements	Predominant Practice	Minority Practice	Not Done	Comments
B. Are such costs disclosed?	No			✓	38B. Not disclosed, unless they are extraordinary or exceptional by their size and rate of incidence.
39. A. Are development costs charged to expense when incurred? (R50)	Yes. IAS 9	✓			
B. Are such costs disclosed?	No			✓	39B. See comment to question 38B.
40. A. In the United States, events and transactions are presented in the income statement as extraordinary items when they are unusual in nature and are of the type that would not reasonably be expected to recur in the foreseeable future. Do similar criteria for identifying extraordinary items exist in Nigeria? (I17)	Yes. SAS 6	✓			40A. Extraordinary items are those items derived from events or transactions outside the ordinary activities of the business and that are both material and expected not to recur frequently or regularly.
B. If not, what are the criteria?					
41. Are material events or transactions that are unusual in nature or expected to occur infrequently, but not both (and thus do not meet the criteria for classification as extraordinary), shown as a separate component of income or expense? (I22)	Yes. Eighth Schedule of the CAMD and SAS 6	✓			41. Items that, though abnormal in size and incidence, are not considered extraordinary items since they are derived from the ordinary activities of the business may require separate disclosure for the financial statements to present a true and fair view.
42. A. Are disclosures required for—					
a. Extraordinary items? (I17)	Yes. SAS 6	✓			

b. Material events or transactions not classified as extraordinary items? (I22)	Yes. SAS 6	✓		
c. Disposal of a segment of a business? (I13)	Yes. SAS 6	✓		
B. Indicate the financial statement presentation of these items.				42B. The presentation is as follows: • Profit before extraordinary items • Extraordinary items (less taxation attributable thereto) • Profit after extraordinary items Other material events or transactions could be disclosed as an exceptional item or in a footnote to the financial statements.
43. A. Are pension costs provided for covered employees over the term of employment? (P16)	Yes	✓		
B. If so, do they include charges for costs assigned under the actuarial method used to years prior to the plan's inception?	No		✓	
44. A. Are specific disclosures required relating to pension plans? (P16)	No		✓	
B. If so, list them.				
45. A. When accounting income and taxable income differ, are deferred income taxes recorded for temporary differences (as opposed to permanent differences)? (I25)	Yes. IAS 12	✓		

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncements	Predominant Practice	Minority Practice	Not Done	Comments
B. If so, are deferred taxes provided for all temporary differences (as opposed to only those meeting certain criteria)?	No. IAS 12		✓		45B,C. Deferred taxes are provided for those timing differences that are expected to reverse and for which a liability or asset is expected to materialize.
C. If deferred taxes are provided only for those temporary differences meeting certain criteria, what are the criteria?	See Comment	✓			
46. A. Are deferred taxes determined on the basis of current tax rates? (I25)	No. IAS 12		✓		
B. If not, on what basis?					46B. The rate expected when a timing difference reverses.
47. A. Is specific information related to income taxes required to be disclosed? (I25)	Yes. CAMD and IAS 12	✓			47A,B. Required disclosures include the method used to determine the tax charge, the amount of tax owed, and any tax reduction to avoid double taxation.
B. If so, list the requirements.					
48. A. Are operating losses reported on the income tax return allowed to be carried back to earlier periods? (I25)	No			✓	48A. Tax losses as agreed by the Inland Revenue Department (IRD) can only be used to set off assessable profit in future periods.
B. If so, are the tax effects of a loss carryback included in the income in the period?					
49. A. Are operating losses reported on the income tax return allowed to be carried forward? (I25)	Yes. IAS 12	✓			49A. Tax losses as agreed by the IRD can be used to set off assessable profit in future periods.

B. If so, are the tax effects of a loss carryforward included in the income in the period realized?	Yes. IAS 12	✓	49B. They are currently included as a reduction of the profits tax for the period— they are not considered an extraordinary item.
50. Are financial statements of a foreign entity prepared for consolidated purposes measured in the currency of the primary economic environment in which the entity operates? (F60)	Yes. IAS 21 and SAS 7	✓	50. When group accounts for an investing company and its foreign subsidiaries are prepared, the closing-rate method of translating the financial statements should normally be used. Under this method, amounts in the balance sheet of a foreign subsidiary should be translated into the investing company's reporting currency using the closing rate of exchange. The profit-and-loss account of a foreign subsidiary should be accounted for under the closing-rate method or at an average exchange rate for the period. In those circumstances in which the trade of the foreign subsidiary is more dependent on the economic circumstances of the investing company's reporting currency than on its own reporting currency, the temporal method should be used; all assets, liabilities, revenue, and expenses are translated at the exchange rate at the date on which the amount was recorded in the financial statements. At the balance sheet date, monetary assets and liabilities are retranslated at the closing rate. (See paragraphs 81–86 of text.)

U.S. Generally Accepted Accounting Principles	Required by Government or Professional Pronouncements	Predominant Practice	Minority Practice	Not Done	Comments
51. Are all elements of financial statements translated at a current exchange rate? (F60)	Yes. IAS 21 and SAS 7	✓			
52. A. Are translation adjustments reported separately? (F60)	Yes. IAS 21 and SAS 7	✓			52A. The following information is to be disclosed: • The net amount of exchange gains and losses on foreign currency borrowings, the amount offset in exchange reserve, and the net amount charged/credited to the profit-and-loss account. • The net amount of exchange gains or losses on forward contracts, together with the associated discount or premium on these contracts offset in the exchange reserves. • The net movement in reserves arising from exchange differences. • Movements of the reserve account.
B. Are they accumulated in a separate component of stockholders' equity until ultimately realized?	No. SAS 7	✓			
C. Is there an analysis of the changes during the period in the component of stock-	Yes. SAS 7	✓			

holders' equity relating to translation adjustments?				
53. A. Are gains and losses resulting from transactions, denominated in a currency other than that of the environment in which the entity operates, included in determining net income for the period in which the exchange rate changes? (F60)	Yes. SAS 7	✓		
B. Is the aggregate transaction gain or loss included in determining net income for the period disclosed in the financial statements or notes?	Yes. SAS 7	✓		53B. Disclosed if it is extraordinary or exceptional in its size and rate of incidence.
54. Are gains or losses on foreign currency transactions that are intended to hedge a foreign currency commitment deferred and included in the related transactions? (F60)	Yes. SAS 7		✓	
55. What information is disclosed about foreign currency restrictions?	See Comment			55. If the effect of the restriction is material to the financial statements, this would be disclosed.
56. Are significant events arising subsequent to the balance sheet date reflected in the financial statements or notes thereto? (C59)	Yes. IAS 10 and SAS 6	✓		
57. Please list any standards in Nigeria for which there are no corresponding U.S. standards.				57. None

Bibliography

The information in this booklet was compiled from many sources in Nigeria. Significant references follow.

- Companies and Allied Matters Decree, 1990
- Auditing guidelines and accounting statements issued by the Institute of Chartered Accountants of Nigeria and the Nigerian Accounting Standards Board, respectively.
- Institute of Chartered Accountants of Nigeria Membership Rules.
- Federal Office of Statistics.

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